Amtrust Financial Services, Inc.
Form 10-Q
August 09, 2016

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 June 30, 2016
¨ 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	04-3106389
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
59 Maiden Lane, 43rd Floor, New York, New York	10038
(Address of principal executive offices)	(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	¨	Smaller reporting company	¨

(Do not check if a 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 1, 2016, the Registrant had one class of Common Stock ($.01 par value), of which 170,668,960 shares were issued and outstanding.

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

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost $6,617,396; $5,482,042)	$6,838,968	$5,433,797
Equity securities, available-for-sale, at fair value (cost $171,492; $109,346)	161,880	104,497
Equity securities, trading, at fair value (cost $26,232; $26,937)	26,847	27,271
Short-term investments	127,880	84,266
Equity investment in unconsolidated subsidiaries – related party	149,573	138,023
Other investments (related party $68,186; $64,869; recorded at fair value $38,039; $30,309)	129,414	99,012
Total investments	7,434,562	5,886,866
Cash and cash equivalents	1,009,534	931,970
Restricted cash and cash equivalents	591,984	380,699
Accrued interest and dividends	55,940	51,487
Premiums receivable, net	2,562,165	2,115,653
Reinsurance recoverable (related party $2,236,292; $1,963,140)	3,856,087	3,008,670
Prepaid reinsurance premium (related party $1,194,588; $1,066,961)	1,924,747	1,531,866
Other assets (related party $205,320; $189,223; recorded at fair value $304,434; $264,001)	1,371,771	1,398,064
Deferred policy acquisition costs	873,641	704,243
Property and equipment, net	327,311	281,456
Goodwill	603,662	432,700
Intangible assets	395,589	367,345
	$21,006,993	$17,091,019
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Loss and loss adjustment expense reserves	$9,097,408	$7,208,367
Unearned premiums	4,819,255	4,014,728
Ceded reinsurance premiums payable (related party $679,083; $379,988)	843,473	651,051
Accrued expenses and other liabilities (related party $167,975; $167,975; recorded at fair value $462,537; $132,558)	1,604,413	1,140,830
Debt	1,229,599	989,356
Total liabilities	17,594,148	14,004,332
Commitments and contingencies		
Redeemable non-controlling interest	941	1,172
Stockholders' equity:		
Common stock, $0.01 par value; 500,000 shares authorized; 196,455 issued in 2016 and 2015, respectively; 172,432 and 175,915 outstanding in 2016 and 2015, respectively	1,965	1,964
Preferred stock, $0.01 par value; 10,000 shares authorized; 5,112 and 4,968 issued and outstanding; $626,250 and $482,500 aggregated liquidation preference in 2016 and 2015, respectively.	626,250	482,500
Additional paid-in capital	1,380,153	1,383,492
Treasury stock at cost; 24,023 and 20,540 shares in 2016 and 2015, respectively	(262,984)	(162,867)

Accumulated other comprehensive loss, net of tax	(31,791)	(130,262)
Retained earnings	1,517,092	1,334,233
Total AmTrust Financial Services, Inc. equity	3,230,685	2,909,060
Non-controlling interest	181,219	176,455
Total stockholders’ equity	3,411,904	3,085,515
	$21,006,993	$17,091,019

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Premium income:				
Net written premium	$1,268,436	$1,008,721	$2,489,115	$2,051,910
Change in unearned premium	(86,684)	(39,751)	(233,081)	(133,563)
Net earned premium	1,181,752	968,970	2,256,034	1,918,347
Service and fee income (related parties - three months $21,608; $21,281 and six months $41,771; $38,685)	138,270	107,737	282,471	220,623
Net investment income	50,745	36,283	100,160	70,856
Net realized and unrealized gain (loss) on investments	15,099	(2,642)	23,074	13,011
Total revenues	1,385,866	1,110,348	2,661,739	2,222,837
Expenses:				
Loss and loss adjustment expense	784,393	638,475	1,499,466	1,251,758
Acquisition costs and other underwriting expenses (net of ceding commission - related party - three months $145,610; $129,222 and six months $284,001; $247,909)	298,803	238,710	563,437	470,386
Other	132,970	98,130	261,156	196,587
Total expenses	1,216,166	975,315	2,324,059	1,918,731
Income before other income (expense), income taxes and equity in earnings of unconsolidated subsidiaries	169,700	135,033	337,680	304,106
Other income (loss):				
Interest expense (net of interest income - related party - three months $2,187; $2,211 and six months $4,375; $4,399)	(19,738)	(9,646)	(37,438)	(19,901)
Loss on extinguishment of debt	—	—	—	(4,714)
Gain on investment in life settlement contracts net of profit commission	12,676	3,096	23,406	14,469
Foreign currency loss	(26,435)	(47,320)	(62,108)	(7,366)
Acquisition gain on purchase	39,097	—	48,775	—
Total other income (loss)	5,600	(53,870)	(27,365)	(17,512)
Income before income taxes and equity in earnings of unconsolidated subsidiaries	175,300	81,163	310,315	286,594
Provision for income taxes	27,918	4,472	55,644	51,284
Income before equity in earnings of unconsolidated subsidiaries	147,382	76,691	254,671	235,310
Equity in earnings of unconsolidated subsidiaries – related parties	4,802	4,042	10,578	9,571
Net income	$152,184	$80,733	$265,249	$244,881
Net income attributable to redeemable non-controlling interest and non-controlling interest of subsidiaries	(5,817)	(1,346)	(9,834)	(5,429)
Net income attributable to AmTrust Financial Services, Inc.	$146,367	$79,387	$255,415	$239,452
Dividends on preferred stock	(11,576)	(8,639)	(20,367)	(14,008)
Net income attributable to AmTrust common stockholders	$134,791	$70,748	$235,048	$225,444
Earnings per common share:				
Basic earnings per share	$0.79	$0.43	$1.36	$1.38

Diluted earnings per share	$0.78	$0.42	$1.34	$1.35
Dividends declared per common share	$0.15	$0.125	$0.30	$0.25
Net realized gain (loss) on investments:				
Total other-than-temporary impairment loss	$(16,956)	$(1,466)	$(16,956)	$(2,482)
Portion of loss recognized in other comprehensive income	—	—	—	—
Net impairment losses recognized in earnings	(16,956)	(1,466)	(16,956)	(2,482)
Net realized gain (loss) on available for sale securities	33,391	(856)	38,663	15,813
Net unrealized gain (loss) on trading securities and other investments	(1,336)	(320)	1,367	(320)
Net realized investment gain (loss)	$15,099	$(2,642)	$23,074	$13,011

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$152,184	$80,733	$265,249	$244,881
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(36,820)	14,021	(84,665)	(51,332)
Change in fair value of interest rate swap	168	163	287	190
Unrealized gain (loss) on securities:				
Gross unrealized holding gain (loss)	168,963	(91,679)	293,683	(80,494)
Tax expense arising during period	59,137	(32,088)	102,789	(28,173)
Net unrealized holding gain (loss)	109,826	(59,591)	190,894	(52,321)
Reclassification adjustments for investment gain (loss) included in net income, net of tax:				
Other-than-temporary impairment loss	(10,537)	—	(10,537)	—
Other net realized gain (loss) on investments	2,920	(790)	2,492	(1,205)
Reclassification adjustments for investment gain (loss) included in net income:	(7,617)	(790)	(8,045)	(1,205)
Other comprehensive income (loss), net of tax	$65,557	$(46,197)	$98,471	$(104,668)
Comprehensive income	217,741	34,536	363,720	140,213
Less: Comprehensive income attributable to redeemable non-controlling interest and non-controlling interest	5,817	1,346	9,834	5,429
Comprehensive income attributable to AmTrust Financial Services, Inc.	$211,924	$33,190	$353,886	$134,784

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$265,249	$244,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,842	38,519
Net amortization of bond premium or discount	9,707	6,537
Equity earnings on investment in unconsolidated subsidiaries	(10,578)	(9,571)
Gain on investment in life settlement contracts, net	(23,406)	(14,469)
Realized gain on available for sale securities and unrealized gain on trading securities	(40,030)	(15,493)
Non-cash write-down of available for sale securities	16,956	2,482
Discount on notes payable	2,910	2,769
Stock based compensation	11,542	10,436
Loss on extinguishment of debt	—	4,714
Bad debt expense	8,241	7,724
Foreign currency loss	62,108	7,366
Acquisition gain on purchase	(48,775)	—
Changes in assets - (increase) decrease:		
Premiums and note receivables	(350,748)	(536,715)
Reinsurance recoverable	(172,948)	(355,989)
Deferred policy acquisition costs, net	(125,499)	(66,026)
Prepaid reinsurance premiums	(392,881)	(280,712)
Other assets	186,005	(124,061)
Changes in liabilities - increase (decrease):		
Reinsurance premium payable	185,275	155,340
Loss and loss expense reserve	780,599	664,495
Unearned premiums	382,794	394,994
Funds held under reinsurance treaties	(28,041)	13,525
Accrued expenses and other current liabilities	(202,549)	174,391
Deferred taxes	47,989	(158,508)
Net cash provided by operating activities	618,762	166,629
Cash flows from investing activities:		
Purchases of fixed maturities, available-for-sale	(1,299,160)	(1,168,051)
Purchases of equity securities, available-for-sale	(111,284)	(14,923)
Purchase of equity securities, trading	(100,101)	(109,555)
Purchase of other investments	(18,509)	(27,234)
Sales of fixed maturities, available-for-sale	910,939	560,386
Sales of equity securities, available-for-sale	89,348	12,184
Sales of equity securities, trading	102,261	108,325
Sales of other investments	1,242	13,337
Net (purchase) sale of short term investments	(43,614)	42,501
Net (purchase) sale of securities sold but not purchased	(17,448)	15,456
Receipt of life settlement contract proceeds	8,058	81,014
Acquisition of subsidiaries, net of cash obtained	(118,607)	(121,401)

Increase in restricted cash and cash equivalents	(211,285)	(62,715)
Purchase of property and equipment	(65,538)	(44,386)
Net cash used in investing activities	(873,698)	(715,062)

Cash flows from financing activities:		
Revolving credit facility borrowings	—	430,000
Revolving credit facility payments	—	(365,000)
Repurchase agreements, net	366,860	48,819
Secured loan proceeds	39,361	—
Secured loan agreements payments	(3,569)	(3,478)
Convertible senior notes settlement	—	(53,606)
Subordinated notes due 2055 proceeds	—	150,000
Financing fees	—	(4,990)
Common stock issuance	276	171,672
Common stock repurchase	(103,509)	—
Preferred stock issuance	139,070	176,529
Non-controlling interest capital distributions from consolidated subsidiaries, net	(5,301)	(41)
Stock option exercise and other	(7,084)	(1,982)
Dividends distributed on common stock	(52,624)	(39,901)
Dividends distributed on preferred stock	(20,367)	(14,008)
Net cash provided by financing activities	353,113	494,014
Effect of exchange rate changes on cash	(20,613)	(2,359)
Net increase in cash and cash equivalents	77,564	(56,778)
Cash and cash equivalents, beginning of the period	931,970	902,750
Cash and cash equivalents, end of the period	$1,009,534	$845,972
Supplemental Cash Flow Information		
Income tax payments	$22,575	$226,278
Interest payments on debt	$28,902	$18,245
Declared dividends on common stock	$52,189	$41,187

See accompanying notes to unaudited consolidated financial statements.

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Notes to Unaudited Condensed Consolidated Financial Statements
(Unaudited)
(Dollars In Thousands, Except Share and 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, 2015, previously filed with the Securities and Exchange Commission ("SEC") on February 29, 2016. The balance sheet at December 31, 2015 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.

The Company implemented a two-for-one stock split on February 2, 2016. As a result, the Company retrospectively adjusted all share and per share amounts in the accompanying condensed consolidated financial statements and notes to the condensed consolidated financial statements to apply the effect of the stock split for all periods presented.

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, 2015, 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.

Correction of an Immaterial Error

The Company identified an immaterial error related to its classification on the consolidated statement of cash flows for purchases and sales of securities sold but not yet purchased, at fair value. The Company determined that in prior periods reported, these amounts were improperly reflected as changes in accrued expenses and other current liabilities in cash flow from operating activities instead of securities sold but not yet purchased, at fair value, in cash flow from investing activities. The Company reviewed the impact of this error on the prior periods and determined that the error was not material to the prior period consolidated financial statements. The Company has corrected the consolidated statement of cash flows for the six months ended June 30, 2015 by presenting this amount separately within investing activities and decreasing the changes in accrued expenses and other current liabilities within operating activities. The impact of the error decreased the Company's net cash provided by operating activities by $15,456 and increased the Company's cash flows from investing activities by an equivalent amount for the period ended June 30, 2015.
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, 2016, as compared to those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, that are of significance, or potential significance, to the Company.

In June 2016, the Financial Accounting Standards Board ("FASB") completed its Financial Instruments—Credit Losses project by issuing Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments—Credit Losses (Topic 326). The new guidance requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The new guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued Accounting Standards Update ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or a liability, and classification on the statement of cash flows. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which improves the operability and understandability of the implementation guidance on principal versus agent considerations by clarifying that 1) an entity determines whether it is a principal or an agent for each specific good or service promised to the customer; 2) an entity determines the nature of each specific good or service; 3) when another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of (a) a good or another asset from the other party that it then transfers to the customer, (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf, or (c) a good or service from the other party that is combines with other goods or services to provide the specific good or service to the customer; and 4) the purpose of the indicators in paragraph 606-10-55-39 in Topic 606 is to support or assist in the assessment of control. The effective date and transition requirement for this ASU are the same as the effective date and transition requirements of ASU 2014-09, which were deferred to the quarter ending March 31, 2018 by ASU 2015-14. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments, which clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amended guidance in this ASU is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence prescribed by Topic 815. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. This ASU should be applied on a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships, which clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The updated guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a material effect on the Company's results of operations, financial position or liquidity.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires a lessee to recognize a right of use asset and a lease liability on the balance sheet for leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The updated guidance is effective for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically, the guidance (a) requires equity investments to be measured at fair value with changes in fair value recognized in earnings. However, an entity may choose to measure equity investments that do not have readily determinable fair value at cost minus impairment, if any, plus or minus changes resulted from observable price changes in orderly transactions for identical or similar investments of the same issuer, (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (c) eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost, (d) requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (e) requires an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option, (f) requires separate presentation of financial assets and liabilities by measurement category and form on the balance sheet or the notes to the financial statements, and (g) clarifies that the need for a valuation allowance on a deferred tax asset related to an available for sale security should be evaluated with other deferred tax assets. The updated guidance is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact this guidance will have on its results of operations, financial position or liquidity.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which requires that an acquirer in a business combination transaction recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. It also requires an entity to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The updated guidance was effective for reporting periods beginning after December 15, 2015, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this ASU with earlier application permitted for financial statements that have not been issued. The Company elected to early adopt this ASU on September 30, 2015. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In May 2015, the FASB issued ASU 2015-09, Financial Services - Insurance (Topic 944): Disclosure about Short-Duration Contracts, which provides certain new and additional disclosure requirements about the liability for unpaid claims and claim adjustment expenses associated with short-duration contracts as defined in Topic 944. Pursuant to the updated guidance, all insurance entities that issue short-duration contracts are required to disclose, among other things, incurred and paid claims development information, a reconciliation of such information to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, and significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including the reasons for the change and the effects on the financial statements. The updated guidance was effective for reporting periods beginning after December 15, 2015, and should be applied retrospectively by providing comparative disclosures for each period presented, except for those requirements that apply only to the current period. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which provides guidance that removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and limits certain disclosure requirements only to investments for which the entity elects to measure the fair value using that practical expedient. The updated guidance is effective for reporting periods beginning after December 15, 2015, and should be applied retrospectively for all periods presented. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In April 2015, the FASB issued ASU 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance to determine whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The updated guidance is effective for reporting periods beginning after December 15, 2015, and can be adopted either prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which provides updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the recognized debt liability, consistent with the treatment of debt discounts. Amortization of debt issuance costs is to be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the updated guidance. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which provides amended guidance on a reporting entity's evaluation whether to consolidate certain legal entities. Specifically, the amendments will modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities with interests in VIEs, particularly those that have fee arrangements and related party relationships, and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The Company adopted this ASU on January 1, 2016. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

3. Investments

(a) Available-for-Sale Securities

The cost or amortized cost, gross unrealized gains and losses, and estimated fair value of fixed maturities and equity securities classified as available-for-sale as of June 30, 2016 and December 31, 2015, are presented below:

(Amounts in Thousands) As of June 30, 2016	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Preferred stock	$3,629	$—	$(33)	$3,596
Common stock	150,907	14,895	(7,518)	158,284
U.S. treasury securities	272,547	4,778	(1)	277,324
U.S. government agencies	9,541	207	—	9,748
Municipal bonds	838,930	40,406	(1,151)	878,185
Foreign government	122,470	8,314	(503)	130,281
Corporate bonds:				
Finance	1,389,171	60,930	(18,270)	1,431,831
Industrial	2,051,346	113,173	(25,306)	2,139,213
Utilities	183,995	7,155	(4,749)	186,401
Commercial mortgage backed securities	186,920	5,898	(1,731)	191,087
Residential mortgage backed securities:				
Agency backed	1,117,536	37,748	(254)	1,155,030
Non-agency backed	51,932	1,495	(276)	53,151
Collateralized loan / debt obligations	367,228	2,968	(9,122)	361,074
Asset-backed securities	25,780	59	(196)	25,643
	$6,771,932	$298,026	$(69,110)	$7,000,848

(Amounts in Thousands) As of December 31, 2015	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Preferred stock	$4,869	$150	$(30)	$4,989
Common stock	104,477	3,816	(8,785)	99,508
U.S. treasury securities	69,547	1,470	(258)	70,759
U.S. government agencies	45,586	235	(263)	45,558
Municipal bonds	530,004	11,952	(1,530)	540,426
Foreign government	109,645	4,912	(812)	113,745
Corporate bonds:				
Finance	1,358,765	38,058	(34,393)	1,362,430
Industrial	1,706,772	20,542	(80,251)	1,647,063
Utilities	157,067	1,548	(9,115)	149,500
Commercial mortgage backed securities	151,164	1,334	(1,180)	151,318
Residential mortgage backed securities:				
Agency backed	964,059	14,912	(4,133)	974,838
Non-agency backed	124,046	322	(4,139)	120,229
Collateralized loan / debt obligation	232,245	10	(6,161)	226,094
Asset backed securities	33,142	4	(1,309)	31,837
	$5,591,388	$99,265	$(152,359)	$5,538,294

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, 2016, the Company's foreign government securities were issued or guaranteed primarily by governments in Europe, Canada and Mexico.

Proceeds from the sale of investments in available-for-sale securities during the three months ended June 30, 2016 and 2015 were approximately $797,529 and $270,324, respectively. Proceeds from the sale of investments in available-for-sale securities during the six months ended June 30, 2016 and 2015 were approximately $1,000,265 and $572,570, respectively.

A summary of the Company’s available-for-sale fixed maturities as of June 30, 2016 and December 31, 2015, 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, 2016		December 31, 2015	
(Amounts in Thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$216,852	$217,214	$125,563	$124,763
Due after one through five years	1,508,569	1,543,107	913,365	909,634
Due after five through ten years	2,753,851	2,883,670	2,586,061	2,537,734
Due after ten years	388,727	408,992	352,397	357,288
Mortgage and asset backed securities	1,749,397	1,785,986	1,504,656	1,504,378
Total fixed maturities	$6,617,396	$6,838,969	$5,482,042	$5,433,797

Other-than-temporary impairment ("OTTI") charges of our fixed maturities and equity securities classified as available-for-sale are presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Equity securities recognized in earnings	$16,956	$176	$16,956	$1,192
Fixed-maturity securities recognized in earnings	—	1,290	—	1,290
	$16,956	$1,466	$16,956	$2,482

The tables below summarize the gross unrealized losses of our fixed maturity and equity securities by length of time the security has continuously been in an unrealized loss position as of June 30, 2016 and December 31, 2015:

(Amounts in Thousands) As of June 30, 2016	Less Than 12 Months Fair Market Value	Unrealized Losses	No. of Positions Held	12 Months or More Fair Market Value	Unrealized Losses	No. of Positions Held	Total Fair Market Value	Unrealized Losses
Common and preferred stock	$19,282	$(6,740)	68	$1,490	$(812)	28	$20,772	$(7,552)
U.S. treasury securities	960	(1)	5	651	—	1	1,611	(1)
Municipal bonds	48,738	(456)	36	15,391	(694)	29	64,129	(1,150)
Foreign government	13,405	(503)	10	—	—	—	13,405	(503)
Corporate bonds:								
Finance	161,268	(17,068)	109	42,783	(1,201)	32	204,051	(18,269)
Industrial	191,697	(20,201)	162	119,185	(5,105)	61	310,882	(25,306)
Utilities	10,658	(1,702)	17	20,747	(3,047)	10	31,405	(4,749)
Commercial mortgage backed securities	39,385	(547)	16	47,712	(1,184)	60	87,097	(1,731)
Residential mortgage backed securities:								
Agency backed	4,028	(13)	28	26,573	(241)	34	30,601	(254)
Non-agency backed	18,001	(207)	16	3,521	(70)	5	21,522	(277)
Collateralized loan / debt obligations	157,122	(6,105)	61	58,079	(3,018)	24	215,201	(9,123)
Asset-backed securities	16,188	(187)	23	1,041	(8)	8	17,229	(195)
Total temporarily impaired securities	$680,732	$(53,730)	551	$337,173	$(15,380)	292	$1,017,905	$(69,110)

(Amounts in Thousands) As of December 31, 2015	Less Than 12 Months Fair Market Value	Unrealized Losses	No. of Positions Held	12 Months or More Fair Market Value	Unrealized Losses	No. of Positions Held	Total Fair Market Value	Unrealized Losses
Common and preferred stock	$59,302	$(8,711)	67	$402	$(104)	2	$59,704	$(8,815)
U.S. treasury securities	31,658	(232)	77	2,586	(26)	8	34,244	(258)
U.S. government agencies	22,412	(262)	20	182	(1)	2	22,594	(263)
Municipal bonds	121,550	(867)	111	17,163	(663)	30	138,713	(1,530)
Foreign government	18,598	(688)	27	5,977	(124)	1	24,575	(812)
Corporate bonds:								
Finance	604,898	(33,068)	349	59,020	(1,325)	22	663,918	(34,393)
Industrial	858,632	(65,887)	633	82,495	(14,364)	55	941,127	(80,251)
Utilities	79,358	(5,305)	113	7,712	(3,810)	5	87,070	(9,115)
Commercial mortgage backed securities	35,405	(1,079)	100	2,870	(101)	6	38,275	(1,180)
Residential mortgage backed securities:								
Agency backed	334,224	(2,788)	163	35,446	(1,345)	29	369,670	(4,133)
Non-agency backed	95,001	(4,077)	39	4,023	(62)	4	99,024	(4,139)
Collateralized loan / debt obligations	201,086	(6,161)	78	—	—	—	201,086	(6,161)
Asset-backed securities	30,302	(1,309)	70	—	—	—	30,302	(1,309)

Total temporarily impaired securities	$2,492,426	$(130,434)	1,847	$217,876	$(21,925)	164	$2,710,302	$(152,359)

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There are 843 and 2,011 securities at June 30, 2016 and December 31, 2015, respectively, that account for the gross unrealized loss, none of which is deemed by the Company to be OTTI. At June 30, 2016, we have determined that the unrealized losses on fixed maturities were primarily due to market interest rate movements since their date of purchase. The Company considers an investment, primarily equity securities, to be impaired when it has been in a significant unrealized loss position (in excess of 35% of cost if the issuer has a market capitalization of under $1,000,000 and in excess of 25% of cost if the issuer has a market capitalization of $1,000,000 or more) for over 24 months. Additionally, other factors influencing the Company’s determination that unrealized losses were temporary included an evaluation of the investment’s discounted cash flows, the magnitude of the unrealized losses in relation to each security’s cost, near-term and long-term prospects of the issuer or the issuer's ability to have adequate resources to fulfill contractual obligations, 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. As of June 30, 2016, for the $15,380 of unrealized losses related to securities in unrealized loss positions for a period of twelve or more consecutive months, $2,091 of those unrealized losses were related to securities in unrealized loss positions greater than or equal to 20% of amortized cost or cost.

(b) Trading Securities

The original or amortized cost, estimated market value and gross unrealized appreciation and depreciation of trading securities as of June 30, 2016 and December 31, 2015 are presented in the tables below:

(Amounts in Thousands) As of June 30, 2016	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Common stock	$ 26,232	$ 1,215	$ (600)	$26,847

(Amounts in Thousands) As of December 31, 2015	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
Common stock	$ 26,937	$ 739	$ (405)	$27,271

Proceeds from the sale of investments in trading securities during the three months ended June 30, 2016 and 2015 were approximately $49,517 and $48,057, respectively. Proceeds from the sale of investments in trading securities during the six months ended June 30, 2016 and 2015 were approximately $102,261 and $108,325, respectively.

(c) Investment Income

Net investment income for the three and six months ended June 30, 2016 and 2015 was derived from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Fixed maturities, available-for-sale	$46,235	$35,199	$92,428	$67,952
Equity securities, available-for-sale	4,098	661	6,462	1,070
Equity securities, trading	(125)	32	(278)	40
Cash and short term investments	686	923	1,772	2,588
	50,894	36,815	100,384	71,650
Investment expenses	(149)	(532)	(224)	(794)
	$50,745	$36,283	$100,160	$70,856

(d) Realized Gains and Losses

The tables below summarize the gross realized gains and (losses) for the three and six months ended June 30, 2016 and 2015:

(Amounts in Thousands) Three Months Ended June 30, 2016	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities, available-for-sale	$35,008	$(1,571)	$33,437
Equity securities, available-for-sale	608	(658)	(50)
Equity securities, trading	5,315	(5,575)	(260)
Other invested assets	4	(1,076)	(1,072)
Write-down of equity securities, available-for-sale	—	(16,956)	(16,956)
	$40,935	$(25,836)	$15,099

(Amounts in Thousands) Three Months Ended June 30, 2015	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities, available-for-sale	$2,228	$(3,653)	$(1,425)
Equity securities, available-for-sale	102	(32)	70
Equity securities, trading	3,414	(2,025)	1,389
Other invested assets	—	(1,210)	(1,210)
Write-down of fixed maturities, available-for-sale	—	(274)	(274)
Write-down of equity securities, available-for-sale	—	(1,192)	(1,192)
	$5,744	$(8,386)	$(2,642)

(Amounts in Thousands) Six Months Ended June 30, 2016	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities, available-for-sale	$39,811	$(1,617)	$38,194
Equity securities, available-for-sale	1,268	(799)	469
Equity securities, trading	14,927	(12,431)	2,496
Other invested assets	4	(1,133)	(1,129)
Write-down of equity securities, available-for-sale	—	(16,956)	(16,956)
	$56,010	$(32,936)	$23,074

(Amounts in Thousands) Six Months Ended June 30, 2015	Gross Gains	Gross Losses	Net Gains (Losses)
Fixed maturities, available-for-sale	$22,922	$(7,843)	$15,079
Equity securities, available-for-sale	2,266	(1,711)	555
Equity securities, trading	6,737	(4,500)	2,237
Other invested assets	—	(2,378)	(2,378)
Write-down of fixed securities, available-for-sale	—	(1,290)	(1,290)
Write-down of equity securities, trading	—	(1,192)	(1,192)
	$31,925	$(18,914)	$13,011

(e) 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, if any, 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, 2016 and December 31, 2015, the Company had two interest rate swaps designated as hedges that were recorded as a liability in the total amount of $636 and $1,077, 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, 2016:

(Amounts in Thousands)	Remaining Life of Notional Amount [1] 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.

(f) 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 the Company's restricted assets as of June 30, 2016 and December 31, 2015 are as follows:

(Amounts in Thousands)	June 30, 2016	December 31, 2015
Restricted cash and cash equivalents	$591,984	$ 380,699
Restricted investments - fixed maturities at fair value	1,815,846	1,490,547
Total restricted cash, cash equivalents, and investments	$2,407,830	$ 1,871,246

(g) Other

Securities sold but not yet purchased are securities that the Company has sold, but does not own, in anticipation of a decline in the market value of the security. The Company's risk is that the value of the security will increase rather than decline. Consequently, the settlement amount of the liability for securities sold, not yet purchased may exceed the amount recorded in the consolidated balance sheet as the Company is obligated to purchase the securities sold, not yet purchased in the market at prevailing prices to settle the obligations. To establish a position in security sold, not yet purchased, the Company needs to borrow the security for delivery to the buyer. When the transaction is open, the liability for the obligation to replace the borrowed security is marked to market and an unrealized gain or loss is recorded. At the time the transaction is closed, the Company realizes a gain or loss equal to the differences between the price at which the security was sold and the cost of replacing the borrowed security. While the transaction is open, the Company will also incur an expense for any dividends or interest which will be paid to the lender of the securities. The Company's liability for securities to be delivered is measured at their fair value and was $21,170 and $38,618 as of June 30, 2016 and December 31, 2015, respectively. The securities sold but not yet purchased consisted primarily of equity and fixed maturity securities, and the liability for securities sold but not yet purchased is included in accrued expenses and other liabilities in the condensed consolidated balance sheet.

As of June 30, 2016, the Company had 28 repurchase agreements with an outstanding principal amount of $366,860, which approximates fair value, at interest rates between 0.70% and 1.00%. The Company had 24 repurchase agreements with one counter-party totaling $232,540 and 4 repurchase agreements with another counter-party totaling $134,319. Interest expense associated with these repurchase agreements for the three and six months ended June 30, 2016 was $52. The Company had approximately $326,586 of collateral pledged in support of these agreements. The

Company records interest expense related to repurchase agreements as a component of investment income.

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, 2016 and December 31, 2015:

(Amounts in Thousands) As of June 30, 2016	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$277,324	$277,324	$—	$—
U.S. government agencies	9,748	—	9,748	—
Municipal bonds	878,185	—	878,185	—
Foreign government	130,281	—	130,281	—
Corporate bonds and other bonds:				
Finance	1,431,831	—	1,431,831	—
Industrial	2,139,213	—	2,139,213	—
Utilities	186,401	—	186,401	—
Commercial mortgage backed securities	191,087	—	191,087	—
Residential mortgage backed securities:				
Agency backed	1,155,030	—	1,155,030	—
Non-agency backed	53,151	—	53,151	—
Collateralized loan / debt obligations	361,074	—	361,074	—
Asset-backed securities	25,644	—	25,644	—
Equity securities, available-for-sale	161,879	129,994	7,121	24,764
Equity securities, trading	26,847	26,847	—	—
Short term investments	127,880	127,880	—	—
Other investments	38,039	—	—	38,039
Life settlement contracts	304,434	—	—	304,434
	$7,498,048	$562,045	$6,568,766	$367,237
Liabilities:				
Equity securities sold but not yet purchased	$21,170	$21,170	$—	$—
Securities sold under agreements to repurchase, at contract value	366,860	—	366,860	—
Life settlement contract profit commission	9,054	—	—	9,054
Contingent consideration	64,817	—	—	64,817
Derivatives	636	—	636	—
	$462,537	$21,170	$367,496	$73,871

(Amounts in Thousands) As of December 31, 2015	Total	Level 1	Level 2	Level 3
Assets:				
U.S. treasury securities	$70,759	$70,759	$—	$—
U.S. government agencies	45,558	—	45,558	—
Municipal bonds	540,426	—	540,426	—
Foreign government	113,745	—	113,745	—
Corporate bonds and other bonds:				
Finance	1,362,430	—	1,362,430	—
Industrial	1,647,063	—	1,647,063	—
Utilities	149,500	—	149,500	—
Commercial mortgage backed securities	151,318	—	151,318	—
Residential mortgage backed securities:				
Agency backed	974,838	—	974,838	—
Non-agency backed	120,229	—	120,229	—
Collateralized loan / debt obligations	226,094	—	226,094	—
Asset-backed securities	31,837	—	31,837	—
Equity securities, available-for-sale	104,497	38,563	28,723	37,211
Equity securities, trading	27,271	27,271	—	—
Short term investments	84,266	84,266	—	—
Other investments	30,309	—	—	30,309
Life settlement contracts	264,001	—	—	264,001
	$5,944,141	$220,859	$5,391,761	$331,521
Liabilities:				
Equity securities sold but not yet purchased	$18,163	$18,163	$—	$—
Fixed maturity securities sold but not yet purchased	20,455	—	20,455	—
Life settlement contract profit commission	15,406	—	—	15,406
Contingent consideration	77,457	—	—	77,457
Derivatives	1,077	—	1,077	—
	$132,558	$18,163	$21,532	$92,863

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2016 and 2015, respectively.

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

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

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

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

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

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

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

The following tables provides a summary of changes in fair value of the Company’s Level 3 financial assets and liabilities for the three and six months ended June 30, 2016 and 2015:

(Amounts in Thousands)	Balance as of March 31, 2016	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2016
Other investments	$42,322	$(330)	$ —	$ 320	$ (97)	$(4,176)	$38,039
Equity securities, available-for-sale	25,556	—	(776)	(16)	—	—	24,764
Life settlement contracts	294,573	28,532	—	11,330	(30,001)	—	304,434
Life settlement contract profit commission	(7,168)	(1,886)	—	—	—	—	(9,054)
Contingent consideration	(64,738)	(1,761)	—	(11,461)	13,143	—	(64,817)
Total	$290,545	$24,555	$ (776)	$ 173	$ (16,955)	$(4,176)	$293,366

(Amounts in Thousands)	Balance as of January 1, 2016	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2016
Other investments	$30,309	$(1,486)	$ —	$ 695	$ (286)	$ 8,807	$38,039
Equity securities, available-for-sale	37,211	—	(12,449)	2	—	—	24,764
Life settlement contracts	264,001	59,161	—	11,330	(30,058)	—	304,434
Life settlement contract profit commission	(15,406)	(9,054)	—	—	15,406	—	(9,054)
Contingent consideration	(77,457)	(2,346)	—	(8,460)	23,446	—	(64,817)
Total	$238,658	$46,275	$ (12,449)	$ 3,567	$ 8,508	$ 8,807	$293,366

(Amounts in Thousands)	Balance as of March 31, 2015	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2015
Other investments	$14,496	$(58)	$ —	$321	$—	$ —	$14,759
Equity securities, available-for-sale	37,765	—	2,467	—	—	—	40,232
Life settlement contracts	259,785	17,640	—	—	(10,032)	—	267,393
Life settlement contract profit commission	(14,575)	(2,419)	—	—	—	—	(16,994)
Contingent consideration	(82,514)	—	—	28	5,696	—	(76,790)
Total	$214,957	$15,163	$ 2,467	$349	$(4,336)	$ —	$228,600

(Amounts in Thousands)

	Balance as of January 1, 2015	Net income	Other comprehensive income	Purchases and issuances	Sales and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2015
Other investments	$13,315	$414	$ —	$1,367	$(337)	$ —	$14,759
Equity securities, available-for-sale	34,886	—	5,392	—	(46)		40,232
Life settlement contracts	264,517	38,890	—	—	(36,014)	—	267,393
Life settlement contract profit commission	(16,534)	(460)	—	—	—	—	(16,994)
Contingent consideration	(41,704)	—	—	(44,960)	9,874	—	(76,790)
Total	$254,480	$38,844	$ 5,392	$(43,593)	$(26,523)	$ —	$228,600

The Company changed its classification from Level 2 to Level 3 in the fair value hierarchy for certain of its foreign investments of approximately $8,807 during the six months ended June 30, 2016 based on a better understanding of the inputs and assumptions related to the security. The Company's policy for transfers between fair value levels, transfer into the levels, and transfer out of levels is to recognize such transfers as of the actual date of the event or change in circumstances that cause the transfer. The Company had no transfers among the levels of fair value hierarchy during the six months ended June 30, 2015.

A reconciliation of net income for life settlement contracts in the above table to gain on investment in life settlement contracts net of profit commission included in the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Net income	$28,532	$17,640	$59,161	$38,890
Premiums paid	(13,354)	(11,158)	(25,456)	(22,288)
Profit commission	(1,886)	(2,419)	(9,054)	(460)
Other expenses	(616)	(967)	(1,245)	(1,673)
Gain on investment in life settlement contracts	$12,676	$3,096	$23,406	$14,469

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. As of June 30, 2016, the Company's Level 3 equity securities consisted primarily of privately placed warrants of companies that have publicly traded common stock. The fair value of these equity securities as of June 30, 2016 was derived from the quoted price of the underlying common stock adjusted for other inputs that are not market observable.

- Cash and cash equivalents, restricted cash and cash equivalents, and short term investments: The carrying value of cash and cash equivalents, restricted cash and cash equivalents, and short term investments approximate their respective fair value and are classified as Level 1 in the fair value 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 fair value hierarchy.

- Other Investments: Other investments that are reported at fair value consisted primarily of investments in private limited partnerships, certain foreign investments, and other. Other investments reported at fair value accounted for approximately 0.5% of the Company's investment portfolio as of June 30, 2016, which the Company believes is immaterial to its overall financial position or its results of operations. The Company estimates the fair value based on significant unobservable inputs in the valuation process. As a result, the Company classified the fair value estimates as Level 3 in the fair value hierarchy.

- Equity Investment in Unconsolidated Subsidiaries - Related Party: The Company has an ownership percentage of approximately 12% in National General Holdings Corp. ("NGHC"), a publicly held insurance holding company (Nasdaq: NGHC). The Company accounts for this investment under the equity method of accounting as it has the ability to exert significant influence on NGHC. The fair value and carrying value of the investment was approximately $263,368 and $149,573, respectively, as of June 30, 2016.

- Subordinated Debentures and Debt: The fair value of the Company's material debt arrangements as of June 30, 2016 was as follows:

	Carrying Value	Fair Value
7.25% Subordinated Notes due 2055	$145,140	$153,420
7.50% Subordinated Notes due 2055	130,628	139,914
2.75% Convertible senior notes due 2044	163,269	178,833

6.125% Notes due 2023	248,048	259,224
Junior subordinated debentures due 2035-2037	121,984	80,900
Trust preferred securities due 2033-2037	92,786	92,786
Revolving credit facility	130,000	130,000
Other	197,744	197,744

The 7.25% subordinated notes due 2055, the 7.50% subordinated notes due 2055, the 2.75% convertible senior notes due 2044, and the 6.125% notes due 2023 are publicly traded instruments and are classified as

Level 1 in the fair value hierarchy. The fair value of the junior subordinated debentures due 2035-2037 was determined using the Black-Derman-Toy interest rate lattice model and is classified as Level 3 in the fair value hierarchy. In determining the fair value of its remaining debt, the Company uses estimates based on rates currently available to the Company for debt with similar terms and remaining maturities. Accordingly, the fair value of other debt is classified as Level 2 within the valuation hierarchy. The Company considers its other debt's carrying value to approximate fair value as their interest rates approximate current borrowing rates.

- Derivatives: The Company classifies interest rate swaps as Level 2 in the 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.

- Contingent consideration: The fair value of contingent consideration is based on a discounted cash flow methodology and is classified as Level 3 in the fair value hierarchy. The range of discount rates used for contingent consideration was primarily between 8% and 14%.

- Life settlement contracts and life settlement contract profit commission: 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. These financial instruments are classified as Level 3 in the fair value hierarchy. 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 and the independent life expectancy reports based thereon. 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, 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. Prior to 2015, the Company established policy specific reserves for the possibility that the issuer of the policy or a third party would contest the payment of the death benefit payable to the Company. The Company determined that the contestability reserve was no longer necessary in 2015 due to historical experience. 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.

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The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies as of June 30, 2016 and December 31, 2015 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, 2016	December 31, 2015
Average age of insured	82.5 years	82.0 years
Average life expectancy, months (1)	108	114
Average face amount per policy (Amounts in thousands)	$ 6,365	$ 6,564
Effective discount rate (2)	12.8 %	13.7 %

(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 inclusive 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 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 June 30, 2016 and December 31, 2015:

	Change in life expectancy	
(Amounts in Thousands)	Plus 4 Months	Minus 4 Months
Investment in life policies:		

June 30, 2016	$(38,254)	$45,092
December 31, 2015	$(37,697)	$40,997

	Change in discount rate [1]	
(Amounts in Thousands)	Plus 1%	Minus 1%
Investment in life policies:		
June 30, 2016	$(26,601)	$29,514
December 31, 2015	$(26,558)	$29,644

(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 has a 50% ownership interest in each of four entities (collectively, the "LSC Entities") formed for the purpose of acquiring life settlement contracts, with a subsidiary of NGHC owning the remaining 50%. The LSC Entities are: Tiger Capital LLC (“Tiger”); AMT Capital Alpha, LLC (“AMT Alpha”); AMT Capital Holdings, S.A. (“AMTCH”); and AMT Capital Holdings II, S.A. (“AMTCH II”).

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 the three months ended March 31, 2016, the Company terminated an agreement with a third party administrator of the Tiger and AMTCH II life settlement contract portfolios, under which the third party received an administrative fee. The third party administrator was also eligible to receive a percentage of profits after certain time and performance thresholds had been met. The Company provides certain actuarial and finance functions related to the LSC Entities. In conjunction with the Company’s approximate 12% ownership percentage of NGHC, the Company ultimately receives 56% 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. 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, 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. Prior to 2015, the Company established policy specific reserves for the possibility that the issuer of the policy or a third party would contest the payment of the death benefit payable to the Company. The Company determined that the contestability reserve was no longer necessary in 2015 due to historical experience. 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.

Capital contributions were made to the LSC Entities during the three and six months ended June 30, 2016 totaling $11,000. The Company recorded a gain of $12,676 and $3,096 on investment in life settlement contracts, net of profit commission, for the three months ended June 30, 2016 and 2015, respectively, and $23,406 and $14,469 for the six months ended June 30, 2016 and 2015.

The following tables describe the Company’s investment in life settlements as of June 30, 2016 and December 31, 2015:

(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 June 30, 2016			
0-1	—	$—	$—
1-2	1	1,868	2,500

2-3	8	42,956	71,000
3-4	9	35,331	64,422
4-5	9	19,542	62,000
Thereafter	228	204,737	1,412,314
Total	255	$ 304,434	$ 1,612,236

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(Amounts in Thousands, except number of Life Settlement Contracts)

Expected Maturity Term in Years As of December 31, 2015	Number of Life Settlement Contracts	Fair Value (1)	Face Value
0-1	—	$ —	$ —
1-2	—	—	—
2-3	8	31,261	70,500
3-4	8	20,117	46,500
4-5	4	6,760	20,000
Thereafter	235	205,863	1,481,313
Total	255	$ 264,001	$ 1,618,313

(1) The Company determined the fair value as of June 30, 2016 based on 215 policies out of 255 policies, as the Company assigned no value to 40 of the policies as of June 30, 2016. The Company determined the fair value as of December 31, 2015 based on 213 policies out of 255 policies, as the Company assigned no value to 42 of the policies as of December 31, 2015. 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 June 30, 2016 and December 31, 2015:

(Amounts in Thousands, except number of Life Settlement Contracts)	June 30, 2016	December 31, 2015
Number of policies with a negative value from discounted cash flow model as of period end	40	42
Premiums paid for the preceding twelve month period for period ended	$ 7,163	$ 4,971
Death benefit received	$ —	$ —

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 June 30, 2016, are as follows:

(Amounts in Thousands)	Premiums Due on Life Settlement Contracts
2016	$ 64,353
2017	42,020
2018	43,105
2019	41,350
2020	37,788
Thereafter	443,511
Total	$ 672,127

6. Deferred Policy Acquisition Costs

The following table reflects the amounts of policy acquisition costs deferred and amortized for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Balance, beginning of period	$761,802	$651,884	$704,243	$628,383
Acquisition costs deferred	298,981	211,760	530,364	391,459
Amortization	(187,142)	(168,494)	(360,966)	(324,692)
Balance, end of period	$873,641	$695,150	$873,641	$695,150

7. Debt

The Company’s outstanding debt consisted of the following at June 30, 2016 and December 31, 2015:

(Amounts in Thousands)	June 30, 2016	December 31, 2015
Revolving credit facility	$130,000	$ 130,000
5.5% Convertible senior notes due 2021 (the "2021 Notes")	5,166	5,103
2.75% Convertible senior notes due 2044 (the "2044 Notes")	163,269	160,258
6.125% Senior notes due 2023 (the "2023 Notes")	248,048	247,911
Junior subordinated debentures (the "2035-2037 Notes")	121,984	118,226
Trust preferred securities (the "2033-2037 TPS Notes")	92,786	—
7.25% Subordinated Notes due 2055 (the "7.25% 2055 Notes")	145,140	145,078
7.50% Subordinated Notes due 2055 (the "7.50% 2055 Notes")	130,628	130,572
Secured loan agreements	74,038	38,455
Promissory notes	118,540	13,753
	$1,229,599	$ 989,356

Aggregate scheduled maturities of the Company’s outstanding debt, excluding unamortized deferred origination costs, at June 30, 2016 are:

(Amounts in Thousands)		
2016	$ 3,617	
2017	33,690	
2018	35,921	
2019	160,798	
2020	26,576	
Thereafter	985,539	(1)
Total scheduled payments	1,246,141	

Unamortized deferred origination costs	(16,542)
	1,229,599

(1) Amount includes debt outstanding under the 2021 Notes and 2044 Notes, which is net of unamortized original issue discount of $795 and $48,352, respectively.

Additionally, the Company utilizes various letters of credit in its operations. The following is a summary of the Company's letters of credit as of June 30, 2016:

(Amounts in Thousands)	Letters of Credit Limit	Letters of Credit Outstanding	Letters of Credit Available
Revolving credit facility	$175,000	$ 120,136	$ 54,864
Funds at Lloyd's facility, in USD equivalent	399,420	390,405	9,015
ING Bank N.V. and Deutsche Bank Netherlands N.V. facilities, in USD equivalent	87,300	67,976	19,324
Comerica bank letters of credit	75,000	48,467	26,533
Other letters of credit, in aggregate	1,675	1,675	—

Interest expense, including amortization of original issue discount and deferred origination costs, as well as applicable bank fees, related to the Company's outstanding debt and letters of credit for the three and six months ended June 30, 2016 and 2015 was:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Revolving credit facility	$1,098	$728	$2,254	$1,544
Funds at Lloyd's facility	1,123	634	2,322	1,681
2021 Notes	114	245	229	594
2023 Notes	3,896	3,896	7,793	7,793
2035-2037 Notes	1,546	1,695	3,061	3,715
2033-2037 TPS Notes	769	—	769	—
2044 Notes	3,116	3,016	6,232	6,031
7.25% 2055 Notes	2,750	368	5,500	368
7.50% 2055 Notes	2,559	—	5,118	—
Secured loan agreements	178	223	367	459
Promissory notes	1,397	154	1,555	310
Other, including interest income	1,192	(1,313)	2,238	(2,594)
	$19,738	$9,646	$37,438	$19,901

Promissory Note

On April 18, 2016, in connection with the acquisition of Republic Companies, Inc. and its affiliates ("Republic"), the Company issued a term promissory note ("TPM") to Delek Finance U.S. Inc. in the amount of $104,685 as part of the consideration. See Note 13. "Acquisitions" for a description of this transaction. The principal will be paid in four equal installments on each of the first four anniversaries of the issuance date. The note bears interest of 5.75% per annum and is payable from time to time based on the outstanding principal balance until the promissory note is fully paid. In the event that indebtedness under the Company's revolving credit facility or the Company's 2023 Notes is required to be paid on an accelerated basis, the holder of the TPM may cause the Company to repay unpaid principal and interest immediately. The Company recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $1,237 for the three and six months ended June 30, 2016.

2033-2037 TPS Notes

In connection with the acquisition of Republic, the Company assumed Republic's outstanding trust preferred securities. Republic participated in the private placement of floating rate capital securities through five capital trusts. Each trust was created solely for the purpose of issuing trust preferred securities. Republic has guaranteed the payment by the trusts of distributions and other amounts under the capital securities to the extent that the trusts have funds available for such payments. The trusts invested the proceeds from the private placement in junior subordinated debentures issued by Republic. The trusts must redeem the capital securities when the debentures are paid at maturity or upon any earlier prepayment of the debentures. The debentures may be prepaid if certain events occur, including a change in the tax status or regulatory capital treatment of the capital securities or a change in the existing laws that require the trusts to register as an investment company. Under the provisions of the debentures, the Company has the right to defer payment of interest on the debentures at any time, or from time to time, for up to twenty consecutive quarterly periods. If interest payments on the debentures are deferred, the distributions on the capital securities will also be deferred. In accordance with FASB ASC 810-10-25, the Republic does not consolidate such special purpose trusts, as Republic is not considered to be the primary beneficiary. The equity investment, totaling $2,786 as of June 30, 2016 on Republic's balance sheet, represents the Republic's ownership of common securities issued by the trusts.

The table below summarizes the Company’s trust preferred securities assumed in the Republic acquisition as of June 30, 2016:

(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
RIG Capital Trust I	$ 10,000	$ 310	$ 10,310	9/30/2033	4.631 (1)
RIG Capital Statutory Trust II	20,000	619	20,619	10/29/2033	4.489 (2)
RIG Capital Trust III	20,000	619	20,619	12/15/2036	3.853 (3)
RIG Capital Trust IV	25,000	774	25,774	6/15/2037	3.853 (3)
RIG Capital Trust V	15,000	464	15,464	9/15/2037	3.950 (4)
Total trust preferred securities	$ 90,000	$ 2,786	$ 92,786		

(1) The interest rate is three-month LIBOR plus 4.00%.
(2) The interest rate is three-month LIBOR plus 3.85%.
(3) The interest rate is three-month LIBOR plus 3.20%.
(4) The interest rate is three-month LIBOR plus 3.30%.

Secured Loan Agreements

On April 7, 2016, the Company entered into a ten-year secured loan agreement with Citigroup Global Markets Realty Corp., in the aggregate amount of $29,000. The loan is secured by a commercial office building the Company owns in Dallas, Texas. The loan bears interest at a fixed rate of 4.96% per annum and requires monthly interest only payments of approximately $169 through May 6, 2026 and payment of principal at maturity. The Company recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $363 for the three and six months ended June 30, 2016.

On April 6, 2016, the Company through a wholly-owned subsidiary, entered into a five-year secured term loan agreement with Lloyd's Bank PLC in the aggregate amount of £7,800 (or $11,028) to finance the purchase of a commercial office building in Nottingham, U.K. The loan bears a variable rate of interest based on LIBOR plus a margin and was 2.83% as of June 30, 2016. The Company had deferred financing costs of £78 (or $114) related to the term loan. The mortgage requires quarterly principal payments of £30 and interest for the term of the loan with the remaining principal to be paid at maturity. The Company recorded interest expense, including amortization of the deferred origination costs and fees associated with the loan agreement, of approximately $86 for the three and six months ended June 30, 2016. Pursuant to a covenant in the agreement, if the loan exceeds 70% of the fair value of the property, 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 70% of the fair value of the building.

Nationale Borg

Through the Company's acquisition of N.V. Nationale Borg-Maatscappij and its affiliates ("Nationale Borg"), the Company assumed Nationale Borg's existing credit facilities pursuant to which trade related guarantees and comparable standby letters of credit are issued primarily to secure obligations owed by Nationale Borg to third parties in the normal course of business. See Note 13. "Acquisitions" for a description of this transaction. The credit facilities are with Deutsche Bank Netherlands N.V. and ING Bank N.V. and are primarily used to obtain guarantees for the benefit of financial institutions. The credit limit under these credit facilities is approximately £76,650 (or $87,300). The credit facilities were utilized for £61,239 (or $67,976) as of June 30, 2016. The Company recorded total interest expense of $97 for the three and six months ended June 30, 2016.

8. 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, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Policy acquisition expenses	$115,597	$94,927	$249,370	$205,894
Salaries and benefits	159,006	135,736	284,534	243,158
Other insurance general and administrative expenses	24,200	8,047	29,533	21,334
	$298,803	$238,710	$563,437	$470,386

9. Earnings Per Share

The Company implemented a two-for-one stock split on February 2, 2016. As such, the weighted average number of shares used for the basic and diluted earnings per share have been adjusted retrospectively to reflect the effect of the split.

During the three and six months ended June 30, 2016 and 2015, the Company’s unvested restricted shares contained rights to receive nonforfeitable dividends and were, therefore, considered participating securities. As a result, the Company computed earnings per share using the two-class method during the three months and six months ended June 30, 2016 and 2015. There were no outstanding unvested restricted shares as of June 30, 2016.

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, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands, except for earnings per share)	2016	2015	2016	2015
Basic earnings per share:				
Net income attributable to AmTrust common shareholders	$134,791	$70,748	$235,048	$225,444
Less: Net income allocated to participating securities and redeemable non-controlling interest	—	173	—	561
Net income allocated to AmTrust common shareholders	$134,791	$70,575	$235,048	$224,883
Weighted average common shares outstanding – basic	171,160	165,120	173,334	163,904
Less: Weighted average participating shares outstanding	—	404	—	410
Weighted average common shares outstanding - basic	171,160	164,716	173,334	163,494
Net income per AmTrust common share - basic	$0.79	$0.43	$1.36	$1.38
Diluted earnings per share:				
Net income attributable to AmTrust common shareholders	$134,791	$70,748	$235,048	$225,444
Less: Net income allocated to participating securities and redeemable non-controlling interest	—	173	—	561
Net income allocated to AmTrust common shareholders	$134,791	$70,575	$235,048	$224,883
Weighted average common shares outstanding – basic	171,160	164,716	173,334	163,494
Plus: Dilutive effect of stock options, convertible debt, other	1,865	3,352	1,881	3,622
Weighted average common shares outstanding – dilutive	173,025	168,068	175,215	167,116
Net income per AmTrust common shares – diluted	$0.78	$0.42	$1.34	$1.35

The Company's anti-dilutive securities excluded from diluted earnings per share calculation were immaterial for the three and six months ended June 30, 2016 and 2015, respectively.

10. 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 14,630,136 shares of Company stock for awards of options to purchase shares of the Company’s common stock ("Stock Option"), restricted stock, restricted stock units (“RSU”), performance share units (“PSU”) or appreciation rights. Shares used may be either newly issued shares or treasury shares or both. The aggregate number of shares of common stock for which awards may be issued may not exceed 14,630,136 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, 2016, approximately 7,300,000 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. Compensation expense for all share-based payments under ASC 718-10-30 was approximately $5,901 and $5,522 for the three months ended June 30, 2016 and 2015, respectively and $11,542 and $10,436 for the six months ended June 30, 2016 and 2015, respectively. The Company has unrecognized compensation cost related to unvested stock options, restricted stock and non-vested RSU awards of $53,361 and $39,111 at June 30, 2016 and December 31, 2015, respectively.

On December 15, 2015, the Company's Board of Directors declared a two-for-one stock split on the Company's common stock, payable in the form of a 100% stock dividend. On February 2, 2016, the dividend payment date, all options outstanding were adjusted by 100% and their respective exercise prices were reduced by 50%. The Company also adjusted outstanding RSUs, unvested restricted stock and PSUs for the split.

Stock Options

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 following schedule shows all options granted, exercised, and expired under the Plan for the six months ended June 30, 2016 and 2015:

	2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	2,783,880	$ 6.99	3,868,740	$ 5.80
Granted	—	—	85,000	27.09
Exercised	(345,137)	3.79	(907,086)	4.40
Canceled or terminated	—	—	(47,650)	5.09
Outstanding at end of period	2,438,743	7.44	2,999,004	6.84

The Company did not grant any stock options during the six months ended June 30, 2016. The weighted average grant date fair value of options granted was $10.93 during the six months ended June 30, 2015.

The per share fair value of options was estimated at the date of grant based on the following weighted average assumptions for the six months ended June 30, 2015:

	2015	
Volatility	40.95	%
Risk-free interest rate	1.95	%
Weighted average expected lives in years	6.25	
Dividend rate	1.85	%
Forfeiture rate	0.50	%

The intrinsic value of stock options exercised during the six months ended June 30, 2016 and 2015 was $7,436 and $21,108, respectively. The intrinsic value of stock options that were outstanding as of June 30, 2016 and December 31, 2015 was $41,992 and $66,300, respectively. The intrinsic value of stock options that were exercisable as of June 30, 2016 and December 31, 2015 was $41,617 and $64,705, respectively.

Cash received from options exercised was $1,249 and $3,835 during the six months ended June 30, 2016 and 2015, respectively. The excess tax benefit from award exercises was approximately $2,861 and $6,254 for the six months ended June 30, 2016 and 2015, respectively. Such benefits were recorded as a reduction of income tax payable and an increase in additional paid-in capital.

Restricted stock, RSU and PSU

The Company grants restricted shares, RSUs and PSUs with a grant date fair value equal to the closing stock price of the Company's stock on the dates the shares or units are granted. The restricted shares and RSUs vest over a period of one to four years, while PSUs vest based on the terms of the awards.

A summary of the Company’s restricted stock and RSU activity for the six months ended June 30, 2016 and 2015 is shown below:

	2016		2015	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	1,853,516	$ 20.54	2,611,022	$ 16.71
Granted	846,180	26.03	462,856	29.16
Vested	(789,186)	17.45	(811,422)	14.40
Forfeited	(32,987)	23.73	(20,136)	20.35
Non-vested at end of period	1,877,523	24.26	2,242,320	20.08

A summary of the Company's PSU activity for the six months ended June 30, 2016 and 2015 is shown below:

	2016		2015	
	Shares or Units	Weighted Average Grant Date Fair Value	Shares or Units	Weighted Average Grant Date Fair Value
Non-vested at beginning of period	752,466	$ 24.58	549,670	$ 19.42
Granted	198,881	26.16	373,628	29.93
Vested	(234,358)	22.89	(155,842)	18.86
Forfeited	(35,766)	25.57	—	—
Non-vested at end of period	681,223	25.57	767,456	24.65

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.

11. 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, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2016	2015	2016	2015
Income before equity in earnings of unconsolidated subsidiaries	$175,300	$81,163	$310,315	$286,594
Tax at federal statutory rate of 35%	$61,355	$28,407	$108,610	$100,308
Tax effects resulting from:				
Tax rate differences	(32,420)	(20,239)	(50,636)	(23,489)
Adjustment to prior year taxes	—	1,949	—	(27,659)
Permanent adjustments	4,744	(5,116)	1,167	(2,817)
Valuation allowance	(9,425)	—	(9,936)	—
Other, net	3,664	(529)	6,439	4,941
	$27,918	$4,472	$55,644	$51,284
Effective tax rate	15.9 %	5.5 %	17.9 %	17.9 %

As of June 30, 2016, the Company has U.S. Net Operating Losses ("NOLs") of $52,885 that expire beginning in 2018 through 2036. These NOLs are subject to certain limitations under Section 382 of the Internal Revenue Code due to changes in ownership of $3,197 per year. The Company also has foreign NOLs of $675,422 that currently have no expiration. The Company's management believes that as of June 30, 2016, except for a portion of foreign NOLs, it will realize the benefits of its deferred tax assets, which are included as a component of the other assets on the condensed consolidated balance sheet. As a result, the Company recorded a valuation allowance of $159,013 and $170,043 as of June 30, 2016 and December 31, 2015, respectively, related to the foreign NOLs. The decrease in the valuation allowance from December 31, 2015 to June 30, 2016 was driven primarily by the release of the valuation allowance on NOLs that were in place on the Company's U.K. operations. The Company determined, based on income projections of the U.K. operations, that sufficient positive evidence exists that it is more likely than not that the NOL deferred tax assets will be realized. The Company did not utilize any equalization reserves attributed to its Luxembourg reinsurance companies during the three and six months ended June 30, 2016 and 2015, respectively.

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 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, 2011 and forward.

As permitted by FASB ASC 740-10 Income Taxes, the Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision. The Company does not have any unrecognized tax benefits and, therefore, has not recorded any unrecognized tax benefits, or any related interest and penalties, as of June 30, 2016 and December 31, 2015. No interest or penalties have been recorded by the Company for the three and six months ended June 30, 2016 and 2015, respectively. The Company does not anticipate any significant changes to its total unrecognized tax benefits in the next 12 months.

12. Related Party Transactions

The following disclosure includes, among other items, transactions with companies in which Michael Karfunkel had a controlling interest, either individually or through The Michael Karfunkel 2005 Family Trust (the "Trust"). Mr. Karfunkel passed away on April 27, 2016. At that time, he and the Trust were controlling shareholders of the Company, he was the Company's Chairman of the Board, and the chairman and chief executive officer of National General Holdings Corp. Mr. Karfunkel's wife, Mrs. Leah Karfunkel, was the primary beneficiary of Mr. Karfunkel's estate, and is a co-trustee and primary beneficiary of the Trust.

Significant Transactions with Maiden Holdings, Ltd.

The Company has various reinsurance and service agreements with Maiden Holdings, Ltd. ("Maiden"). Maiden is a publicly-held Bermuda insurance holding company (Nasdaq: MHLD) formed by Michael Karfunkel, George Karfunkel and Barry Zyskind, principal shareholders, and, respectively, the Company's former chairman of the board of directors, a director, and the current chairman, chief executive officer and director of the Company. As of June 30, 2016, our principal shareholders, Leah Karfunkel (one of the Company's directors and co-trustee of The Trust), George Karfunkel and Barry Zyskind, own or control approximately 9.1%, 2.3% and 8.7%, 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 Reinsurance Ltd. ("Maiden Reinsurance"), 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 Reinsurance to enter into a quota share reinsurance agreement (the "Maiden Quota Share"), as amended, by which AII retrocedes to Maiden Reinsurance 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). AII also retrocedes 40% of losses. Certain business that the Company commenced writing after the effective date of the Maiden Quota Share, including the Company's European medical liability business discussed below, business assumed from Tower Group International, Ltd. ("Tower") 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 is not ceded to Maiden Reinsurance under the Maiden Quota Share (ceded business defined as "Covered Business").

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 Reinsurance to the extent that the loss ratio to Maiden Reinsurance, 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 June 30, 2019 and will automatically renew for successive three-year terms unless either AII or Maiden Reinsurance notifies the other of its election not to renew no 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 Reinsurance, run-off, or a reduction of 50% or more of the shareholders' equity of Maiden Reinsurance or the combined shareholders' equity of AII and the AmTrust Ceding Insurers.

The Company, through its subsidiaries AEL and AIU, has a reinsurance agreement with Maiden Reinsurance by which the Company cedes to Maiden Reinsurance 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 has been renewed through March 31, 2017. The agreement can be terminated at any April 1 by either party on four months' prior written notice. Maiden Reinsurance pays the Company a 5% ceding commission, and the Company will earn a profit commission of 50% of the amount by which the ceded loss ratio is lower than 65%.

The following is the effect on the Company's results of operations for the three and six months ended June 30, 2016 and 2015 related to Maiden Reinsurance agreements:

	Three Months Ended June 30,		Six Months Ended June 30,
(Amounts in Thousands)	2016	2015	