GAINSCO INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditor's Report Thereon)

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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, 2015 and 2014, 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 audits 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.

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, 2015 and 2014, 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 3, 2016

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(Amounts in thousands, except share data)

Assets		2015	2014
Investments (notes 1, 2 and 3):			
Bonds, available for sale – at fair value (amortized cost: $161,673 – 2015, $163,474 – 2014)	$	158,160	164,407
Preferred stocks, available for sale – at fair value (cost: $950 – 2015, $1,950 – 2014)		1,171	2,130
Common stocks, available for sale – at fair value (cost: $6,526 – 2015, $428 – 2014)		5,194	447
Certificates of deposit – at cost, which approximates fair value (amortized cost: $100 – 2015 and 2014)		100	100
Other long-term investments –equity method (which approximates) cost		13,116	16,203
Short-term investments – at fair value (amortized cost: $39,354 – 2015, $23,219 – 2014)		39,328	23,206
Total investments		217,069	206,493
Cash		1,715	3,173
Accrued investment income (note 1)		1,747	1,577
Premiums receivable (net of allowance for doubtful accounts: $847 – 2015, $823 – 2014) (note 1)		53,471	46,717
Finance receivables (net of allowance for doubtful accounts: $2 – 2015, $1 – 2014) (note 1)		2,305	562
Ceded unpaid claims and claim adjustment expenses (notes 9 and 11)		-	11
Deferred policy acquisition costs (note 1)		9,332	8,022
Property and equipment (net of accumulated depreciation and amortization: $11,206 – 2015, $9,891 – 2014) (notes 1 and 10)		13,142	9,548
Auto vehicle inventory (notes 1 and 7)		9,035	9,863
Deferred Federal income taxes (net of valuation allowance: $0 – 2015, $2,850 – 2014) (notes 1 and 12)		15,894	12,556
Other assets		3,195	2,917
Intangible assets (notes 1 and 8)		5,040	5,645
Goodwill – insurance operations (notes 1 and 8)		609	609
Total assets	$	332,554	307,693

(Continued)

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(Amounts in thousands, except share data)

Liabilities and Shareholders' Equity		2015	2014
Liabilities:			
Unpaid claims and claim adjustment expenses (notes 1 and 11)	$	87,664	76,944
Unearned premiums (note 1)		62,194	54,509
Accounts payable		12,569	12,902
Reinsurance balances payable (note 9)		190	273
Vehicle floor plan payable (notes 1 and 7)		8,741	9,388
Note payable (note 4)		1,640	-
Subordinated debentures (note 5)		43,000	43,000
Mortgage loan payable (note 6)		5,609	-
Construction loan payable (note 6)		-	3,937
Current Federal income taxes (notes 1 and 12)		131	614
Other liabilities		7,267	5,318
Cash overdraft		7,809	5,832
Total liabilities		236,814	212,717
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, 5,338,232 shares issued and 4,860,900 shares outstanding at December 31, 2015, 5,221,232 shares issued and 4,962,582 shares outstanding at December 31, 2014)		534	522
Additional paid-in capital		137,908	136,212
Accumulated deficit		(32,165)	(38,309)
Accumulated other comprehensive (loss) income (notes 2 and 3)		(3,069)	739
Treasury stock, at cost (477,332 shares at December 31, 2015, 258,650 shares at December 31, 2014) (notes 1 and 13)		(7,468)	(4,188)
Total shareholders' equity		95,740	94,976
Total liabilities and shareholders' equity	$	332,554	307,693

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2015 and 2014

(Amounts in thousands, except per share data)

		2015	2014
Revenues:			
Net premiums earned (notes 1 and 9)	$	218,867	194,743
Net investment income (note 2)		4,770	4,187
Realized investment gains (losses) (note 2 and 3), net:			
Other-than-temporary impairment losses		(79)	(7)
Other realized investment gains, net		157	206
Total realized investment gains, net		78	199
Agency revenues (note 1)		11,795	10,895
Gross auto sales (note 1)		38,489	35,946
Other revenue, net (note 1)		1,180	8,093
Total revenues		275,179	254,063
Expenses:			
Claims and claim adjustment expenses (notes 1, 9 and 11)		157,875	135,556
Policy acquisition costs (note 1)		31,723	28,154
Underwriting and operating expenses		44,241	40,487
Cost of auto sales (note 1)		34,268	32,130
Interest expense, net (notes 4 and 5)		1,931	2,048
Total expenses		270,038	238,375
Income before Federal income taxes		5,141	15,688
Federal income taxes (notes 1 and 12):			
Current expense		374	861
Deferred benefit		(1,377)	(6,748)
Total income tax benefit		(1,003)	(5,887)
Net income	$	6,144	21,575
Income per common share (notes 1, 13 and 14):			
Basic	$	1.24	4.38
Diluted	$	1.24	4.38
Weighted average common shares outstanding (notes 13 and 14):			
Basic		4,937	4,927
Diluted		4,937	4,927

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2015 and 2014

(Amounts in thousands)

	2015	2014
Net income	$ 6,144	21,575
Other comprehensive income (loss) before tax:		
Unrealized gains (losses) on investments:		
Unrealized holding gains (losses) arising during the period	(5,691)	1,977
Less: Reclassification adjustments for realized gains included in net income	(78)	(199)
Unrealized gains (losses) on investments, net	(5,769)	1,778
Other comprehensive income (loss), before tax	(5,769)	1,778
Income tax (benefit) expense related to components of other comprehensive (loss) income	(1,961)	605
Other comprehensive (loss) income, net of tax	(3,808)	1,173
Comprehensive income	$ 2,336	22,748

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2015 and 2014

(Amounts in thousands)

		2015	2014
Common Stock:			
Balance at beginning of year	$	522	515
Stock issuance		12	7
Balance at end of year	$	534	522
Additional paid-in capital:			
Balance at beginning of year	$	136,212	135,529
Stock issuance		(12)	(7)
Stock-based compensation expense		1,708	690
Balance at end of year	$	137,908	136,212
Accumulated deficit:			
Balance at beginning of year	$	(38,309)	(59,884)
Net income		6,144	21,575
Balance at end of year	$	(32,165)	(38,309)
Accumulated other comprehensive (loss) income:			
Balance at beginning of year	$	739	(434)
Other comprehensive (loss) income		(3,808)	1,173
Balance at end of year	$	(3,069)	739
Treasury stock:			
Balance at beginning of year		(4,188)	(4,188)
Stock repurchase		(3,280)	-
Balance at end of year		(7,468)	(4,188)
Total shareholders' equity end of year	$	95,740	94,976

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

(Amounts in thousands)

		2015	2014
Cash flows from operating activities:			
Net income	$	6,144	21,575
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization		4,801	4,488
Impairment of intangible assets		605	1,855
Other-than-temporary impairment of investments		79	7
Non-cash compensation expense		1,708	690
Realized gains (excluding other-than-temporary impairments)		(157)	(206)
Loss on sale of property and equipment		8	-
Deferred Federal income tax benefit		(1,377)	(6,748)
Changes in operating assets and liabilities, net of assets acquired:			
Accrued investment income		(170)	(95)
Premiums receivable		(6,754)	(6,081)
Finance receivables		(1,743)	1,172
Ceded unpaid claims and claim adjustment expenses		11	925
Deferred policy acquisition costs		(1,310)	(1,168)
Auto vehicle inventory		828	(3,262)
Other assets		(343)	130
Unpaid claims and claim adjustment expenses		10,720	3,448
Unearned premiums		7,685	6,823
Accounts payable		(333)	5,050
Reinsurance balances payable		(83)	(30)
Other liabilities		1,949	1,120
Current Federal income taxes		(483)	439
Net cash provided by operating activities	$	21,785	30,132

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GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

(Amounts in thousands)

		2015	2014
Cash flows from investing activities:			
Bonds available for sale:			
Sold	$	25,392	15,081
Matured		20,715	18,839
Purchased		(46,732)	(45,348)
Certificates of deposit:			
Matured		100	100
Purchased		(100)	(100)
Preferred stocks sold		1,002	488
Common stocks sold		296	-
Common stocks purchased		(6,439)	-
Other long-term investments sold		5,224	2,973
Other long-term investments purchased		(2,138)	(11,661)
Net change in short-term investments		(16,524)	1,460
Cash paid for acquisition, net of cash acquired		-	(1,146)
Property and equipment sold		(8)	-
Property and equipment purchased		(5,393)	(7,296)
Net cash used in investing activities		(24,605)	(26,610)
Cash flows from financing activities:			
Principal payment on note		-	(11,200)
Draw on note payable		1,640	1,300
Proceeds from floor plan financing		32,328	33,102
Repayments on floor plan financing		(32,975)	(31,083)
Principal payment on mortgage loan		(71)	(11,200)
Draw on construction loan payable		1,743	3,937
Purchase of treasury shares		(3,280)	-
Net change in cash overdraft		1,977	1,293
Net cash provided by (used in) financing activities		1,362	(2,651)
Net (decrease) increase in cash		(1,458)	871
Cash at beginning of year		3,173	2,302
Cash at end of year	$	1,715	3,173

Supplemental disclosures of cash flow information:
$1,970 and $2,168 in interest was paid during 2015 and 2014, respectively (notes 4 and 5).
$757 and $374 in income tax payments were made during 2015 and 2014, 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., Bob Stallings Car Rental, Inc., First Win Automotive, Inc., GAINSCO Automotive Holdings 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 products to a wide range of customers who present varying degrees of potential risk to the Company, and we strive to price our products to reflect this range of risk accordingly, in order to earn an underwriting profit. Simultaneously, when actuarially prudent, we attempt to position our product pricing 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, Tennessee 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.

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 2015 and 2014. 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, 2015 and 2014, 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, 2015 and 2014 is summarized as follows:

		2015	2014
		(Amounts in thousands)	
Asset balance, beginning of period	$	8,022	6,854
Deferred commissions		25,679	22,937
Deferred premium taxes and marketing expenses		7,337	6,344
Amortization		(31,706)	(28,113)
Net change		1,310	1,168
Asset balance, end of period	$	9,332	8,022

(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) 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 no valuation allowance for any 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, 2015. 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, 2015, the Company has not identified any material uncertain tax positions in accordance with ASC 740-10-25. The Company is subject to U.S. federal income tax examinations by tax authorities for 2001 and subsequent years.

(h) 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.

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.

(i) 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.

(j) 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 – see note 7.

(k) Debt

Our debt consists of borrowings under a credit agreement with a commercial bank and subordinated debentures. The credit loan borrowings and subordinated debentures are carried at principal amount borrowed – see notes 4 and 5.

(l) Mortgage Loan

Our loan payable consist of mortgage loan that was converted from a construction loan under a loan agreement with a commercial bank. The lending was to finance the purchase of the land, building costs and certain building related costs paid outside of the construction contract. Upon completion of the building the loan was converted into a mortgage with principal and interest due quarterly. The loan balance is carried at the outstanding principal balance at December 31, 2015 – see note 6.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Earnings Per Share

Earnings per share ("EPS") for the years ended December 31, 2015 and 2014 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.

(r) Recently Issued Accounting Standards

In January 2016, the FASB updated its guidance related to the Financial Instruments-Overall Subtopic 825-10 of the ASC. The objective of this update is to enhance the reporting model for financial instruments to provide financial statement users with more decision-useful information. The major change in reporting from this update that will impact the Company is a requirement that equity investments (excluding those accounted for under the equity method of accounting or those that are consolidated) be measured at fair value with changes in fair value recognized in net income. While all of the Company’s equity investments are already measured at fair value (with the exception of those that are consolidated and those that are accounted for under the equity method of accounting), the Company currently classifies all of its investments in equity securities as available-for-sale, and as such, the changes in fair value are currently recognized in other comprehensive income rather than net income. This guidance is to be applied to annual and interim reporting periods beginning after December 15, 2017, with recognition of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Early adoption is not permitted. The Company will adopt this guidance during the first quarter of 2018. Adoption is not expected to impact consolidated stockholders' equity, but is expected to introduce a material amount of volatility to the Company's consolidated net income.

In May 2015, the FASB issued ASC Update No. 2015-09, (Topic 944) Financial Services- Insurance: Disclosures about Short-Duration Contracts. This ASC update requires several additional disclosures regarding short-duration insurance contracts, including; disaggregated incurred and paid claims development information, quantitative and qualitative information about claim frequency and duration, and the sum of incurred but not reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses along with a description of reserving methodologies. This information is required to be presented by accident year, for the number of years for which claims typically remain outstanding, but need not exceed 10 years. A reconciliation of the claims development disclosures to the aggregate carrying amount of the liability for unpaid claims and claim adjustment expenses, including a separate disclosure for reinsurance recoverables is also required for each period presented in the statement of financial position. In addition, this ASC requires insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. The updated guidance is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In April 2015, the FASB issued ASC Update No. 2015-03, (Subtopic 835-30) Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. This ASC update requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of a debt liability, consistent with debt discounts or premiums, and amortization of debt issuance cost shall be reported as interest expense. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASC update. The updated guidance is to be applied on a retrospective basis and early adoption is permitted. The update is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

In February 2015, the FASB updated its guidance related to the Consolidation Topic 810 of the ASC. The objective of this update is to improve consolidation guidance through changes in the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, while also eliminating the presumption that a general partner should consolidate a limited partnership. This guidance is effective for interim and annual periods beginning after December 15, 2015, and is to be applied either retrospectively or through a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. Early adoption is permitted. We do not expect the adoption of this standard to have a material impact on our financial condition or results of operations.

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.

All other codified accounting standards and interpretations of those standards issued during 2015 did not relate to accounting policies and procedures pertinent to the Company at this time.

(s) 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, 2015	Years ended December 31, 2014
		(Amounts in thousands)	
Fixed maturities	$	4,384	4,041
Preferred stocks		87	137
Common stocks		160	49
Other long-term investments		303	138
Short-term investments		111	85
		5,045	4,450
Investment expenses		(275)	(263)
Net investment income	$	4,770	4,187

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

		December 31, 2015				
		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	$	6,048	252	(2)	6,298	-
U.S. Government agencies		1,000	-	(1)	999	-
Corporate bonds		149,469	396	(4,424)	145,441	-
Mortgage backed		5,156	503	(237)	5,422	(69)
Preferred stocks, available for sale		950	259	(38)	1,171	-
Common stocks, available for sale		6,526	397	(1,729)	5,194	-
Certificates of deposit		100	-	-	100	-
Other long-term investments		13,116	-	-	13,116	-
Short-term investments		39,354	-	(26)	39,328	-
Total investments	$	221,719	1,807	(6,457)	217,069	(69)

(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, 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.

The following tables summarize the gross unrealized losses showing the length of time that investments have been continuously in an unrealized loss position as of December 31, 2015 and 2014:

		December 31, 2015					
		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	$	1,998	2	-	-	1,998	2
U.S. Government agencies		-	-	998	1	998	1
Corporate bonds		65,681	2,338	44,619	2,086	110,300	4,424
Mortgage backed		49	-	4,677	237	4,726	237
Preferred stocks		-	-	312	38	312	38
Common stocks		4,172	1,729	-	-	4,172	1,729
Short-term investments		17,361	26	-	-	17,361	26
Total investments	$	89,261	4,095	50,606	2,362	139,867	6,457

		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

The gross unrealized losses, shown in the above tables, totaling $2,362,000 and $778,000 as of December 31, 2015 and 2014, respectively, relate to 58 and 47 individual securities, respectively, that had been in an unrealized loss position for 12 months or more as of such dates. As of December 31, 2015, approximately 72% of the unrealized gross losses were with issuers rated as investment grade by Standard and Poor’s (“S&P”). The decline in market value is primarily related to an increase in credit risk aversion by investors. Other contributing factors are the decline in short term interest rates, such as the 3-month London Interbank Offered Rate for U.S. dollar deposits (“LIBOR”), and the related fall in the forward expectations for these short term yields since the time of acquisition of floating rate and “fixed to floating” coupon rate securities. 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, 2015 and 2014, the Company had $2,177,000 and $2,566,000 in par value for nonprime collateralized mortgage obligations ("Alt-A securities"), respectively. The carrying value and fair value of these investments were $1,856,000 and $1,661,000, respectively, at December 31, 2015 compared to $2,190,000 and $1,973,000, respectively, at December 31, 2014.

	As of December 31,	
Nonprime collateralized mortgage obligations	2015	2014
S&P Ratings:		
D	100%	100%

Included in the Company's fixed income portfolio are hybrid securities with a carrying value of $30,577,000 and fair value of $28,000,000. 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.

The Company disposed of its one security during 2015 that was 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, which had a carrying value of $848,000, and a fair value of $836,000, at December 31, 2014. No impairment had been taken on that security as management believed the probable outcome of principal and interest were to be paid in full and, accordingly, the impairment on that security is considered temporary.

Preferred stocks predominately consist of an auction preferred instrument 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, 2015, 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, 2015, we do not believe that these underlying shares are other-than-temporarily impaired based on the credit review of the issuer.

Common stocks predominately consist of shares of an exchange traded limited liability company, which invests in transportation and infrastructure related assets. This position resulted from the exchange of the Company's ownership in a private limited partnership, previously categorized as Other long-term investments, for these common shares in conjunction with the partnership going public through an initial public offering in 2015. As of December 31, 2015, we do not believe that these underlying shares are other-than-temporarily impaired based on the credit review of the issuer.

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 $5,004,000 and $4,988,000, at December 31, 2015 and 2014, 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, 2015 and 2014, by maturity, are shown below.

		2015		2014	
		Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(Amounts in thousands)			
Due in one year or less	$	28,520	28,503	24,365	24,396
Due after one year but within five years		91,031	89,867	94,193	94,304
Due after five years but within ten years		5,876	5,978	5,918	6,125
Due after ten years but within twenty years		2,426	2,473	2,109	2,208
Due beyond 20 years		29,714	27,188	30,961	31,390
Mortgage backed securities		5,156	5,422	7,978	8,214
	$	162,723	159,431	165,524	166,637

The following table summarizes the S&P ratings on the Company's bonds available for sale as of December 31, 2015:

Bonds available for sale	2015
S&P Ratings:	
AAA	5%
AA+	1
AA	1
AA-	3
A+	5
A	2
A-	9
BBB+	26
BBB	27
BBB-	12
BB+	1
BB and below	8
	100%

Proceeds from the sale of securities for the years ended December 31, 2015 and 2014 are presented in the following table:

		Years ended December 31,	
		2015	2014
		(Amounts in thousands)	
Proceeds:			
Bonds, available for sale	$	24,457	10,456
Bonds, available for sale principal pay downs	$	935	4,625
Preferred stocks, available for sale	$	1,002	488
Common stock, available for sale	$	296	-
Other invested assets	$	5,224	2,973

Realized gains and losses on investments for the years ended December 31, 2015 and 2014 are presented in the following table:

		Years ended December 31,	
		2015	2014
		(Amounts in thousands)	
Realized gains:			
Bonds, available for sale	$	187	216
Preferred stocks, available for sale		2	488
Short-term investments		2	4
Total realized gains		191	220
Realized losses:			
Bonds, available for sale		(31)	(2)
Common stocks, trading		(3)	(12)
Other invested assets		-	-
Total realized losses		(34)	(14)
Other-than-temporary impairment losses		(79)	(7)
Total realized investment gains, net	$	78	199

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 a disruption in the credit markets, which can create 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, 2015, 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, 2015	$	7,161
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		-
Credit loss impairments recognized in the current period on securities not previously impaired (1)		38
Additional credit loss impairments recognized in the current period on securities previously impaired		-
Increases due to the passage of time on previously recorded credit losses		-
Balance, December 31, 2015	$	7,199

(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 2015, the Company wrote down $38,000 in securities that were determined to have had an other-than-temporary decline in fair value. During 2014, the Company wrote down $7,000 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.

Valuation of Investments

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 security modeling capabilities available on the Bloomberg Professional System. The key inputs for mortgage securities 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, 2015 and 2014 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, 2015 and 2014 were as follows:

		December 31, 2015	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	$	6,298	6,298	-	-
U.S. Government agencies		998	-	998	-
Corporate bonds		145,441	-	145,441	-
Mortgage backed		5,423	-	5,423	-
Total available-for-sale securities		158,160	6,298	151,862	-
Preferred stocks		1,171	312	-	859
Common stocks		5,194	5,194	-	-
Certificates of deposit		100	100	-	-
Short-term investments		39,328	19,967	19,361	-
Total assets classified by ASC 320-10-65(1)	$	203,953	31,871	171,223	859
Percentage of total		100%	16%	84%	0%

(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, 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.

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, 2015 and 2014:

		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
		December 31,	
		2015	2014
		(Amounts in thousands)	
Beginning balance	$	1,567	2,044
Total gains or losses (realized/unrealized):			
Included in earnings (or changes in net assets)		-	-
Included in other comprehensive loss		48	(477)
Purchases, issuances, and settlements, net		(756)	-
Transfers in and/or out of Level 3		-	-
Ending balance	$	859	1,567

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, 2015 and 2014 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.

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 2015, the Company drew down on the line of credit totaling $1,640,000. 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) Loan Payable

(a) Mortgage Loan

In August 2015, the construction loan was converted into a mortgage loan with the same commercial bank per the loan agreement. The amount of the original loan note was $5,680,000 with interest payable quarterly on any outstanding principal balance at a floating rate equal to 3-month LIBOR plus 2.25%. Principal payments are payable quarterly at $71,000 per quarter. The outstanding mortgage loan amount was $5,609,000 as of December 31, 2015.

(b) Construction Loan

In connection with the construction of the 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. During the first quarter of 2015, the Company completed building for BSHI further drawing down on the loan by $1,743,000 for a total loan balance of $5,680,000.

The following table summarizes net interest expense recorded and interest payments made in 2015 and 2014:

		2015		2014	
		Net interest expense	Interest payments	Net interest expense	Interest payments
		(Amounts in thousands)			
Note payable	$	52	36	293	374
Subordinated debenture I		1,041	1,065	1,029	1,053
Subordinated debenture II		728	749	717	740
Mortgage loan payable		110	120	9	1
Total	$	1,931	1,970	2,048	2,168

(7) Inventory and Vehicle Floor Plan Payable

The components of inventory at December 31 are as follows:

		2015	2014
		(Amounts in thousands)	
New/demo vehicles	$	6,770	8,586
Used vehicles		1,990	1,093
Parts, accessories, and other		275	184
Auto vehicle inventory	$	9,035	9,863

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

		2015	2014
		(Amounts in thousands)	
Vehicle floor plan payable – new/demo	$	7,645	8,860
Vehicle floor plan payable – used		1,096	528
Vehicle floor plan note payable	$	8,741	9,388

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 $11,000,000.

At December 31, 2015, the monthly interest rate equaled 5.10%. The amount of the floor plan note as of December 31, 2015 totaled $8,741,000 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, 2015, BSHI expensed and paid interest on the floor plan note total $187,000 and $131,000, respectively. For the year ended December 31, 2014, BSHI expensed and paid interest on the floor plan note totaling $147,000.

(8) Goodwill and Intangible Assets

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

		2015	2014
		(Amounts in thousands)	
Goodwill – insurance operations	$	609	609
Intangible assets	$	5,040	5,645

(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, 2015 and 2014. 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, 2015. 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, 2015, we had $5,040,000 of intangible assets recorded on our Consolidated Balance Sheet. We performed a quantitative annual impairment test as of December 31, 2015, and we recorded a $605,000 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, 2014, and recorded a non-cash impairment charge of $1,855,000.

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, 2015 and 2014:

		December 31,	
		2015	2014
		(Amounts in thousands)	
Balances held in escrow	$	762	795
Premiums earned by assumption	$	265	363
Assumed unpaid claims and claim adjustment expenses	$	186	708

(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 had no ceded unpaid claims and CAE as of December 31, 2015. The Company had ceded unpaid claims and CAE of approximately $11,000 as of December 31, 2014.

Nonstandard Personal Auto Lines

In 2014, 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 and 2016, 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, 2015 and 2014, respectively, are set forth in the following table:

		December 31,	
		2015	2014
		(Amounts in thousands)	
Premiums earned – nonstandard personal auto	$	544	677
Claims and claim adjustment expenses – runoff	$	(11)	(14)

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	
		2015	2014
		(Amounts in thousands)	
Leasehold improvements	$	1,478	512
Land		1,755	1,755
Building		5,243	4,131
Furniture, fixtures and automobiles		5,286	2,978
Equipment		3,665	3,539
Software		6,921	6,524
Accumulated depreciation and amortization		(11,206)	(9,891)
Property and equipment, net	$	13,142	9,548
Depreciation expense	$	1,800	1,106

(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,	
		2015	2014
		(Amounts in thousands)	
Unpaid claims and claim adjustment expenses, beginning of period	$	76,944	73,495
Less: Ceded unpaid claims and claim adjustment expenses, beginning of period		11	936
Net unpaid claims and claim adjustment expenses, beginning of period		76,933	72,559
Net claims and claim adjustment expense incurred related to:			
Current period		162,040	128,508
Prior periods		(4,165)	7,048
Total net claim and claim adjustment expenses incurred		157,875	135,556
Net claims and claim adjustment expenses paid related to:			
Current period		99,210	80,590
Prior periods		47,934	50,592
Total net claim and claim adjustment expenses paid		147,144	131,182
Net unpaid claims and claim adjustment expenses, end of period		87,664	76,933
Plus: Ceded unpaid claims and claim adjustment expenses, end of period		-	11
Unpaid claims and claim adjustment expenses, end of period	$	87,664	76,944

The favorable development in net claims and CAE incurred in 2015 was primarily attributable to the difference in actual and expected claims frequency and severity associated with most of our coverages. The unfavorable development in net claims and CAE incurred related to prior periods for 2014 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, 2015, 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 favorable (unfavorable) development in nonstandard personal auto for claims occurring in prior accident years for each region for the years ended December 31, 2015 and 2014, excluding commercial runoff business, as the aforementioned table includes:

	December 31, 2015	December 31, 2014
	(Amounts in thousands)	
Region:		
Southeast (Florida, Georgia, South Carolina, Tennessee and Virginia)	$ 1,694	$ (7,077)
Southwest (Arizona, California, New Mexico, Nevada and Texas)	2,312	(35)
Net favorable (unfavorable) development	$ 4,006	$ (7,112)

(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, 2015	December 31, 2014
	(Amounts in thousands)	
Income tax expense at 34%	$ 1,748	5,334
Change in net valuation allowance	(2,850)	(11,993)
Other, net	99	772
Income tax benefit	$ (1,003)	(5,887)

The Company recognized a current tax expense for the alternative minimum tax for the years ended December 31, 2015 and 2014:

		2015	2014
		(Amounts in thousands)	
Current tax expense	$	374	861
Federal income tax paid	$	757	374

Under ASC 740-10-25, 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, 2015, the Company has not identified any material uncertain tax positions in accordance with ASC 740-10-25.

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, 2015:

		2015
Year set to expire		
2021	$	1,471
2022		13,687
2023		633
2027		12,901
NOL carryforward	$	28,692
Tax benefit of the NOL carryfoward	$	9,755

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 740-10-25.

		As of December 31, 2015	As of December 31, 2014
		(Amounts in thousands)	
Deferred tax assets:			
Net operating loss carryforward	$	9,755	11,274
Discount on unearned premium reserve		4,014	3,497
Unearned fees		1,078	1,047
Alternative Minimum Tax carryforward		1,132	1,045
Discount on unpaid claims and claim adjustment expenses		806	864
Business combination		496	462
Realized capital losses		485	538
Allowance for doubtful accounts		288	280
Net unrealized losses on investments		1,581	-
Other		3	-
Total deferred tax assets		19,638	19,007
Deferred tax liabilities:			
Deferred policy acquisition costs		3,151	2,706
Accrual of discount on bonds		370	329
Depreciation and amortization		223	185
Net unrealized gains on investments		-	381
Total deferred tax liabilities		3,744	3,601
Net deferred tax asset before valuation allowance		15,894	15,406
Valuation allowance		-	(2,850)
Net deferred tax asset	$	15,894	12,556

During 2015, the Company reduced the valuation allowance associated with the deferred tax asset by $2,850,000, which is the change in the expectation on the utilization of the NOL carryforwards and all temporary differences resulting in no valuation allowance. 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, 2015 of approximately $27,883,000. 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 $9,755,000 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 Company had no deferred tax valuation allowance at December 31, 2015.

(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, 5,338,232 shares were issued and 4,860,900 shares outstanding, and 5,221,232 shares were issued and 4,962,582 shares were outstanding as of December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company held 477,332 and 258,650 shares as treasury stock, respectively.

At December 31, 2015, Goff Moore Strategic Partners, LP ("GMSP") owned approximately 35% of the outstanding Common Stock, James R. Reis owned approximately 13% and Robert W. Stallings owned approximately 25% of the outstanding Common Stock. At December 31, 2014, 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.

There were no dividends to shareholders declared or paid in 2015 and 2014.

The following table reflects changes in the number of shares of common stock outstanding for the years ended December 31, 2015 and 2014:

	2015	2014
Shares outstanding		
Balance at beginning of period	4,962,582	4,889,582
Shares issued	117,000	73,000
Shares repurchased	(218,682)	-
Balance at end of period	4,860,900	4,962,582

In November 2007, the Board of Directors of the Company authorized the Company to repurchase shares of the Company's Common Stock with a purchase price up to $5 million in the open market and through negotiated transactions. The plan, which expired in December 2008, enabled the Company to purchase Common Stock from time to time in a manner consistent with the applicable laws and regulations, including the provisions of the safe harbor contained in Rule 10b-18 under the Exchange Act and subject to certain price, market, volume and timing constraints specified in the plan.

In May 2015, the Board of Directors of the Company, noting the expiration of the November 2007 share repurchase plan, authorized the repurchase of up to 1.5 million shares of the Company's Common Stock with a share value range of $15 to $17 per share. Under this plan, the Company was permitted to repurchase shares of the Company's Common Stock in private negotiated transactions with shareholders that had expressed an interest in selling their shares to the Company.

Under the terms of the May 2015 plan, the Company made the following repurchases:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased Under the Authorized Plans or Programs	(d) Amount of Shares that May Yet Be Purchased Under the Plans or Programs
08/01/2015 – 08/31/2015	170,545	$15.000	170,545	1,329,455
09/01/2015 – 09/30/2015	14,762	$15.000	14,762	1,314,693
10/01/2015 – 10/31/2015	30,245	$15.000	30,245	1,284,448
11/01/2015 – 11/30/2015	3,130	$15.000	3,130	1,281,318
Total	218,682	$15.000	218,682	1,281,318

In December 2015, the Board of Directors of the Company terminated the May 2015 share repurchase plan and authorized a new share repurchase plan. Under the new plan, the Company is authorized to purchase up to 1.5 million shares of the Company's Common Stock, at a price per share not to exceed $15.00, in private negotiated transactions with stockholders that express an interest in selling their shares to the Company.

The following table presents the statutory policyholders' surplus for MGA as of December 31, 2015 and 2014, and the statutory net income for MGA for the year ended December 31, 2015 and 2014:

		2015	2014
		(Amounts in thousands)	
Statutory policyholders' surplus	$	100,533	110,583
Statutory net income	$	7,174	11,412

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, 2015, $10,053,000 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, 2015, the Company's RBC authorized control level was $14,272,000 and the total adjusted capital was $100,533,000.

(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,	
		2015	2014
Numerator:			
Net income	$	6,144	21,575
Numerator for basic earnings per share – income available to common shareholders		6,144	21,575
Numerator for diluted earnings per share – income available to common shareholders after assumed conversions	$	6,144	21,575
Denominator:			
Denominator for basic earnings per share – weighted average common shares outstanding		4,937	4,927
Denominator for diluted earnings per share – adjusted weighted average common shares outstanding & assumed conversions		4,937	4,927
Basic earnings per share	$	1.24	4.38
Diluted earnings per share	$	1.24	4.38

(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 $403,000 and $368,000 for 2015 and 2014, 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. Mr. Buxton retired in December 2015, and his agreement expired.

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. Effective September 2015, the Company amended Mr. Anderson's agreement solely to change his base annual salary, and amended and restated the employment agreements with Messrs. Stallings and Reis to change their base annual salaries and to align their agreements more closely with Mr. Anderson's agreement.

The terms of the employment agreements with Messrs. Stallings and Reis are each three years, and are automatically renewed for successive one year terms on the same terms and conditions on each anniversary of the effective date, unless either party gives notice of an intention not to renew.

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.

The Company entered into an executive severance agreement in October 2015 with Drew F. Nachowiak, the General Counsel of the Company. The agreement generally provides 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, an amount equal to the base annual salary of the executive as of the date that the executive's employment with the Company ends. Such amount is payable over a 12 month period. The executive severance agreement does not supersede a change in control agreement or any other severance agreement the employee may have with the Company.

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 2015, this deferred compensation plan was amended for all participants to add an additional year (2019) and to recalibrate the performance targets, as permitted by the agreements. The amended plan agreements have a five-year performance period from 2015 through 2019 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, as determined per the agreement). 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. In addition, during 2015 separate deferred compensation agreements were entered into with certain designated key staff employees. Compensation pursuant to these agreements is recognized based on the key individual continuing each year in that designated key employee capacity. The compensation is recognized as expense in the current year and deferred for payment five years later under the terms of the plan. Based on the results of the 2015 and 2014 fiscal year, compensation expense was recorded in the amount of $1,008,000 and $510,000, respectively.

In the second quarter of 2015, the Board of Directors granted stock awards totaling 107,000 shares to five of the Company's officers. The awards were fully vested upon grant and $1,562,000 was recognized as compensation expense in Underwriting and operating expense based on fair value of $14.60 per share, which was the closing price of our Common Stock on the date of grant. Additionally, the Board of Directors granted stock awards totaling 10,000 shares to the two independent directors of the Company. The awards were fully vested upon grant and $146,000 was recognized as director fees expense in Underwriting and operating expense based on fair value of $14.60 per share, which was the closing price of our Common Stock on the date of grant.

In the second quarter of 2014, the Board of Directors granted stock awards totaling 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 totaling 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.

(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. In November 2015 an agreed order was entered to stay the resolution of the individual case pending resolution of two similarly situated cases not involving MGA. 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 February 2015, Bob Stallings Hyundai, Inc., an indirect subsidiary of the Company ("BSH"), brought an arbitration action against Dallas Hyundai, Inc. ("DHI") and its three owners alleging that they had made financial misrepresentations in the purchase and sale agreement under which BSH had purchased the assets of DHI in November 2013. In June 2015, DHI and the other three respondents filed a counter-complaint in the arbitration alleging breach of contract by BSH and seeking dismissal of BSH's complaint, the return of certain files and the awarding of their attorney's fees. While such litigation is inherently unpredictable, the Company believes that the counter-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 December 2015, Bob Stallings Hyundai, Inc., an indirect subsidiary of the Company ("BSH"), was served with a lawsuit that had been filed in state district court in Dallas County, Texas. In the lawsuit two former employees of BSH allege that they were wrongfully terminated by the management of BSH. The individuals are seeking unspecified damages, including lost wages and benefits (past and future). While such litigation is inherently unpredictable, management believes that the allegations are without merit and intends to vigorously defend the lawsuit. 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, 2015 and 2014, 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 following table summarizes the Company's lease obligations as of December 31, 2015 (amounts in thousands).

Year		Amount
2015	$	2,963
2016		2,904
2017		2,508
2018		2,548
2019		2,589
Thereafter		10,336
Total	$	23,848

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 $2,808,000 and $2,500,000 for the years ended December 31, 2015 and 2014, respectively.

(18) Transactions with Related Persons

The Company has evaluated transactions with related persons from the balance sheet date through May 3, 2016, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.

(19) Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through May 3, 2016, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.