GAINSCO INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditor's Report Thereon)

Tel: 214-969-7007
Fax: 214-953-0722
www.bdo.com

700 North Pearl, Suite 2000
Dallas, TX 75201

Independent Auditor's Report

The Board of Directors
GAINSCO, INC.
Dallas, Texas

We have audited the accompanying consolidated financial statements of GAINSCO, INC. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GAINSCO, INC. and its subsidiaries as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Dallas, Texas
May 29, 2015

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

(Amounts in thousands, except share data)

Assets		2014	2013
Investments (notes 1, 2 and 3):			
Bonds, available for sale – at fair value (amortized cost: $163,474 – 2014, $154,556 – 2013)	$	164,407	153,955
Preferred stocks, available for sale – at fair value (cost: $1,950 – 2014, $2,448 – 2013)		2,130	2,407
Common stocks, available for sale – at fair value (cost: $428 – 2014 and 2013)		447	420
Certificates of deposit – at cost, which approximates fair value (amortized cost: $100 – 2014 and 2013)		100	100
Other long-term investments –equity method (which approximates) cost		16,203	7,515
Short-term investments – at fair value (amortized cost: $23,219 – 2014, $25,252 – 2013)		23,206	25,244
Total investments		206,493	189,641
Cash		3,173	2,302
Accrued investment income (note 1)		1,577	1,482
Premiums receivable (net of allowance for doubtful accounts: $823 – 2014, $771 – 2013) (note 1)		46,717	40,636
Finance receivables (net of allowance for doubtful accounts: $1 – 2014, $8 – 2013) (note 1)		562	1,734
Ceded unpaid claims and claim adjustment expenses (notes 9 and 11)		11	936
Deferred policy acquisition costs (note 1)		8,022	6,854
Property and equipment (net of accumulated depreciation and amortization: $9,891 – 2014, $8,884 – 2013) (notes 1 and 10)		9,548	2,212
Auto vehicle inventory (notes 1 and 7)		9,863	6,601
Deferred Federal income taxes (net of valuation allowance: $2,850 – 2014, $14,843 – 2013) (notes 1 and 12)		12,556	6,413
Other assets		2,917	3,136
Intangible assets (notes 1 and 8)		5,645	7,500
Goodwill – insurance operations (notes 1 and 8)		609	609
Total assets	$	307,693	270,056

(Continued)

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2014 and 2013

(Amounts in thousands, except share data)

Liabilities and Shareholders' Equity		2014	2013
Liabilities:			
Unpaid claims and claim adjustment expenses (notes 1 and 11)	$	76,944	73,495
Unearned premiums (note 1)		54,509	47,686
Accounts payable		12,902	7,852
Reinsurance balances payable (note 9)		273	303
Vehicle floor plan payable (notes 1 and 7)		9,388	7,370
Note payable (note 4)		-	9,900
Subordinated debentures (note 5)		43,000	43,000
Construction loan payable (note 6)		3,937	-
Current Federal income taxes (notes 1 and 12)		614	175
Other liabilities		5,318	4,198
Cash overdraft		5,832	4,539
Total liabilities		212,717	198,518
Commitments and contingencies (notes 4, 5, 6, 7, 9, 15, 16 and 17)			
Shareholders' Equity (notes 13 and 14):			
Common stock ($.10 par value, 12,500,000 shares authorized, 5,221,232 shares issued and 4,962,582 shares outstanding at December 31, 2014, 5,148,232 shares issued and 4,889,582 shares outstanding at December 31, 2013)		522	515
Additional paid-in capital		136,212	135,529
Accumulated deficit		(38,309)	(59,884)
Accumulated other comprehensive income (loss) (notes 2 and 3)		739	(434)
Treasury stock, at cost (258,650 shares at December 31, 2014 and 2013 (notes 1 and 13)		(4,188)	(4,188)
Total shareholders' equity		94,976	71,538
Total liabilities and shareholders' equity	$	307,693	270,056

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2014 and 2013

(Amounts in thousands, except per share data)

		2014	2013
Revenues:			
Net premiums earned (notes 1 and 9)	$	194,743	191,035
Net investment income (note 2)		4,187	4,348
Realized investment gains (losses) (note 2 and 3), net:			
Other-than-temporary impairment losses		(7)	(251)
Other realized investment gains, net		206	632
Total realized investment gains. net		199	381
Agency revenues (note 1)		10,895	11,345
Gross auto sales (note 1)		35,946	5,521
Other revenue, net (note 1)		8,093	42
Total revenues		254,063	212,672
Expenses:			
Claims and claim adjustment expenses (notes 1, 9 and 11)		135,556	140,935
Policy acquisition costs (note 1)		28,154	27,137
Underwriting and operating expenses		40,487	31,881
Cost of auto sales (note 1)		32,130	4,743
Interest expense, net (notes 4 and 5)		2,048	2,015
Total expenses		238,375	206,711
Income before Federal income taxes		15,688	5,961
Federal income taxes (notes 1 and 12):			
Current expense		861	364
Deferred benefit		(6,748)	(3,828)
Total income tax benefit		(5,887)	(3,464)
Net income	$	21,575	9,425
Income per common share (notes 1, 13 and 14):			
Basic	$	4.38	1.93
Diluted	$	4.38	1.93
Weighted average common shares outstanding (notes 13 and 14):			
Basic		4,927	4,890
Diluted		4,927	4,890

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2014 and 2013

(Amounts in thousands)

	2014	2013
Net income	$ 21,575	9,425
Other comprehensive income (loss) before tax:		
Unrealized gains (losses) on investments:		
Unrealized holding gains (losses) arising during the period	1,977	(1,179)
Less: Reclassification adjustments for realized gains included in net income	(199)	(381)
Unrealized gains (losses) on investments, net	1,778	(1,560)
Other comprehensive income (loss), before tax	1,778	(1,560)
Income tax expense (benefit) related to components of other comprehensive income (loss)	605	(224)
Other comprehensive income (loss), net of tax	1,173	(1,336)
Comprehensive income	$ 22,748	8,089

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2014 and 2013

(Amounts in thousands)

		2014	2013
Common Stock:			
Balance at beginning of year	$	515	515
Stock issuance		7	-
Balance at end of year	$	522	515
Additional paid-in capital:			
Balance at beginning of year	$	135,529	135,529
Stock issuance		(7)	-
Stock-based compensation expense		690	-
Balance at end of year	$	136,212	135,529
Accumulated deficit:			
Balance at beginning of year	$	(59,884)	(69,309)
Net income		21,575	9,425
Balance at end of year	$	(38,309)	(59,884)
Accumulated other comprehensive income (loss):			
Balance at beginning of year	$	(434)	902
Other comprehensive income (loss)		1,173	(1,336)
Balance at end of year	$	739	(434)
Treasury stock:			
Balance at beginning and end of year	$	(4,188)	(4,188)
Total shareholders' equity end of year	$	94,976	71,538

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

(Amounts in thousands)

		2014	2013
Cash flows from operating activities:			
Net income	$	21,575	9,425
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization		4,488	4,279
Impairment of intangible assets		1,855	-
Other-than-temporary impairment of investments		7	251
Non-cash compensation expense		690	-
Realized gains (excluding other-than-temporary impairments)		(206)	(638)
Unrealized losses on trading securities		-	6
Deferred Federal income tax benefit		(6,748)	(3,828)
Changes in operating assets and liabilities, net of assets acquired:			
Accrued investment income		(95)	184
Premiums receivable		(6,081)	(1,041)
Finance receivables		1,172	(1,734)
Ceded unpaid claims and claim adjustment expenses		925	(37)
Deferred policy acquisition costs		(1,168)	(43)
Auto vehicle inventory		(3,262)	(761)
Other assets		130	382
Unpaid claims and claim adjustment expenses		3,448	(6,148)
Unearned premiums		6,823	253
Accounts payable		5,050	1,058
Reinsurance balances payable		(30)	(180)
Other liabilities		1,120	(243)
Current Federal income taxes		439	231
Net cash provided by operating activities	$	30,132	1,416

(Continued)

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

(Amounts in thousands)

		2014	2013
Cash flows from investing activities:			
Bonds available for sale:			
Sold	$	15,081	31,811
Matured		18,839	25,700
Purchased		(45,348)	(60,524)
Certificates of deposit:			
Matured		100	100
Purchased		(100)	(100)
Preferred stocks sold		488	-
Common stock trading sold		-	19
Other long-term investments sold		2,973	1,390
Other long-term investments purchased		(11,661)	(6,187)
Net change in short-term investments		1,460	14,867
Cash paid for acquisition, net of cash acquired		(1,146)	(7,687)
Property and equipment purchased		(7,296)	(653)
Net cash used in investing activities		(26,610)	(1,264)
Cash flows from financing activities:			
Principal payment on note		(11,200)	-
Draw on note payable		1,300	5,000
Proceeds from floor plan financing		33,102	4,318
Repayments on floor plan financing		(31,083)	(2,840)
Draw on construction loan payable		3,937	-
Net change in cash overdraft		1,293	(4,662)
Net cash (used in) provided by financing activities		(2,651)	1,816
Net increase in cash		871	1,968
Cash at beginning of year		2,302	334
Cash at end of year	$	3,173	2,302

Supplemental disclosures of cash flow information:
$2,168 and $1,995 in interest was paid during 2014 and 2013, respectively (notes 4 and 5).
$374 and $229 in income tax payments were made during 2014 and 2013, respectively (note 12).

See accompanying notes to consolidated financial statements.

(1) Background and Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of GAINSCO, INC. ("GANS") and its wholly-owned subsidiaries (collectively, the "Company" or "we"), MGA Insurance Company, Inc. ("MGA"), National Specialty Lines, Inc. ("NSL"), BSAG, Inc., BSAG Real Estate Holdings, Inc., First Win Automotive, Inc., GAINSCO Automotive Holding Corp, Inc., Stallings Auto Group, Inc. ("SAG"), Bob Stallings Hyundai, Inc. ("BSHI"), Red Dragon Properties I, Inc. (collectively, the "Auto Group"), GAINSCO Service Corp., GAINSCO/Bob Stallings Racing, Inc. and GAINSCO Auto Insurance Agency, Inc. MGA has one wholly owned subsidiary, MGA Agency, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements included herein have been prepared by GANS, on the basis of accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Nature of Operations

The Company's nonstandard personal auto products are primarily aligned with customers seeking to purchase basic coverage and limits of liability required by statutory requirements, or slightly higher. Our products include coverage for third party liability, for bodily injury and physical damage, as well as collision and comprehensive coverage for theft, physical damage and other perils for an insured's vehicle. Within this context, we offer our product to a wide range of customers who present varying degrees of potential risk to the Company, and we strive to price our product to reflect this range of risk accordingly, in order to earn an underwriting profit. Simultaneously, when actuarially prudent, we attempt to position our product price to be competitive with other companies offering similar products to optimize our likelihood of securing our targeted customers. We offer flexible premium down payment, installment payment, late payment, and policy reinstatement plans that we believe help us secure new customers and retain existing customers, while generating an additional source of income from fees that we charge for those services. We primarily write six-month policies in Arizona, New Mexico and Oklahoma and both one month and six month policies in Texas, with both six month and one year policies in Florida, Georgia, South Carolina and Virginia. The terms of policies we are permitted to offer varies in the states in which we operate.

GANS expects to use cash during the next twelve months primarily for: (1) interest on the Subordinated debentures and the credit agreement, (2) administrative expenses and (3) investments. The primary sources of cash to meet these obligations are assets held by GANS, dividends from its subsidiaries and the ability to draw from its $20.0 million bank credit agreement that was renewed in December 2014 and now has a maturity date of December 12, 2016. GANS believes the cash available from its short-term investments, dividends from its subsidiaries and advances from its $20.0 million bank credit agreement should be sufficient to meet its expected obligations for the next twelve months.

The Company acquired the net assets of a Hyundai auto dealership in Dallas, Texas in November 2013 by its subsidiary SAG. The aggregate consideration for this acquisition was $7.7 million, subject to certain closing adjustments. The excess of the purchase price over the fair value of the net tangible assets acquired was $7,500,000 and was recorded in intangible assets. The acquired operations as of December 31, 2014 are referred to as the "Auto Group." The results of operations of the acquired entity since the applicable acquisition date are included in our consolidated financial statements for the year ended December 31, 2014 and 2013.

The following table summarizes the aggregate consideration and the fair value of net assets acquired at the acquisition date (amounts in thousands):

Auto vehicle inventory	$	5,840
Fixed assets		239
Other assets		43
Accounts payable		(43)
Floor plan note		(5,892)
Net tangible assets acquired		187
Intangible assets		7,500
Cash paid for acquisition	$	7,687

Management determined the purchase price allocations for the acquisition based on estimates of the fair values of the tangible net assets acquired.

The results of the acquired auto dealership are included in our results beginning November 14, 2013. The following table summarizes the actual amounts included in revenue and earnings in our consolidated financial statements for the year ended December 31, 2013 (amount in thousands), based on the information that was available to management at the time these consolidated financial statements were prepared:

Gross auto sales	$	5,521
Net loss	$	331

In January 2014, a newly-formed subsidiary of the Company, Red Dragon Properties I, Inc., entered into a real estate Purchase Agreement for the acquisition of land to relocate the motor vehicle dealer for the sale and service of new and used motor vehicles. The cash purchase price of the land was $1.1 million.

In 2014, the Company reached an out of court settlement and collected on a lawsuit it had filed as a plaintiff. Due to the confidential nature of the settlement agreement, specifics of the settlement are precluded from being disclosed. The amount received by the Company as a result of this settlement accounts for the majority of the increase in Other revenue in 2014.

(c) Investments

The Company did not hold any held-to-maturity investment securities during 2014 and 2013. Investments classified as available-for-sale securities include debt and equity securities that are not classified as held-to-maturity or as trading security investments and are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of shareholders' equity, namely, "Other Comprehensive Income." Other long-term investments in partnerships or limited liability companies are recorded under the equity method of accounting, which approximates cost. Under the equity method, the investment, originally recorded at cost, is adjusted to recognize our share of the net earnings or losses as they occur.

Investments are stated at fair value and are based on prices quoted in the most active market for each security, the fair value of comparable securities, discounted cash flow models or similar methods. Premiums and discounts on mortgage-backed and asset-backed securities are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations. The most significant determinants of prepayments are the difference between interest rates on the underlying mortgages, or underlying securities, and the current mortgage loan rates and the structure of the security. Other factors affecting prepayments include the size, type and age of underlying mortgages, the geographic location of the mortgaged properties and the credit worthiness of the borrowers. Variations from anticipated prepayments will affect the life and yield of these securities.

Investment securities are exposed to a number of factors, including general economic and business environment, changes in the credit quality of the issuer of the fixed income securities, changes in market conditions or disruptions in particular markets, changes in interest rates, or regulatory changes. Fair values of securities fluctuate based on the magnitude of changing market conditions. Our securities are issued by domestic entities and are backed either by collateral or the credit of the underlying issuer. Factors such as an economic downturn, disruptions in the credit markets, a regulatory change pertaining to the issuer's industry, deterioration in the cash flows or the quality of assets of the issuer, or a change in the issuer's marketplace may adversely affect our ability to collect principal and interest from the issuer. Both equity and fixed income securities have been affected over the past several years, and may be affected in the future, by significant external events. Credit rating downgrades, defaults, and impairments may result in write-downs in the value of the investment securities held by the Company. The Company regularly monitors its portfolio for pricing changes, which might indicate potential impairments, and performs reviews of securities with unrealized losses. In such cases, changes in fair value are evaluated to determine the extent to which such changes are attributable to (i) fundamental factors specific to the issuer, such as financial conditions, business prospects or other factors, or (ii) market-related factors, such as interest rates. When a security in the Company's investment portfolio has an unrealized loss in fair value that is deemed to be other than temporary, the Company reduces the book value of such security to its current fair value, recognizing the credit related decline as a realized loss in the Consolidated Statements of Operations and a revised GAAP cost basis for the security is established.

For fixed maturity securities that are other-than-temporarily impaired, the Company assesses its intent to sell and the likelihood that we will be required to sell the security before recovery of its amortized cost. If a fixed maturity security is considered other-than-temporarily impaired ("OTTI"), but the Company does not intend to and is not more than likely to be required to sell the security prior to its recovery to amortized cost, the amount of the impairment is separated into a credit loss component and the amount due to all other factors. The credit loss component of an impairment charge on a fixed maturity security is determined by the excess of the amortized cost over the present value of the expected cash flows. The present value is determined using the best estimate of cash flows discounted at (1) the effective interest rate implicit at the date of acquisition for non-structured securities or (2) the book yield for structured securities. The techniques and assumptions for determining the best estimate of cash flows varies depending on the type of security. The credit loss component of an impairment charge is recognized in net earnings while the non-credit component is recognized in accumulated other comprehensive income, a component of shareholders' equity.

Accrued investment income is the interest earned on securities which has been recognized in the results of operations, but the cash has not been received from the various security issuers. This accrual is based on the terms of each of the various securities and uses the 'effective interest method' for amortizing the premium and accruing the discount. Realized gains (losses) on securities are computed based upon the "specific identification" method on trade date and include write downs on securities considered to have other than temporary declines in fair value. Dividends on preferred stock are recorded as investment income on the ex-dividend date with a corresponding receivable to be extinguished upon receipt of cash.

(d) Deferred Policy Acquisition Costs and Policy Acquisition Costs

Deferred policy acquisition costs ("DAC") are principally commissions, premium taxes and underwriting expenses which are deferred. With the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, in 2012, the Company defers direct incremental costs associated with successful insurance contract acquisitions. Policy acquisition costs are principally commissions, premium taxes, marketing and underwriting expenses and the change in deferred policy acquisition costs that are charged to operations over the period in which the related premiums are earned. The Company utilizes investment income when assessing recoverability of deferred policy acquisition costs. A premium deficiency and a corresponding charge to income is recognized if the sum of the expected claims and claim adjustment expenses, unamortized acquisition costs and maintenance costs exceeds related unearned premiums and anticipated investment income. At December 31, 2014 and 2013, there was no premium deficiency that was required to be recognized.

Information relating to these net deferred amounts, as of and for the years ended December 31, 2014 and 2013 is summarized as follows:

		2014	2013
		(Amounts in thousands)	
Asset balance, beginning of period	$	6,854	6,811
Deferred commissions		22,937	21,189
Deferred premium taxes and marketing expenses		6,344	5,905
Amortization		(28,113)	(27,051)
Net change		1,168	43
Asset balance, end of period	$	8,022	6,854

(e) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets (leasehold improvements are amortized over the terms of the lease and primarily three years for furniture and equipment). Computer software costs relating to programs for internal use are recorded in property and equipment and are amortized using the straight-line method over three years or the estimated useful life, whichever is longer.

Costs associated with software developed or purchased for internal use are capitalized based on FASB ASC 350-40, *Intangibles – Goodwill and Other – Internal-use Software*, and other related guidance. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software and payroll for employees directly associated with, and who devote time to, the development of the internal-use software. Costs incurred in development and enhancement of software that do not meet the capitalization criteria, such as costs of activities performed during the preliminary and post-implementation stages, are expensed as incurred. The critical estimate related to this process is the determination of the amount of time devoted by employees to specific stages of internal-use software development projects. The Company reviews any impairment of the capitalized costs on a periodic basis. The Company amortizes such costs over the estimated useful life of the software, which is three years once the software has been placed in service.

(f) Auto Vehicle Inventory

Auto vehicle inventory consists of new, used and demonstrator automobiles sold to consumers. Vehicles acquired since the acquisition of the Hyundai auto dealership are carried at lower of cost-or-market. Cost is computed as amortized cost less manufacturer incentives.

(g) Goodwill and Intangible Assets

The excess of the purchase price of NSL over the fair value of net tangible assets acquired was recorded as goodwill, and was attributed to the Southeast Region reporting unit.

The excess of the purchase price of the acquired net tangible assets from the Hyundai auto dealership by the Company’s subsidiary, SAG, is recorded as intangible assets and was attributed to the Auto Group reporting unit subject to an annual impairment test.

In accordance with ASC 350-20, *Intangibles – Goodwill and Other – Goodwill*, goodwill is not amortized but rather is subject to a qualitative assessment of events or factors to determine if the annual two-step test of goodwill impairment to be performed. We performed our annual goodwill impairment testing as of December 31 for the reporting units. Under the first step, if the fair value of any reporting unit is less than the carrying value, an indication goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test. In the second step, we compare the goodwill amount reflected in the balance sheet to the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets and liabilities in a manner similar to a purchase price allocation.

The implied fair value of the goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a variety of methods, including a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed – see note 8 for further discussion.

(h) Claims and Claim Adjustment Expenses

An insurance company generally makes claim payments as a result of accidents involving the risks insured under the insurance policies it issues. Months and sometimes years may elapse between the occurrence of an accident, reporting of the accident to the insurer and payment of the claim. Insurers record a liability for estimates of claims that will be paid for accidents reported to them, which are referred to as “case reserves.” In addition, since accidents are not always reported promptly upon occurrence and because the assessment of existing known claims may change over time with the development of new facts, circumstances and conditions, insurers estimate liabilities for such items, which are referred to as incurred but not reported (“IBNR”) reserves.

We maintain reserves for the payment of claims and claim adjustment expenses for both case and IBNR under policies written by the insurance company subsidiary. These claims reserves are estimates, at a given point in time, of amounts that we expect to pay on incurred claims based on facts and circumstances then known. The amount of case claims reserves is primarily based upon a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of claim. The amount of IBNR claims reserves is estimated on the basis of historical information and anticipated future conditions by lines of insurance and actuarial review. Reserves for claim adjustment expenses ("CAE") are intended to cover the ultimate costs of settling claims, including investigation and defense of lawsuits resulting from such claims. Inflation is implicitly reflected in the reserving process through analysis of cost trends and review of historical reserve results.

The process of establishing claims reserves is imprecise and reflects significant judgmental factors. In many liability cases, significant periods of time, ranging up to several years or more, may elapse between the occurrence of an insured claim and the settlement of the claim. The actual emergence of claims and claim adjustment expenses may vary, perhaps materially, from the Company's estimates thereof, because (a) estimates of liabilities are subject to large potential revisions, as the ultimate disposition of claims incurred prior to the financial statement date, whether reported or not, is subject to the outcome of events that have not yet occurred (e.g., jury decisions, court interpretations, legislative changes (even after coverage is written and reserves are initially set) that broaden liability and policy definitions and increase the severity of claims obligations, changes in the medical condition of claimants, public attitudes and social/economic conditions such as inflation), (b) estimates of claims do not make provision for extraordinary future emergence of new classes of claims or types of claims not sufficiently represented in the Company's historical data base or which are not yet quantifiable, and (c) estimates of future costs are subject to the inherent limitation on the ability to predict the aggregate course of future events.

In determining our reserve estimates for nonstandard personal automobile insurance, for each financial reporting date we record our best estimate, which is a point estimate, of our overall unpaid claims and CAE for both current and prior accident years. Because the underlying processes require the use of estimates and professional actuarial judgment, establishing claims reserves is an inherently uncertain process. As our experience develops and we learn new information, our quarterly reserving process may produce revisions to our previously reported claims reserves, which we refer to as "development," and such changes may be material. We recognize favorable development when we decrease our previous estimate of ultimate losses, which results in an increase in net income in the period recognized. We recognize unfavorable development when we increase our previous estimate of ultimate losses, which results in a decrease in net income in the period recognized. Accordingly, while we record our best estimate, our claims reserves are subject to potential variability.

(i) Treasury Stock

The Company records treasury stock in accordance with the "cost method" described in ASC 505-30, *Equity – Treasury Stock* ("ASC 505-30") – see note 13 for further discussion.

(j) Premium Revenues and Premium Receivables

Premiums and policy fees are recognized as earned on a pro rata basis over the period the Company is at risk under the related policy. Agency revenues are primarily fees charged on insureds' premiums due. These fees are earned over the terms of the underlying policies. Unearned premiums represent the portion of premiums written and policy fees which are applicable to the unexpired terms of policies in force. Premiums receivable consist of balances owed for coverages written with the Company. The Company's allowance for doubtful accounts consists of all premiums receivables over thirty days past due.

(k) Gross Auto Sales, Cost of Auto Sales, and Finance Receivables

Gross auto sales consist of sales of new and used vehicles, sales of parts and automotive services by our subsidiary BSHI. Cost of auto sales consist of vehicle procurement expenses, reconditioning expenses, auction fees and transportation to the dealership. We recognize revenue and expense associated with car sales in the period in which products are sold and delivered or services are provided. The automotive services we provide include, but are not limited to, customer-paid repairs and maintenance, as well as repairs and maintenance under manufacturer warranties and extended service contracts. Our finance receivables consists of smaller-balance, homogeneous loans carried at amortized cost, net of allowance for loan losses. We use a combination of forecasting methodologies to determine the allowance for loan losses. Contracts-in-transit primarily represent receivables from financial institutions for the portion of the vehicle sales price financed by our customers.

(l) Vehicle Floor Plan Payable

Our consumer lending offerings consist of floor plan notes, which are loans to finance the purchase of auto vehicle inventory, also known as wholesale or inventory financing, as well as dealer loans, which are loans to finance improvements to dealership facilities, to provide working capital, and to purchase and/or finance dealership real estate.

(m) Federal Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return. Deferred income tax items are accounted for under the "asset and liability" method which provides for temporary differences between the reporting of earnings for financial statement purposes and for tax purposes, primarily deferred policy acquisition costs, the discount on unpaid claims and CAE, net operating loss carryforwards and the nondeductible portion of the change in unearned premiums. Deferred tax assets and liabilities are measured using enacted 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 of a change in tax rates is recognized in income in the period that includes the enactment dates.

The Company currently has a valuation allowance for a portion of the tax benefit from its net operating loss ("NOL") carryforwards. ASC 740-10, *Income Taxes – Overall* ("ASC 740-10") requires positive evidence, such as cumulative taxable income over the most recent three-year period and other available objective and subjective evidence, for management to conclude that it is "more likely than not" that a portion or all of the deferred tax assets will be realized. While both objective and subjective evidence are considered, it is the Company's understanding that objective evidence should generally be given more weight in the analysis under ASC 740-10. In making the determination, the Company considered all available evidence, including the fact that the Company generated cumulative taxable income for the three years ended December 31, 2014. The Company does not record a tax valuation allowance relating to the tax effect of net unrealized losses on investments, excluding equity securities, because it is more likely than not that these losses would reverse or be utilized in future periods. The Company has the ability and it is the Company's intent to fully recover the principal, which could require the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary – see note 12.

The Company previously adopted the provisions of ASC 740-10-65, *Income Taxes – Overall – Transition and Open Effective Date Information* ("ASC 740-10-65"). At December 31, 2014, the Company has not identified any material uncertain tax positions in accordance with ASC 740-10-65. The Company is subject to U.S. federal income tax examinations by tax authorities for 2001 and subsequent years.

(n) Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, receivables, payables and debt instruments. The carrying values of these financial instruments approximate their respective fair values as they are either short-term in nature or carry interest rates which vary with the market. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(o) Earnings Per Share

Earnings per share ("EPS") for the years ended December 31, 2014 and 2013 is based on a weighted average of the number of common shares outstanding during each year – see note 14. Basic and diluted EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period.

(p) Recently Issued Accounting Standards

In May 2014 the FASB issued an Accounting Standards Update (ASU) related to the accounting for revenue from contracts with customers. Insurance contracts have been excluded from the scope of the guidance, which is effective for fiscal years beginning after December 15, 2016. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

Presentation of Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"), which is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. The ASU requires an entity to report, either on the face of the income statement or in the notes to the financial statements, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in the income statement if the amount being reclassified is required to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other required disclosures that provide additional detail about those amounts. Effective January 1, 2013, the Company adopted ASU 2013-02. Except for the new disclosure requirements, the adoption of the standard did not have an impact on the consolidated financial statements. The required disclosures are included on the face of the income statement.

All other codified accounting standards and interpretations of those standards issued during 2014 did not relate to accounting policies and procedures pertinent to the Company at this time.

(o) Reclassifications

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current period presentation. These reclassifications had no material effect on total assets, total liabilities, total shareholders' equity, net income or net cash provided by operating activities as previously reported.

(2) Investments

The following table summarizes the components of net investment income:

		Years ended December 31,	
		2014	2013
		(Amounts in thousands)	
Fixed maturities	$	4,041	4,146
Preferred stocks		137	145
Common stocks		49	64
Other long-term investments		138	121
Short-term investments		85	95
		4,450	4,571
Investment expenses		(263)	(223)
Net investment income	$	4,187	4,348

The following tables summarize the amortized cost and estimated fair values of investments:

		December 31, 2014				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI (1)
		(Amounts in thousands)				
Bonds, available for sale:						
U.S. Treasury	$	6,666	283	-	6,949	-
U.S. Government agencies		4,555	7	(41)	4,521	-
Corporate bonds		144,275	1,104	(656)	144,723	-
Mortgage backed		7,978	500	(264)	8,214	(76)
Preferred stocks, available for sale		1,950	228	(48)	2,130	-
Common stocks, available for sale		428	25	(6)	447	-
Certificates of deposit		100	-	-	100	-
Other long-term investments		16,203	-	-	16,203	-
Short-term investments		23,219	-	(13)	23,206	-
Total investments	$	205,374	2,147	(1,028)	206,493	(76)

(1) Represents the amount of other-than-temporary impairment losses in “Accumulated other comprehensive income” or “AOCI” which, from January 1, 2009, were not included in earnings under ASC 320-10-65.

		December 31, 2013				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI (1)
		(Amounts in thousands)				
Bonds, available for sale:						
U.S. Treasury	$	8,680	324	(13)	8,991	-
U.S. Government agencies		3,589	14	(71)	3,532	-
Corporate bonds		132,944	752	(1,476)	132,220	-
Mortgage backed		9,343	412	(543)	9,212	(133)
Preferred stocks, available for sale		2,448	185	(226)	2,407	-
Common stocks, available for sale		428	-	(8)	420	-
Certificates of deposit		100	-	-	100	-
Other long-term investments		7,515	-	-	7,515	-
Short-term investments		25,252	1	(9)	25,244	-
Total investments	$	190,299	1,688	(2,346)	189,641	(133)

(1) Represents the amount of other-than-temporary impairment losses in “Accumulated other comprehensive income” or “AOCI” which, from January 1, 2009, were not included in earnings under ASC 320-10-65.

The following tables summarizes the gross unrealized losses showing the length of time that investments have been continuously in an unrealized loss position as of December 31, 2014 and 2013:

		December 31, 2014					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(Amounts in thousands)			
U.S. Government agencies	$	998	1	2,958	40	3,956	41
Corporate bonds		42,946	233	31,664	423	74,610	656
Mortgage backed		1,382	3	4,778	261	6,160	264
Preferred stocks		-	-	802	48	802	48
Common stocks		-	-	123	6	123	6
Short-term investments		12,518	13	-	-	12,518	13
Total investments	$	57,844	250	40,325	778	98,169	1,028

		December 31, 2013					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
				(Amounts in thousands)			
U.S. Treasury	$	6,485	13	-	-	6,485	13
U.S. Government agencies		2,926	71	-	-	2,926	71
Corporate bonds		42,766	900	22,806	576	65,572	1,476
Mortgage backed		1,569	28	5,158	515	6,727	543
Preferred stocks		424	76	698	150	1,122	226
Common stocks		-	-	121	8	121	8
Short-term investments		13,284	9	-	-	13,284	9
Total investments	$	67,454	1,097	28,783	1,249	96,237	2,346

The gross unrealized losses, shown in the above tables, totaling $778,000 and $1,249,000 as of December 31, 2014 and 2013, respectively, relate to 47 and 36 individual securities, respectively, that had been in an unrealized loss position for 12 months or more as of such dates. As of December 31, 2014, approximately 84% of the unrealized gross losses were with issuers rated as investment grade by Standard and Poor's (S&P). The decline in the market value is primarily related to the disruption and lack of liquidity in the markets in which these securities trade, along with credit risk aversion by investors. Other important factors include (i) the slowing of prepayments in mortgage and asset backed securities and (ii) the significant decline in the 3 month London Interbank Offered Rate for U.S. dollar deposits ("LIBOR") for securities with floating rate coupons since the purchase of these assets. At this time based upon information currently available, the Company has the ability and it is the Company's intent to fully recover the principal, which could require the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary.

In order to determine whether it is appropriate in an accounting period to recognize OTTI with respect to a portfolio security which has experienced a decline in fair value and as to which the Company has the ability and intent to fully recover principal, the Company considers all available evidence and applies judgment. With corporate debt issues, firm specific performance, industry trends, legislative and regulatory changes, government initiatives, and the macroeconomic environment all play a role in the evaluation process. With respect to asset backed securities (including mortgage backed securities), the Company uses individual cash flow modeling in addition to other available information. In the case of securities as to which the Company has the ability and intent to fully recover principal, if all scheduled principal and interest is expected to be received on a timely basis using the current best estimates of material inputs, such as default frequencies, severities, and prepayment speeds, generally no OTTI would be recognized unless other factors suggest that it would be appropriate to do so. The principal factors that the Company considers in this analysis are the extent to which the fair value of the security has declined, the ratings given to the security by recognized rating agencies, trends in those ratings, and information available to the Company from securities analysts and other commentators, public reports and other credible information.

At December 31, 2014 and 2013, the Company had $2,566,000 and $2,939,000 in par value for nonprime collateralized mortgage obligations (Alt-A securities), respectively. The carrying value and fair value of these investments were $2,190,000 and $1,973,000, respectively, at December 31, 2014 compared to $2,519,000 and $2,154,000, respectively, at December 31, 2013.

	As of December 31,	
Nonprime collateralized mortgage obligations	2014	2013
S&P Ratings:		
D	100%	100%

Included in the Company's fixed income portfolio are hybrid securities with a carrying value of $11,244,000 and fair value of $11,295,000. A hybrid security as used here is one where the issuer of the debt instrument can choose to defer payment of the regularly scheduled interest due for a contractually set maximum period of time, usually five to ten years, without being in technical default on the issue.

One security, with carrying value of $848,000 and $915,000, and a fair value of $836,000 and $841,000, at December 31, 2014 and 2013, respectively, is dependent on the continued claims paying ability of its financial guarantor (MBIA) in order for the Company not to sustain any loss of principal or interest. MBIA is rated B (S&P), and we believe that the probable outcome is that principal and interest will be paid in full and, accordingly, the impairment on that security is considered temporary.

Preferred stocks predominately consist of auction preferred instruments considered to be available for sale and reported at estimated fair value with the net unrealized gains or losses reported after-tax as a component of other comprehensive income. The auction rate securities which the Company owns are each issued by a trust which holds as an asset the preferred stock of a corporation, which are exchange traded. The Company has the option at stated intervals to redeem the auction preferred shares for a pro rata share of the underlying collateral. As of December 31, 2014, we have not chosen this option as the structure of the trust provides a higher coupon on the auction preferred shares than on the underlying collateral shares; and therefore, are of greater economic value. As of December 31, 2014, we do not believe that these underlying shares are other-than-temporarily impaired based on the credit review of the issuers.

Investments in partnerships or limited liability companies are accounted for under the equity method, which approximates cost. These companies are audited on an annual basis. The Company has classified these investments as Other long-term investments.

Estimated fair value of investments on deposit with various regulatory bodies, as required by law, were $4,988,000 and $5,099,000, at December 31, 2014 and 2013, respectively.

The amortized cost and estimated fair value of debt securities (including bonds available for sale, preferred stocks and certificates of deposit) at December 31, 2014 and 2013, by maturity, are shown below.

		2014		2013	
		Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(Amounts in thousands)			
Due in one year or less	$	24,365	24,396	19,278	19,345
Due after one year but within five years		94,193	94,304	91,281	91,336
Due after five years but within ten years		5,918	6,125	5,961	5,756
Due after ten years but within twenty years		2,109	2,208	1,271	1,266
Due beyond 20 years		30,961	31,390	29,970	29,547
Mortgage backed securities		7,978	8,214	9,343	9,212
	$	165,524	166,637	157,104	156,462

The following table summarizes the S&P ratings on the Company's bonds available for sale as of December 31, 2014:

Bonds available for sale	2014
S&P Ratings:	
AAA	6%
AA+	2
AA	1
AA-	2
A+	3
A	4
A-	10
BBB+	21
BBB	28
BBB-	15
BB+	1
BB and below	7
	100%

Proceeds from the sale of securities for the years ended December 31, 2014 and 2013 are presented in the following table:

		Years ended December 31,	
		2014	2013
		(Amounts in thousands)	
Proceeds:			
Bonds, available for sale	$	10,456	27,840
Bonds, available for sale principal pay downs	$	4,625	3,971
Preferred stocks, available for sale	$	488	-
Other invested assets	$	2,973	1,390

Realized gains and losses on investments for the years ended December 31, 2014 and 2013 are presented in the following table:

		Years ended December 31,	
		2014	2013
		(Amounts in thousands)	
Realized gains:			
Bonds, available for sale	$	216	626
Other invested assets		-	47
Short-term investments		4	5
Total realized gains		220	678
Realized losses:			
Bonds, available for sale		(2)	(18)
Common stocks, trading		(12)	(2)
Other invested assets		-	(20)
Total realized losses		(14)	(40)
Unrealized losses on trading securities		-	(6)
Other-than-temporary impairment losses		(7)	(251)
Total realized investment gains, net	$	199	381

When a security has an unrealized loss in fair value that is deemed to be other than temporary, the Company reduces the book value of the security to its current market value, recognizing the decline as a realized loss in the statement of operations. These determinations primarily reflect the market-related issues associated with the disruption in the mortgage and other credit markets, which created a significant deterioration in both the valuation of the securities as well as our view of future recoverability of the valuation decline.

As discussed in note 1, a portion of certain OTTI losses on debt securities are recognized in “Other comprehensive income” (“OCI”). The net amount recognized in earnings (“credit loss impairments”) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between fair value and amortized cost is recognized in OCI.

The following table sets forth the amount of credit loss impairments on debt securities held by the Company as of December 31, 2014, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

		(Amounts in thousands)
Balance, January 1, 2014	$	7,154
Credit losses remaining in accumulated deficit related to adoption of ASC 320-10-65		-
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period		-
Credit loss impairments previously recognized on securities impaired to fair value during the period (1)		-
Credit loss impairments recognized in the current period on securities not previously impaired		-
Additional credit loss impairments recognized in the current period on securities previously impaired		7
Increases due to the passage of time on previously recorded credit losses		-
Balance, December 31, 2014	$	7,161

(1) Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security’s amortized cost.

During 2014, the Company wrote down $7,000 in securities that were determined to have had an other-than-temporary decline in fair value. During 2013, the Company wrote down $251,000 in securities that were determined to have had an other-than-temporary decline in fair value.

(3) Fair Value Measurements

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in ASC 320-10-65. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the ASC 320-10-65 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The three levels of the hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Quoted prices in markets that are not active or inputs that are observable directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities other than quoted prices in Level 1; quoted prices in markets that are not active; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to their fair value of the assets or liabilities. Unobservable inputs reflect the Company's own estimates as to the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models and third-party evaluation, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

<u>Valuation of Investments</u>

The Company receives pricing from independent pricing services, and these are compared to prices available from sources accessed through the Bloomberg Professional System. The number of available quotes varies depending on the security, generally we obtain one quote for Level 1 investments, one to three quotes for Level 2 investments and one to two quotes, if available, for Level 3 investments. If there is a material difference in the prices obtained, further evaluation is made. Market prices and valuations from sources such as the Bloomberg system, TRACE and dealer offerings are used as a check on the prices obtained from the independent pricing services. Should a material difference exist, then an internal valuation is made. For purposes of valuing these securities management produces expected cash flows for the security utilizing the standard mortgage security modeling capabilities available on the Bloomberg Professional System. The key inputs are the default rate, severity of default, and voluntary prepayment rate for the underlying mortgage collateral. These are generally based at the start on the actual historical values of these parameters for the prior three months. These cash flows are then discounted by a required yield derived from market based observations of broker inventory offerings, or in some cases Bloomberg Indices of like securities. Management uses this valuation model primarily with mortgage backed securities where the matrix pricing methodology used by the independent pricing service is too broad in its categorizations. This often involves differences in reasonable prepayment assumptions or significant differences in performance among issuers. In some cases, other external observable inputs such as credit default swap levels are used as input in the fair value analysis.

Fixed Maturities, Equity Securities and Mortgage-backed Instruments

For U. S. Treasury, U. S. government and corporate bonds, the independent pricing services obtain information on actual transactions from a large network of broker-dealers and determine a representative market price based on trading volume levels. For mortgage backed instruments, the independent pricing services obtain information on actual transactions from a large network of broker-dealers and sorts the information into various components, such as asset type, rating, maturity, and spread to a benchmark such as the U.S. Treasury yield curve. These components are used to create a pricing matrix for similar instruments.

All broker-dealer quotations obtained are non-binding. For short-term investments classified as Level 1 and Level 2, the Company uses prices provided by independent pricing services. The preferred stocks classified as Level 3 are all auction rate preferred shares, and the Company utilizes an internal model incorporating observable market inputs.

The Company uses the following hierarchy for each instrument in total invested assets:

1. The Company obtains a price from an independent pricing service.

2. If no price is available from an independent pricing service for the instrument, the Company obtains a market price from a broker-dealer or other reliable source, such as Bloomberg.

3. The Company then validates the price obtained by evaluating its reasonableness. The Company's review process includes quantitative analysis (i.e., credit spreads and interest rate and prepayment fluctuations) and initial and ongoing evaluations of methodologies used by outside parties to calculate fair value and comparing the fair value estimates to its knowledge of the current market. If a price provided by a pricing service is considered to be materially different from the other indications that are obtained, the Company will make a determination of the proper fair value of the instrument based on data inputs available.

In order to determine the proper ASC 320-10-65 classification for each instrument, the Company obtains from its independent pricing service the pricing procedures and inputs used to price the instrument. The Company analyzes this information, taking into account asset type, rating and liquidity, to determine what inputs are observable and unobservable in order to determine the proper ASC 320-10-65 level. For those valued internally, a determination is made as to whether all relevant inputs are observable or unobservable in order to classify correctly.

All of the Company's Level 1 and Level 2 invested assets held at December 31, 2014 and 2013 were priced using either independent pricing services or available market prices to determine fair value. The Company classifies such instruments in active markets as Level 1 and those not in active markets as Level 2. The Preferred stocks in Level 3 were auction preferred instruments and were classified in Level 3 because the market in which they trade remains very inactive. The Corporate bonds in Level 3 are private placements which rarely trade and the issuers have no other debt outstanding to provide a valuation benchmark. The residential mortgage backed securities which are valued in the manner described above are classified as Level 3. Those for which the individual pricing service value is used are classified as Level 2.

Corporate Bonds – the fair value is estimated using discounted cash flow analyses by applying the maximum credit utilization schedule set by statute, so the only unobservable input variable is the appropriate market discount rate, which approximated 4.51% as the yield on the 3-month T-Bill at December 31, 2014. The discount rate takes into account general market trends, including inputs from spreads based on U.S. Treasury yield curves in the pricing of the instrument when it was originally issued and considering current yields of like maturities. Due to the short duration of the issue, its sensitivity to the discount rate assumption is minimal. An increase or decrease in the discount rate of 100 basis points results in a fair value estimate change of less than 1%.

Preferred Stocks – the security is redeemable upon demand within in ten business days into a specific number of shares of the underlying collateral of the issuing trust. The underlying shares form the basis of the fair value determination and thus the Company estimates the fair value using a liquidation value of collateral approach. The collateral is comprised of preferred shares publically traded on the New York Stock Exchange and is used as a direct market observable input. Unobservable inputs consist of short lag time and procedural issues involved in obtaining collateral shares, the liquidity of the underlying shares due to the security being an auction rate security resulting in a slightly higher trading yield. The Company's assumption for the estimate for the auction rate preferred shares is set directly equal to that of the underlying collateral shares for which it could be redeemed. For every 25 basis point move in this unobservable input of the liquidity premium, the fair value estimate of this security would change by 4.8%.

The quantitative disclosures about the fair value measurements for each major category of assets at December 31, 2014 and 2013 were as follows:

		December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(Amounts in thousands)		
Assets:					
U.S. Treasury	$	6,949	6,949	-	-
U.S. Government agencies		4,521	-	4,521	-
Corporate bonds		144,723	-	143,967	756
Mortgage backed		8,214	-	8,214	-
Total available-for-sale securities		164,407	6,949	156,702	756
Preferred stocks		2,130	1,319	-	811
Common stocks		447	447	-	-
Certificates of deposit		100	100	-	-
Short-term investments		23,206	9,674	13,532	-
Total assets classified by ASC 320-10-65(1)	$	190,290	18,489	170,234	1,567
Percentage of total		100%	10%	89%	1%

(1) The investments classified as Other long-term investments are outside the scope of ASC 320-10-65 and, therefore, not disclosed in the table as invested assets classified by ASC 320-10-65.

	December 31, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Amounts in thousands)			
Assets:				
U.S. Treasury	$ 8,991	8,991	-	-
U.S. Government agencies	3,532	-	3,532	-
Corporate bonds	132,220	-	130,950	1,270
Mortgage backed	9,212	-	9,212	-
Total available-for-sale securities	153,955	8,991	143,694	1,270
Preferred stocks	2,407	1,633	-	774
Common stocks	420	420	-	-
Certificates of deposit	100	100	-	-
Short-term investments	25,244	7,882	17,362	-
Total assets classified by ASC 320-10-65(1)	$ 182,126	19,026	161,056	2,044
Percentage of total	100%	10%	89%	1%

(1) The investments classified as Other long-term investments are outside the scope of ASC 320-10-65 and, therefore, not disclosed in the table as invested assets classified by ASC 320-10-65.

Level 1 includes U.S. Treasury securities and exchange-traded securities. Level 2 securities are comprised of securities whose fair value was determined using observable market inputs. Investments classified as Level 3 are primarily comprised of the following: (i) with respect to fixed maturity investments, certain corporation and mortgage backed securities that values provided by an independent pricing service or quoted market prices were not used, many of which are not publicly traded or are not actively traded; and (ii) with respect to equity securities, preferred securities.

The following table provides a summary of changes in fair value associated with the Level 3 assets for the years ended December 31, 2014 and 2013:

		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
		December 31,	
		2014	2013
		(Amounts in thousands)	
Beginning balance	$	2,044	3,526
Total gains or losses (realized/unrealized):			
Included in earnings (or changes in net assets)		-	(14)
Included in other comprehensive loss		(477)	(1,468)
Purchases, issuances, and settlements, net		-	-
Transfers in and/or out of Level 3		-	-
Ending balance	$	1,567	2,044

The above table of Level 3 assets begins with the prior period balance and adjusts the balance for the gains or losses (realized and unrealized) that occurred during the current period. Any new purchases that are identified as Level 3 securities are then added and any sales of securities which were previously identified as Level 3 are subtracted. Next, any securities which were previously identified as Level 1 or Level 2 securities and which are currently identified as Level 3 are added. Finally, securities which were previously identified as Level 3 and which are now designated as Level 1 or as Level 2 are subtracted. The ending balance of the Level 3 securities presented above represent our best estimates and may not be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

The Company wrote down Alt-A securities (Level 3) for the year ended December 31, 2014 and 2013 that were determined to have had an other-than-temporary credit related impairment charge.

There were no transfers between Levels 1 and 2 during the periods presented.

(4) Note Payable

In September 2005, the Company entered into a credit agreement with a commercial bank. Interest, payable quarterly, accrued on any outstanding principal balance at a floating rate equal to the 3-month LIBOR. Subsequent amendments changed the interest rate to 2.75% over the 3-month LIBOR, with no minimum, and a usage fee of 0.25% on the unused line of credit, converted the credit agreement to a revolving loan with a revolving commitment of up to $20,000,000 and a maturity of December 12, 2016.

At December 31, 2013, the monthly interest rate was 4%, with a 0.25% usage fee on the unused note balance. The Company is able to draw on this revolving loan and repay in increments of $100,000 without premium or penalty. Borrowings under the revolving loan are collateralized by the common stock of MGA and NSL, and payment is guaranteed by NSL. During 2014, the Company paid down the outstanding balance from 2013 prior to the maturity date. The credit agreement governing the revolving loan contains covenants regarding limits on levels of subsidiary indebtedness, liens, investments, acquisitions, certain mergers, certain asset sales outside the ordinary course of business, and change in control as defined in the agreement. The agreement also contains financial covenants regarding capital of MGA, consolidated net worth of GANS and the combined ratio of the personal auto operation.

(5) Subordinated Debentures

In January 2006, GANS issued $25,000,000 of 30-year subordinated debentures. They require quarterly interest payments at a floating interest rate equal to the 3-month LIBOR plus a margin of 3.85%. They will mature on March 31, 2036 and are redeemable at GANS' option, in whole or in part, at the liquidation amount of $1,000 per debenture.

In December 2006, GANS issued $18,000,000 of 30-year subordinated debentures. They require quarterly interest payments at a floating interest rate equal to the 3-month LIBOR plus a margin of 3.75%. They will mature on March 15, 2037 and are redeemable at GANS' option, in whole or in part, at the liquidation amount of $1,000 per debenture.

(6) Construction Loan Payable

In connection with the construction of the a building for BSHI, the Company entered into a construction loan agreement with a commercial bank, which is lending to finance the purchase of the land, building costs and certain building related costs paid outside of the construction contract. The loan agreement is for an aggregate sum not to exceed the lessor of a) $5,680,000, b) 80% of the appraised value of the land and the improvements, or c) 85% of the total project cost of the land and the improvements. Interest, payable quarterly, accrued on any outstanding principal balance at a floating rate equal to the 3-month LIBOR plus 2.25%.

At December 31, 2014, the monthly interest rate equaled the 3-month LIBOR plus 2.25%. The Company is able to draw monthly advances with the submission of the contractors' certification and application of payment. The Company had drawn on the loan in the amount of $3,937,000 as of December 31, 2014.

The following table summarizes net interest expense recorded and interest payments made in 2014 and 2013:

		2014		2013	
		Net interest expense	Interest payments	Net interest expense	Interest payments
		(Amounts in thousands)			
Note payable	$	293	374	252	183
Subordinated debenture I		1,029	1,053	1,038	1,064
Subordinated debenture II		717	740	725	748
Construction loan payable		9	1	-	-
Total	$	2,048	2,168	2,015	1,995

(7) Inventory and Vehicle Floor Plan Payable

The components of inventory at December 31 are as follows:

		2014	2013
		(Amounts in thousands)	
New/Demo vehicles	$	8,586	5,352
Used vehicles		1,093	1,100
Parts, accessories, and other		184	149
Auto vehicle inventory	$	9,863	6,601

The components of vehicle floor plan payables at December 31 are as follows:

		2014	2013
		(Amounts in thousands)	
Vehicle floor plan payable – new/demo	$	8,860	6,438
Vehicle floor plan payable – used		528	932
Vehicle floor plan note payable	$	9,388	7,370

Vehicle floor plan payable reflects amounts borrowed to finance the purchase of vehicle inventories. In general, the floor plan line is secured by all financed vehicles. Changes in vehicle floor plan payable are reported as non-cash supplemental financing activities in the accompanying Consolidated Statements of Cash Flows.

Our inventory consists of new, used and demonstrator automobiles sold to consumers. Vehicles are carried at lower of cost-or-market. Cost is computed as amortized cost less manufacturer incentives. The vehicle floor plan payable, as shown in the above table, will generally be higher than the inventory cost due to the timing of the sale of a vehicle and payment of the related liability.

Vehicle floor plan facilities are due on demand, but in the case of new vehicle inventories, are generally paid within several business days after the related vehicles are sold. Our manufacturer agreements generally require that the manufacturer have the ability to draft against the new vehicle floor plan facilities so the lender directly funds the manufacturer for the purchase of new vehicle inventory. Vehicle floor plan facilities are primarily collateralized by vehicle inventories and related receivables.

The floor plan note is usually structured to yield interest at a floating rate indexed to the prime rate. The rate for a particular dealership is based on, among other things, the dealership's credit worthiness, the amount of the credit line, the risk rating and whether or not the dealership is in default. Interest on floor plan loans is payable monthly on the first day of each month, accrued on any outstanding principal balance at a floating rate to be the lesser of (a) 1.60% above 1-month LIBOR in effect on the first day of each LIBOR period or (b) the maximum rate. The credit agreement has a total commitment of up to $11,100,000.

At December 31, 2014, the monthly interest rate equaled 1.75%. The amount of the floor plan note as of December 31, 2014 totaled $9,388,000 covering new and used auto vehicle inventory. The Company is able to make advances from time to time not to exceed at any time the aggregate principal amount. All advances are evidenced by a promissory note. The credit agreement governing the promissory note contains covenants regarding limits on borrowing/curtailment to new, used, aged used and demo auto vehicles. The agreement also contains financial covenants regarding tangible net worth and maximum loan to value position. For the year ended December 31, 2014, BSHI expensed and paid interest on the floor plan note total $147,000. For the year ended December 31, 2013, BSHI expensed interest on the floor plan note totaling $3,000. No interest was paid during 2013, as interest is paid on the first day of each month.

(8) Goodwill and Intangible Assets

Goodwill (insurance operations) and intangible assets, at December 31 consist of the following:

		2014	2013
		(Amounts in thousands)	
Goodwill – insurance operations	$	609	609
Intangible assets	$	5,645	7,500

(a) Goodwill

We test goodwill of our reporting units for impairment annually on December 31 or more frequently when events or changes in circumstances indicate that the carrying value of a reporting unit more likely than not exceeds its fair value.

Under accounting standards, an entity is permitted to first make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it is necessary to calculate the fair value of a reporting unit under the quantitate two-step goodwill impairment test. We completed qualitative annual assessments of any potential goodwill impairment as of December 31, 2014 and 2013. Based on our qualitative assessments, we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts and we were therefore not required to perform the two-step goodwill impairment test for any of our reporting units.

The quantitative goodwill impairment test is a two-step approach. The first step of the quantitative goodwill impairment test requires a determination of whether the fair value of a reporting unit is less than its carrying value. If the fair value of the reporting unit is less than the carrying value, the second step is required, which involves an analysis reflecting the allocation of the fair value determined in the first step (as if it was the purchase price in a business combination). This process may result in the determination of a new amount of goodwill. If the calculated fair value of the goodwill resulting from this allocation is lower than the carrying value of the goodwill in the reporting unit, the difference is reflected as a non-cash impairment loss. The purpose of the second step is only to determine the amount of goodwill that should be recorded on the balance sheet. The recorded amounts of other items on the balance sheet are not adjusted.

In a quantitative impairment test, we estimate the fair value of our reporting units using an "income" valuation approach, which discounts projected free cash flows of the reporting unit at a computed weighted average cost of capital as the discount rate. The income valuation approach requires the use of significant estimates and assumptions, which include revenue growth rates and future operating margins used to calculate projected future cash flows, weighted average costs of capital, and future economic and market conditions. We base our cash flow forecasts on our knowledge of the insurance industry, our recent performance, our expectations of our future performance, and other assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

(b) Intangible Assets

Our principal identifiable intangible assets is the excess of the purchase price over the fair value of the net tangible assets acquired that was allocated to a valued franchise license and other intangible assets, which have indefinite lives and are tested at least annually on December 31 for impairment. As discussed in Note 1 above, the FASB issued an accounting standard update that permits an entity to first make a qualitative evaluation about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it is necessary to perform a quantitative impairment test.

We completed our qualitative assessment of any potential franchise license impairment as of December 31, 2014. Based on our qualitative assessment, we determined that it was more likely than not that the fair values of our other intangible assets were less than their carrying amounts and we therefore performed a quantitative impairment test.

As of December 31, 2014, we had $5,645,000 of intangible assets recorded on our Consolidated Balance Sheet. We performed a quantitative annual impairment test as of December 31, 2014, and we recorded a $1,855,000 non-cash impairment charge related to the other intangible assets associated with the Auto Group operations with the result of BSHI. This non-cash impairment charge was recorded to reduce the carrying value of the intangible assets to its estimated fair value. The decline in the fair value of intangible assets under BSHI reflects the underperformance relative to expectations of the auto dealership since our acquisition of it, as well as our expectations for the auto dealership's future prospects. These factors resulted in a reduction in forecasted cash flows and growth rates used to estimate fair value. This non-cash impairment charge is classified as Underwriting and operating expenses in the Consolidated Statements of Income and shown as Impairment of intangible assets in the Consolidated Statements of Cash Flows.

We performed a quantitative annual impairment test as of December 31, 2013, and no intangible assets impairment charge resulted from the required impairment test.

The quantitative impairment test for intangibles with indefinite lives requires the comparison of estimated fair value to its carrying value. We estimate the fair value of our reporting units using an "income" valuation approach, which discounts projected free cash flows of the reporting unit at a computed weighted average cost of capital as the discount rate. The income valuation approach requires the use of significant estimates and assumptions, which include revenue growth rates and future operating margins used to calculate projected future cash flows, weighted average costs of capital, and future economic and market conditions. We base our cash flow forecasts on our knowledge of the insurance industry, our recent performance, our expectations of our future performance, and other assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

(9) Reinsurance

(a) Assumed

The Company has, in the past, utilized reinsurance arrangements with various non-affiliated admitted insurance companies, whereby the Company underwrote the coverage and assumed the policies 100% from the companies. These arrangements required that the Company maintain escrow accounts to assure payment of the unearned premiums and unpaid claims and CAE relating to risks insured through such arrangements and assumed by the Company.

The following table summarizes the amounts related to the arrangements as of and for the years ended December 31, 2014 and 2013:

		December 31,	
		2014	2013
		(Amounts in thousands)	
Balances held in escrow	$	795	1,938
Premiums earned by assumption	$	363	505
Assumed unpaid claims and claim adjustment expenses	$	708	1,148

(b) Ceded

Runoff Lines

On February 7, 2002, the Company announced its decision to cease writing commercial, specialty and umbrella lines of insurance due to continued adverse claims development and unprofitable underwriting results, these lines became known as runoff lines. The Company has ceded unpaid claims and CAE of approximately $11,000 as of December 31, 2014.

Nonstandard Personal Auto Lines

In 2014 and 2013, the Company maintained catastrophe reinsurance on its physical damage coverage for property claims of $6,500,000 in excess of $1,000,000 for a single catastrophe, as well as $13,000,000 aggregate catastrophes. For 2015, the Company maintains catastrophe reinsurance on its physical damage coverage for property claims of $6,500,000 in excess of $1,000,000 for a single catastrophe, as well as $14,500,000 for aggregate catastrophes.

The amounts included in the consolidated statement of operations for reinsurance ceded as of and for the years ended December 31, 2014 and 2013, respectively, are set forth in the following table:

		December 31,	
		2014	2013
		(Amounts in thousands)	
Premiums earned – nonstandard personal auto	$	677	656
Claims and claim adjustment expenses – runoff	$	(14)	25

The Company remains directly liable to their policyholders for all policy obligations and the reinsuring companies are obligated to the Company to the extent of the reinsured portion of the risks.

(10) Property and Equipment

The following schedule summarizes the components of property and equipment:

		As of and for the years ended December 31	
		2014	2013
		(Amounts in thousands)	
Leasehold improvements	$	512	509
Land		1,755	-
Building		4,131	-
Furniture, fixtures and automobiles		2,978	1,286
Equipment		3,539	2,898
Software		6,524	6,403
Accumulated depreciation and amortization		(9,891)	(8,884)
Property and equipment, net	$	9,548	2,212
Depreciation expense	$	1,106	987

(11) Claims and Claim Adjustment Expenses

The following table sets forth the changes in unpaid claims and claim adjustment expenses, net of reinsurance cessions, as shown in the Company's consolidated financial statements for the periods indicated:

		As of and for the years ended December 31,	
		2014	2013
		(Amounts in thousands)	
Unpaid claims and claim adjustment expenses, beginning of period	$	73,495	79,643
Less: Ceded unpaid claims and claim adjustment expenses, beginning of period		936	899
Net unpaid claims and claim adjustment expenses, beginning of period		72,559	78,744
Net claims and claim adjustment expense incurred related to:			
Current period		128,508	130,444
Prior periods		7,048	10,491
Total net claim and claim adjustment expenses incurred		135,556	140,935
Net claims and claim adjustment expenses paid related to:			
Current period		80,590	79,250
Prior periods		50,592	67,870
Total net claim and claim adjustment expenses paid		131,182	147,120
Net unpaid claims and claim adjustment expenses, end of period		76,933	72,559
Plus: Ceded unpaid claims and claim adjustment expenses, end of period		11	936
Unpaid claims and claim adjustment expenses, end of period	$	76,944	73,495

The unfavorable development in net claims and CAE incurred related to prior periods for 2014 and 2013 were primarily attributable to the Florida Personal Injury Protection litigations from accident years 2008-2012. As of December 31, 2014, the vast majority of such litigations have been settled. As of December 31, 2014, we believe the balance sheet carried reserves made a reasonable provision for all unpaid claims and CAE obligations of the Company under the terms of its contracts and reinsurance agreements.

The following table presents the (unfavorable) favorable development in nonstandard personal auto for claims occurring in prior accident years for each region for the years ended December 31, 2014 and 2013:

		December 31,		
		2014		2013
		(Amounts in thousands)		
Region:				
Southeast (Florida, Georgia, South Carolina and Virginia)	$	(7,077)	$	(10,197)
Southwest (Arizona, California, New Mexico, Nevada and Texas)		(35)		(210)
Net unfavorable development	$	(7,112)	$	(10,407)

(12) Federal Income Taxes

In the accompanying consolidated statements of operations, the provisions for Federal income tax as a percent of related pretax income differ from the Federal statutory income tax rate. A reconciliation of income tax expense using the Federal statutory rates to actual income tax expense follows:

		December 31,	
		2014	2013
		(Amounts in thousands)	
Income tax expense at 34%	$	5,334	2,027
Change in net valuation allowance		(11,993)	(5,530)
Other, net		772	39
Income tax benefit	$	(5,887)	(3,464)

The Company recognized a current tax expense for the alternative minimum tax for the years ended December 31, 2014 and 2013:

		2014	2013
		(Amounts in thousands)	
Current tax expense	$	861	364
Federal income tax paid	$	374	229

Under ASC 740-10-65, the primary objective is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. As a consequence, the portion of the tax expense, which is a result of the change in the deferred tax asset or liability, may not always be consistent with the income reported on the statements of operations. At December 31, 2014, the Company has not identified any uncertain tax positions in accordance with ASC 740-10-65.

As a result of losses in prior years, the Company has NOL carryforwards for tax purposes aggregating the following (amounts in thousands) at December 31, 2014:

		2014
Year set to expire		
2021	$	5,939
2022		13,687
2023		633
2027		12,901
NOL carryforward	$	33,160
Tax benefit of the NOL carryfoward	$	11,274

The tax benefit of the NOL carryforwards is calculated by applying the Federal statutory income tax rate of 34% against the NOL carryforwards. The Company does not record a tax valuation allowance relating to the net unrealized losses on investments, excluding common stocks, because it is more likely than not that these losses would reverse or be utilized in future periods. The Company has the ability and it is the Company’s intent to fully recover the principal, which could require the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary.

The following table represents the tax effect of temporary differences giving rise to the net deferred tax asset established under ASC 740-10-65.

		As of December 31, 2014	As of December 31, 2013
		(Amounts in thousands)	
Deferred tax assets:			
Net operating loss carryforward	$	11,274	17,953
Discount on unearned premium reserve		3,497	3,070
Unearned fees		1,047	863
Alternative Minimum Tax carryforward		1,045	562
Discount on unpaid claims and claim adjustment expenses		864	830
Business combination		462	-
Realized capital losses		538	536
Allowance for doubtful accounts		280	262
Net unrealized losses on investments		-	224
Total deferred tax assets		19,007	24,300
Deferred tax liabilities:			
Deferred policy acquisition costs		2,706	2,310
Accrual of discount on bonds		329	348
Depreciation and amortization		185	223
Net unrealized gains on investments		381	-
Other		-	163
Total deferred tax liabilities		3,601	3,044
Net deferred tax asset before valuation allowance		15,406	21,256
Valuation allowance		(2,850)	(14,843)
Net deferred tax asset	$	12,556	6,413

During 2014, the Company reduced the valuation allowance associated with the deferred tax asset by $11,993,000, which is the change in the expectation on the utilization of the NOL carryforwards and all temporary differences. Under ASC 740-10, positive evidence, such as taxable income over the most recent three-year period and other available objective and subjective evidence, requires management to conclude that it is “more likely than not” that a portion or all of the deferred tax benefit will be realized. While both objective and subjective evidence are considered, objective evidence should generally be given more weight in the analysis under ASC 740-10. In making the determination, the Company considered all available evidence, including the fact that the Company had estimated cumulative taxable income for the three years ended December 31, 2014 of approximately $23,765,000. Based on a review of available evidence, management concluded that it is more likely than not that the Company will have future taxable income to utilize $8,424,000 of the net operating loss carryforward prior to its expiration. The amount of the deferred tax benefit that may ultimately be realized could be affected by changes in tax rates, changes to applicable tax carryforward periods or other statutory or regulatory changes that may limit or impair the value thereof. The deferred tax valuation allowance at December 31, 2014 was $2,850,000 ($0.57 per share).

(13) Shareholders' Equity

The Company has authorized 12,500,000 shares of common stock, par value $.10 per share (the "Common Stock"). Of the authorized shares of common stock, 5,221,232 shares were issued and 4,962,582 shares outstanding, and 5,148,232 shares were issued and 4,889,582 shares were outstanding as of December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the Company held 258,650 shares as treasury stock, respectively.

At December 31, 2014 and 2013, Goff Moore Strategic Partners, LP ("GMSP") owned approximately 34% of the outstanding Common Stock, James R. Reis owned approximately 12% and Robert W. Stallings owned approximately 24% of the outstanding Common Stock, respectively.

There were no dividends to shareholders declared or paid in 2014 and 2013.

The following table reflects changes in the number of shares of common stock outstanding for the years ended December 31, 2014 and 2013:

	2014	2013
Shares outstanding		
Balance at beginning of period	4,889,582	4,889,852
Shares issued	73,000	-
Balance at end of period	4,962,582	4,889,582

In November 2007, the Board of Directors of the Company authorized the repurchase of up to $5 million worth of the Company's Common Stock. Repurchase may be made from time to time in both the open market and through negotiated transactions. The value of shares that may yet be purchased under the plan was $1,859,354 at December 31, 2014.

The following table presents the statutory policyholders' surplus for MGA as of December 31, 2014 and 2013, and the statutory net income for MGA for the year ended December 31, 2014 and 2013:

		2014	2013
		(Amounts in thousands)	
Statutory policyholders' surplus	$	110,583	102,695
Statutory net income	$	11,412	6,440

Statutes in Texas restrict the payment of dividends by MGA for any 12 month period to the greater of net income for the preceding year or 10% of surplus as regards policyholders as of the preceding December 31. This amount cannot be greater than unassigned surplus as of the preceding December 31. At December 31, 2014, $11,412,000 is available for dividend payments. Dividends can be paid with regulatory notification of no objection from the Texas Department of Insurance.

The Company's statutory capital exceeds the benchmark capital level under the Risk Based Capital ("RBC") formula for its insurance companies. RBC is a method for establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. As of December 31, 2014, the Company's RBC authorized control level was $13,759,000 and the total adjusted capital was $110,583,000.

(14) Earnings Per Share

The following table sets forth the computation of basic and diluted income per share (amounts in thousands, except for per share data):

		Years ended December 31,	
		2014	2013
Numerator:			
Net income	$	21,575	9,425
Numerator for basic earnings per share – income available to common shareholders		21,575	9,425
Numerator for diluted earnings per share – income available to common shareholders after assumed conversions	$	21,575	9,425
Denominator:			
Denominator for basic earnings per share – weighted average common shares outstanding		4,927	4,890
Denominator for diluted earnings per share – adjusted weighted average common shares outstanding & assumed conversions		4,927	4,890
Basic earnings per share	$	4.38	1.93
Diluted earnings per share	$	4.38	1.93

(15) Benefits

The Company has a 401(k) plan for the benefit of its eligible employees. The Company made contributions to the plan that totaled $368,000 and $335,000 for 2014 and 2013, respectively.

The Company entered into executive severance agreements in 2002 with two executive officers, Richard M. Buxton and Daniel J. Coots. The agreements generally provide that the Company shall pay the executive, upon termination of the employment of the executive by the Company without cause or by the executive with good reason during the term of the agreement, a lump sum severance amount equal to the base annual salary of the executive as of the date that the executive's employment with the Company ends. The executive severance agreements do not supersede change in control agreements or any other severance agreements the employees may have with the Company.

As an integral part of the recapitalization consummated in January 2005, the Company entered into new employment agreements with Messrs. Stallings and Reis and an amended employment and related agreements with Mr. Glenn W. Anderson, which were approved by shareholders on January 18, 2005.

The terms of the employment agreements with Messrs. Stallings and Reis are each three years, and each term is automatically extended by an additional year on the same terms and conditions on each anniversary of the effective date (so that, as of each anniversary of the effective date, the term of the employment agreement remains three years), unless either party gives notice of an intention not to extend the term. As of December 31, 2014, the terms and conditions of the employment agreements have been extended.

The term of Mr. Anderson's employment is four years and is automatically extended by an additional year on the same terms and conditions on each anniversary of the effective date (so that, as of each anniversary of the effective date, the term of the employment agreement remains four years), unless either party gives notice of an intention not to extend the term. As of December 31, 2014, the terms and conditions of the employment agreement have been extended.

In 2011 the Company instituted a deferred compensation plan for certain key employees. This plan had a five-year performance period with annual performance objectives based on the Company achieving minimum gross premiums written targets in 2012 through 2015 and target operating earnings before tax in 2011 through 2015. In 2013, this deferred compensation plan was amended for all participants and specified a five-year performance period from 2014 through 2018 with annual performance objectives based on the Company achieving minimum gross premiums written targets and target operating earnings before tax (attributable to the private passenger automobile insurance business). Compensation expense is recognized based on achieving individual year performance targets or on achieving cumulative performance results. The compensation is recognized as an expense in the current year and deferred for payment five years later under terms of the plan. The amendment removed consideration for deferred compensation for 2013 for these key employees. As a result, there was no compensation expense recorded for performance results in 2013. Based on the results of the 2014 fiscal year, compensation expense was recorded in the amount of $510,000.

In the second quarter of 2014, the Board of Directors granted stock awards of 53,000 shares to six of the Company's officers. The awards were fully vested upon grant and $500,000 was recognized as compensation expense in Underwriting and operating expense based on fair value of $9.44 per share, which was the closing price of our Common Stock on the date of grant. Additionally, in the third quarter of 2014, the Board of Directors granted stock awards of 20,000 shares to the two independent directors of the Company. The awards were fully vested upon grant and $190,000 was recognized as director fees expense in Underwriting and operating expense based on fair value of $9.50 per share, which was the closing price of our Common Stock on the date of grant. There were no stock awards granted or exercised in 2013.

(16) Commitments and Contingencies

Legal Proceedings

In the normal course of its operations, the Company is named as defendant in various legal actions seeking monetary damages, including cases involving business disputes and those involving allegations that the Company wrongfully denied insurance claims and is liable for damages. Some cases involving insurance claims seek amounts significantly in excess of our policy limits. In the opinion of the Company's management, based on the information currently available, the ultimate liability, if any, resulting from the disposition of such litigation will not have a material adverse effect on the Company's consolidated financial position or results of operations. However, in view of the uncertainties inherent in such litigation, it is possible that the ultimate cost to the Company might exceed the reserves we have established by amounts that could have a material adverse effect on the Company's future results of operations, financial condition and cash flows in a particular reporting period.

In November 2010, a claim for recovery of damages of less than $500 in a Personal Injury Protection ("PIP") in Dade County, Florida (Feijoo v. MGA Insurance Company, Inc.) was amended, with the plaintiff seeking to convert the case to a putative class action representing all persons similarly situated with respect to PIP claims in Florida against MGA. The Amended Complaint seeks damages of an unspecified amount and equitable and other relief. In August 2012, the Court dismissed the class action claims with prejudice, and the individual PIP case was subsequently transferred to County Court. In January 2015, the County Court granted the Plaintiff's motion to transfer the case back to the 11th Circuit Court in Dade County. Dismissal of the class action claims is subject to appeal by the named Plaintiff at the conclusion of the individual case. While such litigation is inherently unpredictable, the Company believes that the complaint is without merit and intends to defend itself vigorously. As a result, the Company is unable to reasonably estimate a possible range of losses, if any, arising from the litigation.

In April 2011, a putative class action was filed in Dade County, Florida, against MGA (Advanced Chiropractic Center Company, D/B/A Accident & Wellness Centers, as Assignee v. MGA Insurance Company, Inc.). This lawsuit, purportedly brought on behalf of all persons similarly situated with respect to PIP claims in Florida, asserts that the defendant has failed to comply with requirements of the PIP law by improperly calculating the amounts charged against PIP deductibles and seeks damages of an unspecified amount and equitable and other relief. In November 2013, the lawsuit was dismissed without prejudice. While such litigation is inherently unpredictable, the Company believes that the complaint was without merit and the Company was prepared to defend itself against it vigorously. As a result, the Company is unable to reasonably estimate a possible range of losses, if any, arising from the litigation if suit is brought again.

In February 2014, a complaint was filed in United States District Court for the Middle District of Florida by 20 automobile body shops, naming as defendants approximately 40 insurance companies, including MGA (A & E Auto Body, Inc. et al. v. 21st Century Centennial Insurance Company d/b/a Farmers Insurance Group, et al.). The Complaint alleges various anticompetitive practices used by the defendants to control and depress automobile damage repair costs in Florida. In August 2014, this case was consolidated by the U.S. Judicial Panel on Multidistrict Litigation with four similar cases pending in other states (the five cases are against over 80 insurers), with further proceedings to be conducted in the Middle District of Florida (MGA is not a defendant in any of the other cases). In January 2015, the Amended Complaint was dismissed without prejudice as to most counts. A Second Amended Complaint was filed in February 2015, and motions to dismiss that Complaint are pending. While such litigation is inherently unpredictable, the Company believes that the complaint is without merit and intends to defend the case vigorously. As a result, the Company is unable to reasonably estimate a possible range of losses, if any, arising from the litigation

Off-balance-sheet-risk

The Company does not have any financial instruments where there is off-balance-sheet-risk of accounting loss due to credit or market risk. There is credit risk in the premiums receivable and reinsurance balances receivable of the Company. At December 31, 2014 and 2013, the Company did not have any claims receivables by individual reinsurers that were material with regard to shareholders' equity.

(17) Leases

The Company entered into a ten-year lease agreement for the home office in May of 2005. After the Company amended the lease in 2014, a total of 65,737 square feet of office space were leased extending the lease a further ten years until September 2026. Under the terms of this lease, the Company has the option of terminating the lease agreement at the end of September 2023, subject to payment of a penalty. The Company entered into an eleven-year lease agreement for the Florida office in May of 2010 that includes rentable office space of 22,480 square feet. Under the terms of this lease, the Company has the option of renewing for two additional five year periods through the year 2031. The Company also has the option of terminating the lease agreement during the sixth year of the term subject to payment of a penalty.

The Company assumed the lease of the commercial lease agreement on the auto dealership on the acquisition date. Under the terms of the lease, the Company has the option of extending the lease.

The following table summarizes the Company's lease obligations as of December 31, 2014 (amounts in thousands).

Year		Amount
2014	$	3,044
2015		2,894
2016		2,467
2017		2,508
2018		2,548
Thereafter		12,925
Total	$	26,386

Rental expense is recognized over the term of the lease on a straight line basis for the Florida and the dealership leases only and the home office is expensed as incurred. Rental expense for the Company was $2,500,000 and $1,900,000 for the years ended December 31, 2014 and 2013, respectively.

(18) Related Parties

In January 2013, the Company entered into a Sponsorship Agreement with Stallings Capital Group Consultants, Ltd. dba Bob Stallings Racing ("Stallings Racing"), continuing the Company's role as the primary sponsor of a Daytona Prototype Series racing team through December 31, 2013. The Sponsorship Agreement provides that, in consideration of the payment by the Company of a sponsorship fee of $1,000,000, the Company receives various benefits customary for sponsors of Daytona Prototype Series racing teams, including rights relating to signage on team equipment and access for customers and agents to certain race facilities. The related sponsorship fee was recorded in the Underwriting and operating expenses line item, consistent with prior sponsorship payments.

Stallings Racing is owned and controlled by Robert W. Stallings, the Executive Chairman of the Company. The Company's Board of Directors authorized the agreement at a meeting in November 2013. In authorizing the agreement, the Board of Directors considered Mr. Stallings' role and concluded that, under the circumstances, the Sponsorship Agreement is fair to, and in the best interests of, the Company. The Sponsorship Agreement contains provisions protecting the Company's interests, including a termination provision that permits the Company to unilaterally terminate the agreement at any time and thereby cease making installment payments of the sponsorship fee. In November 2013, the Board of Directors authorized a Sponsorship Agreement for 2014 under similar terms and conditions as the 2013 Sponsorship Agreement, with a sponsorship fee of $690,000.

(19) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through May 29, 2015, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.