Amtrust Financial Services, Inc.
Form 10-Q
May 12, 2014

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

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014

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

For the transition period from ___________________ to ___________________

Commission file no. 001-33143

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

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

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

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

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

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

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

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

As of May 1, 2014, the Registrant had one class of Common Stock ($.01 par value), of which 75,431,766 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)

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at market value (amortized cost $3,788,266; $3,107,043)	$3,834,595	$3,100,936
Equity securities, available-for-sale, at market value (cost $65,978; $16,010)	67,387	15,148
Short-term investments	71,223	114,202
Equity investment in unconsolidated subsidiaries – related party	108,962	89,756
Other investments	18,166	25,749
Securities pledged (amortized cost of $105,306; $316,576)	104,552	311,518
Total investments	4,204,885	3,657,309
Cash and cash equivalents	539,016	830,022
Restricted cash and cash equivalents	143,143	100,439
Accrued interest and dividends	30,376	27,800
Premiums receivable, net	1,841,805	1,593,975
Reinsurance recoverable (related party $1,251,398; $1,144,168)	2,081,087	1,929,848
Prepaid reinsurance premium (related party $841,222; $739,719)	1,133,344	1,011,304
Prepaid expenses and other assets (recorded at fair value $268,199; $233,024)	900,833	890,333
Deferred policy acquisition costs	539,173	446,687
Property and equipment, net	108,215	104,299
Goodwill	393,090	373,591
Intangible assets	299,946	291,802
	$12,214,913	$11,257,409
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss expense reserves	$4,749,551	$4,368,234
Unearned premiums	3,167,944	2,680,982
Ceded reinsurance premiums payable (related party $460,278; $393,941)	719,260	635,588
Reinsurance payable on paid losses	30,387	18,818
Funds held under reinsurance treaties	42,072	27,574
Note payable on collateral loan – related party	167,975	167,975
Securities sold but not yet purchased, at market	21,471	—
Securities sold under agreements to repurchase, at contract value	94,162	293,222
Accrued expenses and other current liabilities (recorded at fair value $13,348; $11,945)	689,473	650,858
Deferred income taxes	250,988	265,881
Debt	560,696	560,174
Total liabilities	10,493,979	9,669,306
Commitments and contingencies		
Redeemable non-controlling interest	600	600
Stockholders' equity:		
Common stock, $.01 par value; 150,000 shares authorized, 98,192 and 98,122 issued in 2014 and 2013, respectively; 75,327 and 74,765 outstanding in 2014 and 2013, respectively	980	980

Preferred stock, $.01 par value; 10,000 shares authorized, 4,600 issued and outstanding in 2014 and 2013	115,000	115,000
Additional paid-in capital	1,031,473	1,033,084
Treasury stock at cost; 22,865 and 23,357 shares in 2014 and 2013, respectively	(277,572)	(284,891)
Accumulated other comprehensive income (loss)	32,471	(8,164)
Retained earnings	678,421	593,634
Total AmTrust Financial Services, Inc. equity	1,580,773	1,449,643
Non-controlling interest	139,561	137,860
Total stockholders' equity	1,720,334	1,587,503
	$12,214,913	$11,257,409

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 March 31, 2014	2013
Revenues:		
Premium income:		
Net written premium	$1,130,281	$532,106
Change in unearned premium	(301,230)	(124,112)
Net earned premium	829,051	407,994
Service and fee income (related parties – $12,200, $10,507)	90,958	60,513
Net investment income	28,527	18,095
Net realized gain on investments	5,439	17,284
Total revenues	953,975	503,886
Expenses:		
Loss and loss adjustment expense	558,570	272,256
Acquisition costs and other underwriting expenses (net of ceding commission - related party - $88,106, $63,958)	186,609	100,285
Other	87,591	52,152
Total expenses	832,770	424,693
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	121,205	79,193
Other income (expense):		
Interest expense	(11,497)	(7,361)
Gain (loss) on investment in life settlement contracts net of profit commission	2,800	(1,076)
Foreign currency (loss) gain	(1,852)	1,272
Acquisition gain on purchase	—	25,532
Total other (expense) income	(10,549)	18,367
Income before income taxes and equity in earnings of unconsolidated subsidiaries	110,656	97,560
Provision for income taxes	27,444	16,109
Income before equity in earnings of unconsolidated subsidiaries	83,212	81,451
Equity in earnings of unconsolidated subsidiary – related party	18,516	1,550
Net income	$101,728	$83,001
Net loss attributable to non-controlling interest of subsidiaries	64	877
Net income attributable to AmTrust Financial Services, Inc.	$101,792	$83,878
Dividends on preference stock	(1,941)	—
Net income attributable to AmTrust common shareholders	$99,851	$83,878
Earnings per common share:		
Basic earnings per share	$1.34	$1.13
Diluted earnings per share	$1.27	$1.08
Dividends declared per common share	$0.20	$0.14
Net realized gain on investments:		
Total other-than-temporary impairment loss	$(1,643)	$—
Portion of loss recognized in other comprehensive income	—	—
Net impairment losses recognized in earnings	(1,643)	—
Other net realized gain on investments	7,082	17,284

Net realized investment gain	$5,439	$17,284

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Net income	$101,728	$83,001
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	1,515	(15,731)
Change in fair value of interest rate swap	192	220
Unrealized gains (losses) on securities:		
Unrealized holding gain (loss) arising during period	40,873	(15,286)
Reclassification adjustment for gains (losses) included in net income	(1,945)	3,536
Other comprehensive income (loss), net of tax	$40,635	$(27,261)
Comprehensive income	142,363	55,740
Less: Comprehensive loss attributable to non-controlling interest	(64)	(877)
Comprehensive income attributable to AmTrust Financial Services, Inc.	$142,427	$56,617

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	2014	2013
Cash flows from operating activities:		
Net income	$101,728	$83,001
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,596	9,177
Net amortization of bond premium or discount	2,940	1,542
Equity earnings on investment in unconsolidated subsidiaries	(18,516)	(1,550)
(Gain) loss on investment in life settlement contracts, net	(2,800)	1,076
Realized gain on marketable securities	(7,082)	(17,284)
Non-cash write-down of marketable securities	1,643	—
Discount on notes payable	788	723
Stock based compensation	4,150	2,108
Bad debt expense	5,825	2,996
Foreign currency loss (gain)	1,852	(1,272)
Acquisition gain	—	(25,532)
Changes in assets - (increase) decrease:		
Premiums and note receivables	(254,033)	(63,120)
Reinsurance recoverable	(145,440)	(80,551)
Deferred policy acquisition costs, net	(92,486)	(39,677)
Prepaid reinsurance premiums	(122,040)	(114,483)
Prepaid expenses and other assets	(55,892)	24,092
Changes in liabilities - increase (decrease):		
Reinsurance premium payable	83,673	2,133
Loss and loss expense reserve	356,108	138,007
Unearned premiums	461,247	235,716
Funds held under reinsurance treaties	8,635	(512)
Accrued expenses and other current liabilities	68,568	57,402
Deferred tax liability	(14,172)	(14,183)
Net cash provided by operating activities	399,292	199,809
Cash flows from investing activities:		
Net purchases of securities with fixed maturities	(352,840)	(9,631)
Net (purchases) sales of equity securities	(3,985)	7,240
Net sales (purchases) of other investments	9,697	(4,214)
Acquisition of life settlement contracts	(11,394)	(9,427)
Receipt of life settlement contract proceeds	5,027	4,028
Acquisition of subsidiaries, net of cash obtained	(67,622)	(3,516)
Increase in restricted cash and cash equivalents	(42,704)	(36,925)
Purchase of property and equipment	(9,019)	(8,383)
Net cash used in investing activities	(472,840)	(60,828)
Cash flows from financing activities:		
Repurchase agreements, net	(199,060)	(99,695)
Secured loan agreements payments	(266)	(251)
Promissory notes payments	(10,000)	—
Non-controlling interest capital contribution to consolidated subsidiaries	1,765	2,209

Stock option exercise and other	1,558	975

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Dividends distributed on common stock	(10,503)	—
Dividends distributed on preference stock	(1,941)	—
Net cash provided by financing activities	(218,447)	(96,762)
Effect of exchange rate changes on cash	989	(5,865)
Net (decrease) increase in cash and cash equivalents	(291,006)	36,354
Cash and cash equivalents, beginning of the period	830,022	414,370
Cash and cash equivalents, end of the period	$539,016	$450,724
Supplemental Cash Flow Information		
Income tax payments	$707	$273
Interest payments on debt	$9,844	$2,452

See accompanying notes to unaudited condensed consolidated financial statements.

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

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

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

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

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 three months ended March 31, 2014, as compared to those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, that are of significance, or potential significance, to the Company.

In April 2014, the Financial Accounting Standards Board ("FASB") issued revised guidance to reduce diversity in practice for reporting discontinued operations. Under the previous guidance, any component of an entity that was a reportable segment, an operating segment, a reporting unit, a subsidiary, or an asset group was eligible for discontinued operations presentation. The revised guidance only allows disposals of components of an entity that represent a strategic shift (e.g., disposal of a major geographical area, a major line of business, a major equity method investment, or other major parts of an entity) and that have a major effect on a reporting entity's operations and financial results to be reported as discontinued operations. The revised guidance also requires expanded disclosure in the financial statements for discontinued operations as well as for disposals of significant components of an entity that do not qualify for discontinued operations presentation. The updated guidance is effective for the period ending March 31, 2015. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

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

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

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

In June 2013, the 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 were 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 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. The Company adopted ASU 2013-05 on January 1, 2014 and the implementation did not have a material impact 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 March 31, 2014 and December 31, 2013, are presented in the table below:

(Amounts in Thousands) As of March 31, 2014	Original or amortized cost	Gross unrealized gains	Gross unrealized losses		Market value
Preferred stock	$4,243	$293	$(94	)	$4,442
Common stock	61,735	3,159	(1,949	)	62,945
U.S. treasury securities	105,743	1,375	(200	)	106,918
U.S. government agencies	26,139	657	(63	)	26,733
Municipal bonds	506,648	8,691	(11,781	)	503,558
Foreign government	163,146	2,376	(675	)	164,847
Corporate bonds:					
Finance	1,151,801	47,877	(8,360	)	1,191,318
Industrial	981,336	18,414	(11,117	)	988,633
Utilities	105,001	1,600	(1,266	)	105,335
Commercial mortgage backed securities	38,941	309	(230	)	39,020
Residential mortgage backed securities:					
Agency backed	796,621	9,196	(11,293	)	794,524
Non-agency backed	13,536	68	(2	)	13,602
Asset-backed securities	4,660	2	(3	)	4,659
	$3,959,550	$94,017	$(47,033	)	$4,006,534
Less: Securities pledged	105,306	884	(1,638	)	104,552
	$3,854,244	$93,133	$(45,395	)	$3,901,982

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

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Investments in foreign government securities include securities issued by national entities as well as instruments that are unconditionally guaranteed by such entities. As of March 31, 2014, the Company's foreign government securities were issued or guaranteed primarily by governments in Canada, Europe, Israel and the United Kingdom.

Proceeds from the sale of investments in available-for-sale securities during the three months ended March 31, 2014 and 2013 were approximately $381,393 and $472,076, respectively.

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

	March 31, 2014		December 31, 2013	
(Amounts in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$133,632	$133,833	$128,128	$128,214
Due after one through five years	654,077	668,005	592,703	603,942
Due after five through ten years	1,894,126	1,933,571	1,632,115	1,631,751
Due after ten years	357,979	351,934	334,846	321,372
Mortgage and asset backed securities	853,758	851,804	735,827	727,175
Total fixed maturities	$3,893,572	$3,939,147	$3,423,619	$3,412,454

(b) Investment Income

Net investment income for the three months ended March 31, 2014 and 2013 was derived from the following sources:

	Three Months Ended March 31,	
(Amounts in Thousands)	2014	2013
Fixed maturity securities	$27,672	$17,272
Equity securities	59	402
Cash and short term investments	1,428	1,044
	29,159	18,718
Less:		
Investment expenses and interest expense on securities sold under agreement to repurchase	(632)	(623)
	$28,527	$18,095

(c) Other-Than-Temporary Impairment

OTTI charges of our fixed-maturities and equity securities for the three months ended March 31, 2014 and 2013 are presented in the table below:

	Three Months Ended March 31,	
(Amounts in Thousands)	2014	2013
Equity securities recognized in earnings	$1,643	$—
Fixed-maturity securities recognized in earnings	—	—
	$1,643	$—

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 March 31, 2014 and December 31, 2013:

	Less Than 12 Months			12 Months or More			Total	
(Amounts in Thousands) March 31, 2014	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses	No. of Positions Held	Fair Market Value	Unrealized Losses
Common and preferred stock	$25,402	$(1,978)	125	$130	$(65)	6	$25,532	$(2,043)
U.S. treasury securities	45,520	(200)	37	—	—	—	45,520	(200)
U.S. government agencies	4,864	(63)	14	—	—	—	4,864	(63)
Municipal bonds	221,785	(9,883)	275	19,375	(1,898)	9	241,160	(11,781)
Foreign government	72,153	(675)	30	—	—	—	72,153	(675)
Corporate bonds:								
Finance	344,076	(8,116)	223	45,043	(244)	7	389,119	(8,360)
Industrial	366,521	(10,806)	228	3,790	(311)	2	370,311	(11,117)
Utilities	32,584	(1,266)	16	—	—	—	32,584	(1,266)
Commercial mortgage backed securities	6,415	(230)	12	—	—	—	6,415	(230)
Residential mortgage backed securities:								
Agency backed	382,413	(11,293)	109	—	—	—	382,413	(11,293)
Non-agency backed	152	(1)	5	22	(1)	1	174	(2)
Asset-backed securities	2,713	(3)	6	—	—	—	2,713	(3)
Total temporarily impaired securities	$1,504,598	$(44,514)	1,080	$68,360	$(2,519)	25	$1,572,958	$(47,033)

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

Non-agency backed	205	(5)	6	23	(2)	1	228	(7)
Asset-backed securities	1,463	(3)	4	—	—	—	1,463	(3)
Total temporarily impaired securities	$1,953,641	$(73,288)	$1,012	$87,497	$(2,744)	$22	$2,041,138	$(76,032)

There are 1,105 and 1,034 securities at March 31, 2014 and December 31, 2013, respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. Significant factors influencing the Company's determination that unrealized losses were temporary included the magnitude of the unrealized losses in relation to each security's cost, the nature of the investment and management's intent not to sell these securities and it being not more likely than not that the Company will be required to sell these investments before anticipated recovery of fair value to the Company's cost basis.

(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 March 31, 2014 and December 31, 2013, the Company had two interest rate swaps designated as hedges that were recorded as a liability in the total amount of $2,759 and $3,054, respectively, and were included as a component of accrued expenses and other liabilities.

The following table presents the notional amounts by remaining maturity of the Company's interest rate swaps as of March 31, 2014:

	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 March 31, 2014 and December 31, 2013 are as follows:

(Amounts in Thousands)	2014	2013
Restricted cash	$143,143	$100,439
Restricted investments	877,461	978,910
Total restricted cash and investments	$1,020,604	$1,079,349

(f) Other

Securities sold but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. The Company's liability for securities to be delivered is measured at their fair value and as of March 31, 2014 was $21,471 for equity securities. These transactions result in off-balance sheet risk, as the Company's ultimate cost to satisfy the delivery of securities sold but not yet purchased may exceed the amount reflected at March 31, 2014. Substantially all securities owned under these arrangements are pledged to the clearing broker to sell or repledge the securities to others subject to certain limitations. The Company did not have any securities sold but not yet purchased as of December 31, 2013.

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 March 31, 2014, the Company had 4 repurchase agreements with an outstanding principal amount of $94,162, which approximates fair value, at an interest rate of 0.24%. All of these repurchase agreements were with the same counter-party. Interest expense associated with these repurchase agreements, which was recorded as a component of investment income, was $249 and $277 for the three months ended March 31, 2014 and 2013, respectively. The Company has approximately $104,552 collateral pledged in support of these agreements as of March 31, 2014.

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 March 31, 2014 and December 31, 2013:

(Amounts in Thousands) As of March 31, 2014	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$106,918	$106,918	$—	$—
U.S. government agencies	26,733	—	26,733	—
Municipal bonds	503,558	—	503,558	—
Foreign government	164,847	—	164,847	—
Corporate bonds and other bonds:				
Finance	1,191,318	—	1,191,318	—
Industrial	988,633	—	988,633	—
Utilities	105,335	—	105,335	—
Commercial mortgage backed securities	39,020	—	39,020	—
Residential mortgage backed securities:				
Agency backed	689,972	—	689,972	—
Non-agency backed	13,602	—	13,602	—
Asset-backed securities	4,659	—	4,659	—
Equity securities	67,387	67,387	—	—
Short term investments	71,223	71,223	—	—
Other investments	18,166	—	—	18,166
Securities held as collateral	104,552	—	104,552	—
Life settlement contracts	268,199	—	—	268,199
	$4,364,122	$245,528	$3,832,229	$286,365
Liabilities:				
Equity securities sold but not yet purchased, market	21,471	21,471	—	—
Equity securities sold under agreements to repurchase, at carrying value	94,162	—	94,162	—
Life settlement contract profit commission	13,348	—	—	13,348
Derivatives	2,759	—	2,759	—
	$131,740	$21,471	$96,921	$13,348

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

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

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

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

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

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.

- 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 2013 Form 10-K.

The following tables provides a summary of changes in fair value of the Company's Level 3 financial assets and liabilities for the three months ended March 31, 2014 and 2013:

(Amounts in Thousands)	Balance as of December 31, 2013	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of March 31, 2014
Other investments	$ 25,749	$2,114	$ —	$3,207	$(12,904)	$—	$18,166
Life settlement contracts	233,024	16,987	—	23,215	(5,027)	—	268,199
Life settlement contract profit commission	(11,945)	(1,403)	—	—	—	—	(13,348)
Total	$ 246,828	$17,698	$ —	$26,422	$(17,931)	$—	$273,017

(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 March 31, 2013
Other investments	$11,144	$694	$ —	$5,111	$(897)	$—	$16,052
Life settlement contracts	193,927	9,925	—	—	(4,028)	—	199,824
Life settlement contract profit commission	(11,750)	(487)	—	—	—	—	(12,237)
Total	$193,321	$10,132	$ —	$5,111	$(4,925)	$—	$203,639

The Company had no transfers between levels during the three months ended March 31, 2014 and 2013.

A reconciliation of net income for life settlement contracts in the above table to gain (loss) on investment in life settlement contracts net of profit commission included in the Condensed Consolidated Statements of Income is as follows:

	Three Months Ended March 31,	
(Amounts in Thousands)	2014	2013
Net income	$16,987	$9,925
Premiums paid	(11,394)	(9,427)
Profit commission	(1,403)	(487)
Other expenses	(1,390)	(1,087)
Gain (loss) on investment in life settlement contracts net of profit commission	$2,800	$(1,076)

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

- Equity and Fixed Income Investments: Fair value disclosures for these investments are disclosed above in this note. The carrying values of cash, short term investments and investment income accrued approximate their fair values and are classified as Level 1 in the financial hierarchy.
- Premiums Receivable: The carrying values reported in the accompanying balance sheets for these financial instruments approximate their fair values due to the short term nature of the asset and are classified as Level 1 in the financial hierarchy.
- Other Investments: The Company has approximately 0.4% of its investment portfolio in limited partnerships or hedge funds where the fair value estimate is determined by a fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs in these valuations, the Company includes the estimate in the amount disclosed in Level 3 hierarchy.
- Equity Investment in Unconsolidated Subsidiaries - Related Party: The Company has an approximate ownership percentage of 13.2% in National General Holdings Corp., which completed a 144A offering during 2014. The Company accounts for this investment under the equity method of accounting as it has the ability to exert significant influence on National General Holdings Corp. The fair value of the investment was approximately $172,000 as of March 31, 2014.
- Subordinated Debentures and Debt: The current fair value of the Company's convertible senior notes, subordinated debentures, and 6.125% Notes was $294,762, $69,250, and $248,293 as of March 31, 2014, respectively. The convertible senior notes and the 6.125% Notes are publicly traded instruments and are classified as Level 1 in the fair value hierarchy. The subordinated debentures are classified as Level 3 in the fair value hierarchy. The fair value of the subordinated debentures was determined using the Black-Derman-Toy interest rate lattice model.
- Derivatives: The Company classifies interest rate swaps as Level 2 in fair value hierarchy. The Company uses these interest rate swaps to hedge floating interest rates on its debt, thereby changing the variable rate exposure to a fixed rate exposure for interest on these obligations. The estimated fair value of the interest rate swaps, which is obtained from a third party pricing service, is measured using discounted cash flow analysis that incorporates significant observable inputs, including the LIBOR forward curve and a measurement of volatility.
- Repurchase Agreements: The carrying value of repurchase agreements in the accompanying balance sheets represents their fair values and are classified as Level 2 in the financial hierarchy.

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

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

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

	March 31, 2014	December 31, 2013
Average age of insured	80.4 years	80.1 years
Average life expectancy, months [1]	127	131
Average face amount per policy	$6,692,000	$6,611,000
Effective discount rate [2]	14.4 %	14.2 %

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

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

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

	Change in life expectancy	
(Amounts in Thousands)	Plus 4 Months	Minus 4 Months
Investment in life policies:		
March 31, 2014	$(33,032)	$34,621
December 31, 2013	$(29,537)	$31,313
	Change in discount rate [1]	
(Amounts in Thousands)	Plus 1%	Minus 1%
Investment in life policies:		
March 31, 2014	$(22,413)	$25,228
December 31, 2013	$(20,055)	$22,605

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

5. Investment in Life Settlements

The Company currently owns and periodically acquires life settlement contracts. A life settlement contract is a contract between the owner of a life insurance policy and a third-party who obtains the ownership and beneficiary rights of the underlying life insurance policy. The Company currently has a fifty percent ownership interest in four subsidiaries (collectively, the “LSC entities”) that acquire life settlement contracts. 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 subsidiary of National General Holdings Corp. ("NGHC") owns the remaining fifty percent interest in the LSC entities. A third party serves as the administrator for two of the life settlement contract portfolios, for which it receives an administrative fee. The third party administrator is eligible to receive a percentage of profits after certain time and performance thresholds have been met. The Company provides certain actuarial and finance functions related to the LSC entities. In conjunction with the Company’s 13.2% ownership percentage of NGHC, the Company ultimately receives 56.6% of the profits and losses of the LSC entities. As such, in accordance with ASC 810-10, Consolidation, the Company has been deemed the primary beneficiary and, therefore, consolidate the LSC entities.

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

Total capital contributions of approximately $3,125 and $4,397 were made to the LSC entities during the three months ended March 31, 2014 and 2013, respectively, for which the Company contributed approximately $1,375 and $2,188 in those same periods. The LSC entities used the contributed capital to pay premiums and purchase policies. The Company’s investments in life settlements and premium finance loans were approximately $268,199 and $233,024 as of March 31, 2014 and December 31, 2013, 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 March 31, 2014 of approximately $2,800 and a loss of approximately $1,076 for the three months ended March 31, 2013, respectively, related to the life settlement contracts.

During the three months ended March 31, 2014, upon the voluntary surrender of the underlying life insurance policies in satisfaction of the remaining defaulted premium finance loans, the LSC entities became the owner and beneficiary under the underlying life insurance policies with respect to such loans. As of March 31, 2014, the LSC entities owned no premium finance loans. As of December 31, 2013, the LSC entities owned 2 premium finance loans which were secured by life insurance policies and were carried at a value of $0.

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

(Amounts in Thousands, except number of Life Settlement Contracts) Expected Maturity Term in Years	Number of Life Settlement Contracts	Fair Value (1)	Face Value
As of March 31, 2014			
0-1	—	$—	$—
1-2	3	17,236	25,000
2-3	8	43,069	73,000
3-4	7	15,824	38,000
4-5	3	7,886	20,000
Thereafter	267	184,184	1,718,409
Total	288	$268,199	$1,874,409

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

(1) The Company determined the fair value as of March 31, 2014 based on 210 policies out of 288 policies, as the Company assigned no value to 78 of the policies as of March 31, 2014. The Company determined the fair value as of December 31, 2013 based on 191 policies out of 271 policies, as the Company assigned no value to 80 of the policies as of December 31, 2013. The Company estimated the fair value of a life insurance policy using a cash flow model with an appropriate discount rate. In some cases, the cash flow model calculates the value of an individual policy to be negative, and therefore the fair value of the policy is zero as no liability exists when a negative value is calculated. The Company is not contractually bound to pay the premium on its life settlement contracts and, therefore, would not pay a willing buyer to assume title of these contracts. Additionally, certain of the Company's acquired policies were structured to have low premium payments at inception of the policy term, which later escalate greatly towards the tail end of the policy term. At the current time, the Company expenses all premium paid, even on policies with zero fair value. Once the premium payments escalate, the Company may allow the policies to lapse. In the event that death benefits are realized in the time frame between initial acquisition and premium escalation, it is a benefit to cash flow.

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

(Amounts in Thousands, except number of Life Settlement Contracts)	March 31, 2014	December 31, 2013
Number of policies with a negative value from discounted cash flow model as of period end	78	80
Premiums paid for the preceding twelve month period for period ended	$9,114	$9,371
Death benefit received	$3,012	$3,012

Premiums to be paid by the LSC entities for each of the five succeeding fiscal years to keep the life insurance policies in force as of March 31, 2014, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts
2014	$39,790
2015	42,339
2016	62,240
2017	40,309
2018	38,319
Thereafter	583,031
Total	$806,028

6. Debt

The Company’s borrowings consisted of the following at March 31, 2014 and December 31, 2013:

(Amounts in Thousands)	March 31, 2014	December 31, 2013
Revolving credit facility	$—	$—
Convertible senior notes	165,006	164,218
6.125% Notes due 2023	250,000	250,000
Subordinated debentures	123,714	123,714
Secured loan agreements	7,476	7,742
Promissory notes	14,500	14,500
	$560,696	$560,174

Aggregate scheduled maturities of the Company’s borrowings at March 31, 2014 are:

(Amounts in Thousands)		
2014	$805	
2015	1,116	
2016	1,167	
2017	1,220	
2018	3,168	
Thereafter	553,220	(1)

(1) Amount reflected in balance sheet for convertible senior notes is net of unamortized original issue discount of $34,994.

Revolving Credit Agreement

The Company has a $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. The Credit Agreement, which matures in August 2016, 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 March 31, 2014.

As of March 31, 2014, the Company had no outstanding borrowings under this Credit Agreement. As of March 31, 2014, the Company had outstanding letters of credit in place under this Credit Agreement for $88,469, which reduced the availability for letters of credit to $11,531, and the availability under the facility to $111,531.

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 March 31, 2014 was 1.50%. The Company recorded total interest expense of approximately $340 and $560 for the three months ended March 31, 2014 and 2013, 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 March 31, 2014), 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 March 31, 2014).

Convertible Senior Notes

The Company has outstanding $200,000 aggregate principal amount of convertible senior notes due 2021 (the "Convertible Notes"). 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 Convertible Notes will mature on December 15, 2021 (the "Maturity Date"), unless earlier purchased by the Company or converted into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"). Prior to September 15, 2021, the Convertible Notes will be convertible only 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 March 31, 2014 is equal to 38.2129 shares of Common Stock per $1,000 principal amount of Convertible Notes, which corresponds to a conversion price of approximately $26.17 per share of Common Stock. The conversion rate is subject to adjustment upon the occurrence of certain events as set forth in the indenture governing the Convertible Notes. Upon conversion of the Convertible Notes, the Company will, at its election, pay or deliver, as the case may be, cash, shares of Common Stock, or a combination of cash and shares of Common Stock.

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

The Company separately allocated the proceeds for the issuance of the Convertible Notes to a liability component and an equity component, which is the embedded conversion option. The equity component was reported as an adjustment to paid-in-capital, net of tax, and is reflected as an original issue discount ("OID"). The OID of $41,679 and deferred origination costs relating to the liability component of $4,750 will be amortized into interest expense over the term of the loan of the Convertible Notes. After considering the contractual interest payments and amortization of the original discount, the Convertible 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 Convertible Notes was $3,657 and $3,592 for the three months ended March 31, 2014 and 2013, respectively.

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

(Amounts in Thousands)	March 31, 2014	December 31, 2013
Liability component		
Outstanding principal	$200,000	$200,000
Unamortized OID	(34,994)	(35,782)
Liability component	$165,006	$164,218
Equity component, net of tax	$27,092	$27,092

6.125% Notes due 2023

In August 2013, the Company issued $250,000 aggregate principal amount of its 6.125% notes due 2023 (the "Notes") to certain initial purchasers in a private placement. The Notes bear interest at a rate equal to 6.125% per year, payable semiannually in arrears on February 15th and August 15th of each year. The Notes will mature on August 15, 2023, unless earlier purchased by the Company. Fees associated with the Notes were approximately $2,706. The indenture governing the Notes contains covenants whereby the interest rate will increase by 0.50% per year if the Company's consolidated leverage ratio exceeds 30% and does not exceed 35% and will increase an additional 1.00% per year (for an aggregate increase of 1.50% per year) if the consolidated leverage ratio exceeds 35%. The consolidated leverage ratio under this agreement was less than 30% as of March 31, 2014. It is an event of default if the Company has a consolidated leverage ratio in excess of 35% for a period of 30 days, unless in connection with an acquisition, in which case the grace period is 18 months. The indenture governing the Notes also contains certain customary covenants, such as reporting of annual and quarterly financial results, and restrictions on certain mergers and consolidations, a limitation on liens, and a limitation on the disposition of stock of certain of the Company's subsidiaries. The Notes rank equally with existing and future unsecured and unsubordinated indebtedness, including the Company's Convertible Notes and amounts under the Credit Agreement. Interest expense, including amortization of deferred origination costs, recognized on the Notes was approximately $3,897 for the three months ended March 31, 2014.

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 March 31, 2014 on the Company's consolidated balance sheet, represents the Company's ownership of common securities issued by the trusts. The debentures require interest-only payments to be made on a quarterly basis, with principal due at maturity. The debentures contain covenants that restrict declaration of dividends on the Company's common stock under certain circumstances, including default of payment. The Company incurred $2,605 of placement fees in connection with these issuances which is being amortized over thirty years. The Company recorded $2,020 and $1,999 of interest expense for the three months ended March 31, 2014 and 2013, respectively, related to these trust preferred securities.

The table below summarizes the Company's trust preferred securities as of March 31, 2014:

(Amounts in Thousands) Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate % of Notes	
AmTrust Capital Financing Trust I	$25,000	$774	$25,774	3/17/2035	8.275	(1)
AmTrust Capital Financing Trust II	25,000	774	25,774	6/15/2035	7.710	(1)
AmTrust Capital Financing Trust III	30,000	928	30,928	9/15/2036	3.533	(2)
AmTrust Capital Financing Trust IV	40,000	1,238	41,238	3/15/2037	3.233	(3)
Total trust preferred securities	$120,000	$3,714	$123,714			

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

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

Secured Loan Agreement

The Company, through a wholly-owned subsidiary, has a seven-year secured loan agreement with Bank of America Leasing & Capital, LLC in the aggregate amount of $10,800 to finance the purchase of an aircraft. The loan bears interest at a fixed rate of 4.45%, requires monthly installment payments of approximately $117 through February 25, 2018, and a balloon payment of $3,240 at the maturity date. The Company recorded interest expense of approximately $87 and $101 for the three months ended March 31, 2014 and 2013, respectively, related to this agreement. The loan is secured by the aircraft.

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

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 $66 and $97 for the three months ended March 31, 2014 and 2013, respectively, 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 March 31, 2014. The Company recorded $69 of interest expense related to these notes for the three months ended March 31, 2014.

Sagicor Credit Agreement

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

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

As of March 31, 2014, the Company had outstanding letters of credit of £194,293 (or $323,767) in place under this credit facility, which reduced the total availability under the facility to £5,707 (or $9,511).

Fees payable by the Company under the credit facility include a letter of credit issuance fee, payable quarterly in arrears, on the secured portion of the letters of credit at the rate of 0.55% and on the unsecured portion of the letters of credit determined based on the Account Party's then-current financial strength rating issued by A.M. Best. As of March 31, 2014, the applicable letter of credit fee rate on the unsecured portion was 1.15% based on the Account Party's A.M. Best financial strength rating of "A". The Company also pays a commitment fee of 0.35% per year on the aggregate unutilized and uncanceled amount of the facility.

Other Letters of Credit

The Company, through one of its subsidiaries, has a secured letter of credit facility with Comerica Bank. The Company utilizes this letter of credit facility to comply with the deposit requirements of the State of California and the U.S. Department of Labor as security for the Company’s obligations to workers’ compensation and Federal Longshore and Harbor Workers’ Compensation Act policyholders. The credit limit is for $75,000, of which $48,467 was utilized as of March 31, 2014. The Company is required to pay a letter of credit participation fee for each letter of credit in the amount of 0.40%.

The Company, through certain subsidiaries, has additional existing stand-by letters of credit with various lenders in the amount of $22,210 as of March 31, 2014.

7. Acquisition Costs and Other Underwriting Expenses

The following table summarizes the components of acquisition costs and other underwriting expenses for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
(Amounts in Thousands)	2014	2013
Policy acquisition expenses	$94,251	$37,730
Salaries and benefits	77,855	45,129
Other insurance general and administrative expenses	14,503	17,426
	$186,609	$100,285

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 ten percent stock dividend on September 4, 2013. As such, the weighted average number of shares used for basic and diluted earnings per share have been adjusted retroactively in the prior periods.

The following table is a summary of the elements used in calculating basic and diluted earnings per share for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
(Amounts in Thousands, except for earnings per share)	2014	2013
Basic earnings per share:		
Net income attributable to AmTrust common shareholders	99,851	83,878
Less: Net income allocated to participating securities and redeemable non-controlling interest	216	319
Net income allocated to AmTrust common shareholders	$99,635	$83,559
Weighted average common shares outstanding – basic	74,708	74,079
Less: Weighted average participating shares outstanding	161	268
Weighted average common shares outstanding - basic	74,547	73,811
Net income per AmTrust common share - basic	$1.34	$1.13
Diluted earnings per share:		
Net income attributable to AmTrust common shareholders	$99,851	$83,878
Less: Net income allocated to participating securities and redeemable non-controlling interest	216	319
Net income allocated to AmTrust common shareholders	$99,635	$83,559
Weighted average common shares outstanding – basic	74,547	73,811
Plus: Dilutive effect of stock options, convertible debt, other	3,897	3,514
Weighted average common shares outstanding – dilutive	78,444	77,325
Net income per AmTrust common shares – diluted	$1.27	$1.08

As of March 31, 2014, 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 7,315,068 shares of Company stock for awards of options to purchase shares of the Company's common stock, restricted stock, restricted stock units ("RSU"), performance 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 7,315,068 shares, subject to the authority of the Company's board of directors to adjust this amount in the event of a consolidation, reorganization, stock dividend, stock split, recapitalization or similar transaction affecting the Company's common stock. As of March 31, 2014, 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 year period following the date of grant for employee options. The Company uses the simplified method in determining the expected life. Employees have three months after the employment relationship ends to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The Company grants restricted shares, RSUs and PSUs with a grant date value equal to the closing stock price of the Company's stock on the dates the shares or units are granted and the restricted shares and RSUs vest over a period of two to four years, while PSUs vest based on terms of the awards.

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

The following schedule shows all options granted, exercised, and expired under the Plan for the three months ended March 31, 2014 and 2013:

	2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	2,997,460	$10.49	3,675,776	$9.41
Granted	27,500	32.49	11,000	26.71
Exercised	(229,968)	8.13	(168,035)	7.28
Cancelled or terminated	—	—	—	—
Outstanding end of period	2,794,992	$10.90	3,518,741	$9.57

The weighted average grant date fair value of options granted during the three months ended March 31, 2014 and 2013 was approximately $14.16 and $8.91, respectively.

A summary of the Company's restricted stock and RSU activity for the three months ended March 31, 2014 and 2013 is shown below:

	2014		2013	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	917,015	$24.43	888,197	$20.86
Granted	680,842	37.14	90,146	31.58
Vested	(155,171)	22.65	(131,539)	21.04
Forfeited	(1,566)	24.00	—	—
Non-vested at end of period	1,441,120	$30.63	846,804	$21.97

The Company has 159,713 PSUs granted as of March 31, 2014. During the three months ended March 31, 2014, 347,875 PSUs were converted to restricted share awards based on achievements of certain targets. PSUs are conditional grants of a specified maximum number of common shares. In general, grants are earned, subject to the attainment of pre-specified performance goals at the end of the pre-determined period. The fair value of these PSUs on the date of the grants was $4,687.

Compensation expense for all share-based payments under ASC 718-10-30 was approximately $4,150 and $2,108 for the three months ended March 31, 2014 and 2013, respectively.

The intrinsic value of stock options exercised during the three months ended March 31, 2014 and 2013 was $5,877 and $3,780, respectively. The intrinsic value of stock options that were outstanding as of March 31, 2014 and 2013 was $74,644 and $88,256, respectively.

Cash received from options exercised was $1,558 and $975 during the three months ended March 31, 2014 and 2013, respectively. The excess tax benefit from award exercises was approximately $1,337 and $1,133, for the three months ended March 31, 2014 and 2013, respectively.

10. Income Taxes

The following table is a reconciliation of the Company’s statutory income tax expense to its effective tax rate for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
(Amounts in Thousands)	2014	2013
Income before equity in earnings of unconsolidated subsidiaries	$110,656	$97,560
Tax at federal statutory rate of 35%	$38,730	$34,146
Tax effects resulting from:		
Income (loss) of non-includible foreign subsidiaries	(48,878)	(19,587)
Other, net	37,592	1,550
	$27,444	$16,109
Effective tax rate	24.8%	16.5%

During the fourth quarter of 2013, the Company reclassified the reduction to its Luxembourg tax liability that was previously recorded as a reduction in policy acquisition expense to a reduction in its provision for income taxes in accordance with ASC 740 Income Taxes. As a result of the reclassification, the Company reduced its income tax expense by $7,423 for the three months ended March 31, 2013, which reduced the effective tax rate by approximately 7.6%. There was no corresponding reduction in the Company's deferred tax liability during the three months ended March 31, 2014. This reduction was offset by an increase in tax expense during the three months ended March 31, 2013 of $5,872 related to the retrospective gain on acquisition of Car Care Plan (Holdings) Limited ("CCPH") of $25,532.

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 March 31, 2014 and December 31, 2013, the financial reporting basis in excess of the tax basis for which no deferred taxes have been recognized was approximately $444,000 and $360,000, respectively.

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

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 March 31, 2014, our principal shareholders, Michael Karfunkel, Leah Karfunkel (wife of Michael Karfunkel and sole trustee of the Michael

Karfunkel 2005 Grantor Retained Annuity Trust), George Karfunkel and Barry Zyskind, own or control approximately 6.2%, 7.6%, 9.3% and 5.1%, respectively, of the issued and outstanding capital stock of Maiden. Mr. Zyskind serves as the non-executive chairman of the board of Maiden's board of directors. Maiden Insurance Company, Ltd. ("Maiden Insurance"), a wholly-owned subsidiary of Maiden, is a Bermuda reinsurer. The following section describes the agreements in place between the Company and its subsidiaries and Maiden and its subsidiaries.

Reinsurance Agreements with Maiden Holdings, Ltd.

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

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

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

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

The following is the effect on the Company's results of operations for the three months ended March 31, 2014 and 2013 related to Maiden Reinsurance agreements:

	Three Months Ended March 31,	
(Amounts in Thousands)	2014	2013
Results of operations:		
Premium written – ceded	$(408,558)	$(305,786)
Change in unearned premium – ceded	95,890	78,096
Earned premium - ceded	$(312,668)	$(227,690)
Ceding commission on premium written	$118,340	$89,499
Ceding commission – deferred	(30,234)	(25,541)

Ceding commission – earned	$88,106	$63,958
Incurred loss and loss adjustment expense – ceded	$214,283	$152,965

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 March 31, 2014 and December 31, 2013, respectively. The Company recorded $444 and $494 of interest expense during the three months ended March 31, 2014 and 2013, respectively. Effective December 1, 2008, AII and Maiden Insurance entered into a Reinsurer Trust Assets Collateral agreement whereby Maiden Insurance is required to provide AII the assets required to secure Maiden's proportional share of the Company's obligations to its U.S. subsidiaries. The amount of this collateral as of March 31, 2014 was approximately $1,216,782. 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 $5,020 and $3,659 of brokerage commission (recorded as a component of service and fee income) during the three months ended March 31, 2014 and 2013, 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 March 31, 2014, the Company managed approximately $3,275,164 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 $1,224 and $1,041 of investment management fees (recorded as a component of service and fee income) for the three months ended March 31, 2014 and 2013, respectively.

National General Holding Corp.

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

In February 2014, NGHC issued approximately 13,600,000 shares in a follow on 144A offering, which resulted in the Company reducing its ownership percentage in NGHC from 15.4% to 13.2%. As a result of the stock issuance, the Company recognized a gain on sale of its equity investment of $14,712, which is included in equity in earnings of unconsolidated subsidiary. In total, the Company recorded