American Midstream Partners, LP
Form 10-Q
November 09, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended
September 30, 2015
or

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

For the transition period from to
Commission File Number: 001-35257

AMERICAN MIDSTREAM PARTNERS, LP
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	27-0855785 (I.R.S. Employer Identification No.)
1400 16th Street, Suite 310 Denver, CO (Address of principal executive offices)	80202 (Zip code)

(720) 457-6060
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No

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

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

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

There were 30,425,829 common units, 8,930,336 Series A Units and 1,325,225 Series B Units of American Midstream Partners, LP outstanding as of November 6, 2015. Our common units trade on the New York Stock Exchange under the ticker symbol “AMID.”

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Glossary of Terms

As generally used in the energy industry and in this Quarterly Report on Form 10-Q (the “Quarterly Report”), the identified terms have the following meanings:

Bbl	Barrels: 42 U.S. gallons measured at 60 degrees Fahrenheit.
Bcf	Billion cubic feet.
Btu	British thermal unit; the approximate amount of heat required to raise the temperature of one pound of water by one degree Fahrenheit.
Condensate	Liquid hydrocarbons present in casinghead gas that condense within the gathering system and are removed prior to delivery to the gas plant. This product is generally sold on terms more closely tied to crude oil pricing.
/d	Per day.
FERC	Federal Energy Regulatory Commission.
Fractionation	Process by which natural gas liquids are separated into individual components.
GAAP	Accounting principles generally accepted in the United States of America.
Gal	Gallons.
MMBtu	Million British thermal units.
Mcf	Thousand cubic feet.
MMcf	Million cubic feet.
Mgal	One thousand gallons.
NGL or NGLs	Natural gas liquid(s): The combination of ethane, propane, normal butane, isobutane and natural gasoline that, when removed from natural gas, become liquid under various levels of higher pressure and lower temperature.
Throughput	The volume of natural gas transported or passing through a pipeline, plant, terminal or other facility during a particular period.

As used in this Quarterly Report, unless the context otherwise requires, “we,” “us,” “our,” the “Partnership” and similar terms refer to American Midstream Partners, LP, together with its consolidated subsidiaries.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited, in thousands)

	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$—	$499
Accounts receivable	4,966	4,924
Unbilled revenue	16,065	24,619
Risk management assets	1,177	688
Other current assets	7,136	15,554
Current deferred tax assets	3,326	3,086
Total current assets	32,670	49,370
Property, plant and equipment, net	638,939	582,182
Goodwill	134,853	142,236
Intangible assets, net	102,052	106,306
Investment in unconsolidated affiliates	82,571	22,252
Other assets, net	14,401	14,298
Total assets	$1,005,486	$916,644
Liabilities and Partners' Capital		
Current liabilities		
Accounts payable	$3,754	$20,326
Accrued gas purchases	7,881	14,326
Accrued expenses and other current liabilities	17,364	25,800
Current portion of long-term debt	—	2,908
Risk management liabilities	—	215
Total current liabilities	28,999	63,575
Asset retirement obligations	35,254	34,645
Other liabilities	299	126
Long-term debt	508,650	372,950
Deferred tax liabilities	9,075	8,199
Total liabilities	582,277	479,495
Commitments and contingencies (See Note 17)		
Convertible preferred units		
Series A convertible preferred units (8,930 thousand and 5,745 thousand units issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	165,332	107,965
Equity and partners' capital		
General Partner Interests (536 thousand and 392 thousand units issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	(105,869)	(2,450)
Limited Partner Interests (30,269 thousand and 22,670 thousand units issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	325,867	294,695
Series B convertible units (1,325 thousand and 1,255 thousand units issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	33,377	32,220
Accumulated other comprehensive income (loss)	(22)	2
Total partners' capital	253,353	324,467

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Noncontrolling interests	4,524	4,717
Total equity and partners' capital	257,877	329,184
Total liabilities, equity and partners' capital	$1,005,486	$916,644

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited, in thousands, except for per unit amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	$54,825	$69,699	$186,485	$227,940
Gain (loss) on commodity derivatives, net	816	606	1,274	283
Total revenue	55,641	70,305	187,759	228,223
Operating expenses:				
Purchases of natural gas, NGLs and condensate	24,431	46,690	86,742	155,729
Direct operating expenses	15,328	11,884	43,162	31,889
Selling, general and administrative expenses	7,639	5,875	20,145	17,105
Equity compensation expense	574	337	2,822	1,132
Depreciation, amortization and accretion expense	9,160	5,706	28,099	19,350
Total operating expenses	57,132	70,492	180,970	225,205
Gain (loss) on sale of assets, net	(32)	(103)	(3,010)	(124)
Operating income (loss)	(1,523)	(290)	3,779	2,894
Other income (expense):				
Interest expense	(3,553)	(1,430)	(9,719)	(5,013)
Other income (expense)	—	(672)	—	(672)
Earnings in unconsolidated affiliates	1,094	117	1,265	117
Net income (loss) before income tax (expense) benefit	(3,982)	(2,275)	(4,675)	(2,674)
Income tax (expense) benefit	(592)	(122)	(1,065)	(260)
Net income (loss) from continuing operations	(4,574)	(2,397)	(5,740)	(2,934)
Income (loss) from discontinued operations, net of tax	(53)	(26)	(79)	(582)
Net income (loss)	(4,627)	(2,423)	(5,819)	(3,516)
Net income (loss) attributable to noncontrolling interests	34	33	80	207
Net income (loss) attributable to the Partnership	$(4,661)	$(2,456)	$(5,899)	$(3,723)
General Partner's Interest in net income (loss)	$(60)	$(32)	$(76)	$(48)
Limited Partners' Interest in net income (loss)	$(4,601)	$(2,424)	$(5,823)	$(3,675)
Distribution declared per common unit (a)	$0.4725	$0.4625	$1.4175	$1.3775
Limited partners' net income (loss) per common unit (See Note 4 and Note 14):				
Basic and diluted:				
Income (loss) from continuing operations	$(0.48)	$(0.58)	$(1.02)	$(1.52)
Income (loss) from discontinued operations	—	—	—	(0.05)
Net income (loss)	$(0.48)	$(0.58)	$(1.02)	$(1.57)
Weighted average number of common units outstanding:				
Basic and diluted	23,987	13,204	23,154	11,409

(a) Distributions declared and paid during the three and nine months ended September 30, 2015 and 2014 related to prior periods' earnings.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited, in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$(4,627)	$(2,423)	$(5,819)	$(3,516)
Unrealized gain (loss) on postretirement benefit plan assets and liabilities	10	7	(24)	53
Comprehensive income (loss)	(4,617)	(2,416)	(5,843)	(3,463)
Less: Comprehensive income (loss) attributable to noncontrolling interests	34	33	80	207
Comprehensive income (loss) attributable to the Partnership	$(4,651)	$(2,449)	$(5,923)	$(3,670)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Statements of Changes in Partners’ Capital
and Noncontrolling Interest
(Unaudited, in thousands)

	General Partner Interest	Limited Partner Interest	Series B Convertible Units	Accumulated Other Comprehensive Income	Total Partners' Capital	Noncontrolling Interest
Balances at December 31, 2013	$2,696	$71,039	$—	$104	$73,839	$4,628
Net income (loss)	(48)	(3,675)	—	—	(3,723)	207
Issuance of common units to public, net of offering costs	—	204,335	—	—	204,335	—
Issuance of Series B units	—	—	31,671	—	31,671	—
Unitholder contributions	2,964	—	—	—	2,964	—
Unitholder distributions	(1,857)	(27,968)	—	—	(29,825)	—
Issuance and exercise of warrant	(7,164)	7,164	—	—	—	—
Net distributions to noncontrolling interests	—	—	—	—	—	(273)
Acquisitions of noncontrolling interests	—	21	—	—	21	(29)
LTIP vesting	(696)	901	—	—	205	—
Tax withholding repurchase	—	(253)	—	—	(253)	—
Equity compensation expense	999	—	—	—	999	—
Other comprehensive loss	—	—	—	53	53	—
Balances at September 30, 2014	$(3,106)	$251,564	$31,671	$157	$280,286	$4,533
Balances at December 31, 2014	$(2,450)	$294,695	$32,220	$2	$324,467	$4,717
Net income (loss)	(76)	(5,823)	—	—	(5,899)	80
Issuance of common units, net of offering costs	—	80,971	—	—	80,971	—
Issuance of Series B units	—	—	1,157	—	1,157	—
Unitholder contributions	1,973	—	—	—	1,973	—
Unitholder distributions	(4,890)	(45,800)	—	—	(50,690)	—
Unitholder distributions for Delta House	(100,649)	—	—	—	(100,649)	—
Net distributions to noncontrolling interests	—	—	—	—	—	(101)
Acquisition of noncontrolling interest	—	(20)	—	—	(20)	(172)
LTIP vesting	(2,404)	2,599	—	—	195	—
	—	(755)	—	—	(755)	—

Tax withholding repurchase						
Equity compensation expense	2,627	—	—	—	2,627	—
Other comprehensive income	—	—	—	(24)	(24)	—
Balances at September 30, 2015	$(105,869)	$325,867	$33,377	$(22)	$253,353	$4,524

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income (loss)	$(5,819)	$(3,516)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, amortization and accretion expense	28,099	19,350
Amortization of deferred financing costs	1,029	1,894
Amortization of weather derivative premium	694	794
Unrealized (gain) loss on commodity derivatives, net	(523)	(592)
Non-cash compensation expense	2,891	1,200
Postretirement expense (benefit)	55	(35)
(Gain) loss on sale of assets, net	3,160	209
Loss on impairment of noncurrent assets held for sale	—	673
Deferred tax expense (benefit)	876	(58)
Changes in operating assets and liabilities, net of effects of assets acquired and liabilities assumed:		
Accounts receivable	(42)	(599)
Unbilled revenue	8,554	1,913
Risk management assets and liabilities	(875)	(965)
Other current assets	1,996	2,858
Other assets, net	21	(608)
Accounts payable	(3,847)	624
Accrued gas purchases	(6,445)	(2,734)
Accrued expenses and other current liabilities	1,652	(1,446)
Asset retirement obligations	—	(690)
Other liabilities	155	(32)
Net cash provided by operating activities	31,631	18,240
Cash flows from investing activities		
Cost of acquisitions, net of cash acquired and settlements	7,383	(110,909)
Additions to property, plant and equipment	(111,864)	(41,257)
Proceeds from disposals of property, plant and equipment	4,797	6,323
Investment in unconsolidated affiliates	(64,406)	(12,000)
Return of capital from unconsolidated affiliates	5,303	983
Restricted cash	6,475	—
Net cash used in investing activities	(152,312)	(156,860)
Cash flows from financing activities		
Proceeds from issuance of common units to public, net of offering costs	80,983	204,335
Unitholder contributions	1,905	2,896
Unitholder distributions	(36,935)	(19,549)
Issuance of Series A Units	45,000	—
Issuance of Series B Units	—	30,000
Unitholder distributions for Delta House	(100,649)	—
Acquisition of noncontrolling interests	(74)	(8)
Net distributions to noncontrolling interests	(101)	(273)
LTIP tax netting unit repurchase	(755)	(253)

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Payment of deferred financing costs	(1,984)	(3,380)
Payments on other debt	(2,908)	(2,217)
Borrowings on other debt	—	170
Payments on long-term debt	(152,000)	(212,670)
Borrowings on long-term debt	287,700	139,635
Net cash provided by financing activities	120,182	138,686
Net increase (decrease) in cash and cash equivalents	(499)	66
Cash and cash equivalents		
Beginning of period	499	393
End of period	$—	$459
Supplemental cash flow information		
Interest payments, net	$7,606	$4,064
Supplemental non-cash information		
Increase (decrease) in accrued property, plant and equipment	$(24,666)	$17,746
Accrued paid in-kind unitholder distributions for Series A Units	12,598	9,925
In-kind unitholder distributions for Series B Units	1,157	1,671

The accompanying notes are an integral part of these condensed consolidated financial statements.

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American Midstream Partners, LP and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)
1. Organization and Basis of Presentation

General

American Midstream Partners, LP (the "Partnership", "we", "us", or "our"), was formed on August 20, 2009 as a Delaware limited partnership for the purpose of operating, developing and acquiring a diversified portfolio of midstream energy assets. The Partnership's general partner, American Midstream GP, LLC (the "General Partner"), is 95% owned by High Point Infrastructure Partners, LLC ("HPIP") and 5% owned by AIM Midstream Holdings, LLC. We hold our assets primarily in a number of wholly owned limited liability companies, two limited partnerships and a corporation. Our capital accounts consist of notional general partner units and limited partner interests.

Nature of Business

We are engaged in the business of gathering, treating, processing, and transporting natural gas, fractionating NGLs, transporting oil and storing specialty chemical products through our ownership and operation of twelve gathering systems, five processing facilities, three fractionation facilities, three marine terminal sites, three interstate pipelines, five intrastate pipelines and one oil pipeline. We also own a 66.7% non-operated interest in Main Pass Oil Gathering, LP ("MPOG"), a crude oil gathering and processing system, a 50% undivided, non-operated interest in the Burns Point Plant, a natural gas processing plant, a 46% non-operated interest in Mesquite, an off-spec condensate fractionation project, and a 12.9% non-operated interest in the Delta House floating production system and related pipeline infrastructure ("Delta House"). Our primary assets, which are strategically located in Alabama, Georgia, Louisiana, Mississippi, North Dakota, Tennessee, Texas and the Gulf of Mexico, provide critical infrastructure that links producers of natural gas, NGLs, condensate and specialty chemicals to numerous intermediate and end-use markets. We currently operate more than 3,000 miles of pipelines that gather and transport over 1 Bcf/d of natural gas and operate approximately 1.8 million barrels of storage capacity across three marine terminal sites.

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The year-end balance sheet data was derived from consolidated audited financial statements but does not include disclosures required by GAAP for annual periods. The information furnished herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of financial position and results of operations for the respective interim periods.

Our financial results for the three and nine months ended September 30, 2015, are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These unaudited condensed consolidated financial statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014 (“Annual Report”) filed with the Securities and Exchange Commission (the "SEC") on March 10, 2015.

Consolidation Policy

The accompanying condensed consolidated financial statements include the accounts of American Midstream Partners, LP, and its controlled subsidiaries. All significant inter-company accounts and transactions have been eliminated in the preparation of the accompanying condensed consolidated financial statements. As of September 30, 2015, we held a 50% undivided interest in the Burns Point natural gas processing plant in which we are responsible for our proportionate share of the costs and expenses of the facility. Our condensed consolidated financial statements reflect our proportionate share of the revenues, expenses, assets and liabilities of this undivided interest. We also hold a 92.2% undivided interest in the Chatom Processing and Fractionation facility (the "Chatom System"). Our condensed consolidated financial statements reflect the accounts of the Chatom System and the interests in the Chatom System held by non-affiliated working interest owners that are reflected as noncontrolling interests in the Partnership's condensed consolidated financial statements.

Investment in Unconsolidated Affiliates

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Equity investments in which the Partnership exercises significant influence, but does not control and is not the primary beneficiary, are accounted for using the equity method and are reported in Investment in unconsolidated affiliates in the accompanying condensed consolidated balance sheets.

The Partnership believes the equity method is an appropriate means for it to recognize increases or decreases measured by GAAP in the economic resources underlying the investments. Regular evaluation of these investments is appropriate to evaluate any potential need for impairment. The Partnership uses evidence of a loss in value to identify if an investment has declined in value, other than a temporary decline.

The Partnership accounts for its 66.7% non-operated interest in MPOG, its 46.0% non-operated interest in Mesquite and its 12.9% non-operated interest in Delta House under the equity method.

Use of Estimates

When preparing condensed consolidated financial statements in conformity with GAAP, management must make estimates and assumptions based on information available at the time. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosures of contingent assets and liabilities as of the date of the financial statements. Estimates and assumptions are based on information available at the time such estimates and assumptions are made. Adjustments made with respect to the use of these estimates and assumptions often relate to information not previously available. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements. Estimates and assumptions are used in, among other things i) estimating unbilled revenues, product purchases and operating and general and administrative costs, ii) developing fair value estimates, including assumptions for future cash flows and discount rates, iii) analyzing long-lived assets, goodwill and intangible assets for possible impairment, iv) estimating the useful lives of assets and v) determining amounts to accrue for contingencies, guarantees and indemnifications. Actual results, therefore, could differ materially from estimated amounts.

2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the existing accounting standards for revenue recognition. The standard requires an entity to recognize revenue in a manner that depicts the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 was subsequently issued and deferred the effective date to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. We are currently evaluating the method of adoption and impact this standard will have on our condensed consolidated financial statements and related disclosures.

In February 2015, the FASB issued ASU No. 2015-02, Amendments to the Consolidation Analysis. This guidance amends the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is permitted. The Partnership is currently evaluating the potential impact this standard will have on its condensed consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, including interim periods therein, and is applied retrospectively. Early adoption is permitted for financial statements that have not been previously issued. ASU

2015-15 was subsequently issued to address the absence of authoritative guidance for debt issuance costs related to line-of-credit arrangements and states that the Securities and Exchange Commission ("SEC") staff will not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. Given the Partnership's debt issuance costs relate to its revolving credit facility, the Partnership is not required to alter its current accounting for such costs.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40), which assists entities in evaluating the accounting for fees paid by a customer in a cloud computing arrangement by providing guidance as to whether an arrangement includes the sales or license of software. The amendment will be effective prospectively for reporting periods beginning on or after December 15, 2015, and early adoption is permitted. The Partnership is currently assessing the ASU and does not believe there will be a significant impact on the Partnership's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-06, Earnings Per Share (Topic 260). This guidance clarifies the process for updating historical earnings per unit disclosures when a drop-down transaction occurs between entities under common control. Pursuant to the amendment, the previously reported earnings per unit measure presented in the historical financial statements would not change as a result of the drop-down transaction. ASU 2015-06 is effective for annual reporting periods beginning after December 15, 2015, and for interim periods within those fiscal years. Early adoption is permitted. The Partnership has evaluated this guidance and determined it is consistent with our policy and historical presentation of earnings per unit.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805). This amendment requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been issued. The Partnership is currently evaluating the potential impact this standard will have on its condensed consolidated financial statements and related disclosures.

3. Acquisitions and Divestitures

Delta House Acquisition

On September 18, 2015, the Partnership acquired a 26.3% interest in Pinto Offshore Holdings, LLC ("Pinto") (the "Delta House Acquisition"), an entity that owns a non-operated interest in (i) approximately 49% of the limited liability company interests of Delta House FPS LLC and (ii) approximately 49% of the limited liability company interests of Delta House Oil and Gas Lateral LLC, which respectively own the Delta House floating production system and related pipeline infrastructure ("Delta House"). Delta House is a floating production system platform with associated oil and gas export pipelines, located in the Mississippi Canyon region of the deepwater Gulf of Mexico.

We acquired our 26.3% non-operated interest in Pinto in exchange for $162.0 million in cash, funded by the proceeds of a public offering of 7.5 million of the Partnership's common units representing Limited Partner interests, or common units, and with borrowings under the Partnership's Amended Credit Agreement, as defined in Note 13. As a result, we own a minority interest in Pinto, which in turn causes us to own a 12.9% minority interest in Delta House. Pursuant to the Pinto LLC Agreement, we have no management control or authority over the day-to-day operations. Our minority interest in Pinto is accounted for as an equity method investment in the condensed consolidated financial statements.

Because our interest in Delta House was previously owned by an affiliate of our General Partner, we have accounted for our initial investment at our affiliate's preliminary carry-over basis resulting in $61.4 million which is recorded in Investments in unconsolidated affiliates in our condensed consolidated balance sheets and as an investing activity within the related condensed consolidated statement of cash flows. The amount by which the total consideration exceeded the carry-over basis was $100.6 million and is recorded as a distribution within the condensed consolidated statements of changes in partners’ capital and noncontrolling interest and a financing activity in the condensed consolidated statement of cash flows.

For the three and nine months ended September 30, 2015, the Partnership recorded $0.7 million in earnings from Delta House. The Partnership also received cash distributions of $3.7 million for the three and nine months ended September 30, 2015. The excess of the cash distributions received over the earnings recorded from Delta House is classified as a return of capital within cash flows from investing activities in our condensed consolidated statement of cash flows.

Costar Acquisition

On October 14, 2014, the Partnership acquired 100% of the membership interests of Costar Midstream, L.L.C. ("Costar") from Energy Spectrum Partners VI LP and Costar Midstream Energy, LLC, in exchange for $258.0 million in cash and 6.9 million of the Partnership's common units representing Limited Partner interests, or common units (the "Costar Acquisition"). Costar is an onshore gathering and processing company with its primary gathering, processing, fractionation, and off-spec condensate treating and stabilization assets in East Texas and the Permian basin, with a significant crude oil gathering system project under development in the Bakken oil play.

The Costar Acquisition was accounted for using the acquisition method of accounting and as a result, the aggregate purchase price was allocated to the assets acquired, liabilities assumed and a noncontrolling interest in a Costar subsidiary based on their respective fair values as of the acquisition date. The excess of the aggregate purchase price over the fair values of the assets acquired, liabilities assumed and the noncontrolling interest was classified as goodwill, which is attributable to future prospective customer agreements expected to be obtained as a result of the acquisition. The operating systems acquired have been included in the Partnership’s Gathering and Processing segment from the acquisition date.

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During the first quarter of 2015, we reached an agreement on certain working capital matters with the Costar sellers, resulting in a decrease to goodwill of $0.2 million.

In the second quarter of 2015, we reached an agreement with the Costar sellers regarding certain capital expenditures that we have incurred, or will incur, that were not known at the time of closing, which resulted in a decrease to goodwill and cash consideration transferred of $7.2 million.

The following table summarizes the fair value of consideration transferred to acquire Costar and the allocation of that amount to the assets acquired, liabilities assumed and the noncontrolling interest based upon their respective fair values as of the acquisition date (in thousands).

Fair value of consideration transferred:	
Cash	$258,001
Limited partner common units	147,296
Total fair value of consideration	$405,297
Fair Value of assets acquired, liabilities assumed and noncontrolling interest:	
Working capital	$8,152
Property, plant and equipment:	
Processing plants	$48,357
Pipelines	128,799
Land	1,244
Buildings	682
Equipment	9,827
Construction in progress	16,146
Total property, plant and equipment	205,055
Investment in unconsolidated affiliate	11,884
Intangible assets:	
Customer relationships	53,400
Dedicated acreage	32,000
Goodwill	95,025
Noncontrolling interest	(219)
	$405,297

The fair value of the common units of $147.3 million differs from the amount determined using the market price of such units on the date of the acquisition as a result of restrictions which require the sellers to hold the units for specified periods of time. The fair value of Limited Partner common units issued in the transaction was determined using an option pricing model and the following key assumptions: i) the closing unit market price on the day of the acquisition, ii) the contractual holding periods, iii) historical unit price volatility for the Partnership and its peers, and iv) a risk-free rate of return.

The fair value of property, plant and equipment was determined using both the cost and market approaches which required significant Level 3 inputs. Key assumptions included i) estimated replacement costs for individual assets or asset groups, ii) estimated remaining useful lives for the acquired assets, and iii) recent market transactions for similar assets. The fair value of intangible assets was determined using the income approach which also required significant Level 3 inputs. Key assumptions included i) estimated throughput volumes, ii) forward market prices for natural gas and NGLs as of the acquisition date, iii) estimated future operating and development cash flows, and iv) discount rates ranging from 11.0% to 16.0%.

The intangible assets acquired relate to existing customer relationships that Costar had at the time of the acquisition, as well as agreements with two producers under which Costar agreed to construct and operate gathering and processing facilities in exchange for the producers’ agreements to dedicate certain acreage and related production to those facilities. Working capital includes $11.2 million of accounts receivable, all of which were subsequently collected.

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For the three and nine months ended September 30, 2015, Costar contributed revenue of $15.5 million and $61.1 million, respectively, and net loss of $1.8 million and net income of less than $0.1 million, respectively, attributable to the Partnership's Gathering and Processing segment.

Lavaca Acquisition

On January 31, 2014, the Partnership acquired approximately 120 miles of high- and low-pressure pipelines and associated facilities located in the Eagle Ford shale in Gonzales and Lavaca Counties, Texas from Penn Virginia Corporation (NYSE: PVA) ("PVA") for $104.4 million in cash (the "Lavaca Acquisition"). The Lavaca Acquisition was financed with proceeds from the Partnership's January 2014 equity offering and from the issuance of Series B Units to our General Partner.

The Lavaca Acquisition was accounted for using the acquisition method of accounting and, as a result, the purchase price was allocated to the assets acquired upon their respective fair values as of the acquisition date. The excess of the purchase price over the fair value of the assets acquired was classified as goodwill.

The following table summarizes the final allocation of the purchase price to the assets acquired based upon their respective fair values as of the acquisition date (in thousands):

Property, plant and equipment:	
Land	$2
Pipelines	58,737
Equipment	753
Total property, plant and equipment	59,492
Intangible assets	21,350
Goodwill	23,567
Total cash consideration	$104,409

The fair value of property, plant and equipment was determined using the cost approach which required significant Level 3 inputs. Key assumptions included i) estimated replacement costs for individual assets or asset groups and ii) estimated remaining useful lives for the acquired assets. The fair value of intangible assets was determined using the income approach which also required significant Level 3 inputs. Key assumptions included i) estimated throughput volumes, ii) future operating and development cash flows, and iii) a discount rate of 10.5%.

The intangible assets acquired relate to a gas gathering agreement under which PVA has dedicated certain acreage and related production to the acquired facilities.

For the three and nine months ended September 30, 2015, Lavaca contributed revenue of $5.7 million and $17.6 million, respectively, and net income of $2.3 million and $6.7 million, respectively, attributable to the Partnership's Gathering and Processing segment. For the three and nine months ended September 30, 2014, Lavaca contributed revenue of $4.5 million and $10.6 million, respectively, and net income of $2.3 million and $4.5 million, respectively, attributable to the Partnership's Gathering and Processing segment.

Other Acquisitions

Investment in Unconsolidated Affiliates

On August 11, 2014, the Partnership acquired a 66.7% non-operated interest in MPOG, an offshore oil gathering system, for a net purchase price of $12.0 million, which was financed with borrowings under the Partnership's credit facility. Although the Partnership owns a majority interest in MPOG, the ownership structure requires unanimous approval of all owners on decisions impacting the operation of the assets and any changes in ownership structure. Therefore, the Partnership's voting rights are not proportional to its obligation to absorb losses or receive returns. The Partnership accounts for its 66.7% interest using the equity method.

For the three and nine months ended September 30, 2015, the Partnership recorded \$0.4 million and \$0.6 million, respectively, in earnings from MPOG. For the three and nine months ended September 30, 2014, the Partnership recorded \$0.1 million in earnings from MPOG. The Partnership received cash distributions of \$1.3 million and \$2.8 million for the three and nine months ended September 30, 2015, respectively. The Partnership received cash distributions of \$1.1 million and \$1.1 million for the three and

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nine months ended September 30, 2014, respectively. The excess of the cash distributions received over the earnings recorded from MPOG is classified as a return of capital within the investing section of our consolidated statement of cash flows.

Williams Pipeline Acquisition

In the first quarter of 2014, the Partnership acquired natural gas pipeline facilities that are contiguous to and connect with our High Point System in our Transmission segment located in offshore Louisiana from Transcontinental Gas Pipe Line Company, LLC, a subsidiary of Williams Partners, LP. for $6.5 million in cash. The acquisition was subject to FERC approval of the seller's application to abandon by sale to us the pipeline facilities and to permit the facilities to serve a gathering function, exempt from FERC's jurisdiction. The FERC granted approval of the application during the first quarter of 2014, and the purchase and sale agreement closed on March 14, 2014. The purchase price was allocated to pipelines using the income approach which required certain Level 3 inputs.

Divestitures

On September 14, 2015, the Partnership disposed of certain terminal assets in Salisbury, Maryland, that were previously held for sale, with a book value approximating the sales proceeds of $0.9 million, resulting in a non-cash loss on disposal of less than $0.1 million. Of the proceeds received, the Partnership distributed $0.4 million to our General Partner in accordance with the original Agreement and Plan of Merger.

On June 1, 2015, the Partnership disposed of certain non-strategic off-shore transmission assets in Louisiana with a net book value of $3.0 million for nominal proceeds, resulting in a non-cash loss on disposal of $3.0 million.

On March 31, 2014, the Partnership completed the sale of certain gathering and processing assets in Madison County, Texas. We received $6.1 million in cash proceeds related to the sale, which approximated its net book value.

4. Discontinued Operations

The Partnership classified the terminal asset in Salisbury, Maryland as held for sale prior to its sale in the third quarter of 2015.
Historically, we have classified these assets as discontinued operations within our condensed consolidated statement of operations. Accordingly, we reclassified the disposal group's results of operations from our results of continuing operations to Income (loss) from discontinued operations, net of tax in our accompanying condensed consolidated statement of operations for all periods presented. We elected not to separately present the operating, investing and financing cash flows related to the disposal groups in our accompanying condensed consolidated statement of cash flows as this activity was immaterial for all periods presented. The following table presents the revenue, expense and gain (loss) from operations of disposal groups associated with the assets classified as held for sale for the three and nine months ended September 30, 2015 and 2014 (in thousands, except per unit amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue	$—	$13	$74	$461
Expenses	(77)	(55)	(193)	(599)
Loss on impairment of property, plant and equipment	—	—	—	(673)
Loss on sale of assets	(65)	—	(65)	(87)
Income tax benefit	89	16	105	316
	$(53)	$(26)	$(79)	$(582)

Income (loss) from operations of disposal groups, net of tax				
Limited partners' net income (loss) per unit from discontinued operations (basic and diluted)	$—	$—	$—	$(0.05)

5. Concentration of Credit Risk and Trade Accounts Receivable

Our primary assets, which are strategically located in Alabama, Georgia, Louisiana, Mississippi, North Dakota, Tennessee, Texas and the Gulf of Mexico, provide critical infrastructure that links customers of crude oil, natural gas, NGLs, condensate and specialty chemicals to numerous intermediate and end-use markets. As a result of recent acquisitions and geographic diversification, we have reduced the concentration of trade receivable balances due from these customer groups, and reduced the concentration which may affect our overall credit risk. We maintain allowances for potentially uncollectible accounts receivable; however, for the three

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and nine months ended September 30, 2015 and 2014, no allowances on or significant write-offs of accounts receivable were recorded.

During the three months ended September 30, 2015, one customer accounted for 12% of the Partnership's consolidated revenue, compared to 24% for the three months ended September 30, 2014. During the nine months ended September 30, 2015, no individual customer accounted for 10% or more of the Partnership's consolidated revenue.

6. Other Current Assets

Other current assets consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Prepaid insurance	$1,002	$4,162
Restricted cash	—	6,475
Other prepaid amounts	2,095	758
Other current assets	4,039	4,159
	$7,136	$15,554

Restricted cash of $6.5 million as of December 31, 2014 consisted of a cash-backed letter of credit related to Costar operations that the Partnership was contractually obligated to maintain after the Costar Acquisition. The Partnership was released from this obligation in January 2015. Other current assets primarily consist of natural gas imbalances and amounts due from related parties.

7. Derivatives

Commodity Derivatives

To minimize the effect of commodity price changes and maintain our cash flow and the economics of our development plans, we enter into commodity hedge contracts from time to time. The terms of the contracts depend on various factors, including management's view of future commodity prices, economics on purchased assets and future financial commitments. This hedging program is designed to mitigate the effect of commodity price declines while allowing us to participate in some commodity price upside. Management regularly monitors the commodity markets and financial commitments to determine if, when, and at what level commodity hedging is appropriate in accordance with policies that are established by the board of directors of our General Partner. Currently, our commodity derivatives are in the form of swaps. As of September 30, 2015, the aggregate notional volume of our commodity derivatives was 2.2 million gallons of NGLs, natural gasoline, and crude oil equivalent.

We enter into commodity contracts with multiple counterparties, and in some cases, may be required to post collateral with our counterparties in connection with our derivative positions. As of September 30, 2015, we were not required to post collateral with any counterparty. The counterparties are not required to post collateral with us in connection with their derivative positions. Netting agreements are in place that permit us to offset our commodity derivative asset and liability positions with our counterparties.

We did not designate any of our commodity derivatives as hedges for accounting purposes. As a result, our commodity derivatives are accounted for at fair value in our condensed consolidated balance sheets with changes in fair value recognized currently in earnings.

Interest Rate Swap

To manage the impact of the interest rate risk associated with our credit facility, we enter into interest rate swaps from time to time, effectively converting a portion of the cash flows related to our long-term variable rate debt into fixed rate cash flows. The notional amount of our interest rate swap that expired on August 1, 2015, was $100.0 million. The interest rate swap was entered into with a single counterparty and we were not required to post collateral.

Weather Derivative

In the second quarter of 2015, we entered into a weather derivative to mitigate the impact of potential unfavorable weather to our operations under which we could receive payments totaling up to $10.0 million in the event that a hurricane or hurricanes of certain

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strength pass through the area as identified in the derivative agreement. The weather derivatives are accounted for using the intrinsic value method, under which the fair value of the contract was zero and any amounts received are recognized as gains during the period received. The weather derivatives were entered into with a single counterparty, and we were not required to post collateral.

We paid premiums of $0.9 million in 2015, which are recorded as current Risk management assets on our condensed consolidated balance sheet and are being amortized to Direct operating expenses on a straight-line basis over the term of the contract of one year. Unamortized amounts associated with the weather derivatives were approximately $0.6 million as of September 30, 2015.
As of September 30, 2015 and December 31, 2014, the value associated with our commodity derivatives, interest rate swap, and weather derivative were recorded in our condensed consolidated balance sheets, under the captions as follows (in thousands):

	Gross Risk Management Assets		Gross Risk Management (Liabilities)		Net Risk Management Assets (Liabilities)	
Balance Sheet Classification	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Current	$1,177	$688	$—	$—	$1,177	$688
Noncurrent	—	—	—	—	—	—
Total assets	$1,177	$688	$—	$—	$1,177	$688
Current	$—	$—	$—	$(215)	$—	$(215)
Noncurrent	—	—	—	—	—	—
Total liabilities	$—	$—	$—	$(215)	$—	$(215)

For the three and nine months ended September 30, 2015 and 2014, respectively, the realized and unrealized gains (losses) associated with our commodity derivatives, interest rate swap instrument and weather derivative were recorded in our condensed consolidated statements of operations, under the captions as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	Gain (loss) on derivatives		Gain (loss) on derivatives	
Statement of Operations Classification	Realized	Unrealized	Realized	Unrealized
2015				
Gain (loss) on commodity derivatives, net	$575	$241	$966	$308
Interest expense	(36)	69	(240)	215
Direct operating expenses	(219)	—	(694)	—
Total	$320	$310	$32	$523
2014				
Gain (loss) on commodity derivatives, net	$(9)	$615	$(191)	$474
Interest expense	(109)	91	(322)	118
Direct operating expenses	(241)	—	(794)	—
Total	$(359)	$706	$(1,307)	$592

8. Fair Value Measurement

We believe the carrying amount of cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the short-term maturity of these instruments.

The recorded value of the amounts outstanding under the credit facility approximates its fair value, as interest rates are variable, based on prevailing market rates and the short-term nature of borrowings and repayments under the credit facility.

The fair value of our commodity and interest rate derivatives instruments are estimated using a market valuation methodology based upon forward commodity price curves, volatility curves as well as other relevant economic measures, if necessary. Discount factors may be utilized to extrapolate a forecast of future cash flows associated with long dated transactions or illiquid market points. The inputs are obtained from independent pricing services, and we have made no adjustments to the obtained prices.

We have consistently applied these valuation techniques in all periods presented and believe we have obtained the most accurate information available for the types of derivatives contracts held. We will recognize transfers between levels at the end of the reporting period in which the transfer occurred. There were no such transfers for the nine months ended September 30, 2015 and 2014.

Fair Value of Financial Instruments

The following table sets forth by level within the fair value hierarchy, our commodity derivative instruments and interest rate swap, included as part of Risk management assetsx;">

a 1.5% annual management fee to DME Advisors, regardless of the performance of our investment account, payable monthly based on the capital account balance of each participant; and

a performance allocation to DME based on the positive performance change in such participant's capital account equal to 20% of net profits calculated per annum, subject to a loss carry forward provision.

The loss carry forward provision allows DME to earn reduced performance allocation of 10% of profits in any year subsequent to the year in which our investment account managed by DME Advisors incurs a loss, until all losses are recouped and an additional amount equal to 150% of the loss is earned.

While the performance compensation arrangement provides that losses will be carried forward as an offset against net profits in subsequent periods, DME and DME Advisors generally will not otherwise be penalized for realized losses or

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decreases in the value of our portfolio. These performance compensation arrangements may create an incentive for DME Advisors to engage in transactions that focus on the potential for short-term gains rather than long-term growth or that are particularly risky or speculative.

DME Advisors' representatives' service on boards and committees may place trading restrictions on our investments and may subject us to indemnification liability.

DME Advisors may from time to time place its or its affiliates' representatives on creditors' committees and/or boards of certain companies in which we have invested. While such representation may enable DME Advisors to enhance the sale value of our investments, it may also place trading restrictions on our investments and may subject us to indemnification liability. The advisory agreement provides for the indemnification of DME Advisors or any other person designated by DME Advisors for claims arising from such board representation.

As of December 31, 2014, representatives of DME Advisors (including Mr. Einhorn) sat on the board of Green Brick Partners Inc., whose securities are publicly traded and were included in our portfolio as of December 31, 2014.

The ability to use ‘‘soft dollars’’ may provide DME Advisors with an incentive to select certain brokers that may take into account benefits to be received by DME Advisors.

DME Advisors is entitled to use so-called ‘‘soft dollars’’ generated by commissions paid in connection with transactions for our investment portfolio to pay for certain of DME Advisors' operating and overhead costs, including the payment of all or a portion of its costs and expenses of operation. ‘‘Soft dollars’’ are a means of paying brokerage firms for their services through commission revenue, rather than through direct payments. DME Advisors' right to use soft dollars may give DME Advisors an incentive to select brokers or dealers for our transactions, or to negotiate commission rates or other execution terms, in a manner that takes into account the soft dollar benefits received by DME Advisors rather than giving exclusive consideration to the interests of our investment portfolio and, accordingly, may create a conflict.

The venture agreement has limited termination provisions.

The venture agreement has limited termination provisions which restrict our ability to manage our investment portfolio outside of DME Advisors. Because the venture agreement contains exclusivity and limited termination provisions, we are unable to use investment managers other than DME Advisors for so long as the agreement is in effect. The current venture agreement term ends on December 31, 2016 and will automatically renew for successive three-year terms unless at least 90 days prior to the end of the then current term, DME notifies us of its desire to terminate the venture agreement, or Greenlight Re or GRIL notifies DME of their desire to withdraw from the venture agreement. Greenlight Re or GRIL may also withdraw as participants under the venture agreement prior to the expiration of the venture agreement's term at any time only ‘‘for cause’’, which is defined as:

- a material violation of applicable law relating to DME's or DME Advisors' advisory business;
- DME's or DME Advisors' gross negligence, willful misconduct or reckless disregard of DME's obligations under the venture agreement or DME Advisors' obligations under the advisory agreement;
- a material breach by DME or DME Advisors of Greenlight Re’s or GRIL’s investment guidelines that is not cured within a 15-day period; or
- a material breach by DME or DME Advisors of its obligations to return and deliver assets as we may request.

In addition, GRIL may withdraw as a participant under the venture agreement prior to the expiration of its term due to unsatisfactory long term performance of DME or DME Advisors, as determined solely by the Board of Directors of GRIL on each anniversary date of the venture agreement.

Greenlight Re may not withdraw or terminate the venture agreement on the basis of performance. If Greenlight Re becomes dissatisfied with the results of the investment performance of DME or DME Advisors, we will be unable to hire new investment managers until the venture agreement expires by its terms or is terminated for cause.

Certain of our investments may have limited liquidity and lack valuation data, which could create a conflict of interest.

Our investment guidelines provide DME Advisors with the flexibility to invest in certain securities with limited liquidity or no public market. This lack of liquidity may adversely affect the ability of DME Advisors to execute trade orders at desired prices and may impact our ability to fulfill our payment obligations. To the extent that DME Advisors invests in securities or instruments for which market quotations are not readily available, under the terms of the advisory agreement the valuation of such securities and instruments for purposes of compensation to DME Advisors will be determined by DME Advisors, whose

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determination, subject to audit verification, will be conclusive and binding in the absence of bad faith or manifest error. Because the advisory agreement gives DME Advisors the power to determine the value of securities with no readily discernible market value, and because the calculation of DME Advisors' fee is based on the value of the investment account, a conflict may exist or arise.

Increased regulation or scrutiny of alternative investment advisors may affect DME Advisors’ ability to manage our investment portfolio or affect our business reputation.

The regulatory environment for investment managers is evolving, and changes in the regulation of managers may adversely affect the ability of DME Advisors to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial action. Any future regulatory change could have a significant negative impact on our financial condition and results of operations.

Short sale transactions have been subject to increased regulatory scrutiny, including the imposition of restrictions on short selling certain securities and reporting requirements. Our ability to execute a short selling strategy may be materially and adversely impacted by temporary and/or new permanent rules, interpretations, prohibitions, and restrictions adopted in response to these adverse market events. Temporary restrictions and/or prohibitions on short selling activity may be imposed by regulatory authorities with little or no advance notice and may impact prior and future trading activities of our investment portfolio. Additionally, the SEC, its non-U.S. counterparts, other governmental authorities and/or self-regulatory organizations may at any time promulgate permanent rules or interpretations consistent with such temporary restrictions or that impose additional or different permanent or temporary limitations or prohibitions. The SEC might impose different limitations and/or prohibitions on short selling from those imposed by various non-U.S. regulatory authorities. These different regulations, rules or interpretations might have different effective periods.

Regulatory authorities may, from time-to-time, impose restrictions that adversely affect our ability to borrow certain securities in connection with short sale transactions. In addition, traditional lenders of securities might be less likely to lend securities under certain market conditions. As a result, we may not be able to effectively pursue a short selling strategy due to a limited supply of securities available for borrowing. We may also incur additional costs in connection with short sale transactions, including in the event that DME Advisors is required to enter into a borrowing arrangement in advance of any short sales. Moreover, the ability to continue to borrow a security is not guaranteed and we are subject to strict delivery requirements. The inability to deliver securities within the required time frame may subject us to mandatory close out by the executing broker-dealer. A mandatory close out may subject us to unintended costs and losses. Certain action or inaction by third parties, such as executing broker-dealers or clearing broker-dealers, may materially impact our ability to effect short sale transactions.

We may invest in securities based outside the United States which may be riskier than securities of United States issuers.

Under our investment guidelines, DME Advisors may invest in securities of issuers organized or based outside the United States. These investments may be subject to a variety of risks and other special considerations not affecting securities of U.S. issuers. Particularly within the Euro-zone, there is increasing market concern as to the potential default of government issuers. Should governments default on their obligations, there could be a negative impact on both the Company’s direct holdings as well as non-government issues held within the country of default. Many foreign securities markets are not as developed or efficient as those in the United States. Securities of some foreign issuers are less liquid and more volatile than securities of comparable U.S. issuers. Similarly, volume and liquidity in many foreign securities markets are less than in the United States and, at times, price volatility can be greater than in the United States. Non-U.S. issuers may be subject to less stringent financial reporting and informational disclosure standards, regulatory oversight, practices and requirements than those applicable to U.S. issuers.

Risks Relating to our Class A Ordinary Shares

A shareholder may be required to sell its Class A ordinary shares.

Our Third Amended and Restated Memorandum and Articles of Association, or Articles, provide that we have the option, but not the obligation, to require a shareholder to sell its Class A ordinary shares for their fair market value to us, to other shareholders or to third parties if our Board of Directors determines that ownership of our Class A ordinary shares by such shareholder may result in adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders and that such sale is necessary to avoid or cure such adverse consequences.

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Provisions of our Articles, the Companies Law of the Cayman Islands and our corporate structure may each impede a takeover, which could adversely affect the value of our Class A ordinary shares.

Our Articles contain certain provisions that could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. Our Articles provide that a director may only be removed for ‘‘cause” as defined in the Articles, upon the affirmative vote of not less than 50% of the votes cast at a meeting at which more than 50% of our issued and outstanding Class A ordinary shares are represented. Further, under our Articles, a director may only be removed without cause upon the affirmative vote of not less than 80% of the votes cast at a meeting at which more than 50% of our issued and outstanding Class A ordinary shares are represented.

Our Articles permit our Board of Directors to issue preferred shares from time to time, with such rights and preferences as they consider appropriate. Our Board of Directors may authorize the issuance of preferred shares with terms and conditions and under circumstances that could have an effect of discouraging a takeover or other transaction, deny shareholders the receipt of a premium on their Class A ordinary shares in the event of a tender or other offer for Class A ordinary shares and have a depressive effect on the market price of the Class A ordinary shares.

As compared to mergers under corporate law in the United States, it may be more difficult to consummate a merger of two or more companies in the Cayman Islands or the merger of one or more Cayman Islands companies with one or more overseas companies, even if such transaction would be beneficial to our shareholders. Cayman Islands law has statutory provisions that provide for the reconstruction and amalgamation of companies, which are commonly referred to, in the Cayman Islands, as "schemes of arrangement". The Companies Law (as amended) of the Cayman Islands (the "Companies Law") provides for the merger or consolidation of two or more companies that are Cayman Islands entities or the merger of one or more Cayman Islands companies with one or more overseas companies, where the surviving entity is either a Cayman Islands company or an overseas company. Prior to the adoption of certain amendments to the Companies Law, the "scheme of arrangement" was the only vehicle available to consolidate companies and Cayman Islands law did not provide for mergers as that term is understood under corporate law in the United States. Although the current merger provisions have made it faster and easier for companies to merge or consolidate than the "schemes of arrangement" statutory provision, these provisions do not replace the "schemes of arrangement" provision which continues to apply. The procedural and legal requirements necessary to consummate these transactions under the merger provisions of the Companies Law or the "schemes of arrangement" provision may be more rigorous and take longer to complete than the procedures typically required to consummate a merger in the United States.

Under Cayman Islands law and practice, a "scheme of arrangement" must be approved at a shareholders' meeting by each class of shareholders, in each case, by a majority of the number of holders of each class of an entity's shares that are present and voting, either in person or by proxy, at such a meeting, which holders must also represent 75% in value of such class issued that are present and voting, either in person or by proxy, at such meeting, excluding the shares owned by the parties to the scheme of arrangement. A merger requires approval by special resolution of the shareholders of each company (which normally requires, as a minimum, a two thirds majority of shareholders voting together as one class) and such other authorization, if any, as may be specified in such constituent company's articles of association.

Although a merger under the Companies Law does not require court approval, the convening of these meetings and the terms of an amalgamation under the "schemes of arrangement" provision must be sanctioned by the Grand Court of the Cayman Islands. Although there is no requirement to seek the consent of the creditors of the parties involved in the scheme of arrangement, the Grand Court typically seeks to ensure that the creditors have consented to the transfer of their liabilities to the surviving entity or that the scheme of arrangement does not otherwise materially adversely affect the creditors' interests. Furthermore, the Grand Court will only approve a scheme of arrangement if it is satisfied that:

- the statutory provisions as to majority vote have been complied with;
- the shareholders have been fairly represented at the meeting in question;
- the scheme of arrangement is such as a businessman would reasonably approve; and
- the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

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In addition, David Einhorn, Chairman of our Board of Directors, owns all of the outstanding Class B ordinary shares. As a result, we will not be able to enter into a scheme of arrangement without the approval of Mr. Einhorn as the holder of our Class B ordinary shares.

Holders of Class A ordinary shares may have difficulty obtaining or enforcing a judgment against us, and they may face difficulties in protecting their interests because we are incorporated under Cayman Islands law.

Because we are a Cayman Islands company, there is uncertainty as to whether the Grand Court of the Cayman Islands would recognize or enforce judgments of United States courts obtained against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in the Cayman Islands against us predicated upon the securities laws of the United States or any state thereof.

We are incorporated as an exempted company limited by shares under the Companies Law. A significant amount of our assets are located outside of the United States. As a result, it may be difficult for persons purchasing Class A ordinary shares to effect service of process within the United States upon us or to enforce judgments against us or judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States.

Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will, based on the principle that a judgment by a competent foreign court will impose upon the judgment debtor an obligation to pay the sum for which judgment has been given, recognize and enforce a foreign judgment of a court of competent jurisdiction if such judgment is final, for a liquidated sum, not in respect of taxes or a fine or penalty if not inconsistent with a Cayman Islands judgment in respect of the same matters, and was not obtained in a manner, and is not of a kind, the enforcement of which is contrary to the public policy of the Cayman Islands. There is doubt, however, as to whether the courts of the Cayman Islands will, in an original action in the Cayman Islands, recognize or enforce judgments of U.S. courts predicated upon the civil liability provisions of the securities laws of the United States or any state of the United States on the grounds that such provisions are penal in nature.

A Cayman Islands court may stay proceedings if concurrent proceedings are being brought elsewhere.

Unlike many jurisdictions in the United States, Cayman Islands law does not specifically provide for shareholder appraisal rights on a merger or consolidation of an entity. This may make it more difficult for shareholders to assess the value of any consideration they may receive in a merger or consolidation or to require that the offeror give a shareholder additional consideration if he believes the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies such as ours have no general rights under Cayman Islands law to inspect corporate records and accounts. Our directors have discretion under our Articles to determine whether or not, and under what conditions, the corporate records may be inspected by shareholders, but are not obligated to make them available to shareholders. This fact may make it more difficult for shareholders to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against our Board of Directors.

Provisions of our Articles may reallocate the voting power of our Class A ordinary shares and subject holders of Class A ordinary shares to SEC compliance.

In certain circumstances, the total voting power of our Class A ordinary shares held by any one person will be reduced to less than 9.9% of the total issued and outstanding ordinary shares, and the total voting power of the Class B ordinary shares will be reduced to 9.5% of the total voting power of the total issued and outstanding ordinary shares. In the event a holder of our Class A ordinary shares acquires shares representing 9.9% or more of the total voting power of our total ordinary shares or the Class B ordinary shares represent more than 9.5% of the total voting power of our total outstanding shares, there will be an effective reallocation of the voting power of the Class A ordinary shares or Class B ordinary shares which may cause a shareholder to acquire 5% or more of the voting power of the total ordinary shares.

Such a shareholder may become subject to the reporting and disclosure requirements of Sections 13(d) and (g) of the Exchange Act. Such a reallocation also may result in an obligation to amend previous filings made under Section 13(d) or (g) of the Exchange Act. Under our Articles, we have no obligation to notify shareholders of any adjustments to their voting power. Shareholders should consult their own legal counsel regarding the possible reporting requirements under Section 13 of the Exchange Act.

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As of December 31, 2014, David Einhorn owned 16.7% of the issued and outstanding ordinary shares, which given that each Class B share is entitled to ten votes, causes him to exceed the 9.5% limitation imposed on the total voting power of the Class B ordinary shares. Thus, the voting power held by the Class B ordinary shares that is in excess of the 9.5% limitation will be reallocated pro-rata to holders of Class A ordinary shares according to their percentage interest in the Company. However, no shareholder will be allocated voting rights that would cause it to have 9.9% or more of the total voting power of our ordinary shares. The allocation of the voting power of the Class B ordinary shares to a holder of Class A ordinary shares will depend upon the total voting power of the Class B ordinary shares outstanding, as well as the percentage of Class A ordinary shares held by a shareholder and the other holders of Class A ordinary shares. Accordingly, we cannot estimate with precision what multiple of a vote per share a holder of Class A ordinary shares will be allocated as a result of the anticipated reallocation of voting power of the Class B ordinary shares.

Risks Relating to Taxation

We may become subject to taxation in the Cayman Islands, which would negatively affect our results.

Under current Cayman Islands law, we are not obligated to pay any taxes in the Cayman Islands on either income or capital gains. The Governor-in-Cabinet of Cayman Islands has granted us an exemption from the imposition of any such tax on us until February 1, 2025. We cannot be assured that after such date we would not be subject to any such tax. If we were to become subject to taxation in the Cayman Islands, our financial condition and results of operations could be significantly and negatively affected.

Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States federal income taxation.

Greenlight Capital Re and Greenlight Re are incorporated under the laws of the Cayman Islands, and GRIL is incorporated under the laws of Ireland. These entities intend to operate in a manner that will not cause us to be treated as engaging in a trade or business within the United States and will not cause us to be subject to current United States federal income taxation on Greenlight Capital Re's, Greenlight Re's and/or GRIL’s net income. However, because there are no definitive standards provided by the Internal Revenue Code, regulations or court decisions as to the specific activities that constitute being engaged in the conduct of a trade or business within the United States, and as any such determination is essentially factual in nature, we cannot assure you that the United States Internal Revenue Service (the ‘‘IRS”), will not successfully assert that Greenlight Capital Re, Greenlight Re and/or GRIL are engaged in a trade or business within the United States. If the IRS were to successfully assert that Greenlight Capital Re, Greenlight Re, and/or GRIL have been engaged in a trade or business within the United States in any taxable year, various adverse tax consequences could result, including the following: Greenlight Capital Re, Greenlight Re and/or GRIL may become subject to current United States federal income taxation on its net income from sources within the United States; Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States federal income tax on a portion of its net investment income, regardless of its source; Greenlight Capital Re, Greenlight Re, and/or GRIL may not be entitled to deduct certain expenses that would otherwise be deductible from the income subject to United States taxation; and Greenlight Capital Re, Greenlight Re and/or GRIL may be subject to United States branch profits tax on profits deemed to have been distributed out of the United States.

United States persons who own Class A ordinary shares may be subject to United States federal income taxation on our undistributed earnings and may recognize ordinary income upon disposition of Class A ordinary shares.

Passive Foreign Investment Company. Significant potential adverse United States federal income tax consequences, including certain reporting requirements, generally apply to any United States person who owns shares in a passive foreign investment company, or a PFIC. We believe that each of Greenlight Capital Re and Greenlight Re was a PFIC in 2006, 2005 and 2004. We do not believe, although we cannot assure you, that none of Greenlight Capital Re, Greenlight Re or GRIL has been a PFIC from 2007 onwards. We cannot provide assurance that none of Greenlight Capital Re, Greenlight Re or GRIL will be a PFIC in any future taxable year.

In general, any of Greenlight Capital Re, Greenlight Re or GRIL would be a PFIC for a taxable year if either (i) 75% or more of its income constitutes ‘‘passive income’’ or (ii) 50% or more of its assets produce ‘‘passive income’’, or are held for the production of passive income. Passive income generally includes interest, dividends and other investment income but does not include income derived in the active conduct of an insurance business by a corporation predominantly engaged in an insurance business. This exception for insurance companies is intended to ensure that a bona fide insurance entity’s income is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. We believe that we are currently operating and intend to continue operating our business with financial reserves at a level that should not cause us to be deemed PFICs, although we cannot assure you the IRS will not successfully

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challenge this conclusion. If we are unable to underwrite sufficient amount of risks, any of Greenlight Capital Re, Greenlight Re or GRIL may become a PFIC.

In addition, sufficient risk must be transferred under an insurance entity's contracts with its insureds in order to qualify for the insurance exception. Whether our insurance contracts possess adequate risk transfer for purposes of determining whether income under our contracts is insurance income, and whether we are predominantly engaged in an insurance business, are subjective in nature and there is very little authority on these issues. We cannot assure you that the IRS will not successfully challenge our interpretation of the scope of the active insurance company exception and our qualification for the exception. Further, the IRS may issue regulatory or other guidance that causes us to fail to qualify for the active insurance company exception on a prospective or retroactive basis. Therefore, we cannot assure you that we will satisfy the exception for insurance companies and will not be treated as PFICs currently or in the future.

Controlled Foreign Corporation. United States persons who, directly or indirectly or through attribution rules, own 10% or more of the total combined voting power of our shares, which we refer to as United States 10% shareholders, may be subject to the controlled foreign corporation, or CFC, rules. Under the CFC rules, each United States 10% shareholder must annually include his pro-rata share of the CFC's ‘‘subpart F income’’, even if no distributions are made. In general, a foreign insurance company will be treated as a CFC only if United States 10% shareholders collectively own more than 25% of the total combined voting power or total value of the entity's shares for an uninterrupted period of 30 days or more during any year. We believe that the dispersion of our Class A ordinary shares among holders and the restrictions placed on transfer, issuance or repurchase of our Class A ordinary shares (including the ownership limitations described below), will generally prevent shareholders who acquire Class A ordinary shares from being United States 10% shareholders. In addition, because our Articles prevent any person from holding 9.9% or more of the total combined voting power of our shares (whether held directly, indirectly or constructively), unless such provision is waived by the unanimous consent of our Board of Directors, we believe no persons holding Class A ordinary shares should be viewed as United States 10% shareholders of a CFC for purposes of the CFC rules. We cannot assure you, however, that these rules will not apply to you. If you are a United States person, we strongly urge you to consult your own tax advisor concerning the CFC rules.

Related Person Insurance Income. If:

- our gross income attributable to insurance or reinsurance policies where the direct or indirect insureds are our direct or indirect United States shareholders or persons related to such United States shareholders equals or exceeds 20% of our gross insurance income in any taxable year; and
- direct or indirect insureds and persons related to such insureds owned directly or indirectly 20% or more of the voting power or value of our stock,

a United States person who owns Class A ordinary shares directly or indirectly on the last day of the taxable year would most likely be required to include their pro-rata share of our related person insurance income for the taxable year in their income. This amount would be determined as if such related person insurance income were distributed proportionally to United States persons at that date. We do not expect that we will knowingly enter into reinsurance agreements in which, in the aggregate, the direct or indirect insureds are, or are related to, owners of 20% or more of the Class A ordinary shares. We do not believe that the 20% gross insurance income threshold will be met. However, we cannot assure you that this is or will continue to be the case. Consequently, we cannot assure you that a person who is a direct or indirect United States shareholder will not be required to include amounts in its income in respect of related person insurance income in any taxable year.

If a United States shareholder is treated as disposing of shares in a foreign insurance corporation that has related person insurance income and in which United States persons own 25% or more of the voting power or value of the entity's shares, any gain from the disposition will generally be treated as a dividend to the extent of the United States shareholder's portion of the corporation's undistributed earnings and profits that were accumulated during the period that the United States shareholder owned the shares. In addition, the shareholder will be required to comply with certain reporting requirements, regardless of the amount of shares owned by the direct or indirect United States shareholder. Although not free from doubt, we believe these rules should not apply to dispositions of Class A ordinary shares because Greenlight Capital Re is not directly engaged in the insurance business and because proposed United States Treasury regulations applicable to this situation appear to apply only in the case of shares of corporations that are directly engaged in the insurance business. We cannot assure you, however, that the IRS will interpret the proposed regulations in this manner or that the proposed regulations will not be promulgated in final form in a manner that would cause these rules to apply to dispositions of Class A ordinary shares.

United States tax-exempt organizations who own Class A ordinary shares may recognize unrelated business taxable income.

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If you are a United States tax-exempt organization you may recognize unrelated business taxable income if a portion of our subpart F insurance income is allocated to you. In general, subpart F insurance income will be allocated to you if we are a CFC as discussed above and you are a United States 10% shareholder or there is related person insurance income and certain exceptions do not apply. Although we do not believe that any United States persons will be allocated subpart F insurance income, we cannot assure you that this will be the case. If you are a United States tax-exempt organization, we advise you to consult your own tax advisor regarding the risk of recognizing unrelated business taxable income.

Change in United States tax laws may be retroactive and could subject us, and/or United States persons who own Class A ordinary shares to United States income taxation on our undistributed earnings.

The tax laws and interpretations regarding whether an entity is engaged in a United States trade or business, is a CFC, has related party insurance income or is a PFIC are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the passive foreign investment company rules to an insurance company and the regulations regarding related party insurance income are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming from the IRS. We are not able to predict if, when or in what form such guidance will be provided and whether such guidance will have a retroactive effect.

If investments held by GRIL are determined not to be integral to the insurance and reinsurance business carried on by GRIL, additional Irish tax could be imposed and our business and financial results could be materially adversely affected.

Based on administrative practice, taxable income derived from investments made by GRIL is generally taxed in Ireland at the rate of 12.5% on the grounds that such investments either form part of the permanent capital required by regulatory authorities, or are otherwise integral to the insurance and reinsurance business carried on by GRIL. GRIL intends to operate in such a manner so that the level of investments held by GRIL does not exceed the amount that is integral to the insurance and reinsurance businesses carried on by GRIL. If, however, investment income earned by GRIL exceeds these thresholds or if the administrative practice of the Irish Revenue Commissioners changes, Irish corporation tax could apply to such investment income at a higher rate (currently 25%) instead of the general 12.5% rate, and our results of operations could be materially adversely affected.

The impact of the initiative of the OECD to eliminate harmful tax practices is uncertain and could adversely affect our tax status in the Cayman Islands.

The OECD has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. While the Cayman Islands is currently on the list of jurisdictions that have substantially implemented the internationally agreed tax standard, we are not able to predict if additional requirements will be imposed and if so whether changes arising from such additional requirements will subject us to additional taxes.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently occupy our office space in Grand Cayman, Cayman Islands under operating lease agreements which will expire on June 30, 2018 unless we renew the leases for an additional five year term. In addition, during 2011, GRIL entered into an operating lease agreement for office space in Dublin, Ireland which expires in 2031 but provides us an option to terminate the lease in 2016 or 2021 without any penalty. We believe that for the foreseeable future the office spaces in the Cayman Islands and Ireland will be sufficient for conducting our operations.

ITEM 3. LEGAL PROCEEDINGS

From time to time, in the normal course of business, we may be involved in formal and informal dispute resolution procedures, which may include arbitration or litigation, the outcomes of which determine our rights and obligations under our reinsurance contracts and other contractual agreements. In some disputes, we may seek to enforce our rights under an agreement or to collect funds owing to us. In other matters, we may resist attempts by others to collect funds or enforce alleged rights. While the final outcome of legal disputes cannot be predicted with certainty, we do not believe that any of our existing contractual disputes, when finally resolved, will have a material adverse effect on our business, financial condition or operating results.

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ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Class A ordinary shares began publicly trading on the Nasdaq Global Select Market on May 24, 2007 under the symbol ‘‘GLRE’’. The following table sets forth, for the periods indicated, the high and low reported sale price per share of our Class A ordinary shares on the Nasdaq Global Select Market.

	2014		2013	
	High	Low	High	Low
First Quarter	$34.24	$29.97	$25.05	$22.62
Second Quarter	$34.70	$30.83	$25.42	$23.40
Third Quarter	$35.18	$31.55	$28.84	$24.64
Fourth Quarter	$33.87	$30.18	$34.42	$27.38

Holders

As of January 31, 2015, the number of holders of record of our Class A ordinary shares was approximately 45, not including beneficial owners of shares registered in nominee or street name who represent approximately 97.1% of the Class A ordinary shares issued and outstanding.

Dividends

Since inception, we have not paid any cash dividends on our Class A ordinary shares or Class B ordinary shares, or collectively, our ordinary shares.

Holders of ordinary shares are entitled to receive dividends when, as and if declared by the Board of Directors in accordance with the provisions of our Articles and the Companies Law. In the event of a liquidation, dissolution or winding-up of the Company, the holders of ordinary shares are entitled to share equally and ratably in our assets, if any remain after the payment of all of our debts and liabilities and the liquidation preference of any outstanding preferred shares.

We currently do not intend to declare and pay dividends on our ordinary shares in the foreseeable future. However, if we decide to pay dividends, we cannot assure you that sufficient cash will be available to pay such dividends. In addition, a letter of credit facility prohibits us from paying dividends during an event of default as defined in the letter of credit agreement. Our future dividend policy will also depend on the requirements of any future financing agreements to which we may be a party and other factors considered relevant by our Board of Directors, such as our results of operations and cash flows, our financial position and capital requirements, general business conditions, rating agency guidelines, legal, tax, regulatory and any contractual restrictions on the payment of dividends. Further, any future declaration and payment of dividends is discretionary and our Board of Directors may at any time modify or revoke our dividend policy on our ordinary shares. Finally, our ability to pay dividends also depends on the ability of our subsidiaries to pay dividends to us. Although Greenlight Capital Re is not subject to any significant legal prohibitions on the payment of dividends, Greenlight Re and GRIL are subject to regulatory constraints that affect their ability to pay dividends and include minimum net worth requirements. As of December 31, 2014, Greenlight Re and GRIL both exceeded the minimum statutory capital requirements. Any dividends we pay will be declared and paid in U.S. dollars.

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Performance Graph

Presented below is a line graph comparing the yearly percentage change in the cumulative total shareholder return on our Class A ordinary shares from May 24, 2007 (the date on which our Class A ordinary shares were first listed on the Nasdaq Global Select Market) through December 31, 2014 against the total return index for the Russell 2000 Index, or RUT, and the S&P 500 Property & Casualty Insurance Index, or S&P Insurance Index, for the same period. The performance graph assumes $100 invested on May 24, 2007 in the ordinary shares of Greenlight Capital Re, the RUT and the S&P Insurance Index. The performance graph also assumes that all dividends are reinvested.

The performance reflected in the graph above is not necessarily indicative of future performance.

This graph is not "soliciting material," is not deemed filed with the SEC and is not to be incorporated by reference in any filing by us under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On August 5, 2008, our Board of Directors adopted a share repurchase plan authorizing the Company to repurchase Class A ordinary shares. From time to time, the repurchase plan has been modified at the election of our Board of Directors. On April 30, 2014, our Board of Directors amended the share repurchase plan to extend the duration of the repurchase plan to June 30, 2015 and reinstated the authorization for the Company to purchase up to 2.0 million Class A ordinary shares or securities convertible into Class A ordinary shares in the open market or through privately negotiated transactions. As of December 31, 2014, the Company was authorized to purchase up to 2.0 million Class A ordinary shares or securities convertible into Class A ordinary shares in the open market or through privately negotiated transactions. The Company is not required to make any repurchase of Class A ordinary shares and the repurchase plan may be modified, suspended or terminated at any time without prior notice. No Class A ordinary shares were repurchased by the Company during the year ended December 31, 2014.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical consolidated statement of income data for the fiscal years ended December 31, 2014, 2013, 2012, 2011 and 2010, as well as our selected historical consolidated balance sheet data as of December 31, 2014, 2013, 2012, 2011 and 2010, which are derived from our audited consolidated financial statements. The audited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and have been audited by BDO USA, LLP, an independent registered public accounting firm.

These historic results are not necessarily indicative of results for any future period. You should read the following selected financial data in conjunction with our consolidated financial statements and related notes thereto contained in "Item 8. Financial Statements and Supplementary Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this filing and all other information appearing elsewhere or incorporated into this filing by reference.

	Year ended December 31									
	2014		2013		2012		2011		2010	
	($ in thousands, except per share and share amounts)									
Selected Consolidated Statement of Income Data										
Gross premiums written	$324,023		$535,702		$427,844		$397,659		$414,850	
Net premiums earned	354,240		547,899		466,714		379,775		287,701	
Net investment income	122,575		218,140		78,941		23,118		104,006	
Loss and loss adjustment expenses incurred, net	234,986		338,493		366,601		241,690		177,018	
Acquisition costs, net	107,665		171,872		142,721		138,751		102,645	
General and administrative expenses	21,926		21,718		17,539		13,892		16,187	
Net income	$109,592		$225,699		$14,598		$6,769		$90,642	
Earnings Per Share Data (1)										
Basic	$2.94		$6.13		$0.40		$0.19		$2.49	
Diluted	2.89		6.01		0.39		0.18		2.44	
Weighted average number of ordinary shares used in the determination of earnings and loss per share										
Basic	37,242,687		36,838,128		36,702,128		36,548,466		36,420,719	
Diluted	37,874,387		37,585,167		37,361,338		37,286,454		37,224,173	
Selected Ratios (based on U.S. GAAP Consolidated Statement of Income data)										
Loss ratio (2)	66.3	%	61.8	%	78.5	%	63.6	%	61.5	%
Acquisition cost ratio (3)	30.4	%	31.4	%	30.6	%	36.5	%	35.7	%
Internal expense ratio (4)	6.0	%	3.2	%	2.8	%	2.8	%	4.5	%
Corporate expense ratio (5)	0.2	%	0.7	%	1.0	%	0.9	%	1.1	%
Combined ratio (6)	102.9	%	97.1	%	112.9	%	103.8	%	102.8	%

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	December 31				
	2014	2013	2012	2011	2010
	($ in thousands, except per share and share amounts)				
Selected Consolidated Balance Sheet Data					
Total investments	$1,430,978	$1,393,679	$1,177,928	$1,030,146	$1,034,554
Cash and cash equivalents	12,030	3,722	21,890	42,284	45,540
Restricted cash and cash equivalents	1,296,914	1,334,074	1,206,837	957,462	977,293
Total assets	2,995,292	3,095,276	2,722,753	2,343,488	2,338,002
Securities sold, not yet purchased, at fair value	1,090,731	1,111,690	908,368	683,816	725,990
Due to prime brokers	211,070	314,702	326,488	260,359	273,071
Loss and loss adjustment expense reserves ^	264,243	329,894	356,470	241,279	186,467
Unearned premium reserves	128,736	173,057	188,185	225,735	234,983
Total liabilities	1,801,251	2,008,972	1,862,343	1,497,790	1,498,841
Total equity	1,194,041	1,086,304	860,410	845,698	839,161
Adjusted book value* (7)	1,165,151	1,051,595	821,708	803,103	793,403
Diluted adjusted book value* (8)	1,184,779	1,067,623	840,683	821,318	809,993
Ordinary shares outstanding					
Basic	37,384,543	37,046,814	36,702,128	36,538,149	36,455,784
Diluted (9)	38,516,460	38,257,545	38,193,418	38,007,149	37,874,784
Per Share Data					
Basic adjusted book value per share* (10)	$31.17	$28.39	$22.39	$21.98	$21.76
Fully diluted adjusted book value per share* (11)	30.76	27.91	22.01	21.61	21.39

Certain prior year balances have been reclassified to conform to the current year presentation. The reclassifications resulted in no changes to net income or retained earnings for any of the years presented above.

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(1)	Basic earnings per share is calculated by dividing net income by the weighted average number of common shares and participating securities outstanding for the period. Diluted earnings per share is calculated by taking into account the effects of exercising all dilutive stock options. In the event of a net loss, any stock options outstanding are excluded from the calculation of diluted loss per share. Unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as "participating securities") are included in the number of shares outstanding for both basic and diluted earnings per share calculations. In the event of a net loss, the participating securities are excluded from both basic and diluted loss per share.
(2)	The loss ratio is calculated by dividing net loss and loss adjustment expenses incurred by net premiums earned.
(3)	The acquisition cost ratio is calculated by dividing net acquisition costs by net premiums earned.
(4)	The internal expense ratio is the ratio of general and administrative expenses, excluding any corporate expenses, to net premiums earned.
(5)	The corporate expense ratio is the ratio of corporate expenses to net premiums earned. Corporate expenses include expenses relating to Greenlight Capital Re being a publicly listed entity and certain non-core operating expenses as well as non-investment related foreign exchange gains or losses.
(6)	The combined ratio is the sum of the loss ratio, acquisition cost ratio, the internal expense ratio and corporate expense ratio.
(7)	Adjusted book value equals total equity minus non-controlling interest in joint venture.
(8)	Diluted adjusted book value is the adjusted book value plus the proceeds from the exercise of in-the-money options issued and outstanding at year end.
(9)	Diluted number of shares outstanding is the sum of basic shares outstanding and the in-the-money options and restricted stock units issued and outstanding at year end.
(10)	Basic adjusted book value per share is calculated by dividing adjusted book value by the number of shares and share equivalents issued and outstanding at year end.
(11)	Fully diluted adjusted book value per share is calculated by dividing the diluted adjusted book value by the diluted number of shares outstanding at year end.
*	Adjusted book value, diluted adjusted book value, basic adjusted book value per share, and fully diluted adjusted book value per share are non-GAAP measures. For a reconciliation of the non-GAAP measures to the most comparable GAAP measures, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations".
^	For detailed discussion of change in loss and loss adjustment expenses, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition" and Note 7 to the consolidated financial statements.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to "we," "us," "our," "our company," or "the Company" refer to Greenlight Capital Re, Ltd. ("GLRE") and its wholly-owned subsidiaries, Greenlight Reinsurance, Ltd, ("Greenlight Re"), Greenlight Reinsurance Ireland, Ltd. ("GRIL") and Verdant Holding Company, Ltd. ("Verdant"), unless the context dictates otherwise. References to our "Ordinary Shares" refers collectively to our Class A Ordinary Shares and Class B Ordinary Shares.

The following is a discussion and analysis of our results of operations for the years ended December 31, 2014, 2013 and 2012 and financial condition as of December 31, 2014 and 2013. The following discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes, which appear elsewhere in this filing.

General

We are a Cayman Islands headquartered global specialty property and casualty reinsurer with a reinsurance and investment strategy that we believe differentiates us from most of our competitors. Our goal is to build long-term shareholder value by selectively offering customized reinsurance solutions, in markets where capacity and alternatives are limited, which we believe will yield favorable long-term returns on equity.

We aim to complement our underwriting results with a non-traditional investment approach in order to achieve higher rates of return over the long term than reinsurance companies that employ more traditional, fixed-income investment strategies. We manage our investment portfolio according to a value-oriented philosophy, in which we take long positions in perceived undervalued securities and short positions in perceived overvalued securities.

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Because we employ an opportunistic underwriting philosophy, period-to-period comparisons of our underwriting results may not be meaningful. In addition, our historical investment results may not necessarily be indicative of future performance. Due to the nature of our reinsurance and investment strategies, our operating results will likely fluctuate from period to period.

Outlook and Trends

We believe the reinsurance industry in general has been, and for the foreseeable future will remain, over-capitalized. An influx of new capital, particularly for peak zone catastrophe risk, from alternative capital market participants such as hedge funds, pension funds and other fixed income bond managers has contributed to the over-capitalization. Additionally, we believe that the slowdown in global economic activity continues to weaken the overall demand for property and casualty insurance and, accordingly, reinsurance. However, the over-capitalization of the market is not uniform across all insurers and reinsurers and there are many insurers and reinsurers, including those that are deemed with lower financial security profiles, that have and will continue to suffer disproportionately. We believe the value proposition of our reinsurance offering and our differentiated underwriting strategy, together with our “A (Excellent)” rating by A.M.Best, positions us well to compete for new business.

One component of our underwriting strategy is to identify and partner with companies that have suffered dislocation. Accordingly, as the market suffers, we believe we may have increased underwriting opportunities, which we will pursue if we believe pricing is economically rational. Conversely, if the reinsurance market continues to soften, we anticipate that we will seek to maintain or even reduce premium writings rather than accept mispriced risk in order to conserve our capital for a more opportune environment. We believe that significant price increases could occur if financial and credit markets experience adverse shocks that result in the loss of capital of insurers and reinsurers, or if there are major catastrophic events, especially in North America. The persistent low interest rate environment has reduced the earnings of many insurance and reinsurance companies with traditional fixed income investment strategies and we believe that the continuation of low interest rates, coupled with the reduction of prior years' reserve redundancies, could cause the industry to adopt overall higher pricing.

As of December 31, 2014, our reinsurance portfolio was principally concentrated in four areas: Florida homeowners; U.S. employer health stop loss; catastrophe retrocession and non-standard private passenger automobile. While each of these areas is competitive, we believe we are supporting programs with good risk adjusted returns. We believe that, in general, the Florida homeowners, U.S. employer health stop loss and non-standard private passenger automobile sectors are stable and priced at profitable levels. However, we have observed significant flexible capital from non-traditional sources being deployed mainly in peak zone catastrophe excess of loss business, which has put downward pressure on rates. We renewed certain of our existing catastrophe retrocession relationships at January 1, 2015 and also wrote some new catastrophe retrocession deals with new partners. We have repositioned our catastrophe retrocession book of business from predominantly excess of loss contracts to quota share contracts. We have found there to be less available capacity from alternative capital providers for quota share contracts in this area and as such terms and pricing are more favorable. Additionally, we have recently secured new contracts with larger, syndicated reinsurance placements for general casualty and professional liability business which have a longer duration of claim payments than the business we have written in the past.

While the competitive market conditions have made finding new business that meets our return hurdles challenging, we believe that we have a strong pipeline of attractive opportunities with counterparties that seek highly customized structures, terms and conditions, which aligns well with our underwriting strategy. Further, we intend to continue to monitor market conditions and pursue multiple opportunities to best position ourselves to participate in future under-served or capacity-constrained markets as they arise and intend to offer products that we believe will generate favorable returns on equity over the long term. Accordingly, our underlying results and product line concentrations in any given period may vary, perhaps significantly, and are not necessarily indicative of our future results of operations.

The reinsurance industry has recently experienced several announcements of mergers and acquisitions ("M&A") between large reinsurance companies. We believe there is likely to be further consolidation in the industry. However, this consolidation will not likely result in a significant reduction in total capital within the industry, but simply a concentration of capital in fewer, larger participants. Due to the reduction in the number of competitors in the industry, we believe pricing may partially stabilize. We also believe that while some business may be further restricted to only the largest reinsurance companies in the industry, this consolidation may create an opportunity for us as more capacity may be made available to other reinsurers.

Our investment portfolio had a net long exposure of 38.9% as of December 31, 2014. Our goal for 2015 continues to be to protect capital in an uncertain environment and to find investment opportunities on both our long and short portfolios that we believe will generate positive returns. Equity market valuations are stretched while monetary policy remains very accommodative globally. Given the current investment environment, we anticipate, for the foreseeable future, to continue holding a combination of a significant position in gold, macro positions in the form of options on foreign exchange rates, short positions in sovereign debt and sovereign credit default swaps.

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Segments

We manage our business on the basis of one operating segment, property and casualty reinsurance, in accordance with the qualitative and quantitative criteria established by U.S. GAAP. Within the property and casualty reinsurance segment, we analyze our underwriting operations using two categories:

- frequency business; and
- severity business.

Frequency business is generally characterized as contracts containing a potentially large number of small losses emanating from multiple events. Clients generally buy this protection to increase their own underwriting capacity and typically select a reinsurer based upon the reinsurer’s financial strength, service and expertise. We expect the results of frequency business to be less volatile than those of severity business from period to period due to greater predictability. We also expect that over time the profit margins and return on equity of our frequency business will be lower than those of our severity business.

Severity business is generally characterized as contracts with the potential for significant losses emanating from one event or multiple events. Clients generally buy this protection to remove volatility from their balance sheets, and accordingly, we expect the results of severity business to be volatile from period to period. However, over the long term, we also expect that our severity business will generate higher profit margins and return on equity than those of our frequency business.

Revenues

We derive our revenues from two principal sources:

- premiums from reinsurance on property and casualty business assumed; and
- income from investments.

Premiums from reinsurance on property and casualty business assumed are directly related to the number, type and pricing of contracts we write. For financial reporting purposes, we earn premiums over the contract period in proportion to the period of risk covered.

Income from our investments is primarily comprised of interest income, dividends, net realized gains and losses, and changes in unrealized gains and losses on investment securities. We also derive interest income from money market funds and notes receivable.

In addition, we may from time to time derive other income from gains on deposit accounted contracts, fees generated from advisory services provided by Verdant and fees relating to overrides, profit commissions and early termination of contracts.

Expenses

Our expenses consist primarily of the following:

- underwriting losses and loss adjustment expenses;
- acquisition costs;
- investment-related expenses; and
- general and administrative expenses.

Loss and loss adjustment expenses are a function of the amount and type of reinsurance contracts we write and of the loss experience of the underlying coverage. As described below, loss and loss adjustment expenses include an actuarial analysis of the estimated losses, including losses incurred during the period and changes in estimates from prior periods. Depending on the nature of the contract, loss and loss adjustment expenses may be paid over a period of years.

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Acquisition costs primarily consist of brokerage fees, ceding commissions, premium taxes, profit commissions, letters of credit fees, federal excise tax, and other direct expenses we incur that are directly related to underwriting reinsurance contracts. We amortize deferred acquisition costs over the related contract term.

Investment-related expenses primarily consist of interest expense on borrowings, dividend expense on short sales, management fees and performance compensation that we pay to our investment advisor. We net these expenses against investment income in our consolidated financial statements.

General and administrative expenses consist primarily of salaries and benefits and related costs, including costs associated with our incentive compensation plan, bonuses and stock compensation expenses. General and administrative expenses also include professional fees, travel and entertainment, information technology, rent and other general operating expenses.

For stock option expenses, we calculate compensation cost using the Black-Scholes option pricing model and expense stock options over their vesting period, which is typically three years. For restricted stock awards and restricted stock units, we calculate compensation cost using the grant date fair value of each award and expense the stock awards over their vesting period, which is typically three years.

Critical Accounting Policies

Our consolidated financial statements contain certain amounts that are inherently subjective in nature and have required management to make assumptions and best estimates to determine reported values. If certain factors, including those described in "Part I. Item IA. — Risk Factors", cause actual events or results to differ materially from our underlying assumptions or estimates, there could be a material adverse effect on our results of operations, financial condition or liquidity. We believe that the following accounting policies affect the more significant estimates used in the preparation of our consolidated financial statements. The descriptions below are summarized and have been simplified for clarity. A more detailed description of our significant accounting policies as well as recently issued accounting standards is included in Note 2 to the consolidated financial statements.

Premium Revenues and Risk Transfer. Our property and casualty reinsurance premiums are recorded as premiums written based upon contract terms and information received from ceding companies and their brokers. For excess of loss reinsurance contracts, premiums are typically stated as a percentage of the subject premiums written by the client, subject to a minimum and deposit premium. The minimum and deposit premium is typically based on an estimate of subject premiums expected to be written by the client during the contract term. The minimum and deposit premium is reported initially as premiums written and adjusted, if necessary, in subsequent periods once the actual subject premium is known. For catastrophe contracts that contractually require the payment of a reinstatement premium equal to or greater than the original premium upon the occurrence of a full limit loss, the reinstatement premiums are earned over the original contract period. Reinstatement premiums that are contractually calculated on a pro-rata basis of the original premiums are earned over the remaining coverage period.

For each quota share or proportional property and casualty reinsurance contract we underwrite, our client estimates gross premiums written at inception of the contract. We generally account for such premiums using our best estimates and then adjust our estimates based on actual reports provided by our client and based on our expectations of industry developments. As the contract progresses, we monitor actual premiums received in conjunction with correspondence from the client in order to refine our estimate. Variances from initial gross premiums written estimates can be greater for quota share contracts than for excess of loss contracts. All premiums on quota share contracts are earned over the risk coverage period. Unearned premiums consist of the unexpired portion of reinsurance provided.

At the inception of each of our reinsurance contracts, we receive premium estimates from the client, which, together with historical and industry data, are used to estimate what we believe will be the ultimate premium payable pursuant to each contract. We receive actual premiums written by each client as the client reports the actual results of the underlying insurance writings to us on a monthly or quarterly basis (depending on the terms of the contract). We book the actual premiums written when we receive them from our client. Each reporting period we estimate the amount of premiums that are written for stub periods that have not yet been reported to us by the client. For example, for December year-end we may have to estimate December premiums ceded under certain contracts since the client may not be required to report the actual results to us until after we have finalized our audited financial statements. Typically, premium estimates are only used for unreported stub periods, which accounts for a small percentage of our reported premiums written. We believe that estimating premiums written for these stub periods is standard reinsurance industry practice.

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We are able to confirm the accuracy and completeness of premiums reported by our clients by either reviewing the client's statutory filings and/or performing an audit of the client, as per the terms of the contract. Discrepancies between premiums being ceded and reported under a contract are, in our experience, rare. To date, we have not had any material discrepancy in premiums being reported by a client that required a dispute resolution process.

We account for reinsurance contracts in accordance with U.S. GAAP. Assessing whether or not a reinsurance contract meets the conditions for risk transfer requires judgment. The determination of risk transfer is critical to reporting premiums written and is based, in part, on the use of actuarial and pricing models and assumptions. If we determine that a reinsurance contract does not transfer sufficient risk, or if a contract provides retroactive reinsurance coverage, we use deposit accounting. Any losses on such contracts are charged to earnings immediately and recorded in the consolidated statements of income as other expense. Any gains relating to such contracts are deferred and amortized over the estimated remaining settlement period. All such deferred gains are included in reinsurance balances payable in the consolidated balance sheets. Amortized gains are recorded in the consolidated statements of income as other income.

Investments. Our investments in debt and equity securities that are classified as "trading securities" are carried at fair value in accordance with U.S. GAAP. The fair values of the listed equities are derived based on the last reported price on the balance sheet date as reported by a recognized exchange. The fair values of listed equities that have restrictions on sale or transfer which expire within one year, are determined by adjusting the observed market price of the equity using a liquidity discount based on observable market inputs. The fair values of debt instruments are generally derived based on the average of multiple market maker or broker quotes which are considered to be binding. Where quotes are not available, debt instruments are valued using cash flow models using assumptions and estimates that may be subjective and non-observable.

The fair values of our investments in commodities are based on the commodity's last reported price on the balance sheet date as reported by a recognized commodities exchange. Our investments in private and unlisted equity securities and limited partnerships are all carried at fair value, based on broker or market maker quotes, or based on management's assumptions developed from available information, using the services of our investment advisor including the most recent net asset values obtained from the managers of those underlying investments. Investments in private equity funds are valued based on unadjusted net asset values reported by the funds' managers.

For securities classified as "trading securities" and "other investments", any realized and unrealized gains or losses are determined on the basis of specific identification method (by reference to cost or amortized cost, as appropriate) and included in net investment income in the consolidated statements of income.

Financial contracts which include total return swaps, credit default swaps, options, futures and other derivative instruments are recorded at their fair value with any unrealized gains and losses included in net investment income in the consolidated statements of income. Fair values on total return swaps are based on the underlying security's fair value which is obtained from closing prices on a recognized exchange (for equity or commodity swaps), or from market makers or broker quotes. Fair values for credit default swaps trading in an active market are based on market maker or broker quotes taking into account credit spreads on identical contracts. Our exchange traded option contracts are recorded at fair value based on quoted prices in active markets. For over the counter ("OTC") options and exchange traded options where a quoted price in an active market is not available, we obtain multiple market maker quotes to determine the fair values. Fair values for other derivative instruments are determined based on multiple broker or market maker quotes taking into account the liquidity and the availability of an active market for the derivative.

Loss and Loss Adjustment Expense Reserves. Our loss and loss adjustment expense reserves are comprised of:

- case reserves resulting from claims notified to us by our clients;
- incurred but not reported ("IBNR") losses; and

estimated loss adjustment expenses.

Case reserves are provided by our clients, and IBNR losses are estimated each reporting period based on a contract by contract review of all data available to us for each individual contract. Each of our reinsurance contracts is unique and the methods and estimates we use vary depending on the facts and circumstances of each contract. The resulting total loss reserves, including IBNR loss reserves, are the sum of each loss reserve estimated on a contract by contract basis.

We establish reserves for contracts based on estimates of the ultimate cost of all losses including IBNR. These estimated ultimate reserves are based on our own actuarial estimates derived from reports received from ceding companies, industry data and historical experience. These estimates are periodically reviewed by the Company on a contract by contract basis and adjusted when necessary. Since reserves are estimates, the setting of appropriate reserves is an inherently uncertain process. Our

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estimates are based upon actuarial and statistical projections and on our assessment of currently available data, predictions of future developments and estimates of future trends and other factors. The final settlement of losses may vary, perhaps materially, from the reserves initially established and periodically adjusted. All adjustments to the estimates are recorded in the period in which they are determined. Under U.S. GAAP, we are not permitted to establish loss reserves, which include case reserves and IBNR loss reserves, until the occurrence of an event which may give rise to a claim. As a result, only loss reserves applicable to losses incurred up to the reporting date are established, with no allowance for the establishment of loss reserves to account for expected future loss events.

For natural peril exposed business, we generally establish loss reserves based on loss payments and case reserves reported by our clients when, and if, received. We then add our estimates for IBNR losses to the case reserves. To establish our IBNR loss estimates, in addition to the loss information and estimates communicated by ceding companies, we use industry information, knowledge of the business written and management’s judgment.

For most of the contracts we write, our risk exposure is limited by defined limits of liability. Once the loss limit for a contract has been reached, we have no further exposure to additional losses from that contract. However, certain contracts, particularly quota share contracts that relate to first dollar exposure, may not contain aggregate limits.

For all non-natural peril business, we initially reserve every individual contract to the expected loss and loss expense ratio that we calculated when we originally priced the business. In our pricing analysis, we typically utilize a significant amount of information both from the individual client and from industry data. Where practical, we compare historic reserving data that we receive from our client, if any, to publicly available financial statements of the client in an effort to identify, confirm and monitor the accuracy and completeness of the data. We require each of our clients to provide loss information for each reporting period, which, depending on the contract, could be monthly or quarterly. The loss information required depends on the terms and conditions of each contract and may include many years of history. Depending on the type of business underwritten, we are entitled to receive client and industry information on historical paid losses, incurred losses, number of open claims, number of closed claims, number of total claims, listings of individual large losses, earned premiums, policy count, policy limits underwritten, exposure information and rate change information. We may also receive information by class or subclass of business. If the reserving data is not available from a client, we rely on industry data, as well as the judgment and experience of our underwriters and actuaries.

We rely more on client and industry data than our own data to identify unusual trends requiring changes in reserve estimates. Each reinsurance contract is different and the degree to which we rely on client data versus our own data varies greatly from contract to contract. The extent to which we rely on client data for reserve setting purposes depends upon the availability of historical loss data from the client and our judgment as to how reliable we believe the client’s historic loss performance is compared to its current book of business. We may from time to time supplement client data with industry and competitor information where we deem appropriate. Where available, we also receive relevant actuarial reports from the client. We supplement this information with subjective information on each client, which may include management experience, competitor information, meetings with the client and supplementary industry research and data.

Generally, we obtain regular updates of premium and loss related information for the current period and historical periods, which we utilize to update our initial expected loss and loss expense ratio. There may be a time lag from when claims are reported to our client and when our client reports the claims to us. This time lag may impact our loss reserve estimates from period to period. Client reports, whether due monthly or quarterly, have set reporting dates of when they are due to us (for example, fifteen days after month end). As such, the time lag in the client’s reporting depends upon the terms of the specific contract. The timing of the reporting requirements is designed so that we receive premium and loss information as soon as practicable once the client has closed its books. Accordingly, there should be a short lag in such reporting. Additionally, most of our contracts that have the potential for large single event losses have provisions that such loss notification needs to be received immediately upon the occurrence of an event. Once we receive this updated information, we use a variety of standard actuarial methods in our analysis each quarter. Such methods may include:

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Paid Loss Development Method. We estimate ultimate losses by calculating past paid loss development factors and applying them to exposure periods with further expected paid loss development. The paid loss development method assumes that losses are paid in a consistent pattern. It provides an objective test of reported loss projections because paid losses contain no reserve estimates. For many coverages, claim payments are made very slowly and it may take years for claims to be fully reported and settled.

Reported Loss Development Method. We estimate ultimate losses by calculating past reported loss development factors and applying them to exposure periods with further expected reported loss development. Since reported losses include payments and case reserves, changes in both of these amounts are incorporated in this method. This approach provides a larger volume of data to estimate ultimate losses than paid loss methods. Thus, reported loss patterns may be less varied than paid loss patterns, especially for coverage that have historically been paid out over a long period of time but for which claims are reported relatively early and case loss reserve estimates have been established.

Expected Loss Ratio Method. We estimate ultimate losses under the expected loss ratio method, by multiplying earned premiums by an expected loss ratio. We select the expected loss ratio using industry data, historical company data and our professional judgment. We use this method for lines of business and contracts where there are no historical losses or where past loss experience is not credible.

Bornhuetter-Ferguson Paid Loss Method. We estimate ultimate losses by modifying expected loss ratios to the extent paid losses experienced to date differ from what would have been expected to have been paid based upon the selected paid loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of paid losses to calculate ultimate losses. We generally use this method for lines of business and contracts where there are limited historical paid losses.

Bornhuetter-Ferguson Reported Loss Method. We estimate ultimate losses by modifying expected loss ratios to the extent reported losses experienced to date differ from what would have been expected to have been reported based upon the selected reported loss development pattern. This method avoids some of the distortions that could result from a large development factor being applied to a small base of reported losses to calculate ultimate losses. We generally use this method for lines of business and contracts where there are limited historical reported losses.

In addition, we supplement our analysis with other reserving methodologies that we deem to be relevant to specific contracts.

For each contract, we utilize each reserving methodology that our actuaries deem appropriate in order to calculate a best estimate, or point estimate, of reserves. We use various actuarial methods to provide data point estimates to aid us in our estimation of reasonable and adequate loss reserves. In setting our reserves, we do not select a range of estimates that may be subject to adjustment. We analyze reserves on a contract by contract basis and do not reserve based on aggregated product lines. Whether we use one methodology, a combination of methodologies or all methodologies depends upon the contract and the judgment of the actuaries responsible for the contract. We do not have a set weighting of the various methods we use. Certain of the methods we consider are more appropriate depending on the type and structure of the contract, how mature is the contract, and the duration of the expected paid losses on the contract. For example, the data estimation for contracts that are relatively new and therefore have little paid loss development is more appropriately considered using the Bornhuetter-Ferguson Reported Loss Method than a paid loss development method.

Our aggregate reserves are the sum of the point estimate of all contracts. We perform a quarterly loss reserve analysis on each contract regardless of the line of business. This analysis may incorporate some or all of the information described above, using some or all of the methodologies described above. We generally calculate IBNR loss reserves for each contract by estimating the ultimate incurred losses at any point in time and subtracting cumulative paid claims and case reserves, which incorporate specific exposures, loss payment and reporting patterns and other relevant factors. Each quarter, our reserving committee, which is comprised of our Chief Executive Officer, Chief Financial Officer, Chief Actuarial Officer, Assistant Controller and Reserving Actuary, meets to assess the adequacy of our loss reserves based on the reserve analysis and recommendations prepared by the Company’s actuaries. The reserving committee discusses each contract individually and approves or revises the stated reserves.

Additionally, we contract with a third-party actuarial firm to perform a quarterly reserve review and to annually opine on the reasonableness and adequacy of our loss reserves. We provide our external actuary with our pricing models, reserving analysis and any other data they may request. Additionally, the actuarial firm may inquire as to the various assumptions and estimates that we may use in our reserving analysis. The external actuarial firm independently creates its own reserving models based on industry loss information, augmented by specific client loss information that we may be asked to provide as well as its own independent assumptions and estimates. Based on various reserving methodologies that the actuarial firm considers appropriate, it creates a reserve estimate for each contract in our portfolio and provides us with an aggregate recommended loss reserve, including IBNR. If there are material differences between our booked reserves and the actuarial firm’s recommended reserves, we review the differences and make any necessary adjustments to the booked reserves. To date there have been no material differences resulting from the external actuary's reviews.

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Because of the uncertainties that surround our estimates of loss and loss adjustment expense reserves, we cannot be certain that ultimate loss and loss adjustment expense payments will not exceed our estimates, or be less than our estimates. If our estimated reserves are deficient, we would be required to increase loss reserves in the period in which such deficiencies are identified, which would cause a charge to our earnings and a reduction of our capital. Similarly, if our estimated reserves are excessive, we would decrease loss reserves in such period in which the excess is identified. By way of illustration, since we started underwriting operations in 2006, the reserve re-estimation process has resulted in the following effect on the prior year reserves and the corresponding inverse effect on net income (excluding any adjustments for additional premiums, reinstatement premiums, profit commissions or ceding commissions) during each of the years ended December 31:

Calendar Year	Effect on prior year reserves	Effect on net income
	($ in thousands)	
2014	$ 18,229 increase	$ 18,229 decrease
2013	6,120 decrease	6,120 increase
2012	56,898 increase	56,898 decrease
2011	26,015 increase	26,015 decrease
2010	8,678 increase	8,678 decrease
2009	7,597 decrease	7,597 increase
2008	11,988 decrease	11,988 increase

Given the uncertainties involved in estimating ultimate reserves and since we reserve to a point estimate on an individual contract basis, our estimated reserves may be deficient or excessive. Historical development of estimated reserves is not an accurate reflection of future loss development. Additionally, external factors can influence prior year loss development. For example, changes in specific tort law which may cause ultimate loss awards to increase or decrease could have a material effect on our loss reserve development. We are unable to predict with accuracy the magnitude or direction that such external factors may have on our estimated loss reserves.

Acquisition Costs. We capitalize brokerage fees, ceding commissions, premium taxes and other direct expenses that relate directly to and vary with the writing of reinsurance contracts. Acquisition costs are deferred subject to ultimate recoverability and amortized over the related period of risk covered. Acquisition costs also include profit commissions. Certain contracts include provisions for profit commissions to be paid to the ceding insurer based upon the ultimate experience of the contracts. The methodology for calculating profit commissions is specific to the individual contracts and varies from contract to contract. Typically profit commissions are calculated and accrued based on the expected ultimate loss experience for such contracts and recorded when the expected loss experience indicates that a profit commission is probable under the contract terms. Profit commission reserves, if any, are included in reinsurance balances payable on the consolidated balance sheets.

Bonus Accruals. Under the Company's bonus program, each employee’s target bonus consists of two components: a discretionary component based on a qualitative assessment of each employee’s performance and a quantitative component based on the return on deployed equity (‘‘RODE”) for each underwriting year relating to reinsurance operations. The qualitative portion of an employee’s annual bonus is accrued at each employee's target amount, which may differ significantly from the actual amount awarded. The quantitative portion of each employee’s annual bonus is accrued based on the expected RODE for each underwriting year and adjusted for changes in the expected RODE and actual investment return each quarter until all losses are settled and the underwriting year is declared closed. The quantitative bonus is calculated and paid in annual installments between two to five years from the end of the fiscal year in which the business was underwritten. Any subsequent changes to the quantitative bonus are incorporated into the following open underwriting year. The Compensation Committee of our Board of Directors approves all quantitative bonuses prior to being paid. The expected RODE calculation utilizes proprietary models which require significant estimation and judgment. Actual RODE may vary significantly from the expected RODE and any adjustments to the quantitative bonus estimates, which may be material, are recorded in the period in which they are determined.

Share-Based Payments. We have established a stock incentive plan for directors, employees and consultants. U.S. GAAP requires us to recognize share-based compensation transactions using the fair value at the grant date of the award. We calculate the compensation for restricted stock awards and restricted stock units based on the price of the Company's common shares at the grant date and recognize the expense over the vesting period. Share purchase options are expensed over the vesting period on a graded vesting basis. Determining the fair value of share option awards at the grant date requires significant estimation and judgment. We use an option-pricing model (Black-Scholes pricing model) to assist in the calculation of fair value. Effective from August 2014, the estimate of expected volatility was based on the daily historical trading data of our Class A ordinary shares from the date that these shares commenced trading (May 24, 2007) to the grant date.

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Prior to 2014, our shares had not been publicly traded for a sufficient length of time to reasonably estimate the expected volatility. Therefore, for share purchase options granted prior to 2014, we determined the expected volatility based primarily on the historical volatility of a peer group of companies in the reinsurance industry while also considering our own historical volatility in determining the expected volatility. We typically considered factors such as an entity's industry, stage of life cycle, size and financial leverage when selecting the peer group. Additionally, we used the full life of the option, ten years, as the estimated term of the option, and we have assumed that dividends will not be paid.

If actual results differ significantly from these estimates and assumptions, particularly in relation to our estimation of volatility which requires significant judgment, share-based compensation expense, primarily with respect to future share-based awards, could be materially impacted.

Results of Operations

Years ended December 31, 2014, 2013 and 2012

For the year ended December 31, 2014, we reported net income of $109.6 million, compared to net income of $225.7 million reported for the year ended December 31, 2013. Our investment portfolio reported net income of $122.6 million, or a return of 8.7%, for the year ended December 31, 2014, compared to net investment income of $218.1 million, or a return of 19.6%, for the same period in 2013. The underwriting income before general and administrative expenses for the year ended December 31, 2014 was $11.6 million, compared to underwriting income of $37.5 million reported for the year ended December 31, 2013. The decrease in underwriting income was driven by adverse loss development on prior year contracts and to a lesser extent by lower volume of premiums earned during 2014 compared to 2013. By comparison, the 2013 underwriting income included a reversal of $12.4 million of loss reserves (net of reinstatement premiums) relating to super-storm Sandy due to revised loss estimates recorded during 2013. For the year ended December 31, 2014, our overall composite ratio was 96.7% compared to 93.2% for the year ended December 31, 2013. General and administrative expenses increased slightly for the year ended December 31, 2014 to $21.9 million from $21.7 million for the year ended December 31, 2013, primarily as a result of higher quantitative bonuses accrued relating to the 2012, 2013 and 2014 underwriting years which was partially offset by a gain on foreign exchange.

For the year ended December 31, 2013, we reported net income of $225.7 million, compared to net income of $14.6 million reported for the year ended December 31, 2012. Our investment portfolio reported net income of $218.1 million, or a return of 19.6%, for the year ended December 31, 2013, compared to net investment income of $78.9 million, or a return of 7.1%, for the same period in 2012. The underwriting income before general and administrative expenses for the year ended December 31, 2013 was $37.5 million, compared to underwriting loss of $42.6 million reported for the year ended December 31, 2012. The 2013 underwriting income included a reversal of $12.4 million of loss reserves (net of reinstatement premiums) relating to super-storm Sandy due to revised loss estimates recorded during 2013. Based on updated information received from the insurer during the first quarter of 2013, the insurer reported that claims relating to super-storm Sandy were no longer expected to breach into the coverage layer provided by our contract, and, therefore loss reserves were reversed. For the year ended December 31, 2013, our overall composite ratio was 93.2% compared to 109.1% for the year ended December 31, 2012. General and administrative expenses increased for the year ended December 31, 2013 to $21.7 million from $17.5 million for the year ended December 31, 2012, primarily as a result of higher personnel costs due to additional staff hired during 2013, as well as an increase in employee bonuses accrued due to favorable underwriting results.

Our primary financial goal is to increase the long-term value in fully diluted adjusted book value per share. During the year ended December 31, 2014, the fully diluted adjusted book value per share increased by $2.85 per share, or 10.2%, to $30.76 per share from $27.91 per share at December 31, 2013. For the year ended December 31, 2013, the fully diluted adjusted book value per share increased by $5.90 per share, or 26.8%, to $27.91 per share from $22.01 per share at December 31, 2012.

For the year ended December 31, 2014, the basic adjusted book value per share increased by $2.78 per share, or 9.8%, to $31.17 per share from $28.39 per share at December 31, 2013. During the year ended December 31, 2013, basic adjusted book value per share increased by $6.00 per share, or 26.8%, to $28.39 per share from $22.39 per share at December 31, 2012.

Basic adjusted book value per share is a non-GAAP measure as it excludes the non-controlling interest in a joint venture from total equity. In addition, fully diluted adjusted book value per share is also a non-GAAP measure and represents basic adjusted book value per share combined with the impact from dilution of all in-the-money stock options and RSUs issued and outstanding as of any period end. We believe that long-term growth in fully diluted adjusted book value per share is the most relevant measure of our financial performance. In addition, fully diluted adjusted book value per share may be of benefit to our investors, shareholders and other interested parties to form a basis of comparison with other companies within the property and casualty reinsurance industry.

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The following table presents a reconciliation of the non-GAAP basic adjusted and fully diluted adjusted book value per share to the most comparable GAAP measure.

	December 31, 2014	December 31, 2013	December 31, 2012
	($ in thousands, except per share and share amounts)		
Basic adjusted and fully diluted adjusted book value per share numerator:			
Total equity (U.S. GAAP)	$1,194,041	$1,086,304	$860,410
Less: Non-controlling interest in joint venture	(28,890)	(34,709)	(38,702)
Basic adjusted book value per share numerator	1,165,151	1,051,595	821,708
Add: Proceeds from in-the-money stock options issued and outstanding	19,628	16,028	18,975
Fully diluted adjusted book value per share numerator	$1,184,779	$1,067,623	$840,683
Basic adjusted and fully diluted adjusted book value per share denominator:			
Ordinary shares issued and outstanding for basic adjusted book value per share denominator	37,384,543	37,046,814	36,702,128
Add: In-the-money stock options and RSUs issued and outstanding	1,131,917	1,210,731	1,491,290
Fully diluted adjusted book value per share denominator	38,516,460	38,257,545	38,193,418
Basic adjusted book value per share	$31.17	$28.39	$22.39
Fully diluted adjusted book value per share	$30.76	$27.91	$22.01

Gross Premiums Written

Details of gross premiums written are provided in the following table:

	Year ended December 31					
	2014		2013		2012	
	($ in thousands)					
Frequency	$295,861	91.3 %	$512,096	95.6 %	$405,480	94.8 %
Severity	28,162	8.7	23,606	4.4	22,364	5.2
Total	$324,023	100.0 %	$535,702	100.0 %	$427,844	100.0 %

As a result of our opportunistic underwriting philosophy, our reported quarterly premiums written may be volatile. Additionally, the composition of premiums written between frequency and severity business may vary from period to period depending on the specific market opportunities that we pursue.

Year ended December 31, 2014

During 2014, our gross premiums written decreased by $211.7 million, or 39.5%, primarily due to a private passenger motor contract that we terminated at the end of 2013 and due to some of our personal property contracts renewed during 2014 at a smaller share ceded to us. However, during the second half of 2014, we entered into several new relationships which offset some of the decrease in gross premiums written during 2014.

For the year ended December 31, 2014, the frequency gross premiums written decreased by $216.2 million, or 42.2%, primarily relating to the motor line (physical damage and liability) and personal property line. The motor line gross premiums written decreased by $137.0 million relating to a private passenger motor contract that we terminated at the end of 2013 on a run-off basis. Additionally, our remaining private passenger motor contracts reported a decrease of $24.3 million in gross premiums written during 2014, compared to the same period in 2013, due to competitive pricing pressure on the underlying premiums written by the insurers. The personal property line frequency gross premiums written decreased by $78.3 million, primarily relating to a decrease in our share of the Florida homeowners' contracts which renewed during 2014, with the cedents

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choosing to retain a larger share on the renewed contracts compared to the expiring contracts. The decrease in frequency gross premiums written was partially offset by a number of new contracts entered into relating to the general liability, specialty health and workers' compensation lines of business.

For the year ended December 31, 2014, the increase in severity gross premiums written of $4.6 million, or 19.3%, compared to the same period in 2013 was primarily due to new and renewed severity contracts written during 2014, including excess of loss and multi-line property and casualty retrocession contracts.

Year ended December 31, 2013

During 2013, we increased our gross premiums written by $107.9 million, or 25.2%, as we continued to grow our key areas of focus, principally, private passenger automobile insurance and Florida homeowners' insurance.

For the year ended December 31, 2013, the frequency gross premiums written increased by $106.6 million, or 26.3%, primarily as a result of growth in our motor liability and personal property contracts, which increased by $75.5 million, or 42.4%, and $57.9 million, or 73.9%, respectively. The motor liability line includes both commercial motor contracts as well as private passenger automobile contracts (also referred to as non-standard automobile). The increase in motor liability line was primarily driven by an increase of $77.9 million in private passenger automobile premiums written due to an increase in the volume of underlying business written by our clients. The increase in motor liability premiums was partially offset by a decrease of $2.4 million in commercial motor premiums written as we canceled all of our remaining commercial motor related contracts during 2013.

The increase of $57.9 million in the frequency gross premiums written in our personal property line was entirely related to the Florida homeowners' contracts. During 2013, we added a new relationship to our existing portfolio of Florida homeowners' business which accounted for nearly half of the increase, while the remainder of the increase resulted from higher volume of written premiums assumed from our existing relationships.

Additionally, for the year ended December 31, 2013, our professional, financial and specialty health lines of business generated increases in frequency gross premiums written of $11.6 million, $5.5 million and $3.2 million, respectively. The increase in professional line premiums written was related to solicitors' professional indemnity contracts, which renewed in 2013 at a higher premium volume than the expiring contracts. The increase in financial lines was a result of growth in the surety business on existing contracts, while the increase in specialty health lines was due to increases in the volume of the underlying U.S. employer health stop loss premiums on existing contracts.

For the year ended December 31, 2013, the increases in frequency gross premiums written were offset by decreases in our workers' compensation and general liability lines, which decreased by $21.2 million and $23.6 million, respectively, primarily relating to the commutation of a multi-line contract and the termination of another multi-line contract, both of which included coverages for workers' compensation and general liability.

For the year ended December 31, 2013, the increase in severity gross premiums written of $1.2 million, or 5.6%, compared to the same period in 2012 was primarily due to new severity contracts written during 2013. This increase was partially offset by the reversal of reinstatement premiums written of $3.5 million in conjunction with the reversal of loss reserves relating to super-storm Sandy during the first quarter of 2013. Reinstatement premiums and additional premiums based on contractual terms are recognized as written premiums at the time losses are recorded, and, if required, adjusted in the period in which changes in loss estimates are recorded.

Premiums Ceded

For the years ended December 31, 2014, 2013 and 2012, retrocessional premiums ceded were $13.5 million, $2.8 million and $(24.3) million, respectively. For the year ended December 31, 2014, our ceded premiums increased by $10.7 million partially relating to a retrocession contract purchased during 2014 in order to reduce our net exposure to natural peril catastrophe events, and partially relating to higher premiums on the inward contracts which are proportionally retroceded to entities affiliated with the ceding insurers.

For the year ended December 31, 2013, the ceded premiums increased by $27.1 million primarily as a result of negative ceded premiums reported in 2012 due to retrocessional premiums returned upon the termination of certain contracts in 2012.

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Net Premiums Written

Details of net premiums written are provided in the following table:

	Year ended December 31								
	2014			2013			2012		
	($ in thousands)								
Frequency	$286,121	92.1	%	$509,316	95.6	%	$429,755	95.1	%
Severity	24,409	7.9		23,606	4.4		22,364	4.9	
Total	$310,530	100.0	%	$532,922	100.0	%	$452,119	100.0	%

The movement in net premiums written is the net result of the increases or decreases in gross premiums written and premiums ceded as explained in the preceding paragraphs.

Net Premiums Earned

Net premiums earned reflect the pro-rata inclusion into income of net premiums written over the risk period of the reinsurance contracts. Details of net premiums earned are provided in the following table:

	Year ended December 31								
	2014			2013			2012		
	($ in thousands)								
Frequency	$330,617	93.3	%	$529,779	96.7	%	$444,455	95.2	%
Severity	23,623	6.7		18,120	3.3		22,259	4.8	
Total	$354,240	100.0	%	$547,899	100.0	%	$466,714	100.0	%

Premiums relating to quota share contracts and excess of loss contracts are earned over the contract period in proportion to the period of protection. Similarly, incoming unearned premiums are earned in proportion to the remaining period of protection.

Year ended December 31,2014

For the year ended December 31, 2014, the frequency net premiums earned decreased by $199.2 million, or 37.6%, compared to the same period in 2013. The decrease was primarily attributed to a private passenger motor contract terminated at the end of 2013 which accounted for $159.5 million of the decrease. Additionally, the volume of premiums earned on other private passenger motor contracts decreased by $13.9 million compared to the same period in 2013. This decrease was due to a reduction in earned premiums reported during 2014 resulting from competitive pricing pressure on the underlying premiums written by the insurers. The personal line premiums earned decreased by $40.1 million during 2014 compared to the same period in 2013 primarily due to the explanation provided above under Gross Premiums Written. Other decreases in net premiums earned related to the workers' compensation line and the general liability line which decreased by $11.1 million and $2.4 million, respectively, primarily as a result of certain multi-line contracts terminated during 2013. The decreases in frequency net premiums earned were partially offset by net premiums earned on new contracts and increases in the volume of underlying business in other lines including $10.3 million relating to professional liability contracts and $3.0 million relating to employer health stop-loss contracts.

Premiums written relating to severity contracts are earned over the contract period in proportion to the period of protection. For the year ended December 31, 2014, severity net premiums earned increased $5.5 million, or 30.4%, compared to the same period in 2013. The increase is partially a function of the reversal of reinstatement premiums reflected in the comparative period and partially due to the new and renewed severity contracts entered into during

2014. The increases were partially offset by decreases due to catastrophe contracts expired but not renewed during 2014 due to inadequate pricing.

Year ended December 31, 2013

For the year ended December 31, 2013, the frequency net premiums earned increased by $85.3 million, or 19.2%, compared to the same period in 2012 primarily as a result of our motor liability, motor physical damage and personal property contracts, which increased net premiums earned by $89.9 million, $12.7 million and $16.6 million, respectively. The increase in

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motor liability line includes an increase of $101.7 million in private automobile premiums earned as a result of increased premium volume on the underlying business. The increase was partially offset by a decrease of $11.8 million in commercial motor premiums earned primarily due to a multi-line contract that was commuted during 2013. The increase in motor physical damage premiums earned was entirely related to the corresponding increase in the non-standard automobile contracts. The increase in personal property premiums earned related to Florida homeowners' insurance contracts for the same reasons discussed above for increase in premiums written.

The increases in frequency net premiums earned were offset by decreases in our general liability and workers' compensation premiums earned, which decreased by $27.0 million and $8.0 million, respectively, primarily because during 2013 we commuted a multi-line contract that included coverages for commercial motor, workers' compensation and general liability.

Premiums written relating to severity contracts are earned over the contract period in proportion to the period of protection. For the year ended December 31, 2013, severity net premiums earned decreased $4.1 million, or 18.6%, compared to the same period in 2012. The decrease was primarily due to the reversal of $2.9 million of reinstatement premiums earned in conjunction with the elimination of loss reserves relating to super-storm Sandy. During 2013, we entered into new severity contracts which contributed $11.5 million in earned premiums, which was partially offset by reductions in earned premiums from contracts that expired and were not renewed, and contracts renewed at lower premium amounts due to our participation being at lower risk exposure levels.

Losses Incurred

Losses incurred include losses paid and changes in loss reserves, including reserves for IBNR, net of actual and estimated loss recoverables. Details of net losses incurred are provided in the following table:

	Year ended December 31								
	2014			2013			2012		
	($ in thousands)								
Frequency	$231,185	98.4	%	$347,217	102.6	%	$344,074	93.9	%
Severity	3,801	1.6		(8,724)	(2.6)		22,527	6.1	
Total	$234,986	100.0	%	$338,493	100.0	%	$366,601	100.0	%

We establish reserves for each contract based on estimates of the ultimate cost of all losses including losses incurred but not reported. These estimated ultimate reserves are based on reports received from ceding companies, industry data and historical experience as well as our own actuarial estimates. Quarterly, we review these estimates on a contract by contract basis and adjust as we deem appropriate to reflect our best estimates based on updated information and our internal actuarial estimates. We expect losses incurred on our severity business to be volatile depending on the number and magnitude of catastrophic events from year to year.

Year ended December 31 2014

For the year ended December 31, 2014, the net losses incurred on frequency contracts decreased by $116.0 million, or 33.4%. This decrease was primarily the net result of the 37.6% decrease in net premiums earned relating to a private passenger motor contract terminated at the end of 2013 and Florida homeowners' personal property contracts renewed at a lower assigned share. Additionally, the multi-line contracts terminated and commuted during 2013 also contributed to the decrease in incurred losses for the year ended December 31, 2014. The decreases were partially offset by an increase in losses incurred relating to adverse loss development on general liability, commercial motor, solicitors' professional liability and employers' medical stop-loss contracts (see Note 7 of the consolidated financial statements for details).

Net losses incurred as a percentage of net premiums earned (i.e. the loss ratio) fluctuates based on the mix of business, and the favorable or adverse development of our larger contracts. For the years ended December 31, 2014 and 2013, the overall loss ratios for our frequency business were 69.9% and 65.5%, respectively. The higher loss ratio for the year ended December 31, 2014 was due to adverse loss development relating to prior period general liability, commercial motor, solicitors' professional liability and employers' medical stop-loss. Additionally, the loss ratio on the motor line was also higher primarily due to current year private passenger motor contracts reporting higher expected loss ratios compared to the prior year contracts. The increase in the loss ratio for the year ended December 31, 2014 was partially offset by a lower loss ratio for the general liability line due to a decrease in the amount of adverse loss development during 2014 compared to the adverse loss development during 2013.

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For the years ended December 31, 2014 and 2013, the loss ratios for our severity business were 16.1% and (48.1)%, respectively. During the year ended December 31, 2014 our severity business was not impacted by any major catastrophe events. The net losses incurred on severity contracts of $3.8 million for the year ended December 31, 2014, primarily related to attritional loss reserves on certain excess of loss contracts. The negative loss ratio of (48.1)% for the comparable year ended December 31, 2013, was due to the reversal of loss reserves relating to super-storm Sandy. Excluding the effect of that loss reserve reversal (and the corresponding reversal of reinstatement premiums), the severity loss ratio for the year ended December 31, 2013 was 29.9% which included a $4.0 million increase in loss reserves on a casualty clash contract.

Year ended December 31, 2013

For the year ended December 31, 2013, the net losses incurred on frequency contracts increased by $3.1 million, or 0.9%. This increase is the net result of the 19.2% increase in earned premiums, partially offset by the decrease in loss reserves primarily related to commercial motor contracts currently in run off. For the year ended December 31, 2013, the incurred losses relating to commercial motor contracts were negative $2.1 million compared to $53.2 million in 2012. During 2012, we had increased the loss reserves relating to these contracts based on loss data, which had indicated adverse loss development due to several large losses and overall higher settlement amounts expected on open claims. For the year ended December 31, 2013, the incurred losses on these contracts decreased as we reversed some of the loss reserves due to favorable loss development and due to commutation of a multi-line contract during 2013. The commuted multi-line contract also included coverage for general liability and workers' compensation which also contributed to the decrease in loss reserves.
Net losses incurred as a percentage of net premiums earned (i.e. loss ratio) fluctuate based on the mix of business, and the favorable or adverse development of our larger contracts. For the years ended December 31, 2013 and 2012, the overall loss ratios for our frequency business were 65.5% and 77.4%, respectively. The decrease in loss ratio was primarily due to the absence of any further adverse loss development on commercial motor liability contracts during 2013. The commercial motor liability contracts, in aggregate, reported favorable loss development during 2013. By comparison, the loss ratio had spiked in 2012 due to the increase in loss reserves booked during 2012 relating to the commercial motor liability contracts. The decrease in commercial motor liability loss ratios for the year ended December 31, 2013 were partially offset by adverse loss development relating to general liability contracts that are currently in run off.

For the years ended December 31, 2013 and 2012, the loss ratios for our severity business were (48.1)% and 101.2%, respectively. The net losses incurred on severity contracts of $(8.7) million for the year ended December 31, 2013, included $(15.0) million of loss reserves reversed during 2013 relating to super-storm Sandy. During 2012, the estimated loss from super-storm Sandy was reserved at the full limit of the excess of loss contract. However, during the first quarter of 2013, we received additional information from our client that indicated that the losses would not exceed the threshold of the layer of coverage provided under our contract. Excluding the effect of the super-storm Sandy related contract, the severity loss ratio for the year ended December 31, 2013 was 29.9% compared to 45.2% for the year ended December 31, 2012. The 2013 losses incurred on severity contracts included a $4.0 million increase in loss reserves on a casualty clash contract based on updated information from the client indicating higher estimated ground up losses which in turn would increase the losses in the layer covered by us. By comparison, the 2012 loss ratio included $9.0 million of loss reserves relating to the 2010 New Zealand earthquake. To a lesser extent, the severity loss ratio for the year ended December 31, 2013 included attritional loss reserves recorded on new severity contracts entered into during 2013.

Losses incurred can be further broken down into losses paid and changes in loss and loss adjustment expense reserves as follows:

Year ended December 31

	2014			2013			2012		
	Gross	Ceded	Net	Gross	Ceded	Net	Gross	Ceded	Net
	($ in thousands)								
Losses paid (recovered)	$303,272	$(9,695)	$293,577	$355,275	$(7,386)	$347,889	$264,630	$(8,146)	$256,484
Change in loss and loss adjustment expense reserves	(63,897)	5,306	(58,591)	(27,019)	17,623	(9,396)	115,011	(4,894)	110,117
Total	$239,375	$(4,389)	$234,986	$328,256	$10,237	$338,493	$379,641	$(13,040)	$366,601

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For the year ended December 31, 2014, the change in ceded loss reserves of $5.3 million was primarily a result of a decrease in loss reserves recoverable driven by losses reported on retroceded contracts. For the year ended December 31, 2013, the change in ceded reserves of $17.6 million was primarily related to a commuted multi-line frequency contract and its related retroceded contract, which was also commuted simultaneously. For the year ended December 31, 2012, the increase in ceded reserves of $4.9 million was primarily related to the retrocession of multi-line frequency casualty contracts, which experienced adverse loss development during 2012.
For the year ended December 31, 2014, our net loss reserves on prior period contracts increased by $18.2 million, which primarily related to adverse loss development on general liability, commercial motor, solicitors' professional liability and employers' medical stop-loss businesses, partially offset by favorable loss development on private passenger automobile business. For the year ended December 31, 2013, our net loss reserves on prior period contracts decreased by $6.1 million, which primarily related to elimination of reserves relating to super-storm Sandy, favorable loss development on the private passenger automobile, commercial motor and personal property businesses, which was partially offset by adverse loss development on the general liability and casualty clash businesses. For the year ended December 31, 2012, our net loss reserves on prior period contracts increased by $56.9 million, which primarily related to the 2010 New Zealand earthquake losses and adverse loss development on the commercial motor, and personal property businesses. For further details on prior period loss developments please refer to Note 7 of the consolidated financial statements.

Acquisition Costs, Net

Acquisition costs represent the amortization of commission and brokerage expenses incurred on contracts written as well as profit commissions and other underwriting expenses which are expensed when incurred. Deferred acquisition costs are limited to the amount of commission and brokerage expenses that are expected to be recovered from future earned premiums and anticipated investment income. Details of acquisition costs are provided in the following table:

	Year ended December 31								
	2014			2013			2012		
	($ in thousands)								
Frequency	$103,008	95.7	%	$168,109	97.8	%	$139,598	97.8	%
Severity	4,657	4.3		3,763	2.2		3,123	2.2	
Total	$107,665	100.0	%	$171,872	100.0	%	$142,721	100.0	%

We expect that acquisition costs will be higher for frequency business than for severity business. Since acquisition costs directly relate to the premiums acquired, the volume of acquisition expenses generally vary in accordance with the amount of premiums earned. For the year ended December 31, 2014, our total acquisition costs decreased by 37.4% while our net earned premiums decreased by 35.3%. Since our acquisition costs decreased by a greater percentage than our earned premiums, it caused our reported total acquisition cost ratio to also decrease. Overall, our total acquisition cost ratios were 30.4%, 31.4%, and 30.6% for the years ended December 31, 2014, 2013 and 2012, respectively.

Year ended December 31 2014

For the years ended December 31, 2014 and 2013, the acquisition cost ratios for frequency business were 31.2% and 31.7%, respectively. For the year ended December 31, 2014, the slightly lower frequency acquisition cost ratio was related to a combination of decreases in specialty health, professional liability and workers' compensation lines, partially offset by increases in general liability and personal property lines. Acquisition cost ratio for the motor line remained unchanged due to the lower ceding commissions on the in-force private passenger contracts being entirely offset by an increase in sliding scale commission adjustments from the favorable loss development on prior period private passenger contracts.

For the years ended December 31, 2014 and 2013, the acquisition cost ratios for severity business were 19.7% and 20.8%, respectively. The acquisition cost ratio reported for the year ended 2013 was higher due to the impact of reinstatement premiums reversed during 2013 relating to super-storm Sandy with no corresponding reversal of commissions. Excluding the impact of this reversal, the 2013 acquisition cost ratio was 18.0%. The acquisition cost ratio on the new severity contracts written during 2014 was higher due to a change in mix of business. During the year ended 2014, we wrote several new severity quota share contracts which had higher ceding commissions than the catastrophe excess of loss contracts written during 2013.

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Year ended December 31, 2013

For the years ended December 31, 2013 and 2012, the acquisition cost ratios for frequency business were 31.7% and 31.4%, respectively. The slightly higher frequency acquisition cost ratio in 2013 was primarily related to higher commissions on private passenger automobile contracts that contain a sliding-scale commission structure which increases (or decreases) when the loss ratio decreases (or increases). Since we commuted a contract at a lower loss ratio, the commission was adjusted higher accordingly. To a lesser extent, the acquisition cost ratio for personal lines increased due to a new Florida homeowners' contract entered into during 2013, which is recorded at the higher end of the sliding scale commission rate due to a lower loss ratio estimate than our other personal lines contracts.

For the years ended December 31, 2013 and 2012, the severity acquisition cost ratios were 20.8% and 14.0%, respectively. For the year ended December 31, 2013, the higher severity acquisition cost ratio was partially related to the impact of the reinstatement premiums reversed during 2013 relating to super-storm Sandy with no corresponding reversal of commissions. Excluding the impact of this reversal, the 2013 acquisition cost ratio was 18.0%. Additionally, the higher acquisition cost ratio also related to higher commissions on new severity contracts written during 2013. Additionally, the 2012 acquisition cost ratio was lower as a result of the reinstatement premiums earned relating to super-storm Sandy.

General and Administrative Expenses

Our total general and administrative expenses for the years ended December 31, 2014, 2013 and 2012, were $21.9 million, $21.7 million, and $17.5 million, respectively. General and administrative expenses for the years ended December 31, 2014, 2013 and 2012 included $4.0 million, $3.8 million and $3.7 million, respectively, for the expensing of the fair value of stock options, RSUs and restricted stock granted to employees and directors.

Details of general and administrative expenses are provided in the following table:

	Year ended December 31		
	2014	2013	2012
	($ in thousands)		
Internal expenses	$21,341	$17,683	$13,105
Corporate expenses	585	4,035	4,434
General and administrative expenses	$21,926	$21,718	$17,539

Internal expenses include all general and administrative expenses except for corporate expenses. Corporate expenses include those expenses directly related to being a publicly listed entity and certain non-core operating expenses as well as non-investment related foreign exchange gains and losses.

For the year ended December 31, 2014, the increase in internal expenses was primarily related to higher underwriting quantitative bonuses estimated relating to the 2012, 2013 and 2014 underwriting years, and to a lesser extent, related to information technology system upgrades and an increase in head-count from the comparative period in 2013.

For the year ended December 31, 2013, the increase in internal expenses was primarily related to an increase of $3.9 million in personnel costs (including share based compensation) due to an increase in head-count from the comparative period in 2012 and higher accruals for underwriting related bonuses.

For the year ended December 31, 2014, corporate expenses included non-investment related foreign exchange gains of $2.6 million (2013: loss of $0.8 million, 2012: loss of $0.8 million).

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Net Investment Income

A summary of our net investment income is as follows:

	Year ended December 31		
	2014	2013	2012
	($ in thousands)		
Realized gains	$353,264	$141,976	$60,762
Change in unrealized gains	(172,402)	154,791	67,569
Investment related foreign exchange gains (losses)	(1,684)	19,305	3,682
Interest and dividend income	31,422	22,265	21,131
Interest, dividend and other expenses	(38,892)	(47,665)	(38,545)
Investment advisor compensation	(49,133)	(72,532)	(35,658)
Net investment income	$122,575	$218,140	$78,941

Investment returns relating to our investment portfolio managed by DME Advisors are calculated monthly and compounded to calculate the quarterly and annual returns. The resulting actual investment income may vary depending on cash flows into or out of the investment account.

For the year ended December 31, 2014, investment income, net of all fees and expenses, resulted in a gain of 8.7% on our investment portfolio. This compares to a gain of 19.6% and a gain of 7.1% reported for the years ended December 31, 2013 and 2012, respectively.

For the year ended December 31, 2013, included in the above table under interest, dividend and other expenses, was an impairment charge of $6.0 million related to a note receivable that was subsequently sold in 2014 at a gain of $4.5 million. The gain was included in the above table under realized gains for the year ended December 31, 2014.

We expect our investment income, including realized and unrealized gains (or losses), to fluctuate from period to period. Fluctuations in realized and unrealized gains (or losses) are a function of both the market performance of the securities held in our investment portfolio, and the timing of additions to and dispositions of securities in our investment portfolio. Our investment advisor uses its discretion over when a gain (or loss) is realized on a particular investment. We believe that net investment income, which includes both realized and unrealized gains (or losses), is the best way to assess our investment performance, rather than analyzing the realized gains (or losses) and unrealized gains (or losses) separately.

For the years ended December 31, 2014, 2013 and 2012, the gross investment returns on our investment portfolio managed by DME Advisors (excluding investment advisor performance allocation) were 10.8%, 24.6% and 9.0%, respectively, and were comprised of the following:

	Year ended December 31		
	2014	2013	2012
Long portfolio gains (losses)	17.8 %	41.2 %	21.6 %
Short portfolio gains (losses)	(4.2)%	(17.0)%	(6.3)%
Macro gains (losses)	(1.1)%	2.2 %	(4.6)%
Other income and expenses	(1.7)%	(1.8)%	(1.7)%
Gross investment return	10.8 %	24.6 %	9.0 %

For the year ended December 31, 2014, included in investment advisor compensation was $20.6 million (2013: $18.3 million, 2012: $16.9 million) relating to management fees paid to DME Advisors and $28.5 million (2013: $54.2 million, 2012: $18.8 million) relating to performance allocation to DME in accordance with the investment advisory agreement.

Our investment advisor, DME Advisors, and its affiliates manage and expect to manage other client accounts besides ours, some of which have investment objectives similar to ours. To comply with Regulation FD, our investment returns are posted on our website on a monthly basis. Additionally, our website (www.greenlightre.ky) provides the names of the largest disclosed long positions in our investment portfolio as of the last business day of the month of the relevant posting, as well as

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information on our long and short exposures. Although DME Advisors discloses all investment positions to us, it may choose not to disclose certain positions to its clients in order to protect its investment strategy. Therefore, we present on our website the largest long positions and exposure information as disclosed by DME Advisors or its affiliates to their other clients.

Income Taxes

We are not obligated to pay taxes in the Cayman Islands on either income or capital gains. We have been granted an exemption by the Governor-In-Cabinet from any income taxes that may be imposed in the Cayman Islands for a period of 20 years, expiring on February 1, 2025.

GRIL is incorporated in Ireland and, therefore, is subject to the Irish corporation tax. GRIL is expected to be taxed at a rate of 12.5% on its taxable trading income, and 25% on its non-trading income, if any.

Verdant is incorporated in Delaware and, therefore, is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the Internal Revenue Service. Verdant's taxable income is expected to be taxed at a rate of 35%.

As of December 31, 2014, a deferred tax asset of $0.03 million (2013: $0.05 million) resulting solely from the temporary differences in recognition of expenses for tax purposes was included in other assets on the consolidated balance sheets. As of December 31, 2014, an accrual for current taxes recoverable of $0.8 million (2013: payable of $0.3 million) was recorded on the consolidated balance sheets. Based on the timing of the reversal of the temporary differences and likelihood of generating sufficient taxable income to realize the future tax benefit, management believes it is more likely than not that the deferred tax asset will be fully realized in the future and therefore no valuation allowance has been recorded. The Company has not taken any tax positions that management believes are subject to uncertainty or that are reasonably likely to have a material impact to the Company, GRIL or Verdant.

Ratio Analysis

Due to the opportunistic and customized nature of our underwriting operations, we expect to report different loss and expense ratios in both our frequency and severity businesses from period to period.

The following table provides the ratios:

	Year ended December 31				
		2014		2013	2012
	Frequency	Severity	Total		