GAINSCO INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

The Board of Directors
GAINSCO, INC.
Dallas, Texas

We have audited the accompanying consolidated financial statements of GAINSCO, INC. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GAINSCO, INC. and its subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Dallas, Texas
May 31, 2013

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011

(Amounts in thousands, except share data)

Assets		2012	2011
Investments (notes 1, 2 and 3):			
Bonds, available for sale – at fair value (amortized cost: $153,580 – 2012, $148,004 – 2011)	$	154,425	146,004
Preferred stocks, available for sale – at fair value (cost: $2,447 – 2012, $1,947 – 2011)		2,634	1,885
Common stocks, available for sale – at fair value (cost: $664 – 2012 and 2011)		536	603
Common stocks, trading – at fair value		27	39
Certificates of deposit – at cost, which approximates fair value (amortized cost: $100 – 2012, $185 – 2011)		100	185
Other long-term investment – at cost method, which approximates fair value (cost: $2,692 – 2012, $179 – 2011)		2,692	179
Short-term investments – at fair value (amortized cost: $40,722 – 2012, $43,974 – 2011)		40,720	43,957
Total investments		201,134	192,852
Cash		334	773
Accrued investment income (note 1)		1,666	1,586
Premiums receivable (net of allowance for doubtful accounts: $630 – 2012, $863 – 2011) (note 1)		39,595	38,203
Ceded unpaid claims and claim adjustment expenses (notes 6 and 8)		899	1,591
Deferred policy acquisition costs (note 1)		6,811	6,847
Property and equipment (net of accumulated depreciation and amortization: $8,148 – 2012, $9,861 – 2011) (notes 1 and 7)		2,292	1,152
Current Federal income taxes (notes 1 and 9)		238	-
Deferred Federal income taxes (net of valuation allowance: $20,373 – 2012, $20,581 – 2011) (notes 1 and 9)		2,360	3,482
Other assets		3,433	4,044
Goodwill (note 1)		609	609
Total assets	$	259,371	251,139

(Continued)

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2012 and 2011

(Amounts in thousands, except share data)

Liabilities and Shareholders' Equity		2012	2011
Liabilities:			
Unpaid claims and claim adjustment expenses (notes 1 and 8)	$	79,643	77,181
Unearned premiums (note 1)		47,433	45,348
Accounts payable		6,929	6,579
Reinsurance balances payable (note 6)		371	503
Note payable (note 4)		4,900	4,500
Subordinated debentures (note 5)		43,000	43,000
Current Federal income taxes (notes 1 and 9)		-	3
Other liabilities		4,445	5,016
Cash overdraft		9,201	3,697
Total liabilities		195,922	185,827
Commitments and contingencies (notes 4, 5, 6, 12, 13, 14 and 15)			
Shareholders' Equity (notes 10 and 12):			
Common stock ($.10 par value, 12,500,000 shares authorized, 5,148,232 shares issued and 4,889,582 shares outstanding at December 31, 2012, 5,038,232 shares issued and 4,779,582 shares outstanding at December 31, 2011)		515	504
Additional paid-in capital		135,529	139,330
Accumulated deficit		(69,309)	(68,922)
Accumulated other comprehensive income (loss) (notes 2 and 3)		902	(1,412)
Treasury stock, at cost (258,650 shares at December 31, 2012 and 2011) (notes 1 and 10)		(4,188)	(4,188)
Total shareholders' equity		63,449	65,312
Total liabilities and shareholders' equity	$	259,371	251,139

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2012 and 2011

(Amounts in thousands, except per share data)

		2012	2011
Revenues:			
Net premiums earned (notes 1 and 6)	$	185,706	168,724
Net investment income (note 2)		4,937	4,711
Realized investment (losses) gains (note 2 and 3), net:			
Other-than-temporary impairment losses		(285)	(451)
Other realized investment gains, net		2,224	344
Total realized investment gains (losses)		1,939	(107)
Agency revenues (note 1)		11,862	11,108
Other (expense) income, net		(21)	1,034
Total revenues		204,423	185,470
Expenses:			
Claims and claim adjustment expenses (notes 1, 6 and 8)		145,876	121,563
Policy acquisition costs (note 1)		27,203	26,295
Underwriting and operating expenses		29,482	27,147
Interest expense, net (notes 4 and 5)		1,931	1,795
Total expenses		204,492	176,800
(Loss) income before Federal income taxes		(69)	8,670
Federal income taxes (notes 1 and 9):			
Current (benefit) expense		(76)	160
Deferred expense (benefit)		394	(1,032)
Total income tax expense (benefit)		318	(872)
Net (loss) income	$	(387)	9,542
(Loss) income per common share (notes 1, 10 and 11):			
Basic	$	(.08)	2.00
Diluted	$	(.08)	2.00
Weighted average common shares outstanding (notes 10 and 11):			
Basic		4,807	4,780
Diluted		4,807	4,780

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended December 31, 2012 and 2011

(Amounts in thousands)

		2012	2011
Net (loss) income	$	(387)	9,542
Other comprehensive income before tax:			
Unrealized gains (losses) on investments:			
Unrealized holding gains (losses) arising during the period		4,980	(2,405)
Less: Reclassification adjustments for (gains) losses included in net (loss) income		(1,939)	107
Unrealized gains (losses) on investments, net		3,041	(2,298)
Other comprehensive income (loss), before tax		3,041	(2,298)
Income tax benefit (expense) related to components of other comprehensive income		727	(727)
Other comprehensive income (loss), net of tax		2,314	(1,571)
Comprehensive income		1,927	7,971

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2012 and 2011

(Amounts in thousands)

		2012			2011	
Common stock:						
Balance at beginning of year	$	504			504	
Stock issuance		11			-	
Balance at end of year	$	515			504	
Additional paid-in capital:						
Balance at beginning of year	$	139,330			149,343	
Cash dividend		(4,890)			(9,559)	
Stock issuance		(11)			-	
Stock-based compensation expense		1,100			7	
Accrual of restricted stock units		-			(461)	
Balance at end of year	$	135,529			139,330	
Accumulated deficit:						
Balance at beginning of year	$	(68,922)			(78,464)	
Net (loss) income		(387)	$	(387)	9,542	9,542
Balance at end of year	$	(69,309)			(68,922)	
Accumulated other comprehensive income (loss):						
Balance at beginning of year	$	(1,412)			159	
Other comprehensive income (loss)		2,314		2,314	(1,571)	(1,571)
Comprehensive income			$	1,927		7,971
Balance at end of year	$	902			(1,412)	
Treasury stock:						
Balance at beginning of year	$	(4,188)			(4,185)	
Purchase of treasury stock		-			(3)	
Balance at end of year	$	(4,188)			(4,188)	
Total shareholders' equity end of year	$	63,449			65,312	

See accompanying notes to consolidated financial statements.

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

(Amounts in thousands)

		2012	2011
Cash flows from operating activities:			
Net (loss) income	$	(387)	9,542
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Depreciation and amortization		3,665	3,321
Other-than-temporary impairment of investments		285	451
Non-cash compensation expense (benefit)		1,100	(454)
Realized gains (excluding other-than-temporary impairments)		(2,236)	(353)
Unrealized losses on trading securities		12	9
Deferred Federal income tax expense (benefit)		394	(855)
Change in operating assets and liabilities:			
Accrued investment income		(80)	53
Premiums receivable		(1,392)	(3,080)
Ceded unpaid claims and claim adjustment expenses		692	2,743
Deferred policy acquisition costs		36	(409)
Other assets		339	(339)
Unpaid claims and claim adjustment expenses		2,462	7,367
Unearned premiums		2,085	3,376
Accounts payable		350	1,191
Reinsurance balances payable		(132)	(253)
Other liabilities		(571)	1,417
Current Federal income taxes		(241)	10
Net cash provided by operating activities	$	6,381	23,737

(Continued)

GAINSCO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

(Amounts in thousands)

		2012	2011
Cash flows from investing activities:			
Bonds available for sale:			
Sold	$	62,126	39,555
Matured		28,505	22,630
Purchased		(96,613)	(75,883)
Certificates of deposit:			
Matured		185	185
Purchased		(100)	(185)
Preferred stocks sold		1,122	1,632
Preferred stocks purchased		(1,500)	(1,000)
Common stocks sold		195	-
Common stocks purchased		(144)	(664)
Change in securities sold but not settled		201	(201)
Other long-term investments (purchased) proceeds		(2,512)	383
Net change in short-term investments		2,636	(2,667)
Property and equipment purchased		(1,935)	(712)
Net cash used for investing activities		(7,834)	(16,927)
Cash flows from financing activities:			
Principal payment on note		(4,500)	(1,000)
Draw on note payable		4,900	4,500
Treasury stock purchased		-	(3)
Dividends paid		(4,890)	(9,559)
Net change in cash overdraft		5,504	(2,835)
Net cash provided by (used for) financing activities		1,014	(8,897)
Net decrease in cash		(439)	(2,087)
Cash at beginning of year		773	2,860
Cash at end of year	$	334	773

Supplemental disclosures of cash flow information:
$1,980 and $1,855 in interest was paid during 2012 and 2011, respectively (notes 4 and 5).
$165 and $150 in income tax payments were made during 2012 and 2011, respectively (note 9).

See accompanying notes to consolidated financial statements.

(1) Background and Summary of Significant Accounting Policies

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of GAINSCO, INC. ("GANS") and its wholly-owned subsidiaries (collectively, the "Company" or "we"), BSAG, Inc. ("BSAG"), MGA Insurance Company, Inc. ("MGA"), GAINSCO Service Corp. ("GSC"), National Specialty Lines, Inc. ("NSL") and DLT Insurance Adjusters, Inc. ("DLT") (NSL and DLT collectively, the "Lalande Group"). MGA has one wholly owned subsidiary, MGA Agency, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

(b) Nature of Operations

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

On January 7, 2011, GANS announced its Board of Directors approved the voluntary suspension of its duty to file reports with the Securities and Exchange Commission (the "SEC") and the voluntary deregistration of its common stock. These actions resulted in the Company's common shares no longer being listed on the NYSE Amex and the Company no longer being a reporting issuer to the SEC. The Company was eligible to suspend its reporting obligations and deregister its common stock because there were fewer than 300 holders of record of the Company's common stock. In accordance with the resolutions adopted by its Board of Directors, the Company filed certain notices and certifications under the Securities Exchange Act of 1934.

GANS expects to use cash during the next twelve months primarily for: (1) interest on the Subordinated debentures and the credit agreement, (2) administrative expenses and (3) investments. The primary sources of cash to meet these obligations are assets held by GANS, dividends from its subsidiaries and the ability to draw from its $15.0 million bank credit agreement that was renewed in December 2012 and now has a maturity date of December 12, 2014. GANS believes the cash available from its short-term investments, dividends from its subsidiaries and advances from its $15.0 million bank credit agreement should be sufficient to meet its expected obligations for the next twelve months.

(c) Investments

The Company did not hold any held-to-maturity investment securities during 2012 and 2011. Investments classified as trading securities include equity securities bought and held primarily for sale in the near term and are carried at fair value with unrealized holding gains or losses included in current period operations. Investments classified as available-for-sale securities include debt and equity securities that are not classified as held-to-maturity or as trading security investments and are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a separate component of shareholders' equity, namely, "Other Comprehensive Income."

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

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

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

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

(d) Deferred Policy Acquisition Costs and Policy Acquisition Costs

Deferred policy acquisition costs ("DAC") are principally commissions, premium taxes and underwriting expenses which are deferred. Beginning with costs incurred in 2012, the Company defers only direct incremental costs associated with successful insurance contract acquisitions. Policy acquisition costs are principally commissions, premium taxes, marketing and underwriting expenses and the change in deferred policy acquisition costs that are charged to operations over the period in which the related premiums are earned. The Company utilizes investment income when assessing recoverability of deferred policy acquisition costs. A premium deficiency and a corresponding charge to income is recognized if the sum of the expected claims and claim adjustment expenses, unamortized acquisition costs and maintenance costs exceeds related unearned premiums and anticipated investment income. The premium deficiency at December 31, 2011, was net of anticipated investment income recognized against deferred policy acquisition costs for expected underwriting losses on the Southeast business. At December 31, 2012, there was no premium deficiency that was required to be recognized.

Information relating to these net deferred amounts, as of and for the years ended December 31, 2012 and 2011 is summarized as follows:

		2012	2011
		(Amounts in thousands)	
Asset balance, beginning of period	$	6,847	6,438
Deferred commissions		20,946	19,514
Deferred premium taxes and marketing expenses		6,109	6,902
Premium deficiency		-	(133)
Amortization		(27,091)	(25,874)
Net change		(36)	409
Asset balance, end of period	$	6,811	6,847

(e) Property and Equipment

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

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

(f) Goodwill

Goodwill carried on GANS' balance sheet represents the excess of purchase price over fair value of net identifiable assets acquired. The goodwill recorded is related to the 1998 acquisition of the Lalande Group. In accordance with ASC 350-20, *Intangibles – Goodwill and Other – Goodwill*, goodwill is not amortized but rather is subject to a qualitative assessment of events or factors to determine if the annual two-step test of goodwill impairment to be performed. Therefore, impairment losses could be recorded in future periods. The Company conducts on at least an annual basis a review of its reporting units' assets and liabilities to determine whether goodwill is impaired. The goodwill impairment test is a two-step test depending on the qualitative assessment of events or factors. Under the first step, fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test. Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting

unit's goodwill over the implied fair value of that goodwill. The implied fair value of the goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a variety of methods, including a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. GANS performed this test as of December 31, 2012 and 2011. The test results indicated that there was no impairment loss at December 31, 2012 or 2011.

(g) Claims and Claim Adjustment Expenses

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

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

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

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

(h) *Treasury Stock*

The Company records treasury stock in accordance with the "cost method" described in ASC 505-30, *Equity – Treasury Stock* ("ASC 505-30") – see note 11 for further discussion.

(i) Premium Revenues and Premium Receivables

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

(j) Federal Income Taxes

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

The Company currently has a valuation allowance for a portion of the tax benefit from its net operating loss carryforwards. ASC 740-10, *Income Taxes – Overall* ("ASC 740-10") requires positive evidence, such as cumulative taxable income over the most recent three-year period and other available objective and subjective evidence, for management to conclude that it is "more likely than not" that a portion or all of the deferred tax assets will be realized. While both objective and subjective evidence are considered, it is the Company's understanding that objective evidence should generally be given more weight in the analysis under ASC 740-10. In making the determination, the Company considered all available evidence, including the fact that the Company generated cumulative taxable income for the three years ended December 31, 2012. The Company does not record a tax valuation allowance relating to the net unrealized losses on investments, excluding equity securities, because it is more likely than not that these losses would reverse or be utilized in future periods. The Company has the ability and it is the Company's intent to fully recover the principal, which could require the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary – see note 10.

The Company previously adopted the provisions of ASC 740-10-65, *Income Taxes – Overall – Transition and Open Effective Date Information* ("ASC 740-10-65"). At December 31, 2012, the Company has not identified any uncertain tax positions in accordance with ASC 740-10-65. The Company is subject to U.S. federal income tax examinations by tax authorities for 2006 and subsequent years.

(k) Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, receivables, payables and debt instruments. The carrying values of these financial instruments approximate their respective fair values as they are either short-term in nature or carry interest rates which approximate market rates.

(l) Earnings Per Share

Earnings per share ("EPS") for the years ended December 31, 2012 and 2011 is based on a weighted average of the number of common shares outstanding during each year (see note 12). Basic and diluted EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Common stock equivalents related to stock options are excluded from the diluted EPS calculation if their effect would be anti-dilutive to EPS.

(m) Share-Based Compensation

The Company accounts for stock-based employee compensation plans under the provisions of ASC 718-10-65, *Stock Compensation – Overall – Transition and Open Effective Date Information* ("ASC 718-10-65") that focuses primarily on accounting for transactions in which an entity exchanges its equity instruments for employee services and carries forward prior guidance for share-based payments for transactions with non-employees. The compensation cost is based on whether the related service period and performance period achievements are considered probable at the time of measurement using the closing price of GANS' Common Stock on the grant date, or if the grant has been subsequently modified, on the modification date. The Company recognizes expense relating to stock-based employee compensation on a straight-line basis over the requisite service period which is generally the vesting period. Forfeitures of unvested stock grants are estimated and recognized as reduction of expense. See note 13 of the Consolidated Financial Statements for more information on share-based compensation.

(n) ***Recently Issued Accounting Standards***

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the Financial Accounting Standards Board ("FASB") issued ASC 2010-26 intended to reduce diversity in practice for the accounting of deferred policy acquisition costs. The guidance modifies the definition of acquisition costs to require that costs be directly related to the successful acquisition of a new or renewal insurance contract to be deferred. This decision requires the Company expense the proportion of our general and administrative deferred acquisition costs which relate to quoted business which does not successfully convert into a policy and is effective for annual reporting periods beginning after December 15, 2011. We adopted this standard as of January 1, 2012 on a prospective basis and, beginning with costs incurred in 2012, deferred only direct incremental costs associated with successful insurance contract acquisitions.

Presentation of Comprehensive Income

In June and December 2011, the FASB issued ASC 220 amending the presentation of comprehensive income and its components to eliminate the option to present other comprehensive income in the statement of stockholders' equity. We adopted this standard as of January 1, 2012. Under the new guidance, a reporting entity has the option to present comprehensive income in a single continuous statement or in two separate but consecutive statements. The impact of adoption was not material to our results of operations or financial position.

Amendments to Fair Value Measurement and Disclosure Requirements

In May 2011, the FASB issued ASC 820 that clarifies the application of existing fair value measurement and disclosure requirements and amends certain fair value measurement principles, requirements and disclosures. We adopted this standard as of January 1, 2012. The impact of adoption was not material to our results of operations or financial position. Additional disclosures required by this standard are located in Note 3 to the Consolidated Financial Statements.

Intangibles – Goodwill and Other

In September 2011, the FASB issued ASC 350 providing the option to first assess qualitative factors, such as macroeconomic conditions and industry and market considerations, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment indicates impairment, an entity must perform the two-step goodwill impairment test. If an entity does not elect the option to perform the qualitative assessment, the guidance requiring the two-step goodwill impairment test is unchanged. We adopted this standard as of January 1, 2012. The impact of adoption had no impact on our results of operations or financial position. The Company elected to not perform the qualitative assessment.

All other codified accounting standards and interpretations of those standards issued during 2012 did not relate to accounting policies and procedures pertinent to the Company at this time.

(o) Reclassifications

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

(2) Investments

The following table summarizes the components of net investment income:

		Years ended December 31,	
		2012	2011
		(Amounts in thousands)	
Fixed maturities	$	4,809	4,682
Preferred stocks		137	130
Common stocks		98	45
Other long-term investments		(21)	(17)
Short-term investments		130	104
		5,153	4,944
Investment expenses		(216)	(233)
Net investment income	$	4,937	4,711

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

		December 31, 2012				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI (1)
		(Amounts in thousands)				
Bonds, available for sale:						
U.S. Treasury	$	6,195	439	-	6,634	-
U.S. Government agencies		4,466	64	-	4,530	-
Corporate bonds		128,827	1,407	(477)	129,757	-
Asset backed		1,338	1	-	1,339	-
Mortgage backed		12,754	192	(781)	12,165	(570)
Preferred stocks, available for sale		2,447	266	(79)	2,634	-
Common stocks, available for sale		664	-	(128)	536	-
Common stocks, trading		27	-	-	27	-
Certificates of deposit		100	-	-	100	-
Other long-term investments		2,692	-	-	2,692	-
Short-term investments		40,722	6	(8)	40,720	-
Total investments	$	200,232	2,375	(1,473)	201,134	(570)

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

		December 31, 2011				
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Other-than-temporary impairments in AOCI (1)
		(Amounts in thousands)				
Bonds, available for sale:						
U.S. Treasury	$	8,104	388	-	8,492	-
U.S. Government agencies		2,714	73	-	2,787	-
Corporate bonds		119,395	1,233	(1,693)	118,935	-
Asset backed		1,734	23	-	1,757	-
Mortgage backed		16,056	234	(2,257)	14,033	(2,221)
Preferred stocks, available for sale		1,947	36	(98)	1,885	(98)
Common stocks, available for sale		664	-	(61)	603	-
Common stocks, trading		39	-	-	39	-
Certificates of deposit		185	-	-	185	-
Other long-term investments		179	-	-	179	-
Short-term investments		43,974	3	(20)	43,957	-
Total investments	$	194,991	1,990	(4,129)	192,852	(2,319)

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

The following tables summarizes the gross unrealized losses showing the length of time that investments have been continuously in an unrealized loss position as of December 31, 2012 and 2011:

		December 31, 2012					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Amounts in thousands)					
Corporate bonds		36,592	346	5,135	131	41,727	477
Asset backed		743	-	-	-	743	-
Mortgage backed		1,993	7	5,212	774	7,205	781
Preferred stocks		497	3	272	76	769	79
Common stocks		115	14	421	114	536	128
Short-term investments		11,185	8	-	-	11,185	8
Total investments	$	51,125	378	11,040	1,095	62,165	1,473

		December 31, 2011					
		Less than 12 months		12 months or longer		Total	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Amounts in thousands)					
Corporate bonds		42,086	1,558	11,275	135	53,361	1,693
Asset backed		441	-	-	-	441	-
Mortgage backed		4,016	36	5,675	2,221	9,691	2,257
Preferred stocks		-	-	249	98	249	98
Common stocks		603	61	-	-	603	61
Short-term investments		11,953	20	-	-	11,953	20
Total investments	$	59,099	1,675	17,199	2,454	76,298	4,129

The gross unrealized losses, shown in the above tables, totaling $1,095,000 and $2,454,000 as of December 31, 2012 and 2011, respectively, relate to 17 and 21 individual securities, respectively, that had been in an unrealized loss position for 12 months or more as of such dates. As of December 31, 2012, approximately 64% of the unrealized gross losses were with issuers rated as investment grade by Standard and Poor's (S&P). The decline in the market value is primarily related to the disruption and lack of liquidity in the markets in which these securities trade, along with credit risk aversion by investors. Other important factors include (i) the slowing of prepayments in mortgage and asset backed securities and (ii) the significant decline in the 3 month London Interbank Offered Rate for U.S. dollar deposits ("LIBOR") for securities with floating rate coupons since the purchase of these assets. At this time based upon information currently available, the Company has the ability and it is the Company's intent to fully recover the principal, which could require the Company to hold these securities until their maturity; therefore, the Company considers the impairment to be temporary.

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

At December 31, 2012 and 2011, the Company had $4,137,000 and $4,680,000 in par value for nonprime collateralized mortgage obligations (Alt-A securities), respectively. The carrying value and fair value of these investments were $3,645,000 and $3,018,000, respectively, at December 31, 2012 compared to $4,285,000 and $2,873,000, respectively, at December 31, 2011.

	As of December 31,	
Nonprime collateralized mortgage obligations	2012	2011
S&P Ratings:		
AA+	20%	16%
D	80	84
	100%	100%

Included in the Company's fixed income portfolio are hybrid securities with a carrying value of $12,306,000 and fair value of $12,327,000. A hybrid security as used here is one where the issuer of the debt instrument can choose to defer payment of the regularly scheduled interest due for a contractually set maximum period of time, usually five to ten years, without being in technical default on the issue.

One security, with carrying value of $983,000 and $1,091,000, and a fair value of $847,000 and $774,000, at December 31, 2012 and 2011, respectively, is dependent on the continued claims paying ability of its financial guarantor (MBIA) in order for the Company not to sustain any loss of principal or interest. MBIA is rated B (S&P), and we believe that the probable outcome is that principal and interest will be paid in full and, accordingly, the impairment on that security is considered temporary.

Preferred stocks predominately consist of auction preferred instruments considered to be available for sale and reported at estimated fair value with the net unrealized gains or losses reported after-tax as a component of other comprehensive income. The auction rate securities which the Company owns are each issued by a trust which holds as an asset the preferred stock of a corporation, which are exchange traded. The Company has the option at stated intervals to redeem the auction preferred shares for a pro rata share of the underlying collateral. As of December 31, 2012, we have not chosen this option as the structure of the trust provides a higher coupon on the auction preferred shares than on the underlying collateral shares; and therefore, are of greater economic value. As of December 31, 2012, we do not believe that these underlying shares are other-than-temporarily impaired based on the credit review of the issuers.

The general partners of the Company's limited partnership investment elected to commence dissolution and wind up the partnership's affairs allowing for liquidation of the partnership's assets. The Company has classified this investment as Other long-term investment and accounts for it under the equity method.

Estimated fair value of investments on deposit with various regulatory bodies, as required by law, were $5,203,000 and $5,172,000, at December 31, 2012 and 2011 respectively.

The amortized cost and estimated fair value of debt securities (including bonds available for sale, preferred stocks and certificates of deposit) at December 31, 2012 and 2011, by maturity, are shown below.

		2012		2011	
		Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(Amounts in thousands)			
Due in one year or less	$	28,105	28,237	29,703	29,821
Due after one year but within five years		77,849	78,817	75,338	75,914
Due after five years but within ten years		10,334	10,354	1,864	2,155
Due after ten years but within twenty years		2,502	2,539	794	794
Due beyond 20 years		23,245	23,708	24,646	23,600
Asset backed securities		1,338	1,339	1,734	1,757
Mortgage backed securities		12,754	12,165	16,056	14,033
	$	156,127	157,159	150,135	148,074

The following table summarizes the S&P ratings on the Company's bonds available for sale as of December 31, 2012:

Bonds available for sale	2012
S&P Ratings:	
AAA	6%
AA+	4
AA-	1
A+	4
A	7
A-	7
BBB+	21
BBB	22
BBB-	11
BB+	2
BB and below	15
	100%

Proceeds from the sale of securities for the years ended December 31, 2012 and 2011 are presented in the following table:

		Years ended December 31,	
		2012	2011
		(Amounts in thousands)	
Proceeds:			
Bonds, available for sale	$	46,116	17,246
Bonds, available for sale principal pay downs	$	16,010	22,309
Preferred stocks, available for sale	$	1,122	1,632
Common stocks, available for sale	$	195	-

Realized gains and losses on investments for the years ended December 31, 2012 and 2011 are presented in the following table:

		Years ended December 31,	
		2012	2011
		(Amounts in thousands)	
Realized gains:			
Bonds, available for sale	$	2,308	623
Preferred stocks, available for sale		122	230
Common stocks		51	-
Short-term investments		12	12
Total realized gains		2,493	865
Realized losses:			
Bonds, available for sale		(257)	(439)
Preferred stocks, available for sale		-	(73)
Total realized losses		(257)	(512)
Unrealized losses on trading securities		(12)	(9)
Other-than-temporary impairment losses		(285)	(451)
Total realized investment (losses) gains, net	$	1,939	(107)

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

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

The following table sets forth the amount of credit loss impairments on debt securities held by the Company as of December 31, 2012, for which a portion of the OTTI loss was recognized in OCI, and the corresponding changes in such amounts.

		(Amounts in thousands)
Balance, January 1, 2012	$	6,618
Credit losses remaining in accumulated deficit related to adoption of ASC 320-10-65		-
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period		-
Credit loss impairments previously recognized on securities impaired to fair value during the period (1)		-
Credit loss impairments recognized in the current period on securities not previously impaired		129
Additional credit loss impairments recognized in the current period on securities previously impaired		156
Increases due to the passage of time on previously recorded credit losses		-
Balance, December 31, 2012	$	6,903

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

During 2012, the Company wrote down $285,000 in securities that were determined to have had an other-than-temporary decline in fair value. During 2011, the Company wrote down $451,000 in securities that were determined to have had an other-than-temporary decline in fair value.

(3) Fair Value Measurements

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

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.
- Level 3 – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own estimates as to the assumptions that market participants would use.

Valuation of Investments

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

performance among issuers. In some cases, other external observable inputs such as credit default swap levels are used as input in the fair value analysis.

Fixed Maturities

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

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

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

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

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

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

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

All of the Company's Level 1 and Level 2 invested assets held at December 31, 2012 and 2011 were priced using either independent pricing services or available market prices to determine fair value. The Company classifies such instruments in active markets as Level 1 and those not in active markets as Level 2. The Preferred stocks in Level 3 were auction preferred instruments and were classified in Level 3 because the market in which they trade remains very inactive. The Corporate bonds in Level 3 are private placements which rarely trade and the issuers have no other debt outstanding to provide a valuation benchmark. The residential mortgage backed securities which are valued in the manner described above are classified as Level 3. Those for which the individual pricing service value is used are classified as Level 2.

The quantitative disclosures about the fair value measurements for each major category of assets at December 31, 2012 and 2011 were as follows:

		December 31, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Amounts in thousands)			
Assets:					
U.S. Treasury	$	6,634	6,634	-	-
U.S. Government agencies		4,530	-	4,530	-
Corporate bonds		129,757	4,487	123,196	2,074
Asset backed		1,339	-	1,339	-
Mortgage backed		12,165	-	11,564	601
Total available-for-sale securities		154,425	11,121	140,629	2,675
Preferred stocks		2,634	1,783	-	851
Common stocks		536	536	-	-
Common stocks, trading		27	27	-	-
Certificates of deposit		100	100	-	-
Short-term investments		40,720	14,754	25,966	-
Total assets classified by ASC 320-10-65	$	198,442	28,321	166,595	3,526
Percentage of total		100%	14%	84%	2%

	December 31, 2011	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Amounts in thousands)			
Assets:				
U.S. Treasury	$ 8,492	8,492	-	-
U.S. Government agencies	2,787	-	2,787	-
Corporate bonds	118,935	7,676	109,098	2,161
Asset backed	1,757	-	1,757	-
Mortgage backed	14,033	-	7,982	6,051
Total available-for-sale securities	146,004	16,168	121,624	8,212
Preferred stocks	1,885	755	530	600
Common stocks	603	603	-	-
Common stocks, trading	39	39	-	-
Certificates of deposit	185	185	-	-
Short-term investments	43,957	25,366	18,591	-
Total assets classified by ASC 320-10-65	$ 192,673	43,116	140,745	8,812
Percentage of total	100%	22%	73%	5%

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

The following table provides a summary of changes in fair value associated with the Level 3 assets for the years ended December 31, 2012 and 2011:

		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
		December 31,	
		2012	2011
		(Amounts in thousands)	
Beginning balance	$	8,812	12,383
Total gains or losses (realized/unrealized):			
Included in earnings (or changes in net assets)		-	(410)
Included in other comprehensive loss		(1,652)	(3,161)
Purchases, issuances, and settlements, net		-	-
Transfers in and/or out of Level 3		(3,634)	-
Ending balance	$	3,526	8,812

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

The Company wrote down Alt-A securities (Level 2) for the year ended December 31, 2012 that were determined to have had an other-than-temporary credit related impairment charge. The Company wrote down Alt-A securities (Level 3) for the year ended December 31, 2011 that were determined to have had an other-than-temporary credit related impairment charge.

Securities transferred out of Level 3 in 2012 represent mortgage-backed securities with the Company previously valued internally. At present, fair values derived from an independent pricing service are utilized. Therefore, these securities were all transferred to Level 2. There were no transfers between Levels 1 and 2 during the periods presented.

(4) Note Payable

In September 2005, the Company entered into a credit agreement with a commercial bank. Interest, payable monthly, accrued on any outstanding principal balance at a floating rate equal to the 3-month LIBOR. Subsequent amendments changed the interest rate to 3.25% over the three month LIBOR, with a minimum of 4%, and a usage fee of 0.25% on the unused line of credit, converted the credit agreement to a revolving loan with a revolving commitment of up to $15,000,000 and a maturity of December 12, 2014.

The Company paid off the $4,500,000 balance of the Note payable as of December 31, 2011. At December 31, 2012 and 2011 the monthly interest rate equaled the minimum rate of 4%, with a 0.25% usage fee on the unused note balance. The Company is able to draw on this revolving loan and repay in increments of $100,000 without premium or penalty. Borrowings under the revolving loan are collateralized by the common stock of MGA and NSL, and payment is guaranteed by NSL. The Company had drawn on the revolving loan in the amount of $4,900,000 as of December 31, 2012. The credit agreement governing the revolving loan contains covenants regarding limits on levels of subsidiary indebtedness, liens, investments, acquisitions, certain mergers, certain asset sales outside the ordinary course of business, and change in control as defined in the agreement. The agreement also contains financial covenants regarding capital of MGA, consolidated net worth of GANS and the combined ratio of the personal auto operation.

(5) Subordinated Debentures

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

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

The following table summarizes net interest expense recorded and interest payments made in 2012 and 2011:

		2012		2011	
		Net interest expense	Interest payments	Net interest expense	Interest payments
		(Amounts in thousands)			
Note payable	$	88	84	39	34
Subordinated debenture I		1,085	1,113	1,045	1,071
Subordinated debenture II		758	783	711	750
Total	$	1,931	1,980	1,795	1,855

(6) Reinsurance

(a) Assumed

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

The following table summarizes the amounts related to the arrangements as of and for the years ended December 31, 2012 and 2011:

		December 31,	
		2012	2011
		(Amounts in thousands)	
Balances held in escrow	$	2,516	3,653
Premiums earned by assumption	$	791	1,401
Assumed unpaid claims and claim adjustment expenses	$	1,549	2,449

(b) Ceded

Runoff Lines

On February 7, 2002, the Company announced its decision to cease writing commercial, specialty and umbrella lines of insurance due to continued adverse claims development and unprofitable underwriting results, these lines became known as runoff lines. The Company has ceded unpaid claims and claim adjustment expense of $900,000 as of December 31, 2012.

Nonstandard Personal Auto Lines

In 2011, the Company maintained catastrophe reinsurance on its physical damage coverage for property claims of $14,000,000 in excess of $1,000,000 for a single catastrophe, as well as for aggregate catastrophes. For 2012, the Company maintains catastrophe reinsurance on its physical damage coverage for property claims of $14,000,000 in excess of $1,000,000 for a single catastrophe, as well as for aggregate catastrophes.

The amounts included in the consolidated statement of operations for reinsurance ceded as of and for the years ended December 31, 2012 and 2011, respectively, are set forth in the following table:

		December 31,	
		2012	2011
		(Amounts in thousands)	
Premiums earned – nonstandard personal auto	$	1,031	1,019
Claims and claim adjustment expenses – runoff	$	3	-

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

(7) Property and Equipment

The following schedule summarizes the components of property and equipment:

		As of and for the years ended December 31	
		2012	2011
		(Amounts in thousands)	
Leasehold improvements	$	509	509
Furniture		1,117	1,068
Equipment		2,707	2,597
Software		6,107	6,839
Accumulated depreciation and amortization		(8,148)	(9,861)
Property and equipment, net	$	2,292	1,152
Depreciation expense	$	795	711

(8) Claims and Claim Adjustment Expenses

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

		As of and for the years ended December 31,	
		2012	2011
		(Amounts in thousands)	
Unpaid claims and claim adjustment expenses, beginning of period	$	77,181	69,814
Less: Ceded unpaid claims and claim adjustment expenses, beginning of period		1,591	4,334
Net unpaid claims and claim adjustment expenses, beginning of period		75,590	65,480
Net claims and claim adjustment expense incurred related to:			
Current period		136,342	122,243
Prior periods		9,534	(680)
Total net claim and claim adjustment expenses incurred		145,876	121,563
Net claims and claim adjustment expenses paid related to:			
Current period		85,848	70,028
Prior periods		56,874	41,425
Total net claim and claim adjustment expenses paid		142,722	111,453
Net unpaid claims and claim adjustment expenses, end of period		78,744	75,590
Plus: Ceded unpaid claims and claim adjustment expenses, end of period		899	1,591
Unpaid claims and claim adjustment expenses, end of period	$	79,643	77,181

The unfavorable development for prior periods net claims and claim adjustment expenses incurred in 2012 was primarily attributable to Florida personal injury protection litigation of $13.5 million. The favorable development for prior periods net claims and claim adjustment expense incurred in 2011 was primarily attributable to nonstandard personal auto lines in the Southwest region as a result of the difference in actual and expected claims frequency and severity associated with most of our coverages.

The following table presents the (unfavorable) favorable development in nonstandard personal auto for claims occurring in prior accident years for each region for the years ended December 31, 2012 and 2011:

		December 31,		
		2012		2011
		(Amounts in thousands)		
Region:				
Southeast (Florida, Georgia and South Carolina)	$	(12,486)	$	(1,754)
Southwest (Arizona, California, New Mexico, Nevada and Texas)		3,038		2,195
Net (unfavorable) favorable development	$	(9,448)	$	441

(9) Federal Income Taxes

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

		December 31,	
		2012	2011
		(Amounts in thousands)	
Income tax (benefit) expense at 34%	$	(23)	2,948
Change in net valuation allowance		(208)	(3,634)
Other, net		549	(186)
Income tax expense (benefit)	$	318	(872)

The Company recognized a current tax expense for the alternative minimum tax for the years ended December 31, 2012 and 2011:

		2012	2011
		(Amounts in thousands)	
Current tax (benefit) expense	$	(76)	160
Federal Income Tax paid	$	165	150

Under ASC 740-10-65, the primary objective is to establish deferred tax assets and liabilities for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. As a consequence, the portion of the tax expense, which is a result of the change in the deferred tax asset or liability, may not always be consistent with the income reported on the statements of operations. At December 31, 2012, the Company has not identified any uncertain tax positions in accordance with ASC 740-10-65.

As a result of losses in prior years, as of December 31, 2012 the Company has net operating loss ("NOL") carryforwards for tax purposes aggregating (amounts in thousands):

		2012
Year set to expire		
2021	$	29,706
2022		13,687
2023		633
2027		12,901
NOL carryforward	$	56,927
Tax benefit of the NOL carryfoward	$	19,355

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

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

		As of December 31,	
		2012	2011
		(Amounts in thousands)	
Deferred tax assets:			
Net operating loss carryforward	$	19,355	18,373
Discount on unearned premium reserve		3,055	2,927
Realized capital losses		494	1,630
Discount on unpaid claims and claim adjustment expenses		1,296	1,364
Unearned fees		853	784
Net unrealized losses on investments		-	727
Alternative Minimum Tax carryforward		476	631
Allowance for doubtful accounts		214	294
Other		-	1
Total deferred tax assets		25,743	26,731
Deferred tax liabilities:			
Deferred policy acquisition costs		2,298	2,316
Accrual of discount on bonds		268	315
Depreciation and amortization		137	37
Net unrealized gains on investments		307	-
Total deferred tax liabilities		3,010	2,668
Net deferred tax asset before valuation allowance		22,733	24,063
Valuation allowance		(20,373)	(20,581)
Net deferred tax asset	$	2,360	3,482

During 2012, the Company reduced the valuation allowance associated with the deferred tax asset by $394,000, which is the change in the expectation on the utilization of the NOL carryforwards. Under ASC 740-10, positive evidence, such as taxable income over the most recent three-year period and other available objective and subjective evidence, requires management to conclude that it is “more likely than not” that a portion or all of the deferred tax benefit will be realized. While both objective and subjective evidence are considered, objective evidence should generally be given more weight in the analysis under ASC 740-10. In making the determination, the Company considered all available evidence, including the fact that the Company had estimated cumulative taxable income for the three years ended December 31, 2012 of approximately $15,935,000. Based on a review of available evidence, management concluded that it is more likely than not that the Company will have future taxable income to utilize $2,360,000 of the deferred tax asset prior to its expiration. The amount of the deferred tax benefit that may ultimately be realized could be affected by changes in tax rates, changes to applicable tax carryforward periods or other statutory or regulatory changes that may limit or impair the value thereof. The valuation allowance at December 31, 2012 was $20,373,000 ($4.17 per share).

(10) Shareholders' Equity

The Company has authorized 12,500,000 shares of common stock, par value $.10 per share (the "Common Stock"). Of the authorized shares of common stock, 5,148,232 shares were issued and 4,889,582 shares were outstanding as of December 31, 2012 and as of December 31, 2011, 5,038,232 shares were issued and 4,779,582 shares were outstanding. At December 31, 2012 and 2011, the Company held 258,650 shares as treasury stock, respectively.

At December 31, 2012 and 2011, Goff Moore Strategic Partners, LP ("GMSP") owned approximately 34% of the outstanding Common Stock and James R. Reis owned approximately 12%. At December 31, 2012 and 2011, Robert W. Stallings owned approximately 24% and 23% of the outstanding Common Stock, respectively.

On December 7, 2012, the Company announced that its Board of Directors approved a special cash dividend of $1 per share ($4,889,582). The special cash dividend was paid on December 27, 2012 to shareholders of record on December 18, 2012 and was charged to Additional paid-in capital. On December 9, 2011, the Company announced that its Board of Directors approved a special cash dividend of $2 per share ($9,559,164). The special cash dividend was paid on December 22, 2011 to shareholders of record on December 20, 2011 and was charged to Additional paid-in capital.

The following table reflects changes in the number of shares of common stock outstanding as of and for the years ended December 31, 2012 and 2011:

	2012	2011
Shares outstanding		
Balance at beginning of period	4,779,582	4,780,007
Shares issued	110,000	-
Treasury stock acquired	-	(425)
Balance at end of period	4,889,582	4,779,582

In November 2007, the Board of Directors of the Company authorized the repurchase of up to $5 million worth of the Company's Common Stock. Repurchase may be made from time to time in both the open market and through negotiated transactions. The value of shares that may yet be purchased under the plan was $1,859,354 at December 31, 2012.

The following table presents the statutory policyholders' surplus for MGA as of December 31, 2012 and 2011, and the statutory net income for MGA for the year ended December 31, 2012 and 2011:

		2012	2011
		(Amounts in thousands)	
Statutory policyholders' surplus	$	91,766	100,684
Statutory net income	$	516	7,317

Statutes in Texas restrict the payment of dividends by MGA to earned surplus (surplus derived from net income less dividends paid and other statutory based adjustments), among other provisions. At December 31, 2012, earned surplus was $3,153,000. Dividends cannot be paid without regulatory notification of no objection from the Texas Department of Insurance.

The Company's statutory capital exceeds the benchmark capital level under the Risk Based Capital ("RBC") formula for its insurance companies. RBC is a method for establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. As of December 31, 2012, the Company's RBC authorized control level was $12,316,000 and the total adjusted capital was $91,766,000.

(11) Earnings Per Share

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

		Years ended December 31,	
		2012	2011
Numerator:			
Net (loss) income	$	(387)	9,542
Numerator for basic earnings per share – (loss) income available to common shareholders		(387)	9,542
Numerator for diluted earnings per share – (loss) income available to common shareholders after assumed conversions	$	(387)	9,542
Denominator:			
Denominator for basic earnings per share – weighted average common shares outstanding		4,807	4,780
Denominator for diluted earnings per share – adjusted weighted average common shares outstanding & assumed conversions		4,807	4,780
Basic (loss) earnings per share	$	(.08)	2.00
Diluted (loss) earnings per share	$	(.08)	2.00

(12) Benefits

2005 Long-Term Incentive Compensation Plan (“2005 Plan”)

The 2005 Plan terminated on December 31, 2010, with the awards expired unvested during 2011. The 2005 Plan originally provided for a maximum of 404,000 shares of Common Stock to be available. There were two types of awards, restricted stock units (“RSU”) and restricted stock. The RSU awards were intended for key employees of the Company and were based on the completion of the related service period and the attainment of specific performance criteria. The fair value of the RSU and restricted stock awards was measured using the closing price of GANS’ Common Stock on the grant date, or if the grant had been subsequently modified, on the modification date, and was recognized as compensation expense over the vesting period of the awards in the Underwriting and operating expense line item, consistent with other compensation to these employees. The Company recognizes compensation expense for awards based on whether the related service period and performance period achievements are considered probable at the time of measurement and in accordance with the guidance in ASC 718-10-65.

Restricted Stock Units

The following table outlines the Company's RSU activity for the years ended December 31, 2012 and 2011:

	2012		2011	
	RSU's Outstanding	Unrecognized Grant Date Fair Value	RSU's Outstanding	Unrecognized Grant Date Fair Value
	(Dollar amounts in thousands)			
Beginning of Period	-	$ -	203,600	$ 2,719
New awards	-	-	-	-
Change in assumptions, including forfeitures	-	-	-	-
Payments	-	-	-	-
Vested shares	-	-	-	-
Actual forfeitures	-	-	(203,600)	(3,003)
Benefit recognized	-	-	-	284
End of Period	-	$ -	-	$ -

For awards that have been modified, compensation expense is recognized if the award ultimately vests under the modified vesting conditions or would have vested under the original vesting conditions. As of December 31, 2012 and 2011, no RSUs have vested. The full service period of the RSU awards ended as of that date, and the unvested awards have been terminated per the plan provisions and have been accounted for as forfeitures. The credit to expense recognized reflects the reversal of compensation expense previously recognized pending the final outcome of the vesting.

Restricted Stock

In November 2008, 10,200 shares of restricted stock were granted by the Board of Directors to non-employee directors, which are recognized as compensation expense over the vesting period of the restricted stock in the Underwriting and operating expense line item, consistent with other compensation to employees at a fair value of $9.95 per share based on the closing price of our Common Stock on the date of grant. These shares had a vesting date of the later of March 1, 2011, or the date on which the audit of the financial statements for 2010 was completed. On April 22, 2011, four current directors were vested in their grants totaling 6,800 shares. On May 26, 2010, two directors who had received these grants were not re-elected to the Board. These two directors were vested in their grants in 2010 on a prorate basis (total 2,200 shares) and forfeited the remaining total 1,200 shares.

The following table outlines the Company's restricted stock activity for the years ended December 31, 2012 and 2011:

	2012		2011	
	Restricted Stock Outstanding	Unrecognized Grant Date Fair Value	Restricted Stock Outstanding	Unrecognized Grant Date Fair Value
	(Dollar amounts in thousands)			
Beginning of Period	-	$ -	6,800	$ 7
New awards	-	-	-	-
Change in assumptions, including forfeitures	-	-	-	-
Payments	-	-	-	-
Vested shares	-	-	(6,800)	-
Actual forfeitures	-	-	-	-
Expense recognized	-	-	-	(7)
End of Period	-	$ -	-	$ -

Other Benefit Plans

The Company has a 401(k) plan for the benefit of its eligible employees. The Company made contributions to the plan that totaled $337,000 and $340,000 for 2012 and 2011, respectively.

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

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

The terms of the employment agreements with Messrs. Stallings and Reis are each three years, and each term is automatically extended by an additional year on the same terms and conditions on each anniversary of the effective date (so that, as of each anniversary of the effective date, the term of the employment agreement remains three years), unless either party gives notice of an intention not to extend the term. As of December 31, 2012, the terms and conditions of the employment agreements have been extended.

The term of Mr. Anderson's employment is four years and is automatically extended by an additional year on the same terms and conditions on each anniversary of the effective date (so that, as of each anniversary of the effective date, the term of the employment agreement remains four years), unless either party gives notice of an intention not to extend the term. As of December 31, 2012, the terms and conditions of the employment agreement have been extended.

In 2011, the Company instituted a deferred compensation plan for certain key employees. It has a five-year performance period with annual performance objectives based on the Company achieving minimum gross premiums written targets in 2012 through 2015 and target operating earnings before tax in 2011 through 2015. Compensation is recognized based on achieving individual year performance targets or on achieving cumulative performance results. The compensation is recognized as expense in the current year and deferred for payment under the terms of the plan 5 years later. For 2011, the additional compensation expense and deferred compensation payable recorded was $470,000. There was no compensation expense recorded during 2012 and the payable remained outstanding.

In the third quarter of 2012, the Board of Directors granted stock awards of 110,000 shares to three of the Company's executive officers. The awards were fully vested upon grant and $1,100,000 was recognized as compensation expense in Underwriting and operating expense based on fair value of $10.00 per share, which was the closing price of our Common Stock on the date of grant.

(13) Commitments and Contingencies

Legal Proceedings

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

In October 2010, the Chapter 7 Trustee for Brooke Corporation, Brooke Capital Corporation and Brooke Investments, Inc. filed an adversary proceeding in the U. S. Bankruptcy Court for the District of Kansas against GAINSCO, INC. Subsequently, the Trustee amended the proceeding to include National Specialty Lines, Inc. as an additional Defendant. The Trustee sought to avoid certain alleged preferential and/or constructive fraudulent transfers made to the defendants. A final settlement of this case was approved by the Court in March, 2013.

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

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

In November 2011, a Complaint was filed against MGA in the Circuit Court of the Seventeenth Judicial Circuit in and for Broward County, Florida (Pericles v. MGA Insurance Company, Inc.). The Complaint arises out of an automobile accident that occurred in 2007. MGA denied coverage under a policy that had expired on the date of the accident. The plaintiff obtained a judgment against the named insured and the driver and is now seeking to enforce the judgment against MGA based on allegations of bad faith. While such litigation is inherently unpredictable, MGA intends to defend the case vigorously and believes that it has valid defenses. As a result, the Company is unable to reasonably estimate a possible range of losses, if any, arising from the litigation.

In March 2013, a Complaint was filed naming "Gainsco, Auto Insurance, Inc." and other defendants in the Second Judicial District Court in Bernalillo County, New Mexico (Kalgaree Fish, Individually and on behalf of all others similarly situated, v. Gainsco, Auto Insurance, Inc., et al.). The Complaint asserts that the defendants acted improperly in denying coverage to the plaintiff, the named insured on a policy issued by MGA Insurance Company, Inc., for property damage to the plaintiff's vehicle, which was being driven at the time of an accident by a family member of the plaintiff excluded from coverage by the terms of the policy. The Complaint seeks recovery on behalf of the plaintiff and an alleged class of claimants. While such litigation is inherently unpredictable, the Company believes that the complaint is without merit and intends to defend itself vigorously. As a result, the Company is unable to reasonably estimate a possible range of losses, if any, arising from the litigation.

Off-balance-sheet-risk

The Company does not have any financial instruments where there is off-balance-sheet-risk of accounting loss due to credit or market risk. There is credit risk in the premiums receivable and reinsurance balances receivable of the Company. At December 31, 2012 and 2011, the Company did not have any claims receivables by individual reinsurers that were material with regard to shareholders' equity.

(14) Leases

The Company entered into a ten-year lease agreement for the home office in May of 2005. Under the terms of this lease, the Company has the option of terminating the lease agreement at the end of the fifth year of the term subject to payment of a penalty. After the Company amended the lease in February 2007, a total of 52,500 square feet of office space were leased. The Company entered into an eleven-year lease agreement for the Florida office in May of 2010 that includes rentable office space of 22,480 square feet. Under the terms of this lease, the Company has the option of renewing for two additional five year periods through the year 2031. The Company also has the option of terminating the lease agreement during the sixth year of the term subject to payment of a penalty. The following table summarizes the Company's lease obligations as of December 31, 2012.

Year		Amount
2013	$	2,806
2014		2,537
2015		1,236
2016		560
2017		573
Thereafter		2,003
Total	$	9,715

Rental expense is recognized over the term of the lease on a straight line basis for the Florida lease only, the home office is expensed as incurred. Rental expense for the Company was $1,721,000 and $1,847,000 for the years ended December 31, 2012 and 2011, respectively.

(15) Related Parties

In January 2012, the Company entered into a Sponsorship Agreement with Stallings Capital Group Consultants, Ltd. dba Bob Stallings Racing ("Stallings Racing"), continuing the Company's role as the primary sponsor of a Daytona Prototype Series racing team through December 31, 2012. The Sponsorship Agreement provides that, in consideration of the payment by the Company of a sponsorship fee of $1,000,000, the Company will receive various benefits customary for sponsors of Daytona Prototype Series racing teams, including rights relating to signage on team equipment and access for customers and agents to certain race facilities. The sponsorship fee of $1,000,000 will be paid and expensed commencing February 1, 2012 and throughout the remainder of 2012. The related sponsorship fee will be recorded in the Underwriting and operating expenses line item, consistent with prior sponsorship payments. During 2012 and 2011, the Company paid and expensed $1.0 million, as the primary sponsor for Stallings Racing, respectively.

Stallings Racing is owned and controlled by Robert W. Stallings, the Executive Chairman of the Company. The Company's Board of Directors authorized the agreement at a meeting in December 2011. In authorizing the agreement, the Board of Directors considered Mr. Stallings' role and concluded that, under the circumstances, the Sponsorship Agreement is fair to, and in the best interests of, the Company. The Sponsorship Agreement contains provisions protecting the Company's interests, including a termination provision that permits the Company to unilaterally terminate the agreement at any time and thereby cease making installment payments of the sponsorship fee. In December 2012, the Board of Directors authorized a Sponsorship Agreement for 2013 under similar terms and conditions as the 2012 Sponsorship Agreement.

(16) Subsequent Event

In March 2013, a newly-formed automotive subsidiary of the Company entered into an Asset Purchase Agreement for the acquisition of substantially all of the assets of an existing licensed, franchised Texas motor vehicle dealer for the sale and service of new motor vehicles, and a related Contract of Sale for the dealership's real estate. Consummation of the transaction is subject to the satisfaction of customary closing conditions, including but not limited to the approvals of the Texas Department of Motor Vehicles, which has been obtained, and of the auto manufacturer, which is pending. The transaction is expected to be completed in the second quarter of 2013.