Amtrust Financial Services, Inc.
Form S-1/A
September 13, 2006
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As filed with the Securities and Exchange Commission on September 13, 2006
Registration No. 333-134960

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 3
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

AMTRUST FINANCIAL SERVICES, INC.
(Exact name of Registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**55112** *(Primary Standard Industrial Classification Code Number)*	**04-3106389** *(I.R.S. Employer Identification Number)*

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59 Maiden Lane, 6th Floor
New York, New York 10038
(212) 220-7120
(Address, including zip code, and telephone number,
including area code, of Registrant's principal executive offices)

Barry D. Zyskind
Amtrust Financial Services, Inc.
59 Maiden Lane, 6th Floor
New York, New York 10038
(212) 220-7120

(*Name, address, including zip code, and telephone number,*
including area code, of agent for service)

Copies to:

Henry I. Rothman, Esq.

Troutman Sanders LLP
The Chrysler Building
405 Lexington Avenue
New York, NY 10174
(212) 704-6000
(212) 704-6288 (fax)

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box. ý

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____________________

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____________________

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____________________

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common stock, $0.01 par value per share	25,584,100 (1)	7.50 (2)	$191,880,750	$20,532 (3)

(1) All of the shares of common stock offered hereby are for the account of selling stockholders. The selling stockholders acquired the shares of common stock offered hereby in a private placement in reliance on exemptions from registration under the Securities Act and pursuant to the registant's 2005 Equity Incentive Plan.

(2) Estimated solely for the purpose of the registration fee for this offering in accordance with Rule 457(o) of the Securities Act. No exchange or over-the-counter market exits for the registrant's common stock; however the registrant's stockholders have privately sold shares of common stock using the Portal System. The fee is based on the price of the registrant's common stock on September 12, 2006, which was reported on Portal at a price of $7.50 per share

(3) Of this registration fee, $20,519 has been previously paid and $13 is being paid herewith.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this

Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

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Subject to Completion
Preliminary Prospectus dated September 13 , 2006

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these Securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State

PROSPECTUS

25,584,100 Shares of Common Stock
AMTRUST FINANCIAL SERVICES, INC.

The persons listed in the section of this prospectus entitled "Selling Stockholders" are offering for sale 25,584,100 shares of our common stock. The selling stockholders acquired the shares of common stock offered by this prospectus in a private placement in February 2006 in reliance on exemptions from registration under the Securities Act of 1933, as amended and pursuant to our 2005 Equity Incentive Plan. We are registering the offer and sale of the shares of common stock to satisfy registration rights we have granted.

The selling stockholders will receive all of the proceeds from the sale of the shares of our common stock offered by this prospectus, less any brokerage commissions or other expenses incurred by them. We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders. The shares which may be resold by the selling stockholders constituted approximately 43% of our issued and outstanding common stock on June 30, 2006. See "Selling Stockholders" beginning on page 125 in this prospectus for a complete description of the selling stockholders.

Prior to this offering, there has been no public market for our common stock. We intend to apply to have our common stock approved for listing on either the New York Stock Exchange or the Nasdaq Market under the symbol "___".

The selling stockholders will sell at a price of between $7.00 and $8.00 per share until our shares of common stock are quoted on either the New York Stock Exchange or the Nasdaq Market and thereafter at prevailing market prices or privately negotiated prices.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 11 to read about certain risks you should consider before investing in our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is   , 2006

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You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

Market and industry data and forecasts used in this prospectus have been obtained from independent industry sources and from research reports prepared for other purposes. We have not independently verified the data obtained from these sources, and we cannot assure you of the accuracy or completeness of the data. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties as other forward-looking statements in this prospectus

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in us. You should read the entire prospectus carefully, including the sections entitled "Risk Factors" and "Special Note Regarding Forward-Looking Statements" and our consolidated financial statements and the notes to those financial statements before making an investment decision. The financial information presented may not be indicative of our future operating results or financial performance. Certain insurance, reinsurance and investment terms are defined in the Glossary which appears on page 148 of this prospectus.

AmTrust Financial Services, Inc.

Who We Are

AmTrust Financial Services, Inc. ("Amtrust," the "Company," "we," "our," or "us") is a multinational specialty property and casualty insurance holding company, which transacts business through five insurance company subsidiaries: Technology Insurance Company, Inc. ("TIC"), Rochdale Insurance Company ("RIC") and Wesco Insurance Company ("WIC"), which are domiciled in New Hampshire, New York and Delaware, respectively, and AmTrust International Insurance Ltd. ("AII") and AmTrust International Underwriters Limited ("AIU"), which are domiciled in Bermuda and Ireland, respectively. AII, RIC, TIC and WIC are each rated "A-" (Excellent) by A.M. Best Company ("A.M. Best"), which rating is the fourth highest of 16 rating levels. AIU is unrated by A.M. Best. As of June 30, 2006, we had approximately 286 employees worldwide.

We principally provide insurance coverage for small businesses and coverage plans for consumer and commercial goods with large numbers of insureds and loss profiles which we believe are predictable. We currently operate in three business segments:

- Workers' compensation for small businesses (average premium less than $5,000 per policy) in the United States;

- Extended warranty coverage for consumer and commercial goods and custom designed coverages, which we refer to as "specialty risk", such as accidental damage plans and payment protection plans offered in connection with the sale of consumer and commercial goods, in the United Kingdom, certain other European Union countries and the United States; and

- Specialty middle-market property and casualty insurance. This segment writes workers compensation, commercial automobile and general liability insurance through general and other wholesale agents.

Our revenues are comprised, primarily, of premiums written by TIC, RIC, AIUL and, prospectively, WIC, which we acquired in June 2006. Since AII only reinsures business written by its affiliates, and to an immaterial extent, fronting companies which write business on the Company's behalf, AII's revenues, exclusive of premiums ceded by TIC, RIC, AIUL and, prospectively, WIC, are minimal. AIUL, which does business in the European Union, only writes business in our specialty risk and extended warranty segment.

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TIC, RIC, and, prospectively, WIC, write business in each of the segments. Since TIC and RIC are not licensed in all states and none of the companies are licensed to write all lines of business in each state in which they are licensed, the determination as to which of the companies underwrites a risk or class of risks is dependent, primarily, on the location of the risk.

TIC, RIC, AIUL, AII and WIC accounted for approximately $92.0 million, $58.4 million, $57.1 million, $3.4 million, and $0, respectively, of our revenues for the year ended December 31, 2004, and $152.9 million, $75.2 million, $50.5 million, $7.5 million and $0, respectively, of our revenues for the year ended December 31, 2005.

Our Products

Small Business Workers' Compensation

Our small business workers' compensation insurance segment accounted for approximately 71.5% of the gross premiums written in the year ended December 31, 2005 and 54.2% of gross premiums written in the six months ended June 30, 2006. Workers' compensation insurance provides coverage for the statutory obligations of employers to pay medical expenses and lost wages for employees who are injured in the course of their employment. We insure small businesses in low and medium hazard classes, such as restaurants, physicians and other professional offices, through our wholly-owned subsidiaries RIC, TIC and, prospectively, through WIC.

We currently underwrite workers' compensation insurance in 32 states and the District of Columbia through a network of approximately 8,000 independent wholesale and retail agents. For the six months ended June 30, 2006, Florida, Georgia, New Jersey, New York and Pennsylvania accounted for approximately 71.4% of the gross premiums written in this segment of our business, with Florida accounting for approximately 30.1%.

We focus on small businesses because we believe these policyholders may not fit the underwriting criteria of larger carriers due to their small size (average of less than six employees insured per policy with a maximum of 75 employees at any location) and low average premiums. We believe we can profitably underwrite these accounts because our technology enables each risk to be individually underwritten and provides effective loss control for a large number of small risks. Because of the relatively small policy size, we believe that the small business segment is less competitive than the general workers' compensation market. For these reasons, we believe that, historically, we have achieved higher retention and renewal rates than the general workers' compensation market.

Specialty Risk and Extended Warranty

Our specialty risk and extended warranty coverage segment primarily serves manufacturers, service providers, retailers and third party warranty administrators which provide coverage for accidental damage, mechanical breakdown and related risks for consumer and commercial goods. We underwrite this coverage in Europe through AIU and in the United States through TIC and RIC and, prospectively, through WIC. The majority of the business in this segment is written in Europe ($58.4 million of gross premiums written in the year ended December 31, 2005 and $30.6 million of gross premiums written in the six months ended June 30, 2006) where we underwrite approximately 79 separate coverage plans. The remaining business ($14.6 million of gross premiums written in the six months ended June 30, 2006) is written in the United States and primarily consists of insurance policies issued to manufacturers.

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We believe we can profitably underwrite coverage plans by managing the frequency and severity of losses through: (i) carefully selecting suitable administrators and coverage plans to insure, (ii) drafting restrictive, risk-specific coverage terms, (iii) proactively managing claims, and (iv) if necessary, adjusting our premiums.

We distribute our specialty risk and extended warranty coverage primarily through warranty administrators and brokers, and also directly to manufacturers, service providers and retailers. We often assist our clients in developing coverage plans by using historical product data and industry data to evaluate (or revise) pricing and contract terms. We believe that providing this expertise to our clients may give us a competitive advantage in this line of business.

Specialty Middle-Market Property and Casualty

The specialty middle-market property and casualty business consists of workers' compensation, general liability, commercial auto liability and commercial property coverage for small and middle-market businesses. These lines currently are distributed through 11 general and other wholesale agents in the United States.

Our History

Our current majority stockholders acquired AmTrust and its subsidiaries, TIC and AII, from Wang Laboratories, Inc. ("Wang") in 1998 to focus on niche specialty property and casualty markets, which they believed were underserved by larger insurance carriers. In 2000, we entered the European Union specialty risk and extended warranty coverage market by acquiring AIU from Wang's successor, GetronicsWang Co. LLC. We also acquired RIC, which held licenses in certain important states in which TIC was not then licensed, including New Jersey, New York and Texas.

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In early 2001, AmTrust entered the small business workers' compensation insurance market and hired an experienced workers' compensation underwriting team. We developed proprietary technology to enable us to efficiently and profitably underwrite a large number of small premium policies. On June 1, 2006, we acquired WIC, which is licensed in all 50 states and the District of Columbia.

Our business has grown substantially since 2002 through a combination of acquisitions and organic growth. Our annual gross premiums written increased from $27.5 million in 2002 to $286.1 million in 2005 and from $160.3 million in the six months ended June 30, 2005 to $237.0 million in the six months ended June 30, 2006. We have expanded geographically and acquired additional distribution channels, without acquiring the legacy liabilities of other insurance carriers, by primarily structuring our acquisitions as "renewal rights" acquisitions. Generally, the purchaser of "renewal rights" acquires the right, but not the obligation, to offer, quote and/or solicit the renewal of insurance policies which have been issued or placed, as the case may be, by the seller, which covenants not to solicit such business. The purchaser further acquires access to some or all of the seller's distribution network. The purchaser does not acquire any in-force policies or assume any liabilities of the seller.

Since December 2002, we have acquired the renewal rights to four books of business in our small business worker's compensation segment. In December 2002, we acquired the Princeton Agency, Inc. ("Princeton") and the renewal rights to its workers' compensation business, which expanded our presence in the Northeast and Midwest. In December 2003, we acquired from the Covenant Group, Inc. ("Covenant") the renewal rights to its workers' compensation business, which increased our presence in the Southeast. In August 2004, we acquired from Associated Industries Insurance Company ("Associated"), the renewal rights to its small business workers' compensation book of business in Florida. In May 2006, we acquired from Muirfield Underwriters, Ltd. ("Muirfield"), an affiliate of Aon Corporation, the renewal rights to its book of workers' compensation business in the Midwest.

In early 2003, we expanded our specialty risk and extended warranty segment in Europe by hiring a team of experienced underwriters in London, which we believe is recognized for its expertise in the European specialty risk and extended warranty business, including Max Caviet, President of AIU, who has over 30 years of experience in this business. Many of the European-based coverage plans we currently underwrite have been underwritten by our team for a number of years.

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In December 2005, we expanded into the specialty middle-market property and casualty business through our acquisition from Alea North America, Inc. ("Alea") of the renewal rights to substantially all of its specialty middle market property and casualty business. In connection with the acquisition, substantially all of Alea's former senior management, underwriting and support team, joined AmTrust. The seven-member senior management team of Alea has an average of over 20 years of experience in the specialty property and casualty business. This business produced $250 million of gross premiums written for Alea in the nine months ended September 30, 2005 through a network of 25 general and other wholesale agents. We are actively integrating this business and seeking to transition selected accounts. Our renewal target range is 30 to 50%. As of June 30, 2006, we have transitioned 19 coverage plans, which offer workers' compensation, general liability or commercial automobile liability coverage through 11 wholesale agents. These agents produced approximately 40% of this business prior to the acquisition. In the six months ended June 30, 2006, the specialty middle-market property and casualty segment produced approximately $63.4 million in gross premiums written.

As a result of our integration efforts, each of the businesses we acquired, prior to the Alea acquisition, is processed using our proprietary systems. At present, the workers' compensation portion of our specialty middle market property and casualty business is being processed using our proprietary systems. We plan to process all of this business using our proprietary systems over time.

On June 1, 2006, we acquired 100% of the issued and outstanding shares of WIC from Household Insurance Group Holding Company ("HIG"), an affiliate of HSBC North America Holdings, Inc. WIC has $15 million in capital and surplus and no net liabilities. WIC is licensed in all 50 states and the District of Columbia. WIC has no employees and is managed by the Company pursuant to an Intercompany Management Agreement. We intend to utilize WIC to expand into states in which TIC and RIC are not currently licensed, which should facilitate the growth of our specialty middle-market property and casualty and specialty risk and extended warranty segments.

How to Contact Us

Our principal executive offices are located at 59 Maiden Lane, 6th Floor, New York, New York 10038, and our telephone number at that location is (212) 220-7120. Our website is www.amtrustgroup.com. The information on our website is not, and should not be construed as, part of this prospectus.

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The Offering

Common stock offered by the selling stockholders	25,584,100 shares
Common stock outstanding	59,959,100 shares
Use of proceeds	We will not receive any proceeds from the sale of the shares of common stock offered in this prospectus.
Dividend policy	On September 1, 2006 our board of directors decided that the Company would begin paying a regular quarterly cash dividend of $0.02 per share on its common stock beginning in the fourth quarter 2006. See “Dividend Policy”.
Risk factors	For a discussion of certain factors you should consider in making an investment, see “Risk Factors” on page 11 et. seq.
Listing	We intend to apply to list our common stock on either the New York Stock Exchange or the Nasdaq Market under the symbol “___ ”.

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Summary Consolidated Financial and Operating Information

The following tables set forth our summary historical consolidated financial and operating information for the periods ended and as of the dates indicated. The selected unaudited consolidated income statement data for the six months ended June 30, 2006 and 2005, and the balance sheet data as of June 30, 2006 and 2005 are each derived from our unaudited condensed financial statements included elsewhere in this prospectus, which have been prepared in accordance with GAAP. These historical results are not necessarily indicative of results to be expected for the full year.

The summary consolidated income statement data for the year ended December 31, 2005 and the balance sheet data as of December 31, 2005 are derived from our audited financial statements included elsewhere in this prospectus, which have been prepared in accordance with GAAP and have been audited by BDO Seidman LLP, our independent auditors. The summary consolidated income statement data for the years ended December 31, 2004, and the balance sheet data as of December 31, 2004, are derived from our audited financial statements included elsewhere in this prospectus, which have been prepared in accordance with GAAP and have been audited by Berenson LLP, our former independent auditors. The summary consolidated income statement data for the year ended December 31, 2002 and the balance sheet data as of December 31, 2003 and 2002 are derived from our audited financial statements which have been prepared in accordance with GAAP and have been audited by Berenson LLP. The summary consolidated income statement data for the year ended December 31, 2001 and the balance sheet data as of December 31, 2001 are derived from the audited financial statements of our parent, AmTrust Financial Group, Inc., which have been prepared in accordance with GAAP and have been audited by Berenson LLP. These historical results are not necessarily indicative of results to be expected from any future period. You should read the following selected consolidated financial information together with the other information contained in this prospectus, including the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes included elsewhere in this prospectus.

	Six Months Ended June 30, (unaudited) ($ in thousands, except percentages and per share data)		Year Ended December 31, ($ in thousands, except percentages and per share data)				
	2006	2005	2005	2004	2003	2002	2001
Selected Income Statement Data(1)							
Gross premiums written	$ 237,010	$ 160,302	$ 286,131	$ 210,851	$ 97,490	$ 27,509	$ 13,353
Ceded gross premiums written	(28,266)	(19,620)	(26,918)	(23,353)	(15,567)	(4,005)	(1,520)
Net premiums written	$ 208,744	$ 140,682	$ 259,213	$ 187,498	$ 81,923	$ 23,504	$ 11,833
Change in unearned net premiums written	(66,499)	(42,942)	(43,183)	(48,684)	(30,256)	(6,230)	(1,113)
Net earned premiums	$ 142,245	$ 97,740	$ 216,030	$ 138,814	$ 51,667	$ 17,274	$ 10,720
Commission and fee income	$ 8,252	$ 3,060	$ 8,196	$ 5,202	$ 1,052	$ 341	$ 392
Net investment income(2)	11,421	4,139	11,534	4,439	3,072	2,242	2,035

Net realized gains (loss)	6,091	1,429	4,875	1,278	(1,004)	(1)	(16)
Other	—	—	—	222	496	—	—
Total revenues	$ 168,009	$ 106,368	$ 240,635	$ 149,955	$ 55,283	$ 19,856	$ 13,131
Loss and loss adjustment expense	$ 90,658	$ 67,508	$ 142,006	$ 90,178	$ 34,884	$ 9,139	$ 4,459
Policy acquisition expenses(3)	16,472	14,973	30,082	20,082	8,194	3,848	—
Salaries and benefits(4)	11,732	6,821	13,903	10,945	4,063	3,312	—
Other insurance general and administrative expenses(5)	13,039	8,496	19,519	10,430	3,696	1,179	9,117
Other operating expenses(6)	6,706	2,192	5,543	2,167	1,000	—	—
Total expenses	$ 138,607	$ 99,990	$ 211,053	$ 133,802	$ 51,837	$ 17,478	$ 13,576
Operating income from continuing operations	$ 29,402	$ 6,378	$ 29,582	$ 16,153	$ 3,446	$ 2,378	$ (445)
Other income (expense) Foreign currency gain (loss)(7)	$ (15)	—	$ 388	—	—	—	—
Miscellaneous	—	—	—	(85)	(545)	(116)	2,404

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	Six Months Ended June 30, 2006	2005	Year Ended December 31, 2005	2004	2003	2002	2001
	(unaudited) ($ in thousands, except percentages and per share data)		($ in thousands, except percentages and per share data)				
Interest expense	(2,243)	(601)	(2,784)	(264)	(221)	(161)	(194)
Total other income (expenses)	$ (2,258)	$ (601)	$ (2,396)	$ (349)	$ (766)	$ (277)	$ 2,210
Income from continuing operations before provision for income taxes and change in accounting principle	$ 27,144	$ 5,777	$ 27,186	$ 15,804	$ 2,680	$ 2,101	$ 1,765
Total provision for income taxes	7,452	2,665	6,666	3,828	1,258	510	38
Income from continuing operations before change in accounting principle	$ 19,692	$ 3,112	$ 20,520	$ 11,976	$ 1,422	$ 1,591	$ 1,727
Cumulative effect of change in accounting principle	—	—	—	—	—	578	—
Income from continuing operations	19,692	3,112	20,520	11,976	1,422	2,169	1,727
Foreign currency gain from discontinued operations	—	19,771	21,745	—	—	—	—
Other income (loss) from discontinued operations(7)	250	(2,659)	(4,706)	2,134	(30)	—	—
Net income	$ 19,942	$ 20,224	$ 37,559	$ 14,110	$ 1,392	$ 2,169	$ 1,727
Preferred stock dividend accumulated(8)	—	1,200	1,200	4,800	4,800	—	—
	$ 19,942	$ 19,024	$ 36,359	$ 9,310	$ (3,408)	$ 2,169	$ 1,727

Net income (loss) available to common stockholders							
Basic earnings (loss) per common share:							
Income (loss) from continuing operations before change in accounting principle	$ 0.38	$ 0.08	$ 0.80	$ 0.30	$ (0.14)	$ 0.07	$ 0.07
Cumulative effect of change in accounting principle	—	—	—	—	—	0.02	—
Income (loss) from discontinued operations	0.00	0.71	0.71	0.09	—	—	—
Net income (loss) per common share (basic)	$ 0.38	$ 0.79	$ 1.51	$ 0.39	$ (0.14)	$ 0.09	$ 0.07
Weighted average shares outstanding	52,288,775	24,089,286	24,089,286	24,089,286	24,089,286	24,089,286	24,089,286

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	Six Months Ended June 30, 2006	2005	Year Ended December 31, 2005	2004	2003	2002	2001
	(unaudited) ($ in thousands, except percentages and per share data)		($ in thousands, except percentages and per share data)				
Selected Insurance Ratios and Operating Information							
Net loss ratio(9)	63.7%	69.1%	65.7%	65.0%	67.5%	52.9%	41.6%
Net expense ratio(10)	29.0%	31.0%	29.4%	29.9%	30.9%	48.3%	85.0%
Net combined ratio(11)	92.7%	100.1%	95.1%	94.8%	98.4%	101.2%	126.6%
Annualized return on average equity(12)	18.7%	17.5%	31.7%	13.0%	1.6%	4.4%	9.0%
Annualized return on average equity without foreign currency gain and discontinued operations(12)	18.5%	2.7%	17.3%	11.0%	1.6%	4.4%	9.0%

	June 30, 2006	2005	Year Ended December 31, 2005	2004	2003	2002	2001
	(unaudited) ($ in thousands, except percentages and per share data)		($ in thousands, except percentages and per share data)				
Selected Balance Sheet Data							
Cash and cash equivalents	$ 112,361	$ 118,991	$ 115,847	$ 28,727	$ 11,202	$ 7,068	$ 4,670
Investments	517,107	257,253	299,965	169,484	74,379	30,042	23,789
Real estate(7)	—	6,714	—	161,555	185,744	168,523	—
Amounts recoverable from reinsurers	23,529	8,503	17,667	14,445	4,046	1,533	1,047
Premiums receivable, net	125,999	74,595	81,070	56,468	26,143	11,927	9,947
Deferred income taxes	11,723	3,045	9,396	1,952	1,130	958	416
Intangibles assets	30,060	10,579	20,781	9,309	6,100	5,500	—
Total assets	921,821	534,289	612,890	497,530	341,394	306,225	45,165
Reserves for loss and loss adjustment expense	212,538	126,740	168,007	99,364	37,442	14,743	11,813
Unearned premiums	236,056	142,051	156,802	105,107	42,681	12,659	6,124
Mortgage notes(7)	—	0	—	92,919	107,960	93,420	—

Note payable	—	—	25,000	1,700	3,649	3,648	3,049
Junior subordinated debt	51,548	51,548	51,548	—	—	—	—
Common stock and additional paid in capital	239,176	12,647	12,647	12,647	12,647	12,647	19,226
Preferred stock(8)	—	60,000	60,000	60,000	60,000	60,000	—
Total shareholders' equity	307,809	112,694	118,411	118,828	98,467	79,048	20,039

(1) Results for a number of periods were affected by our acquisition of the stock and renewal rights of Princeton in December 2002, and the renewal rights and certain other assets of Covenant in December 2003, Associated in August 2004 and Alea in December 2005.

(2) Also included finance income of AFS Capital Corporation prior to its disposition in April 2005.

(3) Policy acquisition expenses include commissions paid directly to producers as well as premium taxes and assessments.

(4) For periods subsequent to 2002 salaries and benefits are for employees who are directly engaged in insurance activities. Policy acquisition expenses and salaries and benefits for 2001 and 2002 were included in other insurance general and administrative expenses.

(5) Other insurance general and administrative expenses represent those costs other than policy acquisition expenses, as well as salaries and benefits, directly attributable to insurance activities. In addition, policy acquisition expenses and salaries and benefits for 2001 and 2002 were included in other insurance general and administrative expenses.

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(6) Other operating expenses are those expenses that are associated with fee and commission generating activities in which the Company engages.

(7) The foreign currency gain from discontinued operations relates to our wholly-owned subsidiary, AmTrust Pacific Limited, a New Zealand real estate operating company (“APL”). Income (loss) from discontinued operations reflects the results of operations of APL and AFS Capital Corp., a premium finance company. The real estate in the balance sheet reflects the carrying value of real estate held by APL. The mortgage notes in the balance sheet reflect mortgage debt on this real estate. All of these real estate assets were liquidated by November 2005, and the net proceeds were placed in our investment portfolio. For more information about these transactions, see the consolidated financial statements and related notes included elsewhere in this prospectus.

(8) In January 2006, the holder of our preferred stock agreed to a reduction of the dividend in 2005 to $1.2 million. Our preferred stock was exchanged for an aggregate of 10,285,714 shares of our common stock in February 2006.

(9) Net loss ratio is calculated by dividing the loss and loss adjustment expense by net premiums earned.

(10) Net expense ratio is calculated by dividing the total of the acquisition expenses, salaries and benefits as well as other insurance general and administrative expenses by net premiums earned.

(11) Net combined ratio is calculated by adding net loss ratio and net expense ratio together.

(12) Calculated by dividing net income or net income without currency gain and discontinued operations, as the case may be, by the average shareholders’ equity. The calculations for the six months ended June 30, 2006 and 2005 have been annualized.

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RISK FACTORS

An investment in our common stock involves a number of risks. Before making a decision to purchase our common stock, you should carefully consider the following information about these risks and cautionary statements, together with the other information contained in this prospectus. Any of the risks described below could result in a significant or material adverse effect on our business, financial condition or results of operations, and a decline in the value of our common stock. You could lose all or part of your investment.

Risks Related to Our Business

Our loss reserves are based on estimates and may be inadequate to cover our actual losses.

We are liable for losses and loss adjustment expenses under the terms of the insurance polices we underwrite. Therefore, we must establish and maintain reserves for our estimated liability for loss and loss adjustment expenses with respect to our entire insurance business. If we fail to accurately assess the risks associated with the business and property that we insure, our reserves may be inadequate to cover our actual losses. We establish loss reserves that represent an estimate of amounts needed to pay and administer claims with respect to insured events that have occurred, including events that have occurred but have not yet been reported to us. Our loss reserves are based on estimates of the ultimate cost of individual claims and on actuarial estimation techniques. These estimates are based on historical information and on estimates of future trends that may affect the frequency of claims and changes in the average cost of claims that may arise in the future. They are inherently uncertain and do not represent an exact measure of actual liability. Judgment is required to determine the relevance of historical payment and claim settlement patterns under current facts and circumstances. The interpretation of this historical data can be impacted by external forces, principally legislative changes, economic fluctuations and legal trends. If there were unfavorable changes in our assumptions, our reserves may need to be increased. Any increase in reserves would result in a charge to our earnings.

In particular, workers' compensation claims often are paid over a long period of time. In addition, there are no policy limits on our liability for workers' compensation claims as there are for other forms of insurance. Therefore, estimating reserves for workers' compensation claims may be more uncertain than estimating reserves for other types of insurance claims with shorter or more definite periods between occurrence of the claim and final determination of the loss and with policy limits on liability for claim amounts. Accordingly, our reserves may prove to be inadequate to cover our actual losses.

In our specialty risk and extended warranty segment, the warranties and service contracts we cover generally present high volume, low severity risks and associated losses. Accordingly, estimates of loss frequency in our specialty risk and extended warranty business are more important to accurately establish loss reserves than in other lines of business. If actual losses vary materially from our estimates, our reserves may prove inadequate or insufficiently conservative.

The specialty middle-market property and casualty segment we recently entered includes commercial lines we have not historically written, including general liability, auto liability and property, as well as workers' compensation. Because certain of these commercial lines are new to us, we may be less able to accurately estimate our loss reserves for these products.

If we change our reserve estimates for any line of business, these changes would result in adjustments to our reserves and our loss and loss adjustment expenses incurred in the period in which the estimates are changed. If the estimate were increased, our pre-tax income for the period in which we make the change will decrease by a corresponding amount. We have not made any material adjustments. However, during 2004, we increased our loss reserves for previous years by $3.4 million, which constituted 3.8% of the total incurred loss and loss adjustment expense incurred for 2004. An increase in reserves results in a reduction in our surplus which could result in a downgrade in our A.M. Best rating. Such a downgrade could, in turn, adversely affect our ability to sell insurance policies.

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A downgrade in the A.M. Best rating of our insurance subsidiaries would likely reduce the amount of business we are able to write.

Rating agencies evaluate insurance companies based on their ability to pay claims. Our domestic insurance subsidiaries, TIC, RIC and WIC, and our Bermuda subsidiary, AII, each currently has a financial strength rating of "A-" (Excellent) from A.M. Best, which is the rating agency that we believe has the most influence on our business. This rating, which is the fourth highest of 16 rating levels, is assigned to companies that, in the opinion of A.M. Best, have demonstrated an excellent overall performance when compared to industry standards. A.M. Best considers "A-" rated companies to have an excellent ability to meet their ongoing obligations to policyholders. The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Our competitive position relative to other companies is determined in part by the A.M. Best rating of our insurance subsidiaries. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities.

There can be no assurance that TIC, RIC, WIC and AII will be able to maintain their current ratings. Any downgrade in ratings would likely adversely affect our business through the loss of certain existing and potential policyholders and the loss of relationships with independent agencies. Some of our policyholders are required to maintain workers' compensation coverage with an insurance company with an A.M. Best rating of "A-" (Excellent) or better. We are not able to quantify the percentage of our business, in terms of premiums or otherwise, that would be affected by a downgrade in our A.M. Best rating.

The property and casualty insurance industry is cyclical in nature, which may affect our overall financial performance.

Historically, the financial performance of the property and casualty insurance industry has tended to fluctuate in cyclical periods of price competition and excess capacity (known as a soft market) followed by periods of high premium rates and shortages of underwriting capacity (known as a hard market). Although an individual insurance company's financial performance is dependent on its own specific business characteristics, the profitability of most property and casualty insurance companies tends to follow this cyclical market pattern. Beginning in 2000 and accelerating in 2001, the property and casualty insurance industry experienced a market reflecting increasing premium rates and more conservative risk selection. We believe these trends slowed beginning in 2004 and that the current insurance market is gradually transitioning to a more competitive market environment in which underwriting capacity and price competition may increase. This additional underwriting capacity may result in increased competition from other insurance companies expanding the types or amounts of business they write, or from companies seeking to maintain or increase market share at the expense of underwriting discipline. Because this cyclicality is due in large part to the actions of our competitors and general economic factors beyond our control, we cannot predict with certainty the timing or duration of changes in the market cycle. We have experienced increased price competition in certain of our target markets during 2005 and during the first three months of 2006, and these cyclical patterns, the actions of our competitors, and general economic factors could cause our revenues and net income to fluctuate, which may cause the price of our common stock to be volatile.

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If we were unable to obtain reinsurance on favorable terms, our ability to write policies could be adversely affected.

We purchase reinsurance from third parties to protect us from the impact of large losses. Reinsurance is an arrangement in which an insurance company, called the ceding company, transfers insurance risk to another insurance company, called the reinsurer, which accepts the risk in return for a premium payment. We currently reinsure our workers' compensation risks with certain third party reinsurers in an excess of loss reinsurance treaty program. Effective January 1, 2006, this reinsurance covers losses on our workers' compensation business that in any one year exceed $1 million per occurrence (in prior years our excess reinsurance incepted at lower amounts) up to an aggregate limit of $130 million, with some restrictions and exclusions for policies written after January 1, 2006. In addition, we have purchased variable quota share reinsurance covering our specialty risk and extended warranty insurance business. See "Business— Reinsurance." Market conditions beyond our control determine the availability and cost of the reinsurance protection that we purchase. The reinsurance market has changed dramatically over the past few years as a result of inadequate pricing, poor underwriting and the significant losses incurred as a consequence of the terrorist attacks on September 11, 2001. As a result, reinsurers have exited some lines of business, reduced available capacity and implemented provisions in their contracts designed to reduce their exposure to loss. In addition, the historical results of reinsurance programs and the availability of capital also affect the availability of reinsurance. If we cannot obtain adequate reinsurance protection for the risks we underwrite, we may be exposed to greater losses from these risks or we may be forced to reduce the amount of business that we underwrite, which, in turn, would reduce our revenues. As a result, our inability to obtain adequate reinsurance protection could have a material adverse effect on our financial condition and results of operation.

We may not be able to recover amounts due from our third party reinsurers, which would adversely affect our financial condition.

Reinsurance does not discharge our obligations under the insurance policies we write; it merely provides us with a contractual right to seek reimbursement on certain claims. We remain liable to our policyholders even if we were unable to make recoveries that we are entitled to receive under our reinsurance contracts. As a result, we are subject to credit risk with respect to our reinsurers. Losses are recovered from our reinsurers after underlying policy claims are paid. The creditworthiness of our reinsurers may change before we recover amounts to which we are entitled. Therefore, if a reinsurer is unable to meet its obligations to us, we would be responsible for claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer. If we were unable to collect these amounts from our reinsurers, our financial condition would be adversely affected. As of June 30, 2006, we had an aggregate amount of $23.5 million of recoverables from third party reinsurers on paid and unpaid losses.

Catastrophic losses or the frequency of smaller insured losses may exceed our expectations as well as the limits of our reinsurance, which could adversely affect our financial condition or results of operations.

The incidence and severity of catastrophes, such as hurricanes, windstorms and large-scale terrorist attacks, are inherently unpredictable, and our losses from catastrophes could be substantial. In addition, it is possible that we may experience an unusual frequency of smaller losses in a particular period. In either case, the consequences could be substantial volatility in our financial condition or results of operations for any fiscal quarter or year, which could have a material adverse effect on our financial condition or results of operations and our ability to write new business. Although we attempt to manage our exposure to these types of catastrophic and cumulative losses, including through the use of reinsurance, the severity or frequency of these types of losses may exceed our expectations as well as the limits of our reinsurance coverage. We plan to write property insurance in connection with the specialty middle-market property and casualty business we recently acquired. A geographic concentration of property coverage would increase our exposure to catastrophic losses.

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If we do not adequately establish our premiums, our results of operations will be adversely affected.

In general, the premiums for our insurance policies are established at the time a policy is issued and, therefore, before all of our underlying costs are known. Like other insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate premiums is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses and other underwriting expenses and to earn a profit. If we fail to accurately assess the risks that we assume, we may fail to charge adequate premiums to cover our losses and expenses, which could reduce our net income and cause us to become unprofitable. For example, when initiating workers' compensation coverage on a policyholder, we estimate future claims expense based, in part, on prior claims information provided by the policyholder's previous insurance carriers. If this prior claims information were incomplete or inaccurate, we may under-price premiums by using claims estimates that are too low. As a result, our actual costs for providing insurance coverage to our policyholders may be significantly higher than our premiums. In order to set premiums accurately, we must:

- collect and properly analyze a substantial volume of data from our insureds;
- develop, test and apply appropriate rating formulae;
- closely monitor and timely recognize changes in trends; and
- project both frequency and severity of our insureds' losses with reasonable accuracy.

We also must implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully and, as a result set premiums accurately, is subject to a number of risks and uncertainties, principally:

- insufficient reliable data;
- incorrect or incomplete analysis of available data;
- uncertainties generally inherent in estimates and assumptions;
- our inability to implement appropriate rating formulae or other pricing methodologies;
- regulatory constraints on rate increases;
- unexpected escalation in the costs of ongoing medical treatment;
- our inability to accurately estimate investment yields and the duration of our liability for loss and loss adjustment expenses; and
- unanticipated court decisions, legislation or regulatory action.

Our workers' compensation insurance premium rates are generally established for a term of no less than twelve months. Consequently, we could set our premiums too low, which would negatively affect our results of operations and our profitability, or we could set our premiums too high, which could reduce our competitiveness and lead to lower revenues.

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We may not be able to successfully transition or integrate the specialty middle-market property and casualty business we recently acquired.

The specialty middle-market property and casualty business is a new business segment for us, and certain insurance lines that comprise this segment, including general liability and auto liability, are new lines to us. In addition, we have had limited experience with the distribution system for this business, which involves wholesale agents. In connection with our acquisition of this segment, we hired approximately 40 former employees of Alea, who comprised substantially all of Alea’s former specialty middle-market property and casualty senior management, underwriting and support team. These hirings represented an increase in our total employee headcount of approximately 20% and resulted in a substantial increase in our payroll. Alea’s capital problems and related ratings downgrades adversely affected this business. Our success in this segment will depend in large part on how much business we are able to successfully transition from Alea, which is not yet ascertainable. Lines distributed through two wholesale agents have historically accounted for approximately one-third of this business, and if we were not to establish and maintain good relations with these agents, the amount of business we are able to successfully transition may be substantially reduced. There is no assurance, however, that these agents will be able to produce any level of premiums in the future or that the retail agents through whom they distribute will agree to write policies with us. In addition, there is no assurance as to how successful general or other wholesale agents will be in transitioning business to us. Furthermore, our ability to write business will depend on a number of additional factors such as our ability to obtain adequate reinsurance on satisfactory terms, obtain additional insurance licenses and timely submit rate and form filings in various jurisdictions. We also plan to integrate the general liability, commercial automobile and property portions of this segment into our existing technology and systems over time to increase efficiency, but there is no assurance our efforts will be successful. Accordingly, we may not be able to successfully or profitably integrate this new segment.

Regulators may challenge our use of fronting arrangements in states in which we are not licensed.

In states in which we are not licensed at all or are not authorized to write particular lines of insurance, we conduct the business for which we are not authorized through “fronting arrangements” with State National Insurance Company (“State National”). Pursuant to these arrangements, State National insures risks we underwrite on policy forms that we supply. We administer the business, settle all claims and reinsure 100% of the risks. We pay State National a fee for its services, but it does not share in the profits or losses of the business it writes for us. Some state insurance regulators object to fronting arrangements on the grounds that the reinsurer controlling the fronted business is in effect transacting insurance in the state without the proper license. If regulators in any of the states where we use this fronting arrangement were to prohibit the arrangement, we would be prevented from conducting the business for which we are not authorized in those states, unless and until we are able to obtain the necessary licenses. This could have an adverse effect on our business and, in particular, on our ability to write certain portions of the business. With the acquisition of WIC, which is licensed in all 50 states and the District of Columbia, our future reliance on fronting arrangements should be reduced. Our written premium associated with these fronting arrangements was $4.8 million in 2005 which represented 1.7% of gross written premium for 2005. Our written premium associated with these fronting arrangements was $.8 million in 2004 which represented 0.4% of gross written premium for 2004.

In the States of Florida and Kentucky, an authorized (licensed) property and casualty insurer is prohibited from fronting for an unauthorized property and casualty insurer. Both TIC and WIC are authorized to do business in Florida and Kentucky. Other states specifically prohibit authorized insurers from fronting for unauthorized insurers for specific lines which we do not write, such as credit life.

In addition, insurance departments in states in which there is no statutory or regulatory prohibition against an authorized insurer fronting for an unauthorized insurer, such as New York, depending on their interpretations of the particular reinsurance agreement used to effect the fronting arrangement, could deem the assuming insurer to be transacting insurance business without a license and the fronting insurer to be aiding and abetting the unauthorized sale of insurance.

We may not be able to successfully acquire or integrate additional business.

We have expanded our business historically through internally generated growth and acquisitions of renewal rights to existing business. We plan to continue to seek to make opportunistic acquisitions of renewal rights to existing business and, possibly, whole companies. We believe that certain of our competitors also may plan to make similar acquisitions. The costs and benefits of future acquisitions are uncertain. There is no assurance that we will be able to successfully identify and acquire additional existing business on acceptable terms. In addition, if we acquire whole companies, as opposed to renewal rights, we may acquire unanticipated liabilities.

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Negative developments in the workers' compensation insurance industry would adversely affect our financial condition and results of operations.

Although we engage in other businesses, the majority of our premium currently is attributable to workers' compensation insurance. As a result, negative developments in the economic, competitive or regulatory conditions affecting the workers' compensation insurance industry could have an adverse effect on our financial condition and results of operations. For example, if legislators in one of our larger markets were to enact legislation to increase the scope or amount of benefits for employees under workers' compensation insurance policies without related premium increases or loss control measures, this could negatively affect the workers' compensation insurance industry. Negative developments in the workers' compensation insurance industry could have a greater effect on us than on more diversified insurance companies that also sell many other types of insurance.

A decline in the level of business activity of our policyholders could negatively affect our earnings and profitability.

In 2005, nearly all of our workers' compensation gross premiums written were derived from small businesses. Because workers' compensation premium rates are calculated, in general, as a percentage of a policyholder's payroll expense, premiums fluctuate depending upon the level of business activity and number of employees of our policyholders. Because of their size, small businesses may be more vulnerable to changes in economic conditions. We believe that the most common reason for policyholder non-renewals is business failure. As a result, our workers' compensation gross premiums written are primarily dependent upon economic conditions where our policyholders operate.

Our inability to register the "AMTRUST" service mark with the United States Patent and Trademark Office in connection with operation of our business could expose us to trademark infringement by others.

Some other companies currently use the "AMTRUST" service mark in connection with their businesses in the United States, including Ohio Savings Bank, which registered the mark "AMTRUST" with the United States Patent and Trademark Office ("PTO") in 1985. On October 24, 2005, we received a letter from counsel for Ohio Savings Bank (the "Bank"), the owner of a federal trademark registration for the "AMTRUST" service mark, filed in November 1985, for use in connection with retail banking and mortgage services. The Bank alleged that our use of the "AMTRUST" service mark in an identical business would likely result in confusion, deception or mistake among consumers and therefore violated the bank's trademark rights. The Bank requested confirmation that we would cease using the "AMTRUST" service mark in literature, advertisements, business cards, and the like, as a mark for mortgage services. In October 2005, we responded in writing, stating that we are in the insurance business rather than the banking or mortgage business, sell insurance exclusively through agents to sophisticated business customers and, therefore, there is neither a likelihood of confusion nor any trademark infringement. We also confirmed that we are not using the "AMTRUST" service mark in connection with mortgage services. We received no further communication from the Bank.

Because a third party has previously registered the "AMTRUST" service mark for financial services, we may not be able to register the "AMTRUST" service mark with the PTO. Our inability to register the "AMTRUST" service mark may hinder our ability to protect "AMTRUST" against infringement in the United States, which could adversely affect the effectiveness of our marketing efforts in the United States markets in which we operate. If we discontinue using the "AMTRUST" service mark in connection with our United States business, we would have to adopt a new service mark, which would require us to change our United States marketing materials to reflect the new mark, promote the new mark and build name recognition of the new mark in the United States markets in which we operate. See "Business — Legal Proceedings."

Adverse developments affecting the internet may impede our ability to generate new business, service existing business and administer claims.

We rely heavily on our internet-based computer systems to generate new business and administer claims in our small business workers’ compensation segment. Our independent agents use our software to enter risk-assessment and underwriting information for all new business, which is required for our underwriters to evaluate risks. In addition, we utilize a proprietary claims handling system, which uses our internal network to handle the claims administration function that was previously outsourced. Any adverse developments that may affect the internet could potentially reduce our ability to generate new business and administer claims. Adverse developments could include:

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- system disruptions;
- inaccessibility of our network;
- long response times;
- loss of important data;
- viruses;
- power outages; and
- terrorism.

We maintain our servers at our facilities in Cleveland and Atlanta. A failure to protect our systems against damage from fire, hurricanes, power loss, telecommunications failure, break-ins or other events, could have a material adverse effect on our business, financial condition and results of operations.

Unfavorable changes in economic conditions affecting the states and European countries in which we operate could adversely affect our financial condition or results of operations.

As of June 30, 2006, we provided small business workers' compensation insurance in 32 states and the District of Columbia and specialty risk and extended warranty coverage insurance in all 50 states and the District of Columbia. Although we have expanded our operations into new geographic areas and expect to continue to do so in the future, in the six months ended June 30, 2006, Florida, Georgia, New Jersey, New York and Pennsylvania accounted for approximately 71.4% of the gross premiums written in our small business workers' compensation business, with Florida accounting for approximately 30.1%. In Europe, approximately 58.3% of our gross premiums written for the year ended December 31, 2005 was derived from policyholders in the United Kingdom. In the future, we may be exposed to economic and regulatory risks or risks from natural perils that are greater than the risks faced by insurance companies that have a larger percentage of their gross premiums written diversified over a broader geographic area. Unfavorable changes in economic conditions affecting the states or countries in which we write business could adversely affect our financial condition or results of operations. See "Business—Policyholders."

Our specialty risk and extended warranty business is dependent upon the sale of products covered by warranties and service contracts which we cannot control.

Our specialty risk and extended warranty segment primarily covers manufacturers, service providers and retailers for the cost of performing their obligations under extended warranties and service contracts provided in connection with the sale or lease of various types of consumer electronics, automobiles, light and heavy construction equipment and other consumer and commercial products. Thus, any decrease in the sale or leasing of these products, whether due to economic factors or otherwise, is likely to have an adverse impact upon our specialty risk and extended warranty business. We cannot influence materially the success of our specialty risk clients' primary product sales and leasing efforts.

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State insurance regulators may require the restructuring of the warranty or service contract business of certain policyholders that purchase our specialty risk products and this may adversely affect our specialty risk business.

Some of the largest purchasers of our specialty risk insurance products in the United States are manufacturers, service providers and retailers that issue extended warranties or service contracts for consumer and commercial-grade goods, including coverage against accidental damage to the goods covered by the warranty or service contract. We insure these policyholders against the cost of repairing or replacing such goods in the event of such accidental damage. State insurance regulators may take the position that certain of the extended warranties or service contracts issued by our policyholders constitute insurance contracts that may only be issued by licensed insurance companies. In that event, the extended warranty or service contract business of our policyholders may have to be restructured which could adversely affect our specialty risk and extended warranty business.

Our revenues and results of operations may fluctuate as a result of factors beyond our control, which may cause the price of our common stock to be volatile.

The revenues and results of operations of insurance companies historically have been subject to significant fluctuations and uncertainties. Our profitability can be affected significantly by:

- rising levels of claims costs, including medical and prescription drug costs, that we cannot anticipate at the time we establish our premium rates;
- fluctuations in interest rates, inflationary pressures and other changes in the investment environment that affect returns on invested assets;
- changes in the frequency or severity of claims;
- the financial stability of our third party reinsurers, changes in the level of reinsurance capacity, termination of reinsurance agreements and changes in our capital capacity;
- new types of claims and new or changing judicial interpretations relating to the scope of liabilities of insurance companies;
- volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks;
- price competition;
- inadequate reserves;
- downgrades in the A.M. Best rating of one or more of our insurance subsidiaries;
- cyclical nature of the property and casualty insurance market;
- negative developments in the specialty property and casualty insurance sectors in which we operate; and
- reduction in the business activities of our policyholders.

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If our revenues and results of operations fluctuate as a result of one or more of these factors, the price of our common stock may be volatile.

We operate in a highly competitive industry and may lack the financial resources to compete effectively.

Although we believe that large insurance carriers generally do not aggressively pursue business in our chosen specialty market there still is significant competition. We compete with other insurance companies, and many of our existing and potential competitors are significantly larger and possess greater financial, marketing and management resources than we do. In our small business workers' compensation segment, we also compete with individual self-insured companies, state insurance pools and self-insurance funds. We compete on the basis of many factors, including coverage availability, responsiveness to the needs of our independent producers, claims management, payment/settlement terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation. If any of our competitors offer premium rates, policy terms or types of insurance which were more competitive than ours, we could lose market share. There is no assurance that we will maintain our current competitive position in the markets in which we currently operate or that we will establish a competitive position in new markets into which we may expand.

If we cannot sustain our business relationships, including our relationships with independent agencies and third party warranty administrators, we may be unable to operate profitably.

Our business relationships are generally governed by agreements with agents and warranty administrators that may be terminated on short notice. We market our workers' compensation insurance primarily through independent wholesale and retail agencies. As of June 30, 2006, independent agencies produced all of our workers' compensation insurance premiums and one of our wholesale agents accounted for approximately 28.3% of those premiums. Except in connection with certain renewal rights acquisitions, independent agencies generally are not obligated to promote our workers' compensation insurance and may sell workers' compensation insurance offered by our competitors. As a result, our continued profitability depends, in part, on the marketing efforts of our independent agencies and on our ability to offer workers' compensation insurance and maintain financial strength ratings that meet the requirements and preferences of our independent agencies and their policyholders.

Ten independent producers and policyholders account for the vast majority of our specialty risk and extended warranty business. As a result, the profitability of this segment of our business depends, in part, on our ability to retain these accounts, which cannot be assured.

In the specialty middle-market property and casualty segment, independent wholesale agents produce and largely control the renewal of all the business. Our ability to successfully and profitably transition this business depends on, among other things, our ability to establish and maintain good relationships with these producers.

An inability to effectively manage the growth of our operations could make it difficult for us to compete and affect our ability to operate profitably.

Our continuing growth strategy includes expanding in our existing markets, opportunistically acquiring books of business, other insurance companies or producers, entering new geographic markets and further developing our relationships with independent agencies and extended warranty/service contract administrators. Our growth strategy is subject to various risks, including risks associated with our ability to:

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- identify profitable new geographic markets for entry;
- attract and retain qualified personnel for expanded operations;
- identify, recruit and integrate new independent agencies and extended warranty/service contract administrators;
- identify potential acquisition targets and successfully acquire them;
- expand existing agency relationships; and
- augment our internal monitoring and control systems as we expand our business.

Our inability to obtain the necessary reinsurance collateral could limit our ability to take credit for AII's reinsurance.

AII is not licensed or admitted as a reinsurer in any jurisdiction other than Bermuda. Because many jurisdictions do not permit insurance companies to take credit for reinsurance obtained from unlicensed or non-admitted reinsurers on their statutory financial statements unless appropriate security mechanisms are in place, AII is typically required to post letters of credit or other collateral. If we were unable to arrange for adequate collateral on commercially reasonable terms to secure the reinsurance obligations of AII, AII could be limited in its ability to reinsure the business of TIC, RIC, and WIC and any unrelated insurance companies.

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The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until after we have issued insurance policies that are affected by the changes. As a result, the full extent of our liability under an insurance policy may not be known until many years after the policy is issued. For example, medical costs associated with permanent and partial disabilities may increase more rapidly or be higher than we currently expect. Changes of this nature may expose us to higher workers' compensation claims than we anticipated when we wrote the underlying policy. Unexpected increases in our claim costs many years after workers' compensation policies are issued may also result in our inability to recover from certain of our reinsurers the full amount that they would otherwise owe us for such claims costs because certain of the reinsurance agreements covering our workers' compensation business include commutation clauses which permit the reinsurers to terminate their obligations by making a final payment to us based on an estimate of their remaining liabilities.

Additional capital that we may require in the future may not be available to us or may be available to us only on unfavorable terms.

Our future capital requirements will depend on many factors, including regulatory requirements, the financial stability of our reinsurers, future acquisitions and our ability to write new business and establish premium rates sufficient to cover our estimated claims. We may need to raise additional capital or curtail our growth to support future operating requirements or cover claims. If we have to raise additional capital, equity or debt financing may not be available to us or may be available only on terms that are not favorable. In the case of equity financings, dilution to our stockholders could result and the securities sold may have rights, preferences and privileges senior to the common stock sold pursuant to this prospectus. In addition, under certain circumstances, we may sell our common stock, or securities convertible or exchangeable into shares of our common stock, at a price per share less than the market value of our common stock. If we cannot obtain adequate capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition or results of operations could be adversely affected.

If we were unable to realize our investment objectives, our financial condition and results of operations may be adversely affected.

Investment income is an important component of our net income. We primarily manage our investment portfolio internally under investment guidelines approved by our Board of Directors and the Boards of Directors of our subsidiaries. Although these guidelines stress diversification and capital preservation, our investments are subject to a variety of risks, including risks related to general economic conditions, interest rate fluctuations and market volatility. General economic conditions may be adversely affected by U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts.

Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Changes in interest rates could have an adverse effect on the value of our investment portfolio and future investment income. For example, changes in interest rates can expose us to prepayment risks on mortgage-backed securities included in our investment portfolio. When interest rates fall, mortgage-backed securities typically are prepaid more quickly than expected and the holder must reinvest the proceeds at lower interest rates. In periods of increasing interest rates, mortgage-backed securities are prepaid more slowly, which may require us to receive interest payments that are below the interest rates then prevailing for longer than expected.

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We invest a portion of our portfolio in below investment-grade securities. The risk of default by borrowers that issue below investment-grade securities is significantly greater than that of other borrowers because these borrowers are often highly leveraged and more sensitive to adverse economic conditions, including a recession. In addition, these securities are generally unsecured and often subordinated to other debt. The risk that we may not be able to recover our investment in below investment-grade securities is higher than with investment-grade securities.

We also invest a portion of our portfolio in equity securities, which are more speculative than debt securities.

These and other factors affect the capital markets and, consequently, the value of our investment portfolio and our investment income. Any significant decline in our investment income would adversely affect our revenues and net income and, as a result, decrease our surplus and stockholders' equity.

Our operating results may be adversely affected by currency fluctuations.

Our functional currency is the U.S. dollar. For the year ended December 31, 2005, 19.2% of our net premiums written were written in currencies other than the U.S. dollar, and for the six months ended June 30, 2006, 11.7% of our net premiums written were written in currencies other than the U.S. dollar. As of June 30, 2006, 9.2% of our cash and investments were denominated in non-U.S. currencies. Because we write business in the European Union and United Kingdom, we hold investments denominated in British Pounds and Euros and may, from time to time, experience losses resulting from fluctuations in the values of these non-U.S. currencies, which could adversely affect our operating results.

Our business is dependent on the efforts of our executive officers.

Our success is dependent on the efforts of our executive officers because of their industry expertise, knowledge of our markets and relationships with our independent agencies and warranty administrators. Our principal executive officers are Barry Zyskind, Ronald Pipoly, Michael Saxon, Stephen Ungar, Christopher Longo and Max Caviet. We have entered into employment agreements with all of our principal executive officers except for Stephen Ungar. Should any of our executive officers cease working for us, we may be unable to find acceptable replacements with comparable skills and experience in the workers' compensation insurance industry and/or the specialty risk sectors that we target, and our business may be adversely affected. We do not currently maintain life insurance policies with respect to our executive officers or other employees.

AmTrust is an insurance holding company and does not have any direct operations.

AmTrust is a holding company that transacts business through its operating subsidiaries. AmTrust's primary assets are the capital stock of these operating subsidiaries. Payments from our insurance company subsidiaries pursuant to management agreements and tax sharing agreements are our primary source of funds to pay AmTrust's direct expenses. We anticipate that such payments, together with dividends paid to us by our subsidiaries, will continue to be the primary source of funds for AmTrust. The ability of AmTrust to pay dividends to our stockholders largely depends upon the surplus and earnings of our subsidiaries and their ability to pay dividends to AmTrust. Payment of dividends by our insurance subsidiaries is restricted by insurance laws of various states, Ireland and Bermuda, and the laws of certain foreign countries in which we do business, including laws establishing minimum solvency and liquidity thresholds, and could be subject to contractual restrictions in the future, including those imposed by indebtedness we may incur in the future. See "Regulation." As a result, at times, AmTrust may not be able to receive dividends from its insurance subsidiaries and may not receive dividends in amounts necessary to pay dividends on our capital stock. As of March 31, 2006 AmTrust's insurance subsidiaries could pay dividends to AmTrust of $23.8 million without prior regulatory approval. Any dividends paid by AmTrust's subsidiaries would reduce their surplus.

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Assessments and premium surcharges for state guaranty funds, second injury funds and other mandatory pooling arrangements may reduce our profitability.

Most states require insurance companies licensed to do business in their state to participate in guaranty funds, which require the insurance companies to bear a portion of the unfunded obligations of impaired, insolvent or failed insurance companies. These obligations are funded by assessments, which are expected to continue in the future. State guaranty associations levy assessments, up to prescribed limits, on all member insurance companies in the state based on their proportionate share of premiums written in the lines of business in which the impaired, insolvent or failed insurance companies are engaged. See “Regulation.” Accordingly, the assessments levied on us may increase as we increase our premiums written. Some states also have laws that establish second injury funds to reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. These funds are supported by either assessments or premium surcharges based on paid losses. The effect of assessments and premium surcharges or changes in them could reduce our profitability in any given period or limit our ability to grow our business.

In addition, as a condition to conducting workers’ compensation business in most states, insurance companies are required to participate in residual market programs to provide insurance to those employers who cannot procure coverage from an insurance carrier willing to provide coverage on a voluntary basis. Insurance companies generally can fulfill their residual market obligations by, among other things, participating in a reinsurance pool where the results of all policies provided through the pool are shared by the participating insurance companies. Although we are compensated for our participation in these pools by receiving a share of the premium paid to the pools, this compensation is often inadequate to cover the cost of our losses arising from our participation in these pools. Accordingly, mandatory pooling arrangements may cause a decrease in our profits. We currently participate in mandatory pooling arrangements in 13 states. Our premiums from mandatory pooling arrangements were $6.1 million for the six months ended June 30, 2006 and $17.7 million for the year ended December 31, 2005. These mandatory pooling arrangements caused our net combined ratio to increase by 2.6% for the twelve months ended December 31, 2005 and 1.2% for the six months ended June 30, 2006. As we write policies in new states that have mandatory pooling arrangements, we will be required to participate in additional pooling arrangements. Further, the impairment, insolvency or failure of other insurance companies in these pooling arrangements would likely increase the liability of other members in the pool.

The outcome of recent insurance industry investigations and regulatory proposals in the United States could adversely affect our financial condition and results of operations.

The United States insurance industry has recently become the focus of increased scrutiny by regulatory and law enforcement authorities, as well as class action attorneys and the general public, relating to allegations of improper special payments, price-fixing, bid-rigging, improper accounting practices and other alleged misconduct, including payments made by insurers to brokers and the practices surrounding the placement of insurance business. Formal and informal inquiries have been made of a large segment of the industry, and a number of companies in the insurance industry have received or may receive subpoenas, requests for information from regulatory agencies or other inquiries relating to these and similar matters. These efforts have resulted and are expected to result in both enforcement actions and proposals for new state and federal regulation. Some states have adopted new disclosure requirements in connection with the placement of insurance business. It is difficult to predict the outcome of these investigations, whether they will expand into other areas not yet contemplated, whether activities and practices currently thought to be lawful will be characterized as unlawful, what form any additional laws or regulations will have when finally adopted and the impact, if any, of increased regulatory and law enforcement action and litigation on our business and financial condition. TIC received and responded to a general, industry-wide request for information from the New Hampshire Insurance Department regarding compensation arrangements with insurance agents and brokers.

Subsequent to TIC's response to such request, TIC did not receive further inquiries or comments from the New Hampshire Insurance Department.

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We may have exposure to losses from terrorism for which we are required by law to provide coverage.

When writing workers' compensation insurance policies, we are required by law to provide workers' compensation benefits for losses arising from acts of terrorism. We also are required by law to offer to provide terrorism coverage in other commercial property and casualty insurance policies (except commercial auto policies) that we market. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location and timing of such an act.

The Terrorism Risk Insurance Act of 2002, as modified by the Terrorism Risk Extension Act of 2005 ("TRIA") provides coverage to insurers for an act of terrorism which is declared by the U.S. Secretary of Treasury to be a "certified act of terrorism" if aggregate insurance industry losses from the act exceed certain threshold amounts ($50 million for acts of terrorism occurring through December 31, 2006 and $100 million for acts of terrorism occurring in 2007). Under the TRIA program, the federal government covers 90% (85% for acts of terrorism occurring in 2007) of the losses from covered certified acts of terrorism on commercial risks in the United States only, in excess of a deductible amount. This deductible is calculated as a percentage of an affiliated insurance group's prior year premiums on commercial lines policies (with certain exceptions, such as commercial auto insurance policies) covering risks in the United States. This deductible amount is 17.5% of such premiums for losses occurring in 2006 and 20% of such premiums for losses occurring in 2007. We estimate that our deductible would be approximately $36.0 million for 2006 and $74.2 million for 2007. Because there are substantial limitations and restrictions on the protection against terrorism losses provided to us by our reinsurance and the risk of severe losses to us from acts of terrorism remains. Accordingly, events constituting acts of terrorism may not be covered by, or may exceed the capacity of, our reinsurance and TRIA protections and could adversely affect our business and financial condition.

Our policies providing specialty risk and extended warranty coverage are not intended to provide coverage for losses arising from acts of terrorism. Accordingly, we have not obtained reinsurance for terrorism losses nor taken any steps to preserve our rights to the benefits of the TRIA program for this line of business and would not be entitled to recover from our reinsurers or the TRIA program if we were required to pay any terrorism losses under our specialty risk and extended warranty segment. Because there have been no claims filed under the TRIA program as yet, there is still a great deal of uncertainty over the way in which the federal government will implement the rules governing such claims. However, it is possible that the fact that we have not taken steps to preserve our right to the benefits of the TRIA program for the U.S. portion of our specialty risk and extended warranty segment may adversely affect our ability to collect under the program generally.

AII may become subject to taxes in Bermuda after March 28, 2016.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, has given AII an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to AII or any of its operations, shares, debentures or other obligations until March 28, 2016. See "Business—Certain International Tax Considerations." Given the limited duration of the Minister of Finance's assurance, we cannot be certain that AII will not be subject to any Bermuda tax after March 28, 2016. In the event that AII becomes subject to any Bermuda tax after such date, it may have a material adverse effect on our financial condition and results of operations.

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The effects of the increasing amount of litigation against insurers on our business are uncertain.

Although we are not currently involved in any material litigation with our customers, other members of the insurance industry are the target of an increasing number of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues including insurance and claim settlement practices. We cannot predict with any certainty whether we will be involved in such litigation in the future.

Risks Related to Our Common Stock

There is currently no public trading market for our common stock, a public trading market for our common stock may never develop, and our common stock price may be volatile and could decline substantially.

There is currently no public market for our common stock. Accordingly, no assurances can be given as to the following:

- the likelihood that a public trading market for our shares of common stock will develop or be sustained;
- the liquidity of any such market;
- the ability of our stockholders to sell their common stock; or
- the price that our stockholders may obtain for their common stock.

Upon the effective date of this registration statement, we expect our common stock to be listed on either the New York Stock Exchange or the Nasdaq Market. However, the market price for shares of our common stock may be highly volatile. Our performance, as well as government regulatory action, tax laws, interest rates and general market conditions, could have a significant impact on the future market price of our common stock. Some of the factors that could negatively affect our share price or result in fluctuations in the price of our common stock include:

- actual or anticipated variations in our quarterly results of operations;
- changes on our earnings estimates or publications of research reports about us or the industry;
- increase in market interest rates that may lead purchasers of common stock to demand a higher yield;
- changes in market valuations of other insurance companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key personnel;
- actions by institutional stockholders;

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- reaction to the sale or purchase of company stock by our principal stockholders or our executive officers;
- changes in the economic environment in the markets in which we operate;
- changes in tax law;
- speculation in the press or investment community; and
- general market, economic and political conditions.

Our principal stockholders will still have the ability to control our business, which may be disadvantageous to other stockholders.

Based on the number of shares outstanding as of June 30, 2006, George Karfunkel, Michael Karfunkel and Barry Zyskind, directly or indirectly, collectively beneficially own or control approximately 59% of our outstanding common stock. As a result, these stockholders, acting together, have the ability to control all matters requiring approval by our stockholders, including the election and removal of directors, amendments to our certificate of incorporation and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions (including related party transactions). These stockholders may have interests that are different from other stockholders. In addition, we are a "controlled company" as defined in NASD Rule 4350(c)(5). We plan to apply to have our common stock approved for listing on either the New York Stock Exchange or the Nasdaq Market. We intend to rely on the exemption from the New York Stock Exchange or the Nasdaq Market, as applicable, Board of Directors independence requirements available to a controlled company. Also, each of our board committees, except our audit committee, may include non-independent directors. The audit committee independence requirements imposed by the Sarbanes-Oxley Act of 2002 would apply to us, and we have organized our audit committee to meet these requirements.

In addition, George Karfunkel and Michael Karfunkel through entities which each of them control have entered into transactions with us and may from time to time in the future enter into other transactions with us. As a result, these individuals may have interests that are different from, or in addition to, their interest as stockholders in our Company. Such transactions may adversely affect our results or operations or financial condition. See "Certain Relationships and Related Transactions."

Our officers, directors and principal stockholders could delay or prevent an acquisition or merger of our company even if the transaction would benefit other stockholders. Moreover, this concentration of share ownership makes it impossible for other stockholders to replace directors and management without the consent of the controlling stockholders. In addition, this significant concentration of share ownership may adversely affect the price prospective buyers are willing to pay for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. See "Principal Shareholders" for a more detailed description of our share ownership.

Future sales of our common stock may affect the value of our common stock.

We cannot predict what effect, if any, future sales of our common stock, or the availability of shares for future sale, will have on the price prospective buyers are willing to pay for our common stock. Sales of a substantial number of shares of our common stock by us, or the perception that such sales could occur, may adversely affect the price prospective buyers are willing to pay for our common stock and may make it more difficult to sell shares at a time and price determined appropriate. See "Shares Eligible

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for Future Sale" for further information regarding circumstances under which additional shares of our common stock may be sold.

Holders of 34,375,000 shares of our common stock are subject to agreements with the Friedman, Billings, Ramsey & Co., Inc. or FBR, that restrict their ability to transfer their stock for later of 180 days from February 9, 2006 or 90 days after the effective date of this registration statement. FBR may in its sole discretion and at any time waive the restrictions on transfer in these agreements during this period.

Applicable insurance laws regarding the change of control of our company may impede potential acquisitions that our stockholders might consider to be desirable.

We are subject to state statutes governing insurance holding companies, which generally require that any person or entity desiring to acquire direct or indirect control of any of our insurance company subsidiaries obtain prior regulatory approval. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our company, including through transactions, and in particular unsolicited transactions, that some or all of our stockholders might consider to be desirable.

RIC is domiciled in New York State. Before a person may acquire control of a New York insurance company, prior written approval must be obtained from the Superintendent of Insurance of the State of New York. Prior to granting approval of an application to acquire control of a New York insurer, the Superintendent of Insurance of the State of New York will consider such factors as the financial strength of the applicant, the integrity of the applicant's board of directors and executive officers, the acquirer's plans for the future operations of the domestic insurer and any anti-competitive results or hazards to policyholders that may arise from the consummation of the acquisition of control. Pursuant to the New York insurance holding company statute, "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and polices of the company, whether through the ownership of voting securities, by contract (except a commercial contract for goods or non-management services) or otherwise. Control is presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote 10% or more of the voting securities of the company; however, the New York State Insurance Department, after notice and a hearing, may determine that a person or entity which directly or indirectly owns, controls or holds with the power to vote less than 10% of the voting securities of the company, "controls" the company. Because a person acquiring 10% or more of our common stock would indirectly control the same percentage of the stock of RIC, the insurance change of control laws of New York would apply to such a transaction.

TIC is domiciled in New Hampshire. Before a person may acquire control of a New Hampshire insurance company, prior written approval must be obtained from the New Hampshire Insurance Commissioner. Prior to granting approval of an application to acquire control of a New Hampshire insurer, the New Hampshire Insurance Commissioner will hold a public hearing on the acquisition and will consider such factors as the financial strength of the applicant, the competence, experience and integrity of the persons who would control the operations of the domestic insurer, applicant's board of directors and executive officers, the acquirer's plans for the future operations of the domestic insurer and any anti-competitive results or hazards to the insurance-buying public that may arise from the consummation of the acquisition of control. Pursuant to the New Hampshire insurance holding company statute, "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and polices of the company, whether through the ownership of voting securities, by contract (except a commercial contract for goods or non-management services) or otherwise. Control is presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote 10% or more of the voting securities of the company; however, the New Hampshire Insurance Department, after notice and a hearing, may determine that "control" exists in fact, notwithstanding the absence of a presumption to that effect. Because a person acquiring 10% or more of our common stock would indirectly control the same percentage of the stock of TIC, the insurance change of control laws of New

Hampshire would apply to such a transaction.

WIC is domiciled in Delaware. Before a person may acquire control of a Delaware insurance company, prior written approval must be obtained from the Delaware Insurance Commissioner. Prior to granting approval of an application to acquire control of a Delaware insurer, the Delaware Insurance Commissioner will hold a public hearing on the acquisition and consider such factors as the financial strength of the applicant, the competence, experience and integrity of the persons who would control the operations of the domestic insurer, applicant's board of directors and executive officers, the acquirer's plans for the future operations of the domestic insurer and any anti-competitive results or hazards to the insurance-buying public that may arise from the consummation of the acquisition of control. Pursuant to the Delaware insurance holding company statute, "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and polices of a company, whether through the ownership of voting securities, by contract (except a commercial contract for goods or non-management services) or otherwise. Control is presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote 10% or more of the voting securities of company; however, the Delaware Insurance Department, after notice and a hearing, may determine that "control" exists in fact, notwithstanding the absence of a presumption to that effect. Because a person acquiring 10% or more of our common stock would indirectly control the same percentage of the stock of WIC, the insurance change of control laws of Delaware would apply to such a transaction.

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AIU is domiciled in the Republic of Ireland. Irish law requires that anyone acquiring or disposing of a “qualifying holding” in AIU, or anyone who proposes to decrease or increase that holding to specified levels, must first notify the Irish Financial Regulator of their intention to do so. It also requires any insurance company that becomes aware of any acquisitions or disposals of its capital involving the “specified levels” to notify the Irish Financial Regulator. The Irish Financial Regulator has three months from the date of submission of a notification within which to oppose the proposed transaction, if the Irish Financial Regulator is not satisfied as to the suitability of the acquirer “in view of the necessity to ensure sound and prudent management of the insurance undertaking.” A “qualifying holding” means a direct or indirect holding in an insurance company that represents 10% or more of the capital or of the voting rights of such company or that makes it possible to exercise a significant influence over the management of such company. The specified levels are 20%, 33% and 50%, or such other level of ownership that results in the company becoming the acquirer’s subsidiary.

Any person having a shareholding of 10% or more of the issued share capital in AmTrust would be considered to have an indirect holding in AIU at or over the 10% limit. Any change that resulted in the indirect acquisition or disposal of a shareholding of greater than or equal to 10% in the share capital of AIU, or a change that resulted in an increase to or decrease below one of the specified levels, would need to be cleared with the Irish Financial Regulator prior to the transaction.

We may be unable to pay dividends on our common stock.

AmTrust’s income is generated primarily from our insurance subsidiaries. The laws of New York, New Hampshire, Delaware, Ireland and Bermuda regulate and restrict, under certain circumstances, the ability of our insurance subsidiaries to pay dividends to AmTrust. If AmTrust’s insurance subsidiaries could not pay dividends to AmTrust, AmTrust could not, in turn, pay dividends to shareholders. In addition, the terms of AmTrust’s junior subordinated debentures limit, in some circumstances, AmTrust’s ability to pay dividends on its common stock, and future borrowings may include prohibitions on dividends or other restrictions. For these reasons, AmTrust may be unable to pay dividends on its common stock. See “Regulation.” As of June 30, 2006 AmTrust’s insurance subsidiaries collectively could pay dividends to AmTrust of $23.8 million without prior regulatory approval. Any dividends paid by AmTrust’s subsidiaries would reduce their surplus. On September 1, 2006 our Board of Directors approved the payment of a cash dividend of $0.02 per share on October 15, 2006 to the shareholders of record on October 1, 2006.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains various "forward-looking statements." Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "targets," "may," "will," "would," "could," "should," "seeks," "ap "intends," "plans," "projects," "estimates" or "anticipates" or the negative of these words or phrases or similar words or phrase

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to those described under "Risk Factors" and the following:

- Our business is subject to extensive regulation by applicable federal, state and foreign regulators in the jurisdictions in which we operate.
- We may not be able to successfully manage our growth.
- If we fail to accurately assess the risks associated with the business we insure, we may fail to establish appropriate premium rates, and our reserves for unpaid losses and loss adjustment expenses may be inadequate to cover our actual losses.
- If we are unable to obtain reinsurance on favorable terms, our ability to write new policies and renew existing policies could be adversely affected.
- We believe that the A.M. Best rating of "A-" (Excellent) of certain of our insurance subsidiaries has a significant influence on our business and that many brokers, agents and customers would not place business with us if one or more of these ratings were downgraded.
- The specialty middle-market property and casualty business we recently acquired is a new segment for us, and we may not be able to underwrite it profitably.
- We cannot control or predict with any certainty the amount or profitability of the business we will be able to transition in the specialty middle-market property and casualty segment we recently acquired.
- Our operating results may fluctuate significantly due to various factors generally beyond our control.
- Because we are dependent on certain key executives and other personnel, the loss of any of these executives or our inability to retain other key personnel could adversely affect our business.
- Changes in rating agency policies or practices.
- Changes in legal theories of liability under our insurance policies.
- Changes in accounting policies or practices.

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- Changes in general economic conditions, including inflation and other factors.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this prospectus. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we project. Any forward-looking statements you read in this prospectus reflect our views as of the date of this prospectus with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. Before making an investment decision, you should specifically consider all of the factors identified in this prospectus that could cause actual results to differ.

We cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. We do not intend, and disclaim any duty or obligation, to update or revise any industry information or forward-looking statements set forth in this prospectus to reflect new information, future events or otherwise.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the shares of our common stock by the selling stockholders

DIVIDEND POLICY

On September 1, 2006 our board of directors decided that the Company would begin paying a regular quarterly cash dividend of $0.02 per share on its common stock beginning in the fourth quarter 2006. Under this dividend program, on October 15, 2006, the Company will pay a cash dividend of $0.02 per share on its common stock to shareholders of record on October 1, 2006.

AmTrust is a holding company and has no direct operations. Our ability to pay dividends in the future primarily depends on the ability of our operating subsidiaries to pay dividends to us. Our insurance company subsidiaries are regulated insurance companies and therefore are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. In addition, the terms of our junior subordinated debt require that we make scheduled interest payments on the debt before we pay any dividends to our stockholders. Agreements or indentures governing future debt financings may contain prohibitions or other restrictions on the payment of dividends. We paid a dividend of $9.6 million to the holder of our preferred stock in July 2005 and an additional dividend of $1.2 million to this holder in December 2005. In February 2006 we exchanged all of the outstanding shares of preferred stock for an aggregate of 10,285,714 shares of common stock. For additional information regarding restrictions on the payment of dividends by us and our insurance company subsidiaries, see “Regulation.”

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following tables set forth our selected historical consolidated financial and operating information for the periods ended and as of the dates indicated. The selected unaudited consolidated income statement data for the six months ended June 30, 2006 and 2005 and the balance sheet data as of June 30, 2006 and 2005 are each derived from our unaudited condensed financial statements included elsewhere in this prospectus, which have been prepared in accordance with GAAP. These historical results are not necessarily indicative of results to be expected from any future period.

The selected consolidated income statement data for the year ended December 31, 2005 and the balance sheet data as of December 31, 2005, are derived from our audited financial statements included elsewhere in this prospectus, which have been audited by BDO Seidman LLP, our independent auditors. The selected consolidated income statement data for the years ended December 31, 2004 and 2003 and the balance sheet data as of December 31, 2004, are derived from our audited financial statements included elsewhere in this prospectus, which have been prepared in accordance with GAAP and have been audited by Berenson LLP, our former independent auditors. The selected consolidated income statement data for the years ended December 31, 2002 and the balance sheet data as of December 31, 2003 and 2002 are derived for our audited financial statements, which have been prepared in accordance with GAAP and have been audited by Berenson LLP. The selected consolidated income statement data for the year ended December 31, 2001 and the balance sheet data as of December 31, 2001 are derived from the audited financial statements of our parent, AmTrust Financial Group, Inc., which have been prepared in accordance with GAAP and have been audited by Berenson LLP. The unaudited condensed consolidated financial statements include all adjustments, other than normal recurring adjustments, which we consider necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented. These historical results are not necessarily indicative of results to be expected from any future period. You should read the following selected consolidated financial information together with the other information contained in this prospectus, including the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included elsewhere in this prospectus.

	Six Months Ended June 30,		Year Ended December 31,				
	2006	**2005**	**2005**	**2004**	**2003**	**2002**	**2001**
	(unaudited) ($ in thousands, except percentages and per share data)		**($ in thousands, except percentages and per share data)**				
Selected Income Statement Data(1)							
Gross premiums written	$ 237,010	$ 160,302	$ 286,131	$ 210,851	$ 97,490	$ 27,509	$ 13,353
Ceded gross premiums written	(28,266)	(19,620)	(26,918)	(23,353)	(15,567)	(4,005)	(1,520)
Net premiums written	$ 208,744	$ 140,682	$ 259,213	$ 187,498	$ 81,923	$ 23,504	$ 11,833
Change in unearned net premiums written	(66,499)	(42,942)	(43,183)	(48,684)	(30,256)	(6,230)	(1,113)
Net earned premiums	$ 142,245	$ 97,740	$ 216,030	$ 138,814	$ 51,667	$ 17,274	$ 10,720
Commission and fee income	$ 8,252	$ 3,060	$ 8,196	$ 5,202	$ 1,052	$ 341	$ 392

Net investment income(2)	11,421	4,139	11,534	4,439	3,072	2,242	2,035
Net realized gains (loss)	6,091	1,429	4,875	1,278	(1,004)	(1)	(16)
Other	—	—	—	222	496	—	—
Total revenues	$ 168,009	$ 106,368	$ 240,635	$ 149,955	$ 55,283	$ 19,856	$ 13,131
Loss and loss adjustment expense	$ 90,658	$ 67,508	$ 142,006	$ 90,178	$ 34,884	$ 9,139	$ 4,459
Policy acquisition expenses(3)	16,472	14,973	30,082	20,082	8,194	3,848	—
Salaries and benefits(4)	11,732	6,821	13,903	10,945	4,063	3,312	—
Other insurance general and administrative expenses(5)	13,039	8,496	19,519	10,430	3,696	1,179	9,117
Other operating expenses(6)	6,706	2,192	5,543	2,167	1,000	—	—
Total expenses	$ 138,607	$ 99,990	$ 211,053	$ 133,802	$ 51,837	$ 17,478	$ 13,576
Operating income from continuing operations	$ 29,402	$ 6,378	$ 29,582	$ 16,153	$ 3,446	$ 2,378	$ (445)
Other income (expense) Foreign currency gain (loss)(7)	$ (15)	—	$ 388	—	—	—	—
Miscellaneous	—	—	—	(85)	(545)	(116)	2,404

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	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Year Ended December 31, 2005	2004	2003	2002	2001
	(unaudited) ($ in thousands, except percentages and per share data)		($ in thousands, except percentages and per share data)				
Interest expense	(2,243)	(601)	(2,784)	(264)	(221)	(161)	(194)
Total other income (expenses)	$ (2,258)	$ (601)	$ (2,396)	$ (349)	$ (766)	$ (277)	$ 2,210
Income from continuing operations before provision for income taxes and change in accounting principle	$ 27,144	$ 5,777	$ 27,186	$ 15,804	$ 2,680	$ 2,101	$ 1,765
Total provision for income taxes	7,452	2,665	6,666	3,828	1,258	510	38
Income from continuing operations before change in accounting principle	$ 19,692	$ 3,112	$ 20,520	$ 11,976	$ 1,422	$ 1,591	$ 1,727
Cumulative effect of change in accounting principle	—	—	—	—	—	578	—
Income from continuing operations	19,692	3,112	20,520	11,976	1,422	2,169	1,727
Foreign currency gain from discontinued operations	—	19,771	21,745	—	—	—	—
Other income (loss) from discontinued operations(7)	250	(2,659)	(4,706)	2,134	(30)	—	—
Net income	$ 19,942	$ 20,224	$ 37,559	$ 14,110	$ 1,392	$ 2,169	$ 1,727
Preferred stock dividend accumulated(8)	—	1,200	1,200	4,800	4,800	—	—
	$ 19,942	$ 19,024	$ 36,359	$ 9,310	$ (3,408)	$ 2,169	$ 1,727

Net income (loss) available to common stockholders							
Basic earnings (loss) per common share:							
Income (loss) from continuing operations before change in accounting principle	$ 0.38	$ 0.08	$ 0.80	$ 0.30	$ (0.14)	$ 0.07	$ 0.07
Cumulative effect of change in accounting principle	—	—	—	—	—	0.02	—
Income (loss) from discontinued operations	0.00	0.71	0.71	0.09	—	—	—
Net income (loss) per common share (basic)	$ 0.38	$ 0.79	$ 1.51	$ 0.39	$ (0.14)	$ 0.09	$ 0.07
Weighted average shares outstanding	52,288,775	24,089,286	24,089,286	24,089,286	24,089,286	24,089,286	24,089,286

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	Six Months Ended June 30,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(unaudited) ($ in thousands, except percentages and per share data)		($ in thousands, except percentages and per share data)				
Selected Insurance Ratios and Operating Information							
Net loss ratio(9)	63.7%	69.1%	65.7%	65.0%	67.5%	52.9%	41.6%
Net expense ratio(10)	29.0%	31.0%	29.4%	29.9%	30.9%	48.3%	85.0%
Net combined ratio(11)	92.7%	100.1%	95.1%	94.8%	98.4%	101.2%	126.6%
Annualized return on average equity(12)	18.7%	17.5%	31.7%	13.0%	1.6%	4.4%	9.0%
Annualized return on average equity without foreign currency gain and discontinued operations(12)	18.5%	2.7%	17.3%	11.0%	1.6%	4.4%	9.0%

	June 30,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(unaudited) ($ in thousands, except percentages and per share data)		($ in thousands, except percentages and per share data)				
Selected Balance Sheet Data							
Cash and cash equivalents	$ 112,361	$ 118,991	$ 115,847	$ 28,727	$ 11,202	$ 7,068	$ 4,670
Investments	517,107	257,253	299,965	169,484	74,379	30,042	23,789
Real estate(7)	—	6,714	—	161,555	185,744	168,523	—
Amounts recoverable from reinsurers	23,529	8,503	17,667	14,445	4,046	1,533	1,047
Premiums receivable, net	125,999	74,595	81,070	56,468	26,143	11,927	9,947
Deferred income taxes	11,723	3,045	9,396	1,952	1,130	958	416
Intangibles assets	30,060	10,579	20,781	9,309	6,100	5,500	—
Total assets	921,821	534,289	612,890	497,530	341,394	306,225	45,165
Reserves for loss and loss adjustment expense	212,538	126,740	168,007	99,364	37,442	14,743	11,813
Unearned premiums	236,056	142,051	156,802	105,107	42,681	12,659	6,124
Mortgage notes(7)	—	0	—	92,919	107,960	93,420	—

Note payable	—	—	25,000	1,700	3,649	3,648	3,049
Junior subordinated debt	51,548	51,548	51,548	—	—	—	—
Common stock and additional paid in capital	239,176	12,647	12,647	12,647	12,647	12,647	19,226
Preferred stock(8)	—	60,000	60,000	60,000	60,000	60,000	—
Total shareholders' equity	307,809	112,694	118,411	118,828	98,467	79,048	20,039

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(1) Results for a number of periods were affected by our acquisition of the stock and renewal rights of Princeton in December 2002, and the renewal rights and certain other assets of Covenant in December 2003 Associated in August 2004 and Alea in December 2005.

(2) Also included finance income of AFS Capital Corporation prior to its disposition in April 2005.

(3) Policy acquisition expenses include commissions paid directly to producers as well as premium taxes and assessments.

(4) For periods subsequent to 2002 salaries and benefits are for employees who are directly engaged in insurance activities. Policy acquisition expenses and salaries and benefits for 2001 and 2002 were included in other insurance general and administrative expenses.

(5) Other insurance general and administrative expenses represent those costs other than policy acquisition expenses, as well as salaries and benefits, that are directly attributable to insurance activities. Policy acquisition expenses and salaries and benefits for 2001 and 2002 were included in other insurance general and administrative expenses.

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(6) Other operating expenses are those expenses that are associated with fee and commission generating activities in which the Company engages.

(7) The foreign currency gain from discontinued operations relates to our wholly-owned subsidiary, AmTrust Pacific Limited, a New Zealand real estate operating company ("APL"). Income (loss) from discontinued operations reflects the results of operations of APL and AFS Capital Corp., a premium finance company. The real estate in the balance sheet reflects the carrying value of real estate held by APL. The mortgage notes in the balance sheet reflect mortgage debt on this real estate. All of these real estate assets were liquidated as of November 2005. For more information about these transactions, see the consolidated financial statements and related notes included elsewhere in this prospectus.

(8) In January 2006, the holder of our preferred stock agreed to a reduction of the dividend in 2005 to $1.2 million. Our preferred stock was exchanged for an aggregate of 10,285,714 shares of our common stock in February 2006.

(9) Net loss ratio is calculated by dividing the loss and loss adjustment expense by net premiums earned.

(10) Net expense ratio is calculated by dividing the total of the acquisition expenses, salaries and benefits as well as other insurance general and administrative expenses by net premiums earned.

(11) Net combined ratio is calculated by adding net loss ratio and net expense ratio together.

(12) Calculated by dividing net income or net income without currency gain and discontinued operations, as the case may be, by the average shareholders' equity. The calculations for the three months ended June 30, 2005 and June 30, 2006 have been annualized.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this prospectus. This discussion and analysis includes forward-looking statements that are subject to risks, uncertainties and other factors described under the caption "Risk Factors" beginning on page 15. These factors could cause our actual results in current and future periods to differ materially from those expressed in, or implied by, those forward-looking statements. See "Special Note Regarding Forward-Looking Statements."

Overview

AmTrust is a multinational specialty property and casualty insurer focused on generating consistent underwriting profits. We provide insurance coverage for small businesses and products with high volumes of insureds and loss profiles which we believe are predictable. We target lines of insurance that we believe are generally underserved by larger insurance carriers. AmTrust has grown by hiring teams of underwriters with expertise in our specialty lines and through acquisitions of renewal rights to established books of specialty insurance business. Since our current majority stockholders acquired AmTrust in 1998, we have expanded our operations into three business segments:

- Workers' compensation for small businesses (average premium less than $5,000 per policy) in the United States;

- Specialty risk and extended warranty coverage for accidental damage, mechanical breakdown and related risks primarily for selected consumer and commercial goods in the United Kingdom, certain other European Union countries and the United States; and

- Specialty middle-market property and casualty insurance. This segment writes workers' compensation, commercial automobile and general liability insurance through general and other wholesale agents.

Our business has grown substantially since 2002. Our annual gross premiums written increased from $27.5 million in 2002 to $286.1 million in 2005 and from $160.3 million in the six months ended June 30, 2005 to $237.0 million in the six months ended June 30, 2006. Our annual premiums written in our workers' compensation segment increased from $21.1 million in 2002 to $204.6 million in 2005 and from $107.1 million in the six months ended June 30, 2005 to $128.5 million in the six months ended June 30, 2006. Our annual gross premiums written in our specialty risk and extended warranty segment increased from approximately $6.4 million in 2002 to $81.6 million in 2005 and decreased from $53.2 million in the six months ended June 30, 2005 to $45.2 million for the six months ended June 30, 2006. Our net income from continuing operations increased from $2.2 million in 2002 to $20.5 million in 2005 and from $3.1 million in the six months ended June 30, 2005 to $19.7 million in the six months ended June 30, 2006. Our gross premiums written in the specialty middle-market property and casualty insurance business segment, which we acquired in December 2005, was $63.4 million for the six months ended June 30, 2006. Given the larger scale of our current operations, our past growth rate is likely not indicative of our future growth rate.

Generally, annual gross premiums written are distributed relatively evenly through each quarter. However, in 2005, 32.0% of gross premiums written were written in the first quarter. This resulted from the renewal of policies acquired from Associated, which wrote a disproportionate amount of its business in the first quarter, and the assumption of premiums pursuant to a loss portfolio transfer in the specialty risk and extended warranty segment. We anticipate that gross premiums written in 2006 and future years generally should be relatively evenly distributed through each quarter.

One of the key financial measures that we use to evaluate our operating performance is return on average equity. We calculate return on average equity by dividing net income by the average of shareholders' equity. Our return on average equity was 4.4% in 2002, 1.6% in 2003, 13.0% in 2004 and 31.7% in 2005. Our annualized return on average equity, excluding foreign currency gains and income from discontinued operations, for the six months ended June 30, 2005 was 2.7% and for the six months ended June 30, 2006 was 18.5%. Our overall financial objective is to produce a return on average equity of 15.0% or more over the long term. In addition, we target a net combined ratio of 95.0% or lower over the long term, while maintaining optimal operating leverage in our insurance subsidiaries commensurate with our A.M. Best rating objectives. Our net combined ratio was 101.2% in 2002, 98.4% in 2003, 94.8% in 2004, 95.1% in 2005 and 92.7% for the six months ended June 30, 2006. A key factor in achieving our targeted net combined ratio is improvement of our net expense ratio. We plan to write additional premiums without a proportional increase in expenses and further reduce the expense component of our net combined ratio over time.

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Our strategy across our segments is to maintain premium rates, deploy capital judiciously, manage our expenses and focus on the sectors in which we have expertise, which we believe will provide opportunities for greater returns.

Our consolidated results include the results for our holding company and our wholly-owned subsidiaries which principally include:

- Technology Insurance Company, Inc. (“TIC”) which underwrites workers’ compensation insurance, specialty risk insurance and extended warranty coverage, and specialty middle-market property and casualty coverages in the United States;

- Rochdale Insurance Company (“RIC”), which underwrites workers’ compensation insurance, specialty risk and extended warranty coverage, and specialty middle-market property and casualty coverages in the United States;

- AmTrust International Underwriters Limited (“AIU”), which underwrites specialty risk and extended warranty coverage plans in the European Union;

- AmTrust International Insurance, Ltd. (“AII”), which reinsures the underwriting activities of TIC, RIC and AIU; and

- AmTrust Pacific Limited, a New Zealand real estate operating company, which discontinued operations in 2004.

AII, RIC, TIC and WIC are each rated “A-” (Excellent) by A.M. Best Company (“A.M. Best”), which rating is the fourth highest of 16 rating levels. AIU is unrated by A.M. Best. We reinsure our insurance risks through internal reinsurance agreements and agreements with third party reinsurers. As of June 30, 2006, we had approximately 286 employees worldwide.

Through a combination of acquisitions and organic growth, we have expanded geographically and acquired additional distribution channels, without acquiring the legacy liabilities of other insurance carriers, by primarily structuring our acquisitions as renewal rights acquisitions, including the following:

- In December 2002, we acquired the Princeton Agency, Inc. (“Princeton”) and the renewal rights to Princeton’s book of workers’ compensation business. The acquisition increased our agent relationships in the Northeast and Midwest and enhanced our marketing efforts in these regions.

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- In December 2003, we acquired the renewal rights to the workers' compensation business of The Covenant Group, Inc. ("Covenant") and Covenant's proprietary claims handling systems. We also hired several experienced claims adjusters from Covenant. This transaction increased our presence in the Southeast and enabled us to move the adjustment of claims arising from our small business workers' compensation segment from third party administrators to an experienced internal claims staff.

- In August 2004, we expanded our business to Florida by acquiring the renewal rights to a book of workers' compensation business from Associated Industries Insurance Company ("Associated").

- In December 2005, we expanded into the specialty middle-market property and casualty business through our acquisition of Alea North America Inc.'s ("Alea") renewal rights to substantially all of its specialty middle market property and casualty business. The business in this segment produced approximately $63.4 million of gross premiums written in the first six months of 2006. See "—Business Segments—Specialty Middle-Market Property and Casualty."

- On June 1, 2006, we acquired 100% of the issued and outstanding shares of WIC. WIC has approximately $15 million in capital and surplus and no net liabilities. WIC is licensed in all 50 states and the District of Columbia. WIC has no employees and will be managed by the Company pursuant to an Intercompany Management Agreement.

- On June 1, 2006, we acquired the renewal rights to Muirfield's book of workers' compensation business, which generated over $60 million in gross premiums written in 2005, concentrated in the Midwest. We also acquired access to Muirfield's distribution network. We believe that this transaction will help us accelerate our growth in the Midwest. Since we acquired renewal rights, we intend to offer renewals only to policyholders for risks which meet our underwriting guidelines. Furthermore, agents and policyholders will not be obligated to renew with us. We anticipate that we should renew approximately 50% of Muirfield's existing book of workers' compensation business.

As a result of our integration efforts, each of the businesses we acquired, prior to the Alea acquisition, is processed using our proprietary systems. At present, the workers' compensation portion of our specialty middle market property and casualty business is being processed using our propriety systems. We expect to process all of this business using our systems over time.

In early 2003, we expanded our specialty risk and extended warranty segment in Europe by hiring a team of experienced underwriters in London, who we believe are recognized for their expertise in the European specialty risk and extended warranty coverage market, including Max Caviet, President of AIU, who has over 30 years of experience in this business. Many of the European-based specialty risk and extended warranty coverages we currently underwrite have been underwritten by our team for a number of years.

Investment income is an important part of our business. Because the period of time between our receipt of premiums and the ultimate settlement of claims is often several years or longer, we are able to invest cash from premiums for significant periods of time. As a result, we are able to generate more investment income from our premiums as compared to insurance companies that operate in many other lines of business. Our net investment income (including finance income of AFS Capital Corporation prior to its disposition in April 2005) was $2.2 million in 2002, $3.1 million in 2003, $4.4 million in 2004, $11.5 million for 2005 and $11.4 million for the six months ended June 30, 2006. As of June 30, 2006, the Company held 17.6% of total invested assets in cash and cash equivalents. This relatively high concentration of cash and cash equivalents represents our reaction to the relatively flat debt yield curve and should enable the Company to quickly redeploy substantial assets should the interest rate environment change.

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Our most significant balance sheet liability is our reserves for loss and loss adjustment expense. We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. Our reserves for loss and loss adjustment expenses incurred and unpaid are not discounted using present value factors. Our loss reserves are reviewed at least annually by external actuaries. Reserves are based on estimates of the most likely ultimate cost of individual claims. These estimates are inherently uncertain. Judgment is required to determine the relevance of our historical experience and industry information under current facts and circumstances. The interpretation of this historical and industry data can be impacted by external forces, principally frequency and severity of future claims, length of time to achieve ultimate settlement of claims, inflation of medical costs and wages, insurance policy coverage interpretations, jury determinations and legislative changes. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If we change our estimates, these changes would be reflected in our results of operations during the period in which they are made, with increases in our reserves resulting in decreases in our earnings.

The use of reinsurance is an important component of our business strategy. See “Business— Reinsurance.” As losses are incurred and recorded, we record amounts recoverable from third party reinsurers for the portion of the paid and unpaid losses ceded to the reinsurers. We have purchased reinsurance for our small business workers’ compensation segment and our specialty risk and extended warranty segment, which also reinsures the workers’ compensation portion of the specialty middle-market property and casualty business we recently acquired. We plan to seek additional reinsurance to cover the property portion of this business, although we currently have not written any property coverage. We do not plan to reinsure the general liability and auto liability portions of this business.

On June 27, 2006, we obtained a line of credit in the amount of $50.0 million from JPMorgan Chase Bank. The line of credit will permit the Company to obtain short term loans at a rate of interest of LIBOR plus 1.50%. The line of credit expires on June 30, 2007. To date, the Company has not borrowed any funds under the line of credit.

Recent Developments

On July 25, 2006, the Company issued an additional $30 million in principal amount of a junior subordinated debenture (the “New Debenture”) in connection with the issuance of trust preferred securities by a trust pursuant to an indenture with Wilmington Trust Company as trustee. The New Debenture matures on September 15, 2036 and bears interest at a rate per annum of 8.83% until September 15, 2011 and, thereafter, at a floating rate per annum equal to the sum of the 3-month London Interbank Offered Rate for U.S. dollars (LIBOR) determined each quarter and 3.30%. The New Debenture is redeemable at par at the Company's election after September 15, 2011.

Principal Revenue and Expense Items

Our revenues consist primarily of the following:

Gross Premiums Written. Gross premiums written represent estimated premiums from each insurance policy that we write, including as part of an assigned risk pool, during a reporting period based on the effective date of the individual policy. Certain policies that are underwritten by the Company are subject to premium audit at that policy’s cancellation or expiration. The final actual gross premiums written may vary from the original estimate based on changes to the final rating parameters or classifications of the policy.

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

Net Premiums Earned. Net premiums earned is the earned portion of our net premiums written. Workers' compensation premiums are earned on a pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums and are earned in subsequent periods over the remaining term of the policy. Our workers' compensation insurance policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2005 for an employer with constant payroll during the term of the policy, we would earn half of the premiums in 2005 and the other half in 2006. Our specialty risk and extended warranty coverages are earned over the estimated exposure time period. The terms vary depending on the risk and have an average duration of approximately 19 months, but range in duration from one month to 60 months.

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Net Investment Income. We invest our statutory surplus funds and the funds supporting our insurance liabilities in fixed maturity and equity securities. A portion of these funds are held in cash and cash equivalents. Our net investment income includes interest and dividends earned on our invested assets. Net realized gains and losses on our investments are reported separately from our net investment income. Net realized gains occur when our investment securities are sold for more than their costs or amortized costs, as applicable. Net realized losses occur when our investment securities are sold for less than their costs or amortized costs, as applicable, or are written down as a result of an other-than-temporary impairment. We classify most of our fixed maturity securities as held-to-maturity, and the remainder of our fixed maturity securities and all of our equity securities as available-for-sale. Net unrealized gains (losses) on those securities classified as available-for-sale are reported separately within accumulated other comprehensive income on our balance sheet.

Fee Income. We recognize fee revenue as a servicing carrier for the State of Georgia's workers' compensation insurance plan. In addition, we also offer claims adjusting and loss control services for fees to unaffiliated third parties. We also recognize fee income associated with the issuance of workers' compensation policies for installment fees, in jurisdictions where it is permitted and approved, and reinstatement fees, fees charged to reinstate a policy after it has been cancelled for non-payment, in jurisdictions where it is permitted and approved. Our specialty risk and extended warranty business generates fee revenue for product warranty registration and claims handling services provided to unaffiliated third parties.

Our expenses consist primarily of the following:

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

Policy Acquisition Expenses. Policy acquisition expenses comprise commissions directly attributable to those agents, wholesalers or brokers that produce premiums written on our behalf. In most instances, commissions are paid based on collected premium, which reduces our credit risk exposure associated with producers in case a policyholder does not pay a premium. We pay state and local taxes, licenses and fees, assessments and contributions to various state workers' compensation guaranty funds based on our premiums or losses in each state. Surcharges that the Company may be required to charge insureds in certain jurisdictions are considered accrued liabilities, rather than expense.

Salaries and Benefits. Salaries and benefits expenses are those salaries and benefits expenses for employees that are directly involved in the origination, issuance, maintenance of policies, claims adjusting and accounting for insurance transactions. Salaries and benefits associated with employees that are involved in fee generating activities are classified as other expenses.

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Other Insurance General and Administrative Expenses. Other insurance general and administrative expenses are comprised of other costs associated with the Company's insurance activities such as federal excise tax, postage, telephones and internet access charges as well as legal and auditing fees and board and bureau charges.

Other Operating Expenses. Other operating expenses include those charges that are related to the non-insurance fee generating activities in which the Company engages, including salaries and benefits expenses and other charges directly attributable to non-insurance fee generating activities.

Policyholder Dividends. In limited circumstances, we may pay dividends to policyholders in particular states as an underwriting incentive.

Interest Expense. Interest expense represents amounts we incur on our outstanding indebtedness at the then-applicable interest rates.

Income Tax Expense. We incur federal, state and local income tax expense as well as income tax expense in certain foreign jurisdictions in which we operate.

Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial statements. We consider some of these policies to be very important to the presentation of our financial results because they require us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of our assets, liabilities, revenues and expenses and the related disclosures. Some of the estimates result from judgments that can be subjective and complex, and, consequently, actual results in future periods might differ significantly from these estimates.

We believe that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from third party reinsurers, assessments, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities, goodwill and other intangible assets and the valuation of stock based compensation.

The following is a description of our critical accounting policies.

Reserves for Loss and Loss Adjustment Expenses. We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. In establishing our reserves, we do not use loss discounting, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income. Our reserves for loss and loss adjustment expenses are estimated using case-by-case valuations and statistical analyses.

We utilize a combination of the Company's incurred loss development factors and industry-wide incurred loss development factors. Our actuary generates a range within which it is reasonably likely that our ultimate loss and loss adjustment expenses would fall by assigning varying relative weights to the Company's ultimate losses obtained by application of the Company's loss development factors and ultimate losses developed through use of industry-wide loss development factors. We record our reserves at the higher end of the range, above the mid-point, which we believe to be prudent in light of the uncertainty inherent in estimating reserves.

We believe this method, which tracks the development of claims incurred in a particular time period, is the best method for projecting our ultimate liability. These factors are dependent on a number of elements, including frequency and severity of claims, length of time to achieve ultimate settlement of claims, projected inflation of medical costs and wages (for workers' compensation), insurance policy coverage interpretations, judicial determinations and existing laws and regulations. The predictive ability of loss development factors is dependent on consistent underwriting, claims handling, and inflation, among other factors, and predictable legislatively and judicially imposed legal requirements. If all things remain equal, losses incurred in 2006 should develop similarly to losses incurred in 2005 and prior years. Thus, if the Net Loss Ratio for premiums written in year one is 55.0% we expect that the Net Loss Ratio for premiums written in year 2 also would be 55.0%. However, due to the inherent uncertainty in the loss development factors, our actual liabilities may differ significantly from our original estimates.

Notwithstanding the inherent uncertainty, the Company has not experienced material variability in its loss development factors. We believe that it is reasonably likely that we could experience a 5% deviation in our loss and loss adjustment expense reserves due to changes in the elements that underlie loss development, such as claims frequency or severity. For the period from 2001 through 2005, the weighted average cost per claim was $10,693.00. In 2005, the average cost per claim was $11,162, a 4.4% increase in claim severity. For the period from 2001 through 2005, the weighted average claims frequency was .71 (number of claims per $1.0 million of payroll). In 2005, claims frequency decreased to .69.

In the event of a 5% increase in claims frequency as measured by payroll, which we believe is the most important assumption regarding our business, the Company's loss reserves as of June 30, 2006 would be understated by $2.4 million and would result in an after tax reduction in shareholders' equity of $1.6 million. In the event of a 5% increase in claim severity, which is the average incurred loss per claim, the Company's loss and loss adjustment expense reserves would be understated by $7.7 million and would result in an after tax reduction in shareholders' equity of $5.0 million.

On a quarterly basis, and in some cases more frequently, we review our reserves to determine whether they are consistent with our actual results. In the event of a discrepancy, we would seek to determine the causes (underwriting, claims, inflation, regulatory) and would adjust our reserves accordingly. For example, if the development of our total incurred losses were 5% greater than the loss development factors would have predicted, we would adjust our reserves for the periods in question. In 2004 we recognized a $3.4 million deficiency in our reserves for losses and loss adjustment expenses, which related, primarily, to claims incurred in 2003. We identified the deficiency following our assumption in 2004 of claims administration from third party administrators. We believe that, as a result of our development of an experienced internal claims department, our claims administration is more predictable and our claims information is more accurate. In 2005, we recognized a $1.0 million redundancy in prior year's reserves. We believe that this was a correction to the 2004 adjustment. We do not anticipate that we will make any material reserve adjustments, but will continue to monitor the accuracy of our loss development factors and adequacy of our reserves. Additional information regarding our reserves for loss and loss adjustment expenses can be found in "Risk Factors" and "Business—Loss Reserves."

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Amounts Recoverable from Reinsurers. Amounts recoverable from third party reinsurers represent the portion of our paid and unpaid loss and loss adjustment expenses that is assumed by such reinsurers. We are required to pay claims even if a reinsurer fails to pay us under the terms of a reinsurance contract. We calculate amounts recoverable from reinsurers based on our estimates of the underlying loss and loss adjustment expenses, as well as the terms and conditions of our reinsurance contracts, which could be subject to interpretation. In addition, we bear credit risk with respect to our reinsurers, which can be significant because some of the unpaid loss and loss adjustment expenses for which we have reinsurance coverage remain outstanding for extended periods of time.

Assessments Related to Insurance Premiums. We are subject to various assessments and premium surcharges related to our insurance activities, including assessments and premium surcharges for state guaranty funds and second injury funds. Assessments based on premiums are generally paid within one year after the calendar year in which the policies are written. Assessments based on losses are generally paid within one year of when claims are paid by us. State guaranty fund assessments are used by state insurance oversight agencies to pay claims of policyholders of impaired, insolvent or failed insurance companies and the operating expenses of those agencies. Second injury funds are used by states to reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. In some states, these assessments and premium surcharges may be partially recovered through a reduction in future premium taxes.

Premiums. Insurance premiums are recognized as earned primarily on the straight-line basis over the contract period. Unearned premiums represent the portion of premiums written which is applicable to the unexpired term of policies in force. Premium adjustments on contracts and audit premiums are based on estimates made over the contract period. Premiums earned but not yet billed to insureds are estimated and accrued, net of related costs. These estimates are subject to the effects of trends in payroll audit adjustments. Management believes that the accrual for earned but unbilled premiums is reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations. The Company also estimates an allowance for doubtful accounts.

Earned But Unbilled Premium. Earned but unbilled premium (“EBUB”) estimates the amount of audit premium for those policies that have yet to be audited as of the date of the quarter or year end. Workers’ compensation policies are subject to audit and the final premium may increase or decrease materially from the original premium due to revisions to actual payroll and/or employee classification. EBUB is calculated using the Company’s best estimate based on trends in the average audit adjustment from original policy premium. In calculating EBUB, the Company considers its ability to collect the projected increased premium as well as those expenses associated with both the additional premium and return premium.

Goodwill and Other Intangible Assets. Goodwill and other intangible assets represent the consideration we pay for the acquisition of renewal rights from certain third parties. In a renewal rights transaction, we purchase the right, but not the obligation, to offer insurance coverage to a defined group of the seller’s current policyholders when the current in-force policies expire (we do not acquire any in-force policies) as well as existing agency lists and certain operating platforms. We record intangible assets based on minimum future consideration that is paid or to be paid to the seller as provided in the acquisition agreement with the seller. Intangible assets may be increased in future periods if minimum consideration is exceeded due to production incentive payments to the seller. Intangible assets are amortized over their useful life. Intangible assets are evaluated periodically to ensure that there is no change required in the amortization period based on required accounting standards. Goodwill is not amortized. The carrying amount is evaluated annually for impairment. If there is an impairment to goodwill, we will recognize a reduction in intangible assets with a corresponding charge to expense in the period in which the impairment occurs.

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Deferred Policy Acquisition Costs. We defer commission expenses, premium taxes and assessments as well as certain marketing, sales, underwriting and safety costs that vary with and are primarily related to the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. The Company may realize deferred policy acquisition costs only if the ratio of loss and loss adjustment expense reserves (calculated on a discounted basis) to the premiums to be earned is less than 100%, as it historically has been. If, hypothetically, that ratio were to be above 100%, the Company could not continue to record deferred policy acquisition costs as an asset and may be required to establish a liability for a premium deficiency reserve.

Deferred Income Taxes. We use the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities resulting from a tax rate change impacts our net income or loss in the reporting period that includes the enactment date of the tax rate change.

In assessing whether our deferred tax assets will be realized, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, we establish a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

Stock Compensation Expense. We historically have not issued stock options or had other stock-based compensation programs. We adopted an equity incentive plan comprising 5,994,300 shares of common stock and issued options for 1,175,000 shares to certain of our officers and directors in February 2006. We plan to account for stock compensation expense under Statement of Financial Accounting Standard No. 123R, “Accounting for Stock Based Compensation” commencing in 2006 and, therefore, will be recognizing stock compensation expense in 2006 and succeeding years.

Impairment of Investment Securities. Impairment of an investment security results in a reduction of the carrying value of the security and the realization of a loss when the fair value of the security declines below our cost or amortized cost, as applicable, for the security and the impairment is deemed to be other-than-temporary. We regularly review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. We consider various factors in determining if a decline in the fair value of an individual security is other-than-temporary. Some of the factors we consider include:

- how long and by how much the fair value of the security has been below its cost;

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- the financial condition and near-term prospects of the issuer of the security, including any specific events that may affect its operations or earnings;
- our intent and ability to keep the security for a sufficient time period for it to recover its value;
- any downgrades of the security by a rating agency; and
- any reduction or elimination of dividends, or nonpayment of scheduled interest payments.

Outlook

Based on our business model and anticipated capital, we currently have the following expectations for our business:

- *Reinsurance.* We intend to cede between 5% and 15% of our gross premiums written to third party reinsurers under reinsurance treaties.
- *Leverage.* We plan to target a net leverage ratio, as measured by net premiums written to statutory capital and surplus, of approximately 1.2 to 1 to 1.7 to 1 and of debt to total equity under GAAP of less than 30%. The actual leverage ratios may vary from the target ratios depending upon many factors that affect our ratings with various organizations and capital adequacy requirements imposed by insurance regulatory authorities. These factors include but are not limited to the amount of our statutory surplus and GAAP equity, premium growth, quality and terms of reinsurance and line of business mix.
- *Underwriting.* Our primary underwriting goal will be to achieve profitable results through targeted net loss ratios complemented by management of net expense ratio. We intend to target the pricing of our products to achieve a ratio of loss and loss adjustment expenses to net premiums earned of approximately 62.0% to 66.0% over time. In addition, we are targeting a ratio of underwriting expenses to net premiums earned of approximately 26.0% to 31.0%, over time.
- Investments.

Investment Grade. We expect the majority of our portfolio will consist of high quality fixed income securities and short-term investments. We plan to earn competitive relative returns while investing in a diversified portfolio of securities of high credit quality issuers and to limit the amount of credit exposure to any one issuer.

High Yield and Equity. In addition, we plan to invest up to 25% of our investment portfolio in below investment grade securities as well as equity securities in order to enhance our overall return on invested assets. The equity security portfolio is managed internally, and the below investment grade fixed income security portfolio is managed by one or more external managers.

Yield. Based on current market conditions, we expect our yield on investments to be approximately 5.5% to 6.5% in the near term.

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~~In~~vestment Portfolio Leverage. We plan to target an invested assets to equity ratio of approximately 2.0 to 1 to 3.0 to 1.

Results of Operations

Six months Ended June 30, 2006 Compared to Six months Ended June 30, 2005

Gross Premiums Written . Gross premiums written increased from $160.3 million for the six months ended June 30, 2005 to $237.0 million for the six months ended June 30, 2006. The 47.9% increase was attributable to our commencement in January 2006 of business in the specialty middle-market property and casualty segment, which generated gross premiums written of $63.4 million and increases in our small business workers' compensation gross premiums written of $21.4 million, which were offset partially by a $8.0 million reduction in gross premiums written in our specialty risk and extended warranty business.

Gross Premiums Written - Small Business Workers' Compensation. Gross premiums written for the six months ended June 30, 2006 were $128.5 million compared to $107.1million for the same period in 2005, an increase of 20.0%, or $21.4 million. The increase was primarily the result of internal growth. During the six months ended June 30, 2006 the Company issued approximately 29,500 new or renewal policies compared to 29,600 policies during the six months ended June 30, 2005. However, the average premium increased from $3,250 for the six months June 30, 2005 to $3,870 for the six months ended June 30, 2006. The increase in the average premium resulted from revisions to the Company's underwriting guidelines, which permit larger premium size in acceptable risk categories. In addition the Company wrote $7.0 million for premiums in its capacity as a servicing carrier for the Georgia Workers' Compensation Insurance Plan (the "Assigned Risk Plan"). The Company became a servicing carrier for the Assigned Risk Plan in January of 2006.

Gross Premiums Written - Specialty Risk and Extended Warranty. Gross premiums written for the six months ended June 30, 2006 were $45.2 million compared to $53.2 million for the same period in 2005, a decrease of 15.1%, or $8.0 million. The decrease is attributable to (i) the effect of our assumption in the first quarter of 2005 of gross premiums written in the amount of $13.6 million in connection with our acceptance of a loss portfolio transfer of an in-force extended warranty coverage plan and (ii) the decrease in the value of the Euro against the U.S. dollar. AIU, the Company's Irish insurance company subsidiary, which underwrites the majority of the business written in the specialty risk and extended warranty segment, reports gross premiums written in Euros. Partially off-setting these factors was the expansion of an existing program which resulted in an additional $6.0 million of premium.

Gross Premiums Written - Specialty Middle Market Property and Casualty. Gross premiums written for the six months ended June 30, 2006, which was the period in which the Company commenced writing business in this segment, were $63.4 million, compared to $0 million for the same period in 2005.

Net Premiums Written . Net premiums written increased from $140.7 million to $208.7 million for the six months ended June 30, 2005 and 2006, respectively. This 48.4% increase was the result of an increase in gross premiums written in 2005.

Net Premiums Written - Small Business Workers' Compensation. Net premiums written for the six months ended June 30, 2006, were $114.6 million, compared to $100.3 million for the same period in 2005, an increase of 14.3%. The increase is attributable to growth in gross premiums written which was partially offset by the effects of the premium associated with the Assigned Risk Plan which is ceded to the National Workers' Compensation Reinsurance Pool administered by the National Council on Compensation Insurance (NCCI).

Net Premiums Written - Specialty Risk and Extended Warranty. Net premiums written for the six months ended June 30, 2006, were $37.4 million, compared to $40.4 million for the same period in 2005, a decrease of 7.5%. The decrease is attributable to (i) the effect of our assumption in the first quarter of 2005 of gross premiums written in the amount of $13.6 million in connection with our acceptance of a loss portfolio transfer of in-force extended warranty coverage plan, and (ii) the decrease in the value of the Euro against the U.S. dollar. AIU, the Company's Irish insurance company subsidiary, which underwrites the majority of the business written in the specialty risk and extended warranty segment, reports gross premiums written in Euros. Partially off-setting these factors was the expansion of an existing program which resulted in an additional $6.0 million of premium

Net Premiums Written - Specialty Middle Market Property and Casualty. Net premiums written for the six months ended June 30, 2006, which was the period in which the Company commenced writing business in this segment, were $56.8 million, compared to $0 million for the same period in 2005.

Net Premiums Earned . Net premiums earned increased from $97.7 million for the six months ended June 30, 2005 to $142.2 million for the six months ended June 30, 2006. This 45.5% increase is the result of the increase in net premiums written over the twelve preceding months of June 30, 2006, relative to the increase in net premiums written over the twelve months preceding June 30, 2005.

Net Premiums Earned - Small Business Workers' Compensation. Net premiums earned for the six months ended June 30, 2006 were $99.5 million, compared to $74.6 million for the same period in 2005, an increase of 33.3%. This increase was primarily the result of an increase in premiums written during the twelve months ended June 30, 2006, compared to the twelve months ended June 30, 2005, which resulted in higher premiums earned in the six months ended June 30, 2006, compared to the same period in 2005.

Net Premiums Earned - Specialty Risk and Extended Warranty. Net premiums earned for the six months ended June 30, 2006 were $24.6 million, compared to $23.1 million for the same period in 2005, an increase of 6.5%. This increase is attributable, primarily, to the maturation of business written in prior years, including premiums assumed in connection with the loss portfolio transfer accepted by the Company in the first quarter 2005. Specialty risk and extended warranty coverage plans provide coverage for periods of up to 60 months. Premiums are earned ratably over the coverage period. Thus, a portion of the net premiums earned in the period relates to gross premiums written or assumed in 2005 or earlier.

Net Premiums Earned - Specialty Middle Market Property and Casualty. Net premiums earned for the six months ended June 30, 2006, which was the period in which the Company commenced writing business in this segment, were $18.2 million, compared to $0 million for the same period in 2005.

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Net Investment Income. Net investment income for the six months ended June 30, 2006, was $11.4 million, compared to $4.1 million for the same period in 2005, an increase of 178.0%. The increase in net investment income was the result of increased invested assets. The increase in invested assets was the result of the $166.2 million of net proceeds from the Company's private placement in February of 2006 as well as $118.0 million of positive cash flow from operations in 2005 and $74.4 million for the first six months of 2006.

Net Realized Gains on Investments. Net realized gains on investments for the six months ended June 30, 2006 were $6.1 million, compared to $1.5 million for the same period in 2005. The increase was the result of hiring in 2005 a team to manage our new equity portfolio which resulted in increase realized activity.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased 34.3% from $67.5 million for the six months ended June 30, 2005 to $90.7 million for the six months ended June 30, 2006. Nevertheless, the Company's loss ratio for the six months ended June 30, 2006 decreased to 63.7% from 69.1% for the six months ended June 30, 2005. The decrease in the loss ratio resulted from revised actuarially projected ultimate losses based on the Company's experience.

Loss and Loss Adjustment Expenses - Small Business Workers' Compensation. Loss and loss adjustment expenses incurred were $59.3 million for the six months ended June 30, 2006, as compared to $50.8 million for the six months ended June 30, 2005, an increase of $8.5 million, or 16.7%. The net loss ratio decreased from 68.1% to 59.6%. The decrease in the loss ratio is attributable to the decrease in the Company's actuarially projected losses based on the Company's actual loss experience in this segment. The Company's actual losses for 2005 and prior years were lower than the Company's reserve estimates, which are based, in part, on industry-wide loss development factors. As the Company writes more business and its data becomes more credible, the Company assigns more weight to its individual loss development factors than to industry-wide factors in setting its reserves. Because the Company's losses have developed more favorably than the industry, as a whole, the Company's actuarially projected reserves have decreased. We believe that the Company's loss experience has been more favorable than the industry's generally because of the Company's focus on small businesses, which, historically, have had better loss experience than larger businesses. We have found that small business employers are generally more familiar with the details of their businesses and provide to underwriters more accurate and complete information about their risks. In addition, we insure employers which conduct business only in low and medium hazard classes, which tend to experience lower claims frequency and severity than businesses in high hazard classes. Industry-wide loss development factors also include more severe claims than the Company has experienced in its claim history.

Loss and Loss Adjustment Expenses - Specialty Risk and Extended Warranty. Loss and loss adjustment expenses incurred were $20.7 million for the six months ended June 30, 2006, as compared to $16.7 million for the six months ended June 30, 2005, an increase of $4.0 million, or 23.9%. The net loss ratio increased from 72.2% to 84.1%. The increase in the loss ratio is attributable to two factors. Approximately 64.7% of the increase is due to the increase in the exchange rate of the Euro to the U.S. dollar from December 31, 2005 to June 30, 2006. The change in the exchange rate resulted in a decrease in earned premiums from our European operations and an increase in loss reserves as expressed in U.S. dollars. The balance of the increase is the result of the increase of loss and loss adjustment expense reserves related to two coverage plans. The loss and loss adjustment expense reserves increased because claims activity in connection with certain "gap" coverage plans. Gap coverage is offered in connection with auto loans and leases and provides coverage to the policyholder in the event of a "total loss" for the gap between the policyholder's auto property damage coverage and the balance due on the loan or lease. The claims frequency (the number of claims per $1.0 million of payroll) had been anticipated to be 1.6%, but turned out to be 2.8%. The frequency was greater than anticipated because more policies had been issued to sub-prime borrowers than the Company had intended.

Loss and Loss Adjustment Expenses - Specialty Middle Market Property and Casualty. Loss and loss adjustment expenses incurred were $10.7 million for the six months ended June 30, 2006, which is the period in which the Company commenced writing business in this segment, as compared to $0 million for the six months ended June 30, 2005.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increased from $30.3 million for the six months ended June 30, 2005 to $41.2 million for the six months ended June 30, 2006, an increase of 38.0%. Despite this increase, the expense ratio (the sum of (i) policy acquisition expense, (ii) salaries and benefits expense and other insurance general and (iii) administrative expense divided by net premium earned) for the same periods decreased from 31.0% to 29.0%, respectively.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense - Small Business Workers' Compensation. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increased by $4.6 million from $26.7 million for the six months ended June 30, 2005 to $31.3 million for the six months ended June 30, 2006. The expense ratio decreased from 35.7% for the six months ended June 30, 2005 to 31.4% for the six months ended June 30, 2006. The decrease is attributable to the increase in net premiums earned and the Company's ability to leverage its current infrastructure.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense - Specialty Risk and Extended Warranty. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increase by $0.1 million from $3.6 million for the six months ended June 30, 2005 to $3.7 million for the six months ended June 30, 2006. The expense ratio decreased from 15.7% for the six months ended June 30, 2005 to 15.0% for the six months ended June 30, 2006.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense - Specialty Middle Market Property and Casualty. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense was $6.2 million for the six months ended June 30, 2006. The Company began writing this business in the first quarter of 2006.

Operating Income From Continuing Operations. Operating income from continuing operations increased to $29.4 million for the six months ended June 30, 2006, from $6.4 million for the six months ended June 30, 2005, an increase of $23.0 million or 359.4%. This increase is attributable to strong growth in revenue combined with an improvement in the both the loss ratio and net expense ratio.

Interest Expense. Interest expense for the six months ended June 30, 2006 was $2.2 million, compared to $0.6 million for the same period in 2005. The increase was attributable to interest payable on junior subordinated debentures in the amount of $50.0 million issued by the Company in 2005 which was outstanding the entire first six months of 2006 but was issued in two tranches in March and June of 2005. Also there were borrowings under a short term $25 million credit facility outstanding in January and February, which the Company paid in full from the proceeds of the private placement.

Income Tax Expense (Benefit). Our income tax expense for the six months ended June 30, 2006 was $7.5 million for an effective tax rate of 27.2% compared to $2.7 million for the same period in 2005.

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Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Gross Premiums Written. Gross premiums written increased from $210.9 million for the year ended December 31, 2004 to $286.1 million for the year ended December 31, 2005. The 35.7% increase was attributable to increases in our workers' compensation of $66.7 million as well as a $8.7 million increase in writings in our specialty risk and extended warranty business

Gross Premiums Written - Small Business Workers' Compensation. Gross premiums written for the year ended December 31, 2005 were $204.6 million, compared to $137.9 million for the same period in 2004, an increase of 48.4%, or $66.7 million. $46.2 million or 69.3% of the increase is attributable to business generated by the Company's renewal rights acquisitions, which resulted in the issuance of 4,627 policies during 2005. $20.5 million or 30.7% is attributable to internal growth. The internal growth was the result of average policy size increasing from $2,530 for the year ended December 31, 2004 to $2,720 for the year ended December 31, 2005. In addition the Company's portion of assumed premium from the NCCI National Reinsurance Pool increased by $5.7 million from 2004 to 2005. This increase is the direct result of our growth in our overall book of workers' compensation business.

Gross Premiums Written - Specialty Risk and Extended Warranty. Gross premiums written for the year ended December 31, 2005 were $81.6 million, compared to $72.9 million for the same period in 2004, an increase of 11.9% or $8.7 million, the increase was due to new accounts being added in 2005 through increased market distribution.

Net Premiums Written. Net premiums written increased from $187.5 million to $259.2 million for the years ended December 31, 2004 and 2005, respectively. This 38.2% increase was the result of the increased gross premiums written over the same period of time.

Net Premiums Written - Small Business Workers' Compensation. Net premiums written for the year ended December 31, 2005 was $188.3 million, compared to $128.8 million for the same period in 2004, an increase of 46.2%. The increase is attributable to growth in gross premiums written.

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Net Premiums Written - Specialty Risk and Extended Warranty. Net premiums written for the year ended December 31, 2005 were $70.9 million, compared to $58.7 million for the same period in 2004, an increase of 20.8%. The increase is attributable to growth in gross premiums written.

Net Premiums Earned. Net premiums earned increased from $138.8 million for the year ended December 31, 2004 to $216.0 million for the year ended December 31, 2005. This 55.6% increase was the result of the increase in net premiums written over the twelve months preceding December 31, 2005 relative to the increase in net premiums written over the twelve months preceding December 31, 2004.

Net Premiums Earned - Small Business Workers' Compensation. Net premiums earned for the year ended December 31, 2005 were $166.0 million, compared to $114.0 million for the same period in 2004, an increase of 45.6%. This increase was primarily the result of an increase in premiums written during the twelve months ended December 31, 2005 compared to the twelve months ended December 31, 2004, which resulted in higher premiums earned in the year ended December 31, 2005 compared to the same period in 2004.

Net Premiums Earned - Specialty Risk and Extended Warranty. Net premiums earned for the year ended December 31, 2005 were $50.0 million, compared to $24.8 million for the same period in 2004, an increase of 101.6%. This increase was primarily the result of an increase in premiums written during the twelve months ended December 31, 2005 compared to the twelve months ended December 31, 2004, which resulted in higher premiums earned in the year ended December 31, 2005 compared to the same period in 2004.

Net Investment Income. Net investment income for the year ended December 31, 2005 was $11.5 million, compared to $4.4 million for the same period in 2004, an increase of 159.8%. Investment income was increased by the sale of approximately $80.0 million in net assets previously held in real estate (which did not produce regular fixed income) the proceeds of which were placed in our investment portfolio as well as the issuance of $50.0 million of junior subordinated debentures in two trust preferred securities transactions during the year. Also the Company generated positive cash flows from operations of $109.8 million for the year ended December 31, 2005.

Net Realized Gains on Investments. Net realized gains on investments for the year ended December 31, 2005 were $4.9 million, compared to $1.3 million for the same period in 2004. The increase is the result of hiring in 2005 a team to actively manage our new equity portfolio which resulted in increase realized activity.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased 57.5% from $90.2 million for the year ended December 31, 2004 to $142.0 million for the year ended December 31, 2005. The loss ratio remained comparable for the periods with a loss ratio of 65.0% for the year ended December 31, 2004 and 65.7% for the year ended December 31, 2005.

Loss and Loss Adjustment Expenses - Small Business Workers' Compensation. Loss and loss adjustment expenses incurred were $107.9 million for the year ended December 31, 2005, compared to $72.2 million for the year ended December 31, 2004, an increase of $35.7 million, or 49.4%. The net loss ratio increased from 63.4% to 65.0%.

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Loss and Loss Adjustment Expenses - Specialty Risk and Extended Warranty. Loss and loss adjustment expenses incurred totaled $34.1 million for the year ended December 31, 2005, compared to $18.0 million for the year ended December 31, 2004, an increase of $16.1 million, or 89.8%. The net loss ratio decreased from 72.3% to 68.1%.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increased from $41.5 million for the year ended December 31, 2004 to $63.5 million for the year ended December 31, 2005, an increase of 53.2%. Despite this increase, the expense ratio (the sum of (i) policy acquisition expense, (ii) salaries and benefits expense and other insurance general and (iii) administrative expense divided by net premium earned) decreased from 29.9% to 29.4% for the same period.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense - Small Business Workers' Compensation. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increased by $17.4 million from $34.2 million for the year ended December 31, 2004 to $51.6 million for the year ended December 31, 2005. The expense ratio increased from 29.9% for the year ended December 31, 2004 to 31.1% for the year ended December 31, 2005.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense - Specialty Risk and Extended Warranty. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increased by $4.6 million from $7.3 million for the year ended December 31, 2004 to $11.9 million for the year ended December 31, 2005. The expense ratio decreased from 29.5% for the year ended December 31, 2004 to 23.8% for the year ended December 31, 2005. This decrease was primarily attributable to an increase in Net Premium Earned as well as a reduction in allocated overhead which is based on written premium by segment.

Operating Income From Continuing Operations. Income from continuing operations increased to $29.6 million for the year ended December 31, 2005 from $16.2 million for the year ended December 31, 2004, an increase of 83.1%. This increase is attributable to strong growth in revenue combined with an improvement in the net expense ratio.

Interest Expense. Interest expense for the year ended December 31, 2005 was $2.8 million, compared to $0.3 million for the same period in 2004. The increase was attributable to interest payable on $50.0 million of junior subordinated debentures that the Company issued in 2005.

Income Tax Expense (Benefit). Company income tax expense for the year ended December 31, 2005 was $6.7 million for an effective tax rate of 24.5% compared to income tax expense of $3.8 million for an effective tax rate of 24.2% for the same period in 2004. The decrease in the effective tax rate is the function of certain activities in our foreign operations that are not subject to United States Federal Taxation.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Gross Premiums Written. Gross premiums written increased from $97.5 million for the year ended December 31, 2003 to $210.9 million for the year ended December 31, 2004. The 116.3% increase was attributable to increases in our workers' compensation and specialty risk and extended warranty business of $61.6 million and $51.8 million, respectively.

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*Gross Premiums Written—Small Business Workers' Compensation.*Gross premiums written for the year ended December 31, 2004 were $137.9 million, compared to $76.4 million for the same period in 2003, an increase of 80.6% or $61.6 million. $30.7 million or 49.8% of the increase was attributable to the acquisition of renewal rights to certain workers' compensation business from Covenant, which occurred in December 2003 and generated the issuance of 4,369 policies in 2004. $17.1 million or 27.8% was attributable to the acquisition of renewal rights to certain workers' compensation business from Princeton, which occurred in 2002 and generated the issuance of 3,465 policies in 2004. The remaining increase of $13.8 million or 22.2% was attributable to internally generated growth in the remainder of our workers' compensation business which primarily related to the Company's increased assumption of premium from the NCCI National Reinsurance Pool. Assumed premium increase by $9.5 million from 2003 to 2004. This increase is the direct result of our growth in our overall book of workers' compensation business.

Gross Premiums Written—Specialty Risk and Extended Warranty. Gross premiums written for the twelve months ended December 31, 2004 were $72.9 million, compared to $21.1 million for the same period in 2003, an increase of 245.1% or $51.8 million. This increase is attributable to new business written in 2004, which was the first full year of our European Union specialty risk and extended warranty operations.

Net Premiums Written. Net premiums written increased from $81.9 million for the year ended December 31, 2003 to $187.5 million for the year ended December 31, 2004, an increase of 128.9%. This increase was attributable to an increase in gross premiums written during 2004.

Net Premiums Written—Small Business Workers' Compensation. Net premiums written for the twelve months ended December 31, 2004 were $128.8 million, compared to $66.7 million for the same period in 2003, an increase of 93.0%. The increase was attributable to growth in gross premiums written and also reflects a reduction in the rates the Company paid on its excess of loss reinsurance program.

Net Premiums Written—Specialty Risk and Extended Warranty. Net premiums written for the twelve months ended December 31, 2004 were $58.7 million, compared to $15.2 million for the same period in 2003, an increase of 286.2%. The increase was attributable to growth in gross premiums written and, to a lesser extent, a reduced percentage of gross premiums written ceded to third party reinsurers.

Net Premiums Earned. Net premiums earned increased from $51.7 million for the year ended December 31, 2003 to $138.8 million for the year ended December 31, 2004, an increase of 168.7%. This increase was attributable to an increase in net premiums written during 2004.

Net Premiums Earned—Small Business Workers' Compensation. Net premiums earned for the twelve months ended December 31, 2004 were $114.0 million, compared to $42.8 million for the same period in 2003, an increase of 166.5%. This increase was primarily the result of an increase in premiums written during the twelve months ended December 31, 2004 compared to the twelve months ended December 31, 2003 which resulted in higher premiums earned in the twelve months ended December 31, 2004 compared to the same period in 2003.

Net Premiums Earned—Specialty Risk and Extended Warranty. Net premiums earned for the twelve months ended December 31, 2004 were $24.8 million, compared to $8.9 million for the same period in 2003, an increase of 179.2%. This increase was primarily the result of an increase in premiums written during the twelve months ended December 31, 2004 compared to the twelve months ended December 31, 2003 which resulted in higher premiums earned in the twelve months ended December 31, 2004 compared to the same period in 2003.

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Net Investment Income. Net investment income for the year ended December 31, 2004 was $4.4 million, compared to $3.1 million for the same period in 2003, an increase of 44.5%. The increase was attributable to the growth in our investment portfolio from an average of $61.3 million in 2003 to an average of $141.9 million in 2004, an increase of 131.3%. The growth in our investment portfolio resulted primarily from our cash flow from operations.

Net Realized Gains on Investments. Net realized gains on investments for the year ended December 31, 2004 totaled $1.3 million, compared to a loss of $1.0 million for the same period in 2003.

Loss and Loss Adjustment Expenses. Loss and loss adjustment expenses increased 158.5% from $34.9 million for the year ended December 31, 2003 to $90.2 million for the year ended December 31, 2004. The net loss ratio decreased from 67.5% for the year ended December 31, 2003 to 65.0% for the year ended December 31, 2004. The decrease in the net loss ratio is attributable to revised actuarially projected ultimate losses, based on the actual experience of the Company's small business workers' compensation segment.

Loss and Loss Adjustment Expenses—Small Business Workers' Compensation. Loss and loss adjustment expenses increased to $72.2 million for the year ended December 31, 2004 from $29.8 million for the year ended December 31, 2003, an increase of 142.1%. The net loss ratio was 63.4% in 2004 compared to 69.7% in 2003. The decrease in the net loss ratio is attributable to revised actuarially projected ultimate losses, based on the actual experience of the Company's small business workers' compensation segment.

Loss and Loss Adjustment Expenses—Specialty Risk and Extended Warranty. Loss and loss adjustment expenses increased to $18.0 million for the year ended December 31, 2004 from $5.1 million for the year ended December 31, 2003, an increase of 255.1%. The net loss ratio was 72.3% in 2004 compared to 56.9% in 2003. The increase is attributable to the expansion of our European operations which generally target high growth extended warranty and accidental damage coverages that tend to have higher ultimate net loss ratios, but have lower expenses, than certain specialty risk and extended warranty coverages historically written in the United States.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increased from $16.0 million for the year ended December 31, 2003 to $41.5 million for the year ended December 31, 2004, an increase of 159.9%. Despite this increase, the net expense ratio decreased from 30.9% to 29.9% for the same periods.

Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense—Small Business Workers' Compensation. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increased by $20.0 million from $14.2 million for the year ended December 31, 2003 to $34.1 million for the year ended December 31, 2004. The net expense ratio decreased from 33.1% for the year ended December 31, 2003 to 29.9% for the year ended December 31, 2004. This decrease was primarily attributable to an increase in net premium earned without a corresponding increase in employee headcount.

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Policy Acquisition Expense, Salaries and Benefits Expense and Other Insurance General and Administrative Expense—Specialty Risk and Extended Warranty. Policy acquisition expense, salaries and benefits expense and other insurance general and administrative expense increased by $5.5 million from $1.8 million for the year ended December 31, 2003 to $7.3 million for the year ended December 31, 2004. The net expense ratio increased from 20.1% for the year ended December 31, 2003 to 29.5% for the year ended December 31, 2004. This increase was primarily attributable to the expansion of our underwriting and marketing capabilities in the United States and Europe.

Operating Income From Continuing Operations. Operating income from continuing operations increased to $16.2 million for the year ended December 31, 2004 compared to $3.4 million for the year ended December 31, 2003.

Interest Expense. Interest expense for the year ended December 31, 2004 was $0.3 million, compared to $0.2 million for the same period in 2003. Interest on mortgage debt associated with AmTrust Pacific Limited is not included in interest expense, but instead is a component of income from discontinued operations.

Income Tax Expense. Income tax expense for the year ended December 31, 2004 was $3.8 million, compared to $1.3 million for the same period in 2003, an increase of 204.3%. As a percentage of pre-tax income, our effective income tax rate decreased from 46.9% in 2003 to 24.2% in 2004. The decrease in the effective rate resulted from a larger portion of profits being realized from certain foreign operations.

Liquidity and Capital Resources

Our principal sources of operating funds are premiums, investment income and proceeds from sales and maturities of investments. Our primary uses of operating funds include payments of claims and operating expenses. Currently, we pay claims using cash flow from operations and invest our excess cash primarily in fixed maturity and equity securities. We expect that projected cash flow from operations will provide us sufficient liquidity to fund our anticipated growth, by providing capital to increase the surplus of our insurance company subsidiaries as well as for payment of claims and operating expenses, payment of interest on our junior subordinated debentures and other holding company expenses until at least 2007. However, if our growth attributable to the Alea acquisition, other acquisitions, internally generated growth or a combination of these, exceeds our projections, we may have to raise additional capital sooner to support our growth.

Pursuant to an Intercompany Management Agreement, AmTrust performs certain management functions for RIC, TIC and WIC including:

- financial and accounting services, including, but not limited to, tax compliance, investment management, statutory and GAAP accounting, loss reserving, regulatory compliance, development of premium and commission rates, and premium collection and refunds;
- maintenance of fiduciary accounts;

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- retention and maintenance of all files, books, records and accounts;
- submission of form and rate filings, preparation and submission of applications for certificates of authority; and
- maintenance of agency relationships and corresponding with policyholders.

RIC, TIC and WIC reimburse AmTrust for all direct expenses incurred in performing these services, and pay an annual management fee equal to the lesser of 2% of the total annual gross premiums written or $0.75 million.

Pursuant to a General Agency Agreement, RIC and TIC have appointed our wholly-owned subsidiary, AmTrust North America, Inc. ("ANA"), as agent to solicit and accept applications for policies and to perform compliance, marketing, underwriting, administrative, billing and reporting duties. ANA also handles for RIC and TIC all reinsurance-related services and reporting. RIC and TIC pay ANA a commission for its services equal to 20% of gross premiums written.

AmTrust's income is generated primarily from our insurance subsidiaries. The laws of New York, New Hampshire, Delaware, Ireland and Bermuda regulate and restrict, under certain circumstances, the ability of our insurance subsidiaries to pay dividends to AmTrust. In addition, the terms of AmTrust's junior subordinated debentures limit AmTrust's ability to pay dividends on its common stock, and future borrowings may include prohibitions and restrictions on dividends. See "Dividend Policy," "Regulation" and "Risk Factors." We paid a dividend of $9.6 million to the holders of our preferred stock in July 2005 and an additional dividend of $1.2 million in December 2005.

We forecast claim payments based on our historical trends. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on a short- and long-term basis. Cash payments for claims were $6.6 million in 2002, $14.3 million in 2003, $38.6 million in 2004, $76.6 million in 2005, 40.1 million in the six months ended June 30, 2005 and $46.1 million in the six months ended June 30, 2006. Since December 31, 2001, we have funded claim payments from cash flow from operations (principally premiums) net of amounts ceded to our third party reinsurers. We presently expect to maintain sufficient cash flow from operations to meet our anticipated claim obligations and operating and capital expenditure needs. Our cash and investment portfolio has increased from $28.5 million at December 31, 2001 to $627.9 million (excluding $1.6 million of other investments) at June 30, 2006. We do not anticipate selling securities in our investment portfolio to pay claims or to fund operating expenses. Accordingly, we currently classify most of our fixed maturity securities in the held-to-maturity category. Should circumstances arise that would require us to do so, we may incur losses on such sales, which would adversely affect our results of operations and could reduce investment income in future periods. If as the result of such sales we could no longer classify any portion of our fixed maturity portfolio as held-to-maturity we would be required to carry all of our fixed maturity securities at the market value. If the aggregate market value at the given balance sheet is below the aggregate amortized cost we would have a reduction to shareholders equity. At June 30, 2006 our held-to-maturity fixed maturity portfolio had an aggregate unrealized loss of $4.2 million. If at June 30, 2006 we could not classify our fixed maturity portfolio as held-to-maturity our shareholders equity would be reduced on an after tax basis by $2.7 million.

The use of reinsurance is an important component of our business strategy. See "Business— Reinsurance." As losses are incurred and recorded, we record amounts recoverable from third party reinsurers for the portion of the paid losses ceded to third party reinsurers and reduce our loss and allocated loss adjustment expense reserves by the amount of unpaid losses allocated to third party reinsurers. In addition to the reinsurance currently in force, we intend to purchase reinsurance for the property portion of the specialty middle-market property and casualty business that we plan to write in connection with our acquisition of renewal rights from Alea. We do not plan to reinsure the general liability and auto liability portions of this business.

We purchase excess of loss workers' compensation reinsurance to protect us from the impact of large losses. Under this reinsurance program, we pay our reinsurers a percentage of our net or gross earned insurance premiums, subject to certain minimum reinsurance premium requirements. Our reinsurance program for 2006 includes multiple reinsurers in five layers of reinsurance that provide us with coverage in excess of a certain specified amount per loss occurrence, or retention level. Our reinsurance program for 2006 provides coverage for claims in excess of $1.0 million per occurrence with coverage up to $130.0 million per occurrence, subject to certain exclusions and restrictions, including a $1.25 million aggregate deductible applicable to the first layer of this reinsurance coverage. Our reinsurance for workers' compensation losses caused by acts of terrorism is more limited than our reinsurance for other types of workers' compensation losses. We have obtained reinsurance for this line of business with higher limits as our exposures have increased. As the scale of our workers' compensation business has increased, we have also increased the amount of risk we retain.

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Since January, 2003, we have maintained quota share reinsurance for our extended warranty and accidental damage insurance underwritten in the European Union and certain coverage plans underw