

Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly period ended September 30, 2019

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 001-33549

Tiptree Inc.

(Exact name of Registrant as Specified in Its Charter)

Maryland

38-3754322

(State or Other Jurisdiction of
Incorporation of Organization)

(IRS Employer
Identification No.)

299 Park Avenue, 13th Floor, New York, New York

10171

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code: (212) 446-1400

Former Address: 780 Third Avenue, 21st Floor, New York, New York, 10017

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.001 per share	TIPT	Nasdaq Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 1, 2019, there were 34,562,553 shares, par value \$0.001, of the registrant's Common Stock outstanding.

Tiptree Inc.
Quarterly Report on Form 10-Q
September 30, 2019

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PART I. FINANCIAL INFORMATION

Forward-Looking Statements

Except for the historical information included and incorporated by reference in this Quarterly Report on Form 10-Q, the information included and incorporated by reference herein are “forward-looking statements” within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Forward-looking statements provide our current expectations or forecasts of future events and are not statements of historical fact. These forward-looking statements include information about possible or assumed future events, including, among other things, discussion and analysis of our future financial condition, results of operations and our strategic plans and objectives. When we use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “seek,” “may,” “might,” “plan,” “project,” “should,” “target,” “will,” or similar expressions, we intend to identify forward-looking statements.

Forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, many of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those described in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and in our other public filings with the SEC.

The factors described herein are not necessarily all of the important factors that could cause actual results or developments to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could affect our forward-looking statements. Consequently, our actual performance could be materially different from the results described or anticipated by our forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by the applicable law, we undertake no obligation to update any forward-looking statements.

Market and Industry Data

Certain market data and industry data included in this Quarterly Report on Form 10-Q were obtained from reports of governmental agencies and industry publications and surveys. We believe the data from third-party sources to be reliable based upon our management’s knowledge of the industry, but have not independently verified such data and as such, make no guarantees as to its accuracy, completeness or timeliness.

Note to Reader

In reading this Quarterly Report on Form 10-Q, references to:

“A.M. Best” means A.M. Best Company, Inc.

“Care” means Care Investment Trust LLC.

“CLOs” means collateralized loan obligations.

“Common Stock” means Class A common stock \$0.001 par value for periods prior to June 7, 2018 and thereafter the common stock \$0.001 par value.

“Corvid Peak” means collectively, Corvid Peak Holdings, L.P., Corvid Peak Capital Management, LLC, Corvid Peak GP Holdings, LLC and Corvid Peak Holdings GP, LLC, formerly known as “Tricadia”.

“EBITDA” means earnings before interest, taxes, depreciation and amortization.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Fortress” means Fortress Credit Corp., as administrative agent, collateral agent and lead arranger, and affiliates of Fortress that are lenders under the Credit Agreement among the Company, Fortress and the lenders party thereto.

“Fortegra” means Fortegra Financial Corporation.

“GAAP” means U.S. generally accepted accounting principles.

“Invesque” means Invesque Inc.

“Luxury” means Luxury Mortgage Corp.

“NAIC” means the National Association of Insurance Commissioners.

“NPL” means nonperforming residential real estate mortgage loans.

“Operating Company” means Tiptree Operating Company, LLC.

“Reliance” means Reliance First Capital, LLC.

“REO” means real estate owned.

“SEC” means the U.S. Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended.

“Tax Act” means Public Law no. 115-97, commonly referred to as the Tax Cuts and Jobs Act.

“TFP” means Tiptree Financial Partners, L.P.

“Tiptree”, the “Company”, “we”, “its”, “us” and “our” means, unless otherwise indicated by the context, Tiptree Inc. and its consolidated subsidiaries.

“Transition Services Agreement” means the Amended and Restated Transition Services Agreement between Corvid Peak and Tiptree Inc., effective as of January 1, 2019.

“Tricadia” means, collectively, Tricadia Holdings, L.P., Tricadia Capital Management, LLC, Tricadia Holdings GP, LLC, Tricadia Holdings and Tricadia GP Holdings LLC.

TIPTREE INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except share data)

Item 1. Financial Statements (Unaudited)

	As of	
	September 30, 2019	December 31, 2018
Assets:		
Investments:		
Available for sale securities, at fair value	\$ 315,204	\$ 283,563
Loans, at fair value	111,758	215,383
Equity securities	147,446	122,979
Other investments	104,553	75,002
Total investments	678,961	696,927
Cash and cash equivalents	136,134	86,003
Restricted cash	17,823	10,521
Notes and accounts receivable, net	260,031	223,105
Reinsurance receivables	452,882	420,351
Deferred acquisition costs	201,803	170,063
Goodwill	99,147	91,562
Intangible assets, net	49,830	52,121
Other assets	74,550	46,034
Assets held for sale	85,332	68,231
Total assets	<u>\$ 2,056,493</u>	<u>\$ 1,864,918</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Debt, net	\$ 329,496	\$ 354,083
Unearned premiums	703,121	599,444
Policy liabilities and unpaid claims	134,501	131,611
Deferred revenue	86,692	75,754
Reinsurance payable	131,434	117,597
Other liabilities and accrued expenses	184,172	124,190
Liabilities held for sale	79,665	62,980
Total liabilities	<u>\$ 1,649,081</u>	<u>\$ 1,465,659</u>
Stockholders' Equity:		
Preferred stock: \$0.001 par value, 100,000,000 shares authorized, none issued or outstanding	\$ —	\$ —
Common Stock: \$0.001 par value, 200,000,000 shares authorized, 34,552,301 and 35,870,348 shares issued and outstanding, respectively	35	36
Additional paid-in capital	325,359	331,892
Accumulated other comprehensive income (loss), net of tax	1,916	(2,058)
Retained earnings	67,465	57,231
Total Tiptree Inc. stockholders' equity	394,775	387,101
Non-controlling interests - Other	12,637	12,158
Total stockholders' equity	407,412	399,259
Total liabilities and stockholders' equity	<u>\$ 2,056,493</u>	<u>\$ 1,864,918</u>

See accompanying notes to condensed consolidated financial statements.

TIPTREE INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)
(in thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Earned premiums, net	\$ 129,163	\$ 116,153	\$ 364,712	\$ 317,842
Service and administrative fees	26,058	26,168	78,681	75,635
Ceding commissions	1,598	2,257	7,150	6,782
Net investment income	2,984	4,810	10,713	13,942
Net realized and unrealized gains (losses)	16,594	12,211	61,620	31,912
Other revenue	12,788	11,069	41,284	27,336
Total revenues	189,185	172,668	564,160	473,449
Expenses:				
Policy and contract benefits	43,993	44,491	124,256	115,291
Commission expense	77,430	69,222	225,070	194,417
Employee compensation and benefits	34,176	28,970	94,298	83,946
Interest expense	6,731	7,334	20,183	19,935
Depreciation and amortization	3,523	3,200	9,908	9,110
Other expenses	24,930	20,589	71,183	57,354
Total expenses	190,783	173,806	544,898	480,053
Income (loss) before taxes from continuing operations	(1,598)	(1,138)	19,262	(6,604)
Less: provision (benefit) for income taxes	(649)	(611)	3,706	(1,478)
Net income (loss) from continuing operations	(949)	(527)	15,556	(5,126)
Discontinued operations:				
Income (loss) before taxes from discontinued operations	—	—	—	624
Gain on sale of discontinued operations	—	—	—	46,184
Less: Provision (benefit) for income taxes	—	—	—	12,327
Net income (loss) from discontinued operations	—	—	—	34,481
Net income (loss) before non-controlling interests	(949)	(527)	15,556	29,355
Less: net income (loss) attributable to non-controlling interests - TFP	—	—	—	5,500
Less: net income (loss) attributable to non-controlling interests - Other	508	91	1,342	87
Net income (loss) attributable to Common Stockholders	\$ (1,457)	\$ (618)	\$ 14,214	\$ 23,768
Net income (loss) per Common Share:				
Basic, continuing operations, net	\$ (0.04)	\$ (0.02)	\$ 0.40	\$ (0.12)
Basic, discontinued operations, net	—	—	—	0.81
Basic earnings per share	\$ (0.04)	\$ (0.02)	\$ 0.40	\$ 0.69
Diluted, continuing operations, net	(0.04)	(0.02)	0.39	(0.12)
Diluted, discontinued operations, net	—	—	—	0.81
Diluted earnings per share	\$ (0.04)	\$ (0.02)	\$ 0.39	\$ 0.69
Weighted average number of Common Shares:				
Basic	34,552,171	36,402,129	34,583,709	34,309,551
Diluted	34,552,171	36,402,129	34,583,709	34,309,551
Dividends declared per Common Share	\$ 0.040	\$ 0.035	\$ 0.120	\$ 0.105

See accompanying notes to condensed consolidated financial statements.

TIPTREE INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss) before non-controlling interests	\$ (949)	\$ (527)	\$ 15,556	\$ 29,355
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on available for sale securities:				
Unrealized holding gains (losses) arising during the period	863	(846)	6,522	(3,891)
Related tax (expense) benefit	(181)	192	(1,455)	870
Reclassification of (gains) losses included in net income	(187)	16	(1,228)	538
Related tax expense (benefit)	37	(3)	258	(112)
Unrealized gains (losses) on available for sale securities, net of tax	532	(641)	4,097	(2,595)
Interest rate swaps (cash flow hedges):				
Unrealized gains (losses) on interest rate swaps	—	—	—	1,111
Related tax (expense) benefit	—	—	—	(276)
Reclassification of (gains) losses included in net income ⁽¹⁾	—	—	—	(3,845)
Related tax expense (benefit)	—	—	—	936
Unrealized (losses) gains on interest rate swaps from cash flow hedges, net of tax	—	—	—	(2,074)
Other comprehensive income (loss), net of tax	532	(641)	4,097	(4,669)
Comprehensive income (loss)	(417)	(1,168)	19,653	24,686
Less: Comprehensive income (loss) attributable to non-controlling interests - TFP	—	—	—	5,278
Less: Comprehensive income (loss) attributable to non-controlling interests - Other	513	88	1,366	(352)
Comprehensive income (loss) attributable to Common Stockholders	\$ (930)	\$ (1,256)	\$ 18,287	\$ 19,760

⁽¹⁾ Deconsolidated as part of the sale of Care. See Note (3) Dispositions, Assets Held for Sale & Discontinued Operations.

See accompanying notes to condensed consolidated financial statements.

TIPTREE INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
(in thousands, except shares)

The statements below represent the stockholders' equity for the nine months and three months ended September 30, 2019.

	Common Stock		Additional paid in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholders' equity to Tiptree Inc.	Non-controlling interests - Other	Total stockholders' equity
	Number of shares	Par value						
Balance at December 31, 2018	35,870,348	\$ 36	\$ 331,892	\$ (2,058)	\$ 57,231	\$ 387,101	\$ 12,158	\$ 399,259
Adoption of accounting standard ⁽¹⁾	—	—	—	(99)	99	—	—	—
Amortization of share-based incentive compensation	—	—	2,408	—	—	2,408	1,877	4,285
Vesting of share-based incentive compensation ⁽²⁾	154,683	—	143	—	—	143	(2,483)	(2,340)
Shares purchased under stock purchase plan	(1,472,730)	(1)	(9,084)	—	—	(9,085)	—	(9,085)
Non-controlling interest contributions	—	—	—	—	—	—	53	53
Non-controlling interest distributions	—	—	—	—	—	—	(2,834)	(2,834)
Net change in non-controlling interest	—	—	—	—	—	—	2,500	2,500
Dividends declared	—	—	—	—	(4,079)	(4,079)	—	(4,079)
Other comprehensive income, net of tax	—	—	—	4,073	—	4,073	24	4,097
Net income	—	—	—	—	14,214	14,214	1,342	15,556
Balance at September 30, 2019	<u>34,552,301</u>	<u>\$ 35</u>	<u>\$ 325,359</u>	<u>\$ 1,916</u>	<u>\$ 67,465</u>	<u>\$ 394,775</u>	<u>\$ 12,637</u>	<u>\$ 407,412</u>
Balance at June 30, 2019	34,540,432	\$ 35	\$ 324,321	\$ 1,389	\$ 70,340	\$ 396,085	\$ 10,953	\$ 407,038
Amortization of share-based incentive compensation	—	—	875	—	—	875	564	1,439
Vesting of share-based incentive compensation ⁽²⁾	11,869	—	163	—	—	163	(247)	(84)
Non-controlling interest contributions	—	—	—	—	—	—	3	3
Non-controlling interest distributions ⁽²⁾	—	—	—	—	—	—	(1,649)	(1,649)
Net change in non-controlling interest	—	—	—	—	—	—	2,500	2,500
Dividends declared	—	—	—	—	(1,418)	(1,418)	—	(1,418)
Other comprehensive income, net of tax	—	—	—	527	—	527	5	532
Net income	—	—	—	—	(1,457)	(1,457)	508	(949)
Balance at September 30, 2019	<u>34,552,301</u>	<u>\$ 35</u>	<u>\$ 325,359</u>	<u>\$ 1,916</u>	<u>\$ 67,465</u>	<u>\$ 394,775</u>	<u>\$ 12,637</u>	<u>\$ 407,412</u>

⁽¹⁾ Amounts reclassified due to adoption of ASU 2018-02. See Note (2) Summary of Significant Accounting Policies.

⁽²⁾ Includes subsidiary RSU exchanges. See Note (18) Stock Based Compensation.

See accompanying notes to condensed consolidated financial statements.

TIPTREE INC. AND SUBSIDIARIES

 Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
 (in thousands, except shares)

The statements below represent the stockholders' equity for the nine months and three months ended September 30, 2018.

	Number of Shares		Par Value		Additional paid in capital	Accumulated other comprehensive income (loss)	Retained earnings	Shares held by subsidiaries			Total stockholders' equity to Tiptree Inc.	Non-controlling interests - TFP	Non-controlling interests - Other	Total stockholders' equity	
	Common Stock	Class B	Common Stock	Class B				Common Stock	Common Stock Amount	Class B Shares					Class B Amount
Balance at December 31, 2017	35,003,004	8,049,029	\$ 35	\$ 8	\$295,582	\$ 966	\$38,079	(5,197,551)	\$(34,585)	(8,049,029)	\$ (8)	\$ 300,077	\$ 77,494	\$ 19,203	\$ 396,774
Amortization of share-based incentive compensation	—	—	—	—	1,837	—	—	—	—	—	—	1,837	—	1,967	3,804
Vesting of share-based incentive compensation	20,051	—	—	—	(994)	—	—	161,574	1,050	—	—	56	—	—	56
Shares purchased under stock purchase plan	(2,110,577)	—	(2)	—	(13,748)	—	—	—	—	—	—	(13,750)	—	—	(13,750)
Reorganization merger ⁽¹⁾	8,049,029	(8,049,029)	8	(8)	82,523	(341)	—	—	—	8,049,029	8	82,190	(82,190)	—	—
Cancellation of treasury shares	(5,035,977)	—	(5)	—	(33,530)	—	—	5,035,977	33,535	—	—	—	—	—	—
Non-controlling interest contributions	—	—	—	—	—	—	—	—	—	—	—	—	—	2,369	2,369
Non-controlling interest distributions	—	—	—	—	—	—	—	—	—	—	—	—	(241)	—	(241)
Net changes in non-controlling interest	—	—	—	—	(132)	—	—	—	—	—	—	(132)	—	(14,097)	(14,229)
Dividends declared	—	—	—	—	—	—	(3,501)	—	—	—	—	(3,501)	—	—	(3,501)
Other comprehensive income, net of tax	—	—	—	—	—	(3,667)	—	—	—	—	—	(3,667)	(563)	(439)	(4,669)
Net income	—	—	—	—	—	—	23,768	—	—	—	—	23,768	5,500	87	29,355
Balance at September 30, 2018	<u>35,925,530</u>	<u>—</u>	<u>\$ 36</u>	<u>\$—</u>	<u>\$331,538</u>	<u>\$ (3,042)</u>	<u>\$58,346</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 386,878</u>	<u>\$ —</u>	<u>\$ 9,090</u>	<u>\$ 395,968</u>
Balance at June 30, 2018	36,643,317	—	\$ 37	\$—	\$335,749	\$ (2,399)	\$60,265	—	\$ —	—	\$ —	\$ 393,652	\$ —	\$ 7,164	\$ 400,816
Amortization of share-based incentive compensation	—	—	—	—	633	—	—	—	—	—	—	633	—	887	1,520
Vesting of share-based incentive compensation	20,051	—	—	—	47	—	—	—	—	—	—	47	—	—	47
Shares purchased under stock purchase plan	(737,838)	—	(1)	—	(4,891)	—	—	—	—	—	—	(4,892)	—	—	(4,892)
Non-controlling interest contributions	—	—	—	—	—	—	—	—	—	—	—	—	—	946	946
Dividends declared	—	—	—	—	—	—	(1,301)	—	—	—	—	(1,301)	—	—	(1,301)
Other comprehensive income, net of tax	—	—	—	—	—	(643)	—	—	—	—	—	(643)	—	2	(641)
Net income	—	—	—	—	—	—	(618)	—	—	—	—	(618)	—	91	(527)
Balance at September 30, 2018	<u>35,925,530</u>	<u>—</u>	<u>\$ 36</u>	<u>\$—</u>	<u>\$331,538</u>	<u>\$ (3,042)</u>	<u>\$58,346</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 386,878</u>	<u>\$ —</u>	<u>\$ 9,090</u>	<u>\$ 395,968</u>

⁽¹⁾ Includes the exchange of 424,399 units of TFP for 1,187,468 shares of Common Stock.

See accompanying notes to condensed consolidated financial statements.

TIPTREE INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2019	2018
Operating Activities:		
Net income (loss) attributable to Common Stockholders	\$ 14,214	\$ 23,768
Net income (loss) attributable to non-controlling interests - TFP	—	5,500
Net income (loss) attributable to non-controlling interests - Other	1,342	87
Net income (loss)	15,556	29,355
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Net realized and unrealized (gains) losses	(61,620)	(31,912)
Net (gain) on sale of businesses	(7,598)	(46,184)
Non cash compensation expense	4,512	3,804
Amortization/accretion of premiums and discounts	822	678
Depreciation and amortization expense	9,908	9,111
Bad debt expense	108	176
Amortization of deferred financing costs	543	737
Loss on extinguishment of debt	1,241	428
Deferred tax expense (benefit)	3,087	10,266
Changes in operating assets and liabilities:		
Mortgage loans originated for sale	(1,391,638)	(1,130,281)
Proceeds from the sale of mortgage loans originated for sale	1,387,723	1,196,372
(Increase) decrease in notes and accounts receivable	(13,706)	(39,253)
(Increase) decrease in reinsurance receivables	(32,531)	(39,665)
(Increase) decrease in deferred acquisition costs	(31,740)	(9,890)
(Increase) decrease in other assets	9,307	(14,649)
Increase (decrease) in unearned premiums	103,677	54,912
Increase (decrease) in policy liabilities and unpaid claims	2,890	12,099
Increase (decrease) in deferred revenue	8,488	12,306
Increase (decrease) in reinsurance payable	13,837	15,932
Increase (decrease) in other liabilities and accrued expenses	(3,440)	9,260
Net cash provided by (used in) operating activities	19,426	43,602
Investing Activities:		
Purchases of investments	(267,733)	(255,645)
Proceeds from sales and maturities of investments	343,011	147,747
Proceeds from the sale of real estate	9,627	15,003
Purchases of fixed assets	(7,866)	(3,242)
Proceeds from the sale of businesses	18,204	4,709
Proceeds from notes receivable	27,428	21,979
Issuance of notes receivable	(50,354)	(22,659)
Business and asset acquisitions, net of cash and deposits	(4,633)	—
Net cash provided by (used in) investing activities	67,684	(92,108)
Financing Activities:		
Dividends paid	(4,079)	(3,501)
Non-controlling interest contributions	53	2,369
Non-controlling interest distributions	(2,834)	(241)
Payment of debt issuance costs	(118)	(1,073)
Proceeds from borrowings and mortgage notes payable	1,496,480	1,197,423
Principal paydowns of borrowings and mortgage notes payable	(1,508,182)	(1,188,247)
Repurchases of Common Stock	(9,085)	(13,750)
Net cash provided by (used in) financing activities	(27,765)	(7,020)
Net increase (decrease) in cash, cash equivalents and restricted cash	59,345	(55,526)
Cash, cash equivalents and restricted cash – beginning of period	96,524	142,237
Cash, cash equivalents and restricted cash – beginning of period - held for sale	2,860	10,533
Cash, cash equivalents and restricted cash – end of period ⁽¹⁾	158,729	97,244
Less: Reclassification of cash to assets held for sale	4,772	3,731
Cash, cash equivalents and restricted cash – end of period	\$ 153,957	\$ 93,513
Supplemental Schedule of Non-Cash Investing and Financing Activities:		
Right-of-use asset obtained in exchange for lease liability	\$ 33,558	\$ —
Acquired real estate properties through, or in lieu of, foreclosure of the related loan	\$ 2,596	\$ 6,272
Equity securities acquired through the sale of a subsidiary and asset sales	\$ —	\$ 135,675
Acquisition of non-controlling interest	\$ 2,500	\$ 82,190
Cancellation of treasury shares	\$ —	\$ 33,535
As of		
Reconciliation of cash, cash equivalents and restricted cash shown in the statement of cash flows	September 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 136,134	\$ 86,003

Restricted cash

17,823

10,521

Total cash, cash equivalents and restricted cash shown in the statement of cash flows

\$

153,957

\$

96,524

⁽¹⁾ Includes cash in assets held for sale

See accompanying notes to condensed consolidated financial statements.

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(1) Organization

Tiptree Inc. (together with its consolidated subsidiaries, collectively, Tiptree, the Company, or we) is a Maryland Corporation that was incorporated on March 19, 2007. Tiptree's Common Stock trades on the Nasdaq Capital Market under the symbol "TIPT". Tiptree is a holding company that combines specialty insurance operations with investment management capabilities. We allocate our capital across our insurance operations and other investments. We classify our business into one reportable segment: Specialty Insurance. We refer to our non-insurance operations, assets and other investments, which is comprised of our non-reportable segments and other business activities, as Tiptree Capital.

In this report "Common Stock" means Class A common stock \$0.001 par value for periods prior to June 7, 2018 and thereafter the common stock \$0.001 par value.

(2) Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Tiptree have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and include the accounts of the Company and its subsidiaries. The condensed consolidated financial statements are presented in U.S. dollars, the main operating currency of the Company. The unaudited condensed consolidated financial statements presented herein should be read in conjunction with the annual audited financial statements included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2018. In the opinion of management, the accompanying unaudited interim financial information reflects all adjustments, including normal recurring adjustments necessary to present fairly the Company's financial position, results of operations, comprehensive income and cash flows for each of the interim periods presented. The results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the full year ending on December 31, 2019.

As a result of changes in presentation made in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, certain prior period amounts have been reclassified to conform to the current presentation. These reclassifications had no effect on the reported results of operations.

Tiptree consolidates those entities in which it has an investment of 50% or more of voting rights or has control over significant operating, financial and investing decisions of the entity as well as variable interest entities (VIEs) in which Tiptree is determined to be the primary beneficiary. VIEs are defined as entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity risk for the entity to finance its activities without additional subordinated financial support from other parties.

A VIE is required to be consolidated only by its primary beneficiary, which is defined as the party who has the power to direct the activities of a VIE that most significantly impact its economic performance and who has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. Tiptree's consolidated VIEs are entities which Tiptree is considered the primary beneficiary through its controlling financial interests.

Non-controlling interests on the condensed consolidated balance sheets represent the ownership interests in certain consolidated subsidiaries held by entities or persons other than Tiptree. Accounts and transactions between consolidated entities have been eliminated.

As a result of the adoption of ASU 2016-02, Leases (Topic 842), the Company's operating leases are now recognized on the condensed consolidated balance sheets as of January 1, 2019. See Note (14) Other Assets and Other Liabilities and Accrued Expenses for additional information.

Business Combination Accounting

The Company accounts for business combinations by applying the acquisition method of accounting. The acquisition method requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at fair value as of the closing date of the acquisition. The net assets acquired may consist of tangible and intangible assets and the excess of purchase price over the fair value of identifiable net assets acquired, or goodwill. The determination of estimated useful lives

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and the allocation of the purchase price to the intangible assets requires significant judgment and affects the amount of future amortization and possible impairment charges. Contingent consideration, if any, is measured at fair value on the date of acquisition. The fair value of any contingent consideration liability is remeasured at each reporting date with any change recorded in other expense in the consolidated statements of operations. Acquisition and transaction costs are expensed as incurred.

In certain instances, the Company may acquire less than 100% ownership of an entity, resulting in the recording of a noncontrolling interest. The measurement of assets and liabilities acquired and non-controlling interest is initially established at a preliminary estimate of fair value, which may be adjusted during the measurement period, primarily due to the results of valuation studies applicable to the business combination.

Acquisitions that do not meet the criteria for the acquisition method of accounting are accounted for as acquisitions of assets.

On July 1, 2019, a subsidiary in our specialty insurance business acquired a majority interest in Ingenasys, Ltd., the parent holding company of Defend Insurance Group (Defend) for total net cash consideration of approximately \$4.6 million. Defend is an automotive finance and insurance provider and insurance administrator operating in the Czech Republic, Poland, Hungary, Slovakia, and the UK. Identifiable assets acquired were primarily made up of goodwill and intangible assets. See Note (8) Goodwill and Intangible Assets, net.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company's condensed consolidated financial statements and accompanying notes. Management makes estimates and assumptions that include, but are not limited to, the determination of the following significant items:

- Fair value of financial assets and liabilities, including, but not limited to, securities, loans and derivatives;
- Value of acquired assets and liabilities;
- Carrying value of goodwill and other intangibles, including estimated amortization period and useful lives;
- Vessel valuations, residual value of vessels and the useful lives of vessels;
- Reserves for unpaid losses and loss adjustment expenses, estimated future claims and losses, potential litigation and other claims;
- Deferred acquisition costs and value of business acquired (VOBA);
- Valuation of contingent share issuances for compensation and purchase consideration, including estimates of number of shares and vesting schedules;
- Revenue recognition including, but not limited to, the timing and amount of insurance premiums, service and administration fees, and loan origination fees; and
- Other matters that affect the reported amounts and disclosure of contingencies in the condensed consolidated financial statements.

Although these and other estimates and assumptions are based on the best available estimates, actual results could differ materially from management's estimates.

Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels, from highest to lowest, are defined as follows:

- Level 1 – Unadjusted, quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 – Significant inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. The types of financial assets and liabilities carried at level 2 are valued based on one or more of the following:

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- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in nonactive markets;
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability;
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

- Level 3 – Significant inputs that are unobservable inputs for the asset or liability, including the Company’s own data and assumptions that are used in pricing the asset or liability.

Fair Value Option

In addition to the financial instruments the Company is required to measure at fair value, the Company has elected to make an irrevocable election to utilize fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are reported in Net realized and unrealized gains (losses) within the condensed consolidated statements of operations. The decision to elect the fair value option is determined on an instrument-by-instrument basis and must be applied to an entire instrument and is irrevocable once elected.

Recent Accounting Standards

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASU 2016-02 supersedes the previous leases standard, Leases (Topic 840). The standard is effective on January 1, 2019, with early adoption permitted. The Company adopted the standard in the first quarter of 2019 under the modified retrospective approach without restating prior comparative periods. The adoption of the updated guidance resulted in the Company recognizing a right of use asset of \$32,052 as part of other assets and a lease liability of \$33,558 as part of other liabilities and accrued expenses in the condensed consolidated balance sheets, as well as de-recognizing the liability for deferred rent that was required under the previous guidance, for its operating lease agreements at January 1, 2019. We have elected the practical expedient to not separate lease components and non-lease components, and leases with an initial term of 12 months or less are not recorded on the balance sheet. The cumulative effect adjustment to the opening balance of retained earnings was zero.

In March 2017, the FASB issued ASU 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*. The new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. Early adoption is permitted for interim or annual reporting periods beginning after December 15, 2017. The guidance is to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The guidance shortens the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): *Targeted Improvements to Accounting for Hedging Activities*, which amends the guidance on hedge accounting. The amendment will make more financial and nonfinancial hedging strategies eligible for hedge accounting and amend the presentation and disclosure requirements. It is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 can be adopted immediately in any interim or annual period. The mandatory effective date for calendar year-end public companies is January 1, 2019. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

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In February 2018, the FASB issued ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* (AOCI), which permits companies to reclassify stranded tax effects caused by Public Law no. 115-97, commonly referred to as the Tax Cuts and Jobs Act (Tax Act), from AOCI to retained earnings. Deferred tax assets (DTA) on unrealized gains and losses related to available for sale (AFS) securities that were revalued as of December 31, 2017 created stranded tax effects in AOCI due to the enactment of the Tax Act, due to the nature of existing GAAP requiring recognition of tax rate change effects on the DTA revaluation related to AFS securities as an adjustment to the provision for income taxes. Specifically, ASU 2018-02 permits a reclassification from AOCI to retained earnings for stranded tax effects resulting from the Tax Act. Additionally, the ASU requires new disclosures by all companies, whether they opt to do the reclassification or not. The amendments in ASU 2018-02 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company has adopted the standard effective January 1, 2019, and reclassified the stranded tax effects caused by the Tax Act from AOCI to retained earnings. The standard is applied in the period of adoption, and the impact to the Company's condensed consolidated financial statements in the period of adoption is not material. The Company's accounting policy for the release of stranded tax effects in AOCI is the aggregate portfolio approach.

Recently Issued Accounting Pronouncements, Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*, which amends guidance on reporting credit losses for assets held at amortized cost basis and AFS debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For AFS debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This ASU affects entities holding financial assets and net investments in leases that are not accounted for at fair value through net income. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments will affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The Company is currently evaluating the effect on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. ASU 2017-04 does not change the qualitative assessment; however, it removes "the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test." Instead, all reporting units, even those with a zero or negative carrying amount will apply the same impairment test. Therefore, as the FASB notes in the ASU's Basis for Conclusions, the goodwill of reporting units with zero or negative carrying values will not be impaired, even when conditions underlying the reporting unit indicate that goodwill is impaired. Entities will, however, be required to disclose any reporting units with zero or negative carrying amounts and the respective amounts of goodwill allocated to those reporting units. The amendments in ASU 2017-04 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the effect on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): *Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820. The modifications include the removal of certain requirements, modifications to existing requirements and additional requirements. The amendments in ASU 2018-13 are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the effect on its condensed consolidated financial statements.

(3) Dispositions, Assets Held for Sale and Discontinued Operations

Dispositions

On April 10, 2019, the Company completed the sale of the management contracts and related assets for the CLOs managed by Telos Asset Management, LLC (Telos). The pre-tax gain on sale for the nine months ended September 30, 2019 was \$7.6 million, which is included in other revenue. See Note (15) Other Revenue, Other Expenses and Other Income. The sale did not meet the

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requirements to be classified as a discontinued operation.

The sale agreement also contains a provision which provides for contingent consideration if the Telos business achieves specific performance metrics. This contingent consideration represents a gain contingency, and the Company will not recognize any additional gain unless such consideration is realized.

On February 1, 2018, the Company completed the sale of Care, as well as two senior living properties held in our specialty insurance business to Invesque Inc. (Invesque). The pre-tax comprehensive income on the sale for the nine months ended September 30, 2018 was approximately \$44.2 million, which consists of \$46.2 million gain on sale of a subsidiary, \$1.8 million of realized gain on the sale of the specialty insurance properties, offset by the reclassification of the interest rate swap from AOCI of \$3.8 million. In December 2018, an additional gain on sale of a subsidiary of \$10.7 million of earnout consideration was recognized as a result of a portfolio disposition by Invesque.

Total consideration received for the sale of Care was \$150.7 million, including approximately 16.6 million shares of Invesque, resulting in an ownership of approximately 34% of the acquiring company at the time of sale. The Company has elected to apply the fair value option to the investment in Invesque. As such, these shares are held at fair value within equity securities.

When the Company entered into a purchase agreement on November 16, 2017 to sell Care, the Company concluded that the sale met the requirements to be classified as a discontinued operation. As a result, the Company reclassified the income and expenses attributable to Care to net income (loss) from discontinued operations through the completion of the sale.

The Company has entered into a definitive agreement to sell Luxury, which is pending regulatory approval, and is classified as held for sale at September 30, 2019 and December 31, 2018. The agreement did not meet the requirements to be classified as a discontinued operation.

As of September 30, 2019 and December 31, 2018, the Company did not record any impairments with respect to assets held for sale.

Assets Held for Sale

The following table presents detail of assets and liabilities held for sale in the condensed consolidated balance sheets for the following periods:

	As of	
	September 30, 2019	December 31, 2018
Assets		
Investments:		
Loans, at fair value	\$ 77,703	\$ 63,340
Other investments	1,353	798
Total Investments	79,056	64,138
Cash and cash equivalents	4,772	2,860
Notes and accounts receivable, net	240	230
Other assets ⁽¹⁾	1,264	1,003
Assets held for sale	\$ 85,332	\$ 68,231
Liabilities		
Debt, net	\$ 76,489	\$ 61,381
Other liabilities and accrued expenses ⁽²⁾	3,176	1,599
Liabilities held for sale	\$ 79,665	\$ 62,980

⁽¹⁾ Includes \$389 and \$0 of a right of use asset as of September 30, 2019 and December 31, 2018, respectively.

⁽²⁾ Includes \$412 and \$0 of a lease liability as of September 30, 2019 and December 31, 2018, respectively.

Discontinued Operations

The following table presents detail of revenues and expenses of discontinued operations in the condensed consolidated statements of operations for the following periods:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Rental and related revenue	\$ —	\$ —	\$ —	\$ 6,476
Other revenue	—	—	—	149
Total revenues	—	—	—	6,625
Expenses:				
Employee compensation and benefits	—	—	—	2,788
Interest expense	—	—	—	1,252
Other expenses	—	—	—	1,961
Total expenses	—	—	—	6,001
Net income (loss) before taxes from discontinued operations	—	—	—	624
Gain on sale of discontinued operations	—	—	—	46,184
Less: provision (benefit) for income taxes	—	—	—	12,327
Net income (loss) from discontinued operations	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 34,481</u>

The following table presents a summary of cash flows related to discontinued operations included in the condensed consolidated statements of cash flows for the following periods:

	Nine Months Ended September 30,	
	2019	2018
Net cash provided by (used in):		
Operating activities	\$ —	\$ (2,095)
Investing activities	—	(592)
Financing activities	—	(123)
Net cash flows provided by discontinued operations	<u>\$ —</u>	<u>\$ (2,810)</u>

(4) Operating Segment Data

Tiptree is a holding company that combines specialty insurance operations with investment management capabilities. We allocate our capital across our insurance operations and other investments. We classify our business into one reportable segment – Specialty Insurance. We refer to our non-insurance operations, assets and other investments, which is comprised of our non-reportable operating segments and other business activities, as Tiptree Capital. Corporate activities include holding company interest expense, employee compensation and benefits, and other expenses.

Our reportable segment's income or loss is reported before income taxes, discontinued operations and non-controlling interests. Segment results incorporate the revenues and expenses of these subsidiaries since they commenced operations or were acquired. As of December 31, 2018, Mortgage and Asset Management, which previously were reportable segments, no longer met the quantitative threshold for disclosure. Those are now reported in Other, which we refer to as Tiptree Capital. Prior periods have been conformed to the current year presentation. Intercompany transactions are eliminated.

Descriptions of our reportable segment and of Tiptree Capital are as follows:

Specialty Insurance operations are conducted through Fortegra Financial Corporation (Fortegra), an insurance holding company. Fortegra underwrites and provides specialty insurance products, primarily in the United States, and is a leading provider of credit insurance and asset protection products. Fortegra's range of products and services include credit protection insurance, warranty and service contract products, and other specialty insurance programs which underwrite niche personal and commercial lines of insurance. We also offer various other insurance related products and services throughout the U.S. through our non-regulated subsidiaries.

Tiptree Capital includes our asset management, mortgage and shipping operations, and other investments (including our Invesque shares).

The tables below present the components of revenue, expense, pre-tax income (loss), and assets for our reportable segment as

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well as Tiptree Capital for the following periods:

	Three Months Ended September 30,					
	2019			2018		
	Specialty insurance	Tiptree Capital	Total	Specialty insurance	Tiptree Capital	Total
Total revenue	\$ 160,050	\$ 29,135	\$ 189,185	\$ 148,640	\$ 24,028	\$ 172,668
Total expense	(151,652)	(30,535)	(182,187)	(142,908)	(23,008)	(165,916)
Corporate expense	—	—	(8,596)	—	—	(7,890)
Income (loss) before taxes from continuing operations	\$ 8,398	\$ (1,400)	\$ (1,598)	\$ 5,732	\$ 1,020	\$ (1,138)
Less: provision (benefit) for income taxes			(649)			(611)
Net income (loss) before non-controlling interests			\$ (949)			\$ (527)
Less: net income (loss) attributable to non-controlling interests			508			91
Net income (loss) attributable to Common Stockholders			<u>\$ (1,457)</u>			<u>\$ (618)</u>

	Nine Months Ended September 30,					
	2019			2018		
	Specialty Insurance	Tiptree Capital	Total	Specialty Insurance	Tiptree Capital	Total
Total revenue	\$ 469,027	\$ 95,133	\$ 564,160	\$ 412,749	\$ 60,700	\$ 473,449
Total expense	(440,581)	(78,916)	(519,497)	(396,943)	(61,857)	(458,800)
Corporate expense	—	—	(25,401)	—	—	(21,253)
Income (loss) before taxes from continuing operations	\$ 28,446	\$ 16,217	\$ 19,262	\$ 15,806	\$ (1,157)	\$ (6,604)
Less: provision (benefit) for income taxes			3,706			(1,478)
Net income (loss) from discontinued operations			—			34,481
Net income (loss) before non-controlling interests			\$ 15,556			\$ 29,355
Less: net income (loss) attributable to non-controlling interests			1,342			5,587
Net income (loss) attributable to Common Stockholders			<u>\$ 14,214</u>			<u>\$ 23,768</u>

The following table presents sources of revenue from Tiptree Capital:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	Net realized and unrealized gains (losses) ⁽¹⁾	\$ 17,650	\$ 13,345	\$ 56,917
Other investment income ⁽²⁾	12,626	7,701	31,781	18,798
Gain on sale of businesses ⁽³⁾	—	—	7,598	—
Management fee income	—	2,335	1,267	5,229
Other	(1,141)	647	(2,430)	1,637
Total revenue	<u>\$ 29,135</u>	<u>\$ 24,028</u>	<u>\$ 95,133</u>	<u>\$ 60,700</u>

⁽¹⁾ See Note (5) Investments for the components of Net realized and unrealized gains (losses) related to Tiptree Capital.

⁽²⁾ See Note (5) Investments for the components of Other investment income.

⁽³⁾ Related to the sale of Telos. See Note (3) Dispositions, Assets Held for Sale & Discontinued Operations.

The following table presents the reportable segment and Tiptree Capital assets for the following periods:

	As of September 30, 2019				As of December 31, 2018			
	Specialty Insurance	Tiptree Capital	Corporate	Total	Specialty Insurance	Tiptree Capital	Corporate	Total
Total assets	<u>\$ 1,622,452</u>	<u>\$ 405,828</u>	<u>\$ 28,213</u>	<u>\$ 2,056,493</u>	<u>\$ 1,514,084</u>	<u>\$ 318,420</u>	<u>\$ 32,414</u>	<u>\$ 1,864,918</u>

(5) Investments

The following table presents the Company's investments related to insurance operations (Specialty Insurance) and investments from other Tiptree investing activities (Tiptree Capital), measured at fair value as of the following periods:

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	As of September 30, 2019			As of December 31, 2018		
	Specialty Insurance	Tiptree Capital	Total	Specialty Insurance	Tiptree Capital	Total
Available for sale securities, at fair value	\$ 315,204	\$ —	\$ 315,204	\$ 283,563	\$ —	\$ 283,563
Loans, at fair value	16,530	95,228	111,758	158,466	56,917	215,383
Equity securities	55,297	92,149	147,446	29,425	93,554	122,979
Other investments	27,304	77,249	104,553	18,526	56,476	75,002
Total investments	\$ 414,335	\$ 264,626	\$ 678,961	\$ 489,980	\$ 206,947	\$ 696,927

Available for Sale Securities, at fair value

All of the Company's investments in AFS securities as of September 30, 2019 and December 31, 2018 are held by subsidiaries in the specialty insurance business. The following tables present the Company's investments in AFS securities:

	As of September 30, 2019			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 187,126	\$ 2,197	\$ (117)	\$ 189,206
Obligations of state and political subdivisions	39,237	1,003	(4)	40,236
Corporate securities	40,178	706	(5)	40,879
Asset backed securities	44,190	114	(1,431)	42,873
Certificates of deposit	891	—	—	891
Obligations of foreign governments	1,098	21	—	1,119
Total	\$ 312,720	\$ 4,041	\$ (1,557)	\$ 315,204

	As of December 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 71,945	\$ 266	\$ (463)	\$ 71,748
Obligations of state and political subdivisions	67,624	280	(458)	67,446
Corporate securities	96,888	78	(1,241)	95,725
Asset backed securities	41,912	14	(1,274)	40,652
Certificates of deposit	1,241	—	—	1,241
Obligations of foreign governments	6,750	12	(11)	6,751
Total	\$ 286,360	\$ 650	\$ (3,447)	\$ 283,563

The amortized cost and fair values of AFS securities, by contractual maturity date, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	As of			
	September 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 9,833	\$ 9,840	\$ 30,920	\$ 30,836
Due after one year through five years	101,413	103,117	167,201	166,366
Due after five years through ten years	18,781	19,442	32,805	32,185
Due after ten years	138,503	139,932	13,522	13,524
Asset backed securities	44,190	42,873	41,912	40,652
Total	\$ 312,720	\$ 315,204	\$ 286,360	\$ 283,563

The following tables present the gross unrealized losses on AFS securities by length of time that individual AFS securities have been in a continuous unrealized loss position:

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	As of September 30, 2019					
	Less Than or Equal to One Year			More Than One Year		
	Fair value	Gross unrealized losses	# of Securities	Fair value	Gross unrealized losses	# of Securities
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 18,793	\$ (99)	29	\$ 4,195	\$ (18)	39
Obligations of state and political subdivisions	2,481	(4)	12	201	—	6
Corporate securities	2,540	(3)	14	940	(2)	11
Asset backed securities	6,917	(242)	12	14,540	(1,189)	4
Total	<u>\$ 30,731</u>	<u>\$ (348)</u>	<u>67</u>	<u>\$ 19,876</u>	<u>\$ (1,209)</u>	<u>60</u>

	As of December 31, 2018					
	Less Than or Equal to One Year			More Than One Year		
	Fair value	Gross unrealized losses	# of Securities	Fair value	Gross unrealized losses	# of Securities
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ 14,844	\$ (70)	51	\$ 19,495	\$ (393)	128
Obligations of state and political subdivisions	15,830	(30)	41	21,594	(428)	115
Corporate securities	47,976	(393)	352	28,517	(848)	404
Asset backed securities	37,613	(1,262)	35	614	(12)	5
Obligations of foreign governments	2,313	(6)	15	1,301	(5)	8
Total	<u>\$ 118,576</u>	<u>\$ (1,761)</u>	<u>494</u>	<u>\$ 71,521</u>	<u>\$ (1,686)</u>	<u>660</u>

Management believes that it is more likely than not that the Company will be able to hold the fixed maturity AFS securities that were in an unrealized loss position as of September 30, 2019 until full recovery of their amortized cost basis. The unrealized losses were attributable to changes in interest rates and not credit-related issues. As of September 30, 2019 and December 31, 2018, based on the Company's review, none of the AFS securities were deemed to be other-than-temporarily impaired based on the Company's analysis of the securities and its intent to hold the securities until recovery.

Pursuant to certain reinsurance agreements and statutory licensing requirements, the Company has deposited invested assets in custody accounts or insurance department safekeeping accounts. The Company cannot remove invested assets from these accounts without prior approval of the contractual party or regulatory authority, as applicable. The following table presents the Company's restricted investments included in the Company's AFS securities:

	As of	
	September 30, 2019	December 31, 2018
Fair value of restricted investments for special deposits required by state insurance departments	\$ 6,292	\$ 9,398
Fair value of restricted investments in trust pursuant to reinsurance agreements	26,240	24,931
Total fair value of restricted investments	<u>\$ 32,532</u>	<u>\$ 34,329</u>

The following table presents additional information on the Company's AFS securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Purchases of AFS securities	\$ 72,409	\$ 39,634	\$ 211,984	\$ 148,859
Proceeds from maturities, calls and prepayments of AFS securities	\$ 5,890	\$ 7,532	\$ 23,169	\$ 24,702
Gains (losses) realized on maturities, calls and prepayments of AFS securities	\$ —	\$ —	\$ —	\$ (30)
Gross proceeds from sales of AFS securities	\$ 20,947	\$ 7,354	\$ 162,862	\$ 45,401
Gains (losses) realized on sales of AFS securities	\$ 187	\$ (12)	\$ 1,228	\$ (508)

Loans, at fair value

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The following tables present the Company's investments in loans measured at fair value and the Company's investments in loans measured at fair value pledged as collateral:

	As of September 30, 2019				As of December 31, 2018			
	Fair value	Unpaid principal balance (UPB)	Fair value exceeds / (below) UPB	Pledged as Collateral	Fair value	Unpaid principal balance (UPB)	Fair value exceeds / (below) UPB	Pledged as Collateral
Specialty Insurance:								
Corporate loans ⁽¹⁾	\$ 14,452	\$ 17,700	\$ (3,248)	\$ —	\$ 130,910	\$ 136,475	\$ (5,565)	\$ 120,202
Non-performing loans ⁽²⁾	2,078	3,771	(1,693)	—	27,556	33,887	(6,331)	—
Tiptree Capital:								
Mortgage loans held for sale ⁽³⁾	95,228	92,065	3,163	95,228	56,917	54,679	2,238	56,441
Total loans, at fair value	\$ 111,758	\$ 113,536	\$ (1,778)	\$ 95,228	\$ 215,383	\$ 225,041	\$ (9,658)	\$ 176,643

⁽¹⁾ The UPB of these loans approximates cost basis.

⁽²⁾ The cost basis of NPLs was approximately \$1,452 and \$21,555 at September 30, 2019 and December 31, 2018, respectively.

⁽³⁾ As of September 30, 2019 and December 31, 2018, there were no mortgage loans held for sale 90 days or more past due.

Equity securities

Equity securities represents the carrying amount of the Company's basis in equity investments. Included within the equity securities balance are 16.6 million shares of Invesque for which the Company has elected to apply the fair value option. The following table presents the Company's equity securities related to insurance operations and other Tiptree investing activity as of the following periods:

	As of September 30, 2019			As of December 31, 2018		
	Specialty Insurance	Tiptree Capital	Total	Specialty Insurance	Tiptree Capital	Total
Invesque Inc.	\$ 19,289	\$ 92,149	\$ 111,438	\$ 19,584	\$ 93,554	\$ 113,138
Fixed income exchange traded fund	25,044	—	25,044	—	—	—
Other equity securities	10,964	—	10,964	9,841	—	9,841
Total equity securities	\$ 55,297	\$ 92,149	\$ 147,446	\$ 29,425	\$ 93,554	\$ 122,979

Other Investments

The following table contains information regarding the Company's other investments as of the following periods:

	As of September 30, 2019			As of December 31, 2018		
	Specialty Insurance	Tiptree Capital	Total	Specialty Insurance	Tiptree Capital	Total
Vessels, net ⁽¹⁾	\$ —	\$ 67,099	\$ 67,099	\$ —	\$ 50,125	\$ 50,125
Real estate	4,341	—	4,341	10,019	—	10,019
Other	22,963	10,150	33,113	8,507	6,351	14,858
Total other investments	\$ 27,304	\$ 77,249	\$ 104,553	\$ 18,526	\$ 56,476	\$ 75,002

⁽¹⁾ Net of accumulated depreciation of \$2,837 and \$898, respectively.

Net Investment Income - Specialty Insurance

Net investment income represents investment income and expense from investments related to insurance operations as disclosed within net investment income on the condensed consolidated statements of operations. The following tables present the components of net investment income by source of income:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest:				
AFS securities, at fair value	\$ 2,032	\$ 1,723	\$ 6,243	\$ 4,771
Loans, at fair value	360	2,724	2,968	7,906
Other investments	452	387	662	1,136
Dividends from equity securities	612	565	2,041	1,518
Other	—	—	—	97
Subtotal	<u>3,456</u>	<u>5,399</u>	<u>11,914</u>	<u>15,428</u>
Less: investment expenses	472	589	1,201	1,486
Net investment income	<u>\$ 2,984</u>	<u>\$ 4,810</u>	<u>\$ 10,713</u>	<u>\$ 13,942</u>

Other Investment Income - Tiptree Capital

Other investment income represents other income from other Tiptree non-insurance activities as disclosed within other revenue on the condensed consolidated statements of operations, see Note (15) Other Revenue, Other Expenses and Other Income. The following tables present the components of other investment income by type:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest income:				
Loans, at fair value	\$ 1,596	\$ 1,238	\$ 4,473	\$ 3,070
Other	95	130	225	515
Dividends from equity securities	2,533	2,533	7,599	6,691
Loan fee income:				
Loans, at fair value	3,595	2,534	8,726	6,995
Charter revenue from vessels	4,807	1,266	10,758	1,527
Other investment income	<u>\$ 12,626</u>	<u>\$ 7,701</u>	<u>\$ 31,781</u>	<u>\$ 18,798</u>

Net realized and unrealized gains (losses)

The following table presents the components of net realized and unrealized gains (losses) recorded on the condensed consolidated statements of operations. Net unrealized gains (losses) on AFS securities are included within other comprehensive income, and as such, are not included in this table:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net realized gains (losses)				
<i>Specialty Insurance:</i>				
Reclass of unrealized gains (losses) on AFS securities from OCI	\$ 187	\$ (15)	\$ 1,228	\$ (538)
Net realized gains (losses) on loans	1,316	(562)	3,332	1,377
Net realized gains (losses) on equity securities	553	147	1,035	2,721
Other	235	—	235	1,627
<i>Tiptree Capital:</i>				
Net realized gains (losses) on loans	21,449	15,782	51,897	45,565
Other	—	—	—	(2,084)
Total net realized gains (losses)	<u>23,740</u>	<u>15,352</u>	<u>57,727</u>	<u>48,668</u>
Net unrealized gains (losses)				
<i>Specialty Insurance:</i>				
Net change in unrealized gains (losses) on loans	(1,424)	2,287	(4,832)	420
Net unrealized gains (losses) on equity securities held at period end	(1,354)	(2,888)	3,937	(6,461)
Reclass of unrealized (gains) losses from prior periods for equity securities sold	(404)	(103)	(807)	(2,270)
Other	(165)	—	575	—
<i>Tiptree Capital:</i>				
Net change in unrealized gains (losses) on loans	466	(368)	1,361	(866)
Net unrealized gains (losses) on equity securities held at period end	(6,513)	(2,432)	(1,405)	(8,277)
Other	2,248	363	5,064	698
Total net unrealized gains (losses)	<u>(7,146)</u>	<u>(3,141)</u>	<u>3,893</u>	<u>(16,756)</u>
Total net realized and unrealized gains (losses)	<u>\$ 16,594</u>	<u>\$ 12,211</u>	<u>\$ 61,620</u>	<u>\$ 31,912</u>

(6) Notes and Accounts Receivable, net

The following table presents the total notes and accounts receivable, net:

	As of	
	September 30, 2019	December 31, 2018
Notes receivable, net - premium financing program	\$ 34,670	\$ 13,057
Accounts and premiums receivable, net	49,596	50,880
Retrospective commissions receivable	100,922	84,488
Trust receivables	54,082	53,424
Other receivables	20,761	21,256
Total notes and accounts receivable, net	<u>\$ 260,031</u>	<u>\$ 223,105</u>

Notes Receivable, net

The Company has established an allowance for uncollectible amounts against its notes receivable of \$101 and \$97 as of September 30, 2019 and December 31, 2018, respectively. As of September 30, 2019 and December 31, 2018, there were \$124 and \$368 in balances classified as 90 days plus past due, respectively. Bad debt expense totaled \$21 and \$43 for the three months ended September 30, 2019 and 2018, respectively. Bad debt expense totaled \$137 and \$143 for the nine months ended September 30, 2019 and 2018, respectively.

Accounts and premiums receivable, net

The Company has established a valuation allowance against its accounts and premiums receivable of \$150 and \$217 as of September 30, 2019 and December 31, 2018, respectively. Bad debt expense totaled \$25 and \$12 for the three months ended September 30, 2019 and 2018, respectively. Bad debt expense totaled \$45 and \$28 for the nine months ended September 30,

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2019 and 2018, respectively.

(7) Reinsurance Receivables

The following table presents the effect of reinsurance on premiums written and earned by our specialty insurance business for the following periods:

	Direct amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount - assumed to net
For the Three Months Ended September 30, 2019					
<i>Premiums written:</i>					
Life insurance	\$ 20,714	\$ 11,345	\$ 423	\$ 9,792	4.3%
Accident and health insurance	36,884	24,350	800	13,334	6.0%
Property and liability insurance	185,188	79,215	31,042	137,015	22.7%
Total premiums written	<u>242,786</u>	<u>114,910</u>	<u>32,265</u>	<u>160,141</u>	20.1%
<i>Premiums earned:</i>					
Life insurance	17,305	9,106	391	8,590	4.6%
Accident and health insurance	31,153	20,914	775	11,014	7.0%
Property and liability insurance	152,262	58,384	15,681	109,559	14.3%
Total premiums earned	<u>\$ 200,720</u>	<u>\$ 88,404</u>	<u>\$ 16,847</u>	<u>\$ 129,163</u>	13.0%
For the Three Months Ended September 30, 2018					
<i>Premiums written:</i>					
Life insurance	\$ 19,295	\$ 10,960	\$ 513	\$ 8,848	5.8%
Accident and health insurance	35,225	24,125	849	11,949	7.1%
Property and liability insurance	153,893	58,865	15,630	110,658	14.1%
Total premiums written	<u>208,413</u>	<u>93,950</u>	<u>16,992</u>	<u>131,455</u>	12.9%
<i>Premiums earned:</i>					
Life insurance	16,316	8,389	437	8,364	5.2%
Accident and health insurance	30,150	20,533	818	10,435	7.8%
Property and liability insurance	138,860	48,254	6,748	97,354	6.9%
Total premiums earned	<u>\$ 185,326</u>	<u>\$ 77,176</u>	<u>\$ 8,003</u>	<u>\$ 116,153</u>	6.9%
For the Nine Months Ended September 30, 2019					
<i>Premiums written:</i>					
Life insurance	\$ 54,549	\$ 29,401	\$ 1,258	\$ 26,406	4.8%
Accident and health insurance	97,044	63,430	2,366	35,980	6.6%
Property and liability insurance	514,659	208,485	66,202	372,376	17.8%
Total premiums written	<u>666,252</u>	<u>301,316</u>	<u>69,826</u>	<u>434,762</u>	16.1%
<i>Premiums earned:</i>					
Life insurance	50,408	26,368	1,211	25,251	4.8%
Accident and health insurance	91,443	61,279	2,363	32,527	7.3%
Property and liability insurance	440,867	178,926	44,993	306,934	14.7%
Total premiums earned	<u>\$ 582,718</u>	<u>\$ 266,573</u>	<u>\$ 48,567</u>	<u>\$ 364,712</u>	13.3%
For the Nine Months Ended September 30, 2018					
<i>Premiums written:</i>					
Life insurance	\$ 50,386	\$ 27,561	\$ 1,394	\$ 24,219	5.8%
Accident and health insurance	92,042	61,849	2,405	32,598	7.4%
Property and liability insurance	440,062	193,634	33,239	279,667	11.9%
Total premiums written	<u>582,490</u>	<u>283,044</u>	<u>37,038</u>	<u>336,484</u>	11.0%
<i>Premiums earned:</i>					
Life insurance	47,623	24,142	1,326	24,807	5.3%
Accident and health insurance	87,388	59,162	2,435	30,661	7.9%
Property and liability insurance	403,131	163,470	22,713	262,374	8.7%
Total premiums earned	<u>\$ 538,142</u>	<u>\$ 246,774</u>	<u>\$ 26,474</u>	<u>\$ 317,842</u>	8.3%

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The following table presents the components of policy and contract benefits, including the effect of reinsurance on losses and loss adjustment expenses (LAE) incurred:

	Direct amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount - assumed to net
For the Three Months Ended September 30, 2019					
<i>Losses Incurred</i>					
Life insurance	\$ 9,420	\$ 5,445	\$ 152	\$ 4,127	3.7%
Accident and health insurance	5,607	4,717	136	1,026	13.3%
Property and liability insurance	51,993	31,479	13,679	34,193	40.0%
Total losses incurred	67,020	41,641	13,967	39,346	35.5%
				Member benefit claims ⁽¹⁾	
				4,647	
				\$ 43,993	
For the Three Months Ended September 30, 2018					
<i>Losses Incurred</i>					
Life insurance	\$ 8,350	\$ 4,960	\$ 349	\$ 3,739	9.3%
Accident and health insurance	5,239	4,361	250	1,128	22.2%
Property and liability insurance	55,718	26,642	6,256	35,332	17.7%
Total losses incurred	69,307	35,963	6,855	40,199	17.1%
				Member benefit claims ⁽¹⁾	
				4,292	
				\$ 44,491	
For the Nine Months Ended September 30, 2019					
<i>Losses Incurred</i>					
Life insurance	\$ 28,861	\$ 16,964	\$ 338	\$ 12,235	2.8%
Accident and health insurance	12,538	9,991	276	2,823	9.8%
Property and liability insurance	161,552	102,232	35,085	94,405	37.2%
Total losses incurred	202,951	129,187	35,699	109,463	32.6%
				Member benefit claims ⁽¹⁾	
				14,793	
				\$ 124,256	
For the Nine Months Ended September 30, 2018					
<i>Losses Incurred</i>					
Life insurance	\$ 27,498	\$ 15,661	\$ 692	\$ 12,529	5.5%
Accident and health insurance	14,109	11,560	476	3,025	15.7%
Property and liability insurance	161,951	94,689	19,639	86,901	22.6%
Total losses incurred	203,558	121,910	20,807	102,455	20.3%
				Member benefit claims ⁽¹⁾	
				12,836	
				\$ 115,291	

⁽¹⁾ Member benefit claims are not covered by reinsurance.

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The following table presents the components of the reinsurance receivables:

	As of	
	September 30, 2019	December 31, 2018
Prepaid reinsurance premiums:		
Life ⁽¹⁾	\$ 71,347	\$ 69,436
Accident and health ⁽¹⁾	63,757	61,606
Property	208,057	178,498
Total	343,161	309,540
Ceded claim reserves:		
Life	3,210	3,424
Accident and health	9,866	11,039
Property	72,431	75,748
Total ceded claim reserves recoverable	85,507	90,211
Other reinsurance settlements recoverable	24,214	20,600
Reinsurance receivables	\$ 452,882	\$ 420,351

⁽¹⁾ Including policyholder account balances ceded.

The following table presents the aggregate amount included in reinsurance receivables that is comprised of the three largest receivable balances from non-affiliated reinsurers:

	As of September 30, 2019
Total of the three largest receivable balances from non-affiliated reinsurers	\$ 113,241

As of September 30, 2019, the non-affiliated reinsurers from whom our specialty insurance business has the largest receivable balances were: MFI Insurance Company, LTD (A. M. Best Rating: Not rated), Freedom Insurance Company, LTD (A. M. Best Rating: Not rated) and Frandisco Property and Casualty Insurance Company (A. M. Best Rating: Not rated). The related receivables of these reinsurers are collateralized by assets on hand, assets held in trust accounts and letters of credit. As of September 30, 2019, the Company does not believe there is a risk of loss due to the concentration of credit risk in the reinsurance program given the collateralization.

(8) Goodwill and Intangible Assets, net

The following table presents identifiable finite and indefinite-lived intangible assets, accumulated amortization, and goodwill by operating segment and/or reporting unit, as appropriate:

	As of September 30, 2019			As of December 31, 2018		
	Specialty Insurance	Other ⁽¹⁾	Total	Specialty Insurance	Other ⁽¹⁾	Total
Customer relationships	\$ 53,500	\$ —	\$ 53,500	\$ 50,500	\$ —	\$ 50,500
Accumulated amortization	(22,967)	—	(22,967)	(18,913)	—	(18,913)
Trade names	6,750	800	7,550	6,500	800	7,300
Accumulated amortization	(3,136)	(340)	(3,476)	(2,727)	(280)	(3,007)
Software licensing	8,500	640	9,140	8,500	640	9,140
Accumulated amortization	(8,217)	(389)	(8,606)	(6,942)	(320)	(7,262)
Insurance policies and contracts acquired	36,500	—	36,500	36,500	—	36,500
Accumulated amortization	(36,072)	—	(36,072)	(35,898)	—	(35,898)
Insurance licensing agreements ⁽²⁾	14,261	—	14,261	13,761	—	13,761
Intangible assets, net	49,119	711	49,830	51,281	840	52,121
Goodwill	97,439	1,708	99,147	89,854	1,708	91,562
Total goodwill and intangible assets, net	\$ 146,558	\$ 2,419	\$ 148,977	\$ 141,135	\$ 2,548	\$ 143,683

⁽¹⁾ Other is primarily comprised of mortgage operations.

⁽²⁾ Represents intangible assets with an indefinite useful life. Impairment tests are performed at least annually on these assets.

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Goodwill

The following table presents the activity in goodwill, by operating segment and/or reporting unit, as appropriate, and includes the adjustments made to the balance of goodwill to reflect the effect of the final valuation adjustments made for acquisitions, as well as the reduction to any goodwill attributable to discontinued operations or impairment related charges:

	Specialty Insurance	Other	Total
Balance at December 31, 2018	\$ 89,854	\$ 1,708	\$ 91,562
Goodwill acquired ⁽¹⁾	7,585	—	7,585
Balance at September 30, 2019	<u>\$ 97,439</u>	<u>\$ 1,708</u>	<u>\$ 99,147</u>
Accumulated impairments	<u>\$ —</u>	<u>\$ 699</u>	<u>\$ 699</u>

⁽¹⁾ Relates to an acquisition in our Specialty Insurance business as of July 1, 2019 based on the initial valuation, and may be adjusted during the 12 month measurement period as permitted under ASC 805. See Note (2) Summary of Significant Accounting Policies.

The Company conducts annual impairment tests of its goodwill as of October 1. For the three and nine months ended September 30, 2019 and 2018, respectively, no impairment was recorded on the Company's goodwill or intangibles.

Intangible Assets, net

The following table presents the activity, by operating segment and/or reporting unit, as appropriate, in finite and indefinite-lived other intangible assets and includes the adjustments made to the balance to reflect the effect of any final valuation adjustments made for acquisitions, as well as any reduction attributable to discontinued operations or impairment-related charges:

	Specialty Insurance	Other	Total
Balance at December 31, 2018	\$ 51,281	\$ 840	\$ 52,121
Intangible assets acquired ⁽¹⁾	3,750	—	3,750
Less: amortization expense	(5,912)	(129)	(6,041)
Balance at September 30, 2019	<u>\$ 49,119</u>	<u>\$ 711</u>	<u>\$ 49,830</u>

⁽¹⁾ Relates to an acquisition in our Specialty Insurance business as of July 1, 2019 based on the initial valuation, and may be adjusted during the 12 month measurement period as permitted under ASC 805. See Note (2) Summary of Significant Accounting Policies.

The following table presents the amortization expense on finite-lived intangible assets for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Amortization expense on intangible assets	<u>\$ 2,004</u>	<u>\$ 2,415</u>	<u>\$ 6,041</u>	<u>\$ 7,329</u>

The following table presents the amortization expense on finite-lived intangible assets for the next five years by operating segment and/or reporting unit, as appropriate:

	As of September 30, 2019		
	Specialty Insurance	Other	Total
Remainder of 2019	\$ 1,814	\$ 42	\$ 1,856
2020	5,150	171	5,321
2021	4,333	171	4,504
2022	3,649	126	3,775
2023	3,212	80	3,292
2024 and thereafter	16,700	121	16,821
Total	<u>\$ 34,858</u>	<u>\$ 711</u>	<u>\$ 35,569</u>

(9) Derivative Financial Instruments and Hedging

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The Company utilizes derivative financial instruments as part of its overall investment and hedging activities. Derivative contracts are subject to additional risk that can result in a loss of all or part of an investment. The Company's derivative activities are primarily classified by underlying credit risk and interest rate risk. In addition, the Company is also subject to additional counterparty risk should its counterparties fail to meet the contract terms. The derivative financial instruments are reported in other investments. Derivative liabilities are reported within other liabilities and accrued expenses.

Derivatives, at fair value

Interest Rate Lock Commitments

The Company enters into interest rate lock commitments (IRLCs) with customers in connection with its mortgage banking activities to fund residential mortgage loans with certain terms at specified times in the future. IRLCs that relate to the origination of mortgage loans that will be classified as held-for-sale are considered derivative instruments under applicable accounting guidance. As such, these IRLCs are recorded at fair value with changes in fair value typically resulting in recognition of a gain when the Company enters into IRLCs. In estimating the fair value of an IRLC, the Company assigns a probability that the loan commitment will be exercised and the loan will be funded ("pull through"). The fair value of the commitments is derived from the fair value of related mortgage loans, net of estimated costs to complete. Outstanding IRLCs expose the Company to the risk that the price of the loans underlying the commitments might decline from inception of the rate lock to funding of the loan. To manage this risk, the Company utilizes forward delivery contracts and to be announced (TBA) mortgage backed securities to economically hedge the risk of potential changes in the value of the loans that would result from the commitments.

Forward Delivery Contracts and TBA Mortgage Backed Securities

The Company enters into forward delivery contracts with loan aggregators and other investors as one of the tools to manage the interest rate risk associated with IRLCs and loans held for sale. In addition, the Company enters into TBA mortgage backed securities which facilitate hedging and funding by allowing the Company to prearrange prices for mortgages that are in the process of originating. The Company utilizes these hedging instruments for Agency (Fannie Mae and Freddie Mac) and FHA/VA (Ginnie Mae) eligible IRLCs.

The following table presents the gross notional and fair value amounts of derivatives (on a gross basis) categorized by underlying risk:

	As of September 30, 2019			As of December 31, 2018		
	Notional values	Asset derivatives	Liability derivatives	Notional values	Asset derivatives	Liability derivatives
Interest rate lock commitments	\$ 297,895	\$ 7,374	\$ —	\$ 122,477	\$ 3,460	\$ —
Forward delivery contracts	77,263	9	9	41,383	5	52
TBA mortgage backed securities	228,000	247	439	129,000	39	824
Other	10,360	—	1,880	—	—	—
Total	\$ 613,518	\$ 7,630	\$ 2,328	\$ 292,860	\$ 3,504	\$ 876

Derivatives Designated as Cash Flow Hedging Instruments

The following table presents the pre-tax impact of the cash flow hedging derivative instruments on the condensed consolidated financial statements for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gains (losses) recognized in AOCI on the derivative-effective portion	\$ —	\$ —	\$ —	\$ 1,111
(Gains) losses reclassified from AOCI into income-effective portion	\$ —	\$ —	\$ —	\$ (3,845)

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(10) Debt, net

The following table presents the balance of the Company's debt obligations, net of discounts and deferred financing costs.

Debt Type	Stated maturity date	Stated interest rate or range of rates	Maximum borrowing capacity as of September 30, 2019	As of	
				September 30, 2019	December 31, 2018
Corporate debt					
Secured corporate credit agreements	April 2020 - September 2020	LIBOR + 1.20% to 5.50%	\$ 129,180	\$ 69,180	\$ 72,090
Junior subordinated notes	October 2057	8.50%	125,000	125,000	125,000
Preferred trust securities	June 2037	LIBOR + 4.10%	35,000	35,000	35,000
Total corporate debt				229,180	232,090
Asset based debt ⁽¹⁾					
Asset based revolving financing ⁽²⁾	April 2021	LIBOR + 2.40%	40,000	19,659	86,092
Residential mortgage warehouse borrowings ⁽³⁾	May 2020 - August 2020	LIBOR + 2.00% to 2.50%	111,000	88,626	46,091
Total asset based debt				108,285	132,183
Total debt, face value				337,465	364,273
Unamortized discount, net				(272)	(504)
Unamortized deferred financing costs				(7,697)	(9,686)
Total debt, net				\$ 329,496	\$ 354,083

⁽¹⁾ Asset based debt is generally recourse only to specific assets and related cash flows.

⁽²⁾ The weighted average coupon rate for asset based revolving financing was 4.42% and 4.30% at September 30, 2019 and December 31, 2018, respectively.

⁽³⁾ The weighted average coupon rate for residential mortgage warehouse borrowings was 4.06% and 4.66% at September 30, 2019 and December 31, 2018, respectively.

The following table presents the amount of interest expense the Company incurred on its debt for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	Interest expense - corporate debt	\$ 4,923	\$ 5,587	\$ 14,850
Interest expense - asset based debt	1,808	1,747	5,333	5,779
Interest expense on debt	\$ 6,731	\$ 7,334	\$ 20,183	\$ 19,935

The following table presents the future maturities of the unpaid principal balance on the Company's debt for the following period:

	As of September 30, 2019
Remainder of 2019	\$ —
2020	157,806
2021	19,659
2022	—
2023	—
2024 and thereafter	160,000
Total	\$ 337,465

The following narrative is a summary of certain terms of our debt agreements for the period ended September 30, 2019:

Corporate Debt

Secured Corporate Credit Agreements

As of September 30, 2019 and December 31, 2018, a total of \$69,180 and \$72,090, respectively, was outstanding under the Operating Company credit agreement.

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As of September 30, 2019 and December 31, 2018, a total of \$0 and \$0, respectively, was outstanding under the revolving line of credit in our specialty insurance business. During April 2019, the maturity date of this borrowing was extended to April 2020 with a new rate of LIBOR plus 1.20%.

Asset Based Debt

Asset Backed Revolving Financing

The \$81,343 balance as of December 31, 2018 of the corporate loan financing agreement in our specialty insurance business was paid off and the borrowing was extinguished in March 2019.

As of September 30, 2019 and December 31, 2018, a total of \$10,205 and \$4,749, respectively, was outstanding under the borrowing related to our premium finance business in our specialty insurance business. During April 2019, the maturity date of this borrowing was extended to April 2021 with a new rate of LIBOR plus 2.40%.

On August 5, 2019, a subsidiary in our specialty insurance business entered into a \$15,000 revolving line of credit agreement related to our warranty service contract finance business. The borrowing has a maturity date of April 28, 2021 and a rate of LIBOR plus 2.40%. As of September 30, 2019, a total of \$9,454 was outstanding under the borrowing.

Residential Mortgage Warehouse Borrowings

As of September 30, 2019 and December 31, 2018, a total of \$88,626 and \$46,091, respectively, was outstanding under such financing agreements. In May 2019, a subsidiary in our mortgage business renewed a \$50,000 warehouse line of credit, extending the maturity date to May 2020, and, in September 2019, the maximum borrowing capacity was temporarily raised to \$60,000 (returning to a maximum borrowing capacity of \$50,000 in January 2020). Additionally, in June 2019, the same subsidiary renewed a \$40,000 (an increase from \$25,000) warehouse line of credit, extending the maturity to June 2020, and, in August 2019, the maximum borrowing capacity under this line was temporarily raised to \$50,000 (returning to a maximum borrowing capacity of \$40,000 in October 2019). The same subsidiary also renewed its \$1,000 warehouse line of credit, extending the maturity date to August 2020.

As of September 30, 2019, the Company is in compliance with the representations and covenants for outstanding borrowings or has obtained waivers for any events of non-compliance.

(11) Fair Value of Financial Instruments

The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs to the extent possible to measure a financial instrument's fair value. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability, and are affected by the type of product, whether the product is traded on an active exchange or in the secondary market, as well as current market conditions. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is estimated by applying the hierarchy discussed in Note (2) Summary of Significant Accounting Policies which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized within Level 3 of the fair value hierarchy.

The Company's fair value measurement is based primarily on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable financial instruments. Sources of inputs to the market approach include third-party pricing services, independent broker quotations and pricing matrices. Management analyzes the third party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy and to assess reliability of values. Further, management has a process in place to review all changes in fair value that occurred during each measurement period. Any discrepancies or unusual observations are followed through to resolution through the source of the pricing as well as utilizing comparisons, if applicable, to alternate pricing sources. In addition, the Company utilizes an income approach to measure the fair value of NPLs, as discussed below.

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The Company utilizes observable and unobservable inputs within its valuation methodologies. Observable inputs may include: benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. In addition, specific issuer information and other market data is used. Broker quotes are obtained from sources recognized to be market participants. Unobservable inputs may include: expected cash flow streams, default rates, supply and demand considerations and market volatility.

Available for Sale Securities, at fair value

The fair values of AFS securities are based on prices provided by an independent pricing service and a third party investment manager who provide a single price or quote per security.

The following details the methods and assumptions used to estimate the fair value of each class of AFS securities and the applicable level each security falls within the fair value hierarchy:

U.S Treasury Securities, Obligations of U.S. Government Authorities and Agencies, Obligations of State and Political Subdivisions, Corporate Securities, Asset Backed Securities, and Obligations of Foreign Governments: Fair values were obtained from an independent pricing service and a third party investment manager. The prices provided by the independent pricing service and third party investment manager are based on quoted market prices, when available, non-binding broker quotes, or matrix pricing and fall under Level 2 or Level 3 in the fair value hierarchy.

Certificates of Deposit: The estimated fair value of certificates of deposit approximate carrying value and fall under Level 1 of the fair value hierarchy.

Equity Securities

The fair values of publicly traded common and preferred stocks are obtained from market value quotations provided by an independent pricing service and fall under Level 1 in the fair value hierarchy. The fair values of non-publicly traded common and preferred stocks are based on prices obtained from an independent pricing service using unobservable inputs and fall under Level 3 in the fair value hierarchy.

The Company's investment in Invesque is subject to certain contractual and functional sale restrictions. As of December 31, 2018, the fair value of the Invesque shares was based on the market price adjusted for the impact of these restrictions, and was classified under Level 2 in the fair value hierarchy. As of September 30, 2019, these restrictions are no longer applicable and the shares are classified under Level 1.

Loans, at fair value

Corporate Loans: These loans are comprised of a diversified portfolio of middle market and broadly syndicated leveraged loans and are generally classified under either Level 2 or Level 3 in the fair value hierarchy. To determine fair value, the Company uses quoted prices which include those provided from pricing vendors, where available. We perform internal price verification procedures to ensure that the prices and quotes provided from the independent pricing vendors are reasonable. Such verification procedures include comparison of pricing sources and analysis of variances among pricing sources. The Company has evaluated each loan's respective liquidity and has additionally performed valuation benchmarking. The key characteristics which were evaluated as part of this determination were liquidity ratings, price changes to index benchmarks, depth of quotes, credit ratings and industry trends.

Mortgage Loans Held for Sale: Mortgage loans held for sale are generally classified under Level 2 in the fair value hierarchy and fair value is based upon forward sales contracts with third party investors, including estimated loan costs, and reserves.

Nonperforming Loans and REO: The Company determines the purchase price for NPLs at the time of acquisition and for each subsequent valuation by using a discounted cash flow valuation model and considering alternate loan resolution probabilities, including modification, liquidation, or conversion to REO. The significant unobservable inputs used in the fair value measurement of our NPLs are discount rates, loan resolution timeline, and the value of underlying properties. The fair values of NPLs which are making payments (generally based on a modification or a workout plan) are primarily based upon secondary market transaction prices, which are expressed as a percentage of unpaid principal balance (UPB). Observable inputs to the model include loan amounts, payment history, and property types. Our NPLs are on nonaccrual status at the time of purchase as it is probable that

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principal or interest is not fully collectible. NPLs are included in loans, at fair value and fall under Level 3 in the fair value hierarchy.

NPLs that have become REOs were measured at fair value on a non-recurring basis at the time of transfer during the nine months ended September 30, 2019 and the year ended December 31, 2018. The carrying value of REOs at September 30, 2019 and December 31, 2018 was \$4,341 and \$10,019, respectively. Upon conversion to REO, the fair value is estimated using a broker price opinion (BPO). BPOs are subject to judgments of a particular broker formed by visiting a property, assessing general home values in an area, reviewing comparable listings, and reviewing comparable completed sales. These judgments may vary among brokers and may fluctuate over time based on housing market activities and the influx of additional comparable listings and sales. REO is included in other investments. Subsequent to conversion, REOs are carried at lower of cost or market.

Derivative Assets and Liabilities

Derivatives are primarily comprised of IRLCs, forward delivery contracts and TBA mortgage backed securities. The fair value of these instruments is based upon valuation pricing models, which represent the amount the Company would expect to receive or pay at the balance sheet date to exit the position. Our mortgage origination subsidiaries issue IRLCs to its customers, which are carried at estimated fair value on the Company's condensed consolidated balance sheet. The estimated fair values of these commitments are generally calculated by reference to the value of the underlying loan associated with the IRLC net of costs to produce and an expected fall out assumption. The fair values of these commitments generally fall under Level 3 in the fair value hierarchy. Our mortgage origination subsidiaries manage their exposure by entering into forward delivery commitments with loan investors. For loans not locked with investors under a forward delivery commitment, the Company enters into hedge instruments, primarily TBAs, to protect against movements in interest rates. The fair values of TBA mortgage backed securities and forward delivery contracts generally fall under Level 2 in the fair value hierarchy.

The following tables present the Company's fair value hierarchies for financial assets and liabilities, measured on a recurring basis:

	As of September 30, 2019			Fair value
	Quoted prices in active markets Level 1	Other significant observable inputs Level 2	Significant unobservable inputs Level 3	
Assets:				
Available for sale securities, at fair value:				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ —	\$ 189,206	\$ —	\$ 189,206
Obligations of state and political subdivisions	—	40,236	—	40,236
Obligations of foreign governments	—	1,119	—	1,119
Certificates of deposit	891	—	—	891
Asset backed securities	—	41,528	1,345	42,873
Corporate securities	—	40,879	—	40,879
Total available for sale securities, at fair value	891	312,968	1,345	315,204
Loans, at fair value:				
Corporate loans	—	—	14,452	14,452
Mortgage loans held for sale	—	95,228	—	95,228
Non-performing loans	—	—	2,078	2,078
Total loans, at fair value	—	95,228	16,530	111,758
Equity securities	147,203	—	243	147,446
Other investments:				
Other investments, at fair value	—	3,174	13,036	16,210
Total	\$ 148,094	\$ 411,370	\$ 31,154	\$ 590,618
Liabilities:				
Derivative liabilities:				
Derivative liabilities (included in other liabilities and accrued expenses)	\$ —	\$ 2,328	\$ —	\$ 2,328

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	As of September 30, 2019			
	Quoted prices in active markets Level 1	Other significant observable inputs Level 2	Significant unobservable inputs Level 3	Fair value
Total	\$ —	\$ 2,328	\$ —	\$ 2,328

	As of December 31, 2018			
	Quoted prices in active markets Level 1	Other significant observable inputs Level 2	Significant unobservable inputs Level 3	Fair value
Assets:				
Available for sale securities, at fair value:				
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$ —	\$ 71,748	\$ —	\$ 71,748
Obligations of state and political subdivisions	—	67,446	—	67,446
Obligations of foreign governments	—	6,751	—	6,751
Certificates of deposit	1,241	—	—	1,241
Asset backed securities	—	39,144	1,508	40,652
Corporate bonds	—	95,725	—	95,725
Total available for sale securities, at fair value	1,241	280,814	1,508	283,563
Loans, at fair value:				
Corporate loans	—	22,697	108,213	130,910
Mortgage loans held for sale	—	56,917	—	56,917
Non-performing loans	—	—	27,556	27,556
Total loans, at fair value	—	79,614	135,769	215,383
Equity securities	9,323	113,138	518	122,979
Other investments, at fair value	—	44	8,487	8,531
Total	\$ 10,564	\$ 473,610	\$ 146,282	\$ 630,456
Liabilities:				
Derivative liabilities (included in other liabilities and accrued expenses)	\$ —	\$ 876	\$ —	\$ 876
Total	\$ —	\$ 876	\$ —	\$ 876

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The following table presents additional information about assets that are measured at fair value on a recurring basis for which the Company has utilized Level 3 inputs to determine fair value for the following periods:

	Nine Months Ended September 30,	
	2019 ⁽¹⁾	2018 ⁽¹⁾
Balance at January 1,	\$ 146,282	\$ 162,666
Net realized gains (losses)	3,923	(246)
Net unrealized gains (losses)	(3,539)	128
Origination of IRLC	54,179	37,901
Purchases	113	45,263
Sales	(118,382)	(55,934)
Issuances	107	283
Transfers into Level 3 ⁽¹⁾	1,332	3,513
Transfer adjustments (out of) Level 3 ⁽¹⁾	—	(966)
Conversions to real estate owned	(2,596)	(6,272)
Conversions to mortgage loans held for sale	(50,265)	(38,317)
Balance at September 30,	\$ 31,154	\$ 148,019
Changes in unrealized gains (losses) included in earnings related to assets still held at period end	\$ (1,669)	\$ 2,150

⁽¹⁾ All transfers are deemed to occur at end of period. Transfers between Level 2 and 3 were a result of subjecting third-party pricing on assets to various liquidity, depth, bid-ask spread and benchmarking criteria as well as assessing the availability of observable inputs affecting their fair valuation.

The following is quantitative information about Level 3 assets with significant unobservable inputs used in fair valuation.

Assets	Fair Value as of		Valuation technique	Unobservable input(s)	Actual or Range (Weighted average)	
	September 30, 2019	December 31, 2018			September 30, 2019	December 31, 2018
IRLCs	\$ 7,374	\$ 3,460	Internal model	Pull through rate	45% - 95%	50% - 95%
NPLs	2,078	27,556	Discounted cash flow	See table below ⁽¹⁾	See table below	See table below
Total	\$ 9,452	\$ 31,016				

⁽¹⁾ Significant changes in any of these inputs in isolation could result in a significant change to the fair value measurement. A decline in the discount rate in isolation would increase the fair value. A decrease in the housing pricing index in isolation would decrease the fair value. Individual loan characteristics, such as location and value of underlying collateral, affect the loan resolution timeline. An increase in the loan resolution timeline in isolation would decrease the fair value. A decrease in the value of underlying properties in isolation would decrease the fair value.

The following table presents quantitative information about the significant unobservable inputs used to measure the fair value of our NPLs. For NPLs that are not making payments, discount rate, loan resolution time-line, value of underlying properties, holding costs and liquidation costs are the primary inputs used to measure fair value. For NPLs that are making payments, note rate and secondary market transaction prices/UPB are the primary inputs used to measure fair value.

Unobservable inputs	As of September 30, 2019			As of December 31, 2018		
	High	Low	Average ⁽¹⁾	High	Low	Average ⁽¹⁾
Discount rate	25.0%	25.0%	25.0%	30.0%	16.0%	23.6%
Loan resolution time-line (Years)	1.8	1.8	1.8	2.1	0.6	1.2
Value of underlying properties	\$1,385	\$70	\$597	\$1,780	\$55	\$383
Holding costs	6.6%	6.6%	6.6%	14.7%	5.0%	6.9%
Liquidation costs	8.7%	8.7%	8.7%	14.2%	8.4%	9.2%
Note rate	6.0%	5.0%	5.2%	6.0%	3.0%	4.9%
Secondary market transaction prices/UPB	88.3%	84.0%	84.9%	88.3%	74.5%	83.3%

⁽¹⁾ Weighted based on value of underlying properties.

The following table presents the carrying amounts and estimated fair values of financial assets and liabilities that are not recorded

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at fair value and their respective levels within the fair value hierarchy:

	As of September 30, 2019			As of December 31, 2018		
	Level within fair value hierarchy	Fair value	Carrying value	Level within fair value hierarchy	Fair value	Carrying value
Assets:						
Debentures ⁽¹⁾	2	\$ 15,934	\$ 15,934	2	\$ 5,134	\$ 5,134
Notes and accounts receivable, net	2	34,670	34,670	2	13,057	13,057
Total assets		\$ 50,604	\$ 50,604		\$ 18,191	\$ 18,191
Liabilities:						
Debt, net	3	\$ 348,756	\$ 337,193	3	\$ 363,769	\$ 363,769
Total liabilities		\$ 348,756	\$ 337,193		\$ 363,769	\$ 363,769

⁽¹⁾ Included in other investments.

Debentures: Since interest rates on debentures are at current market rates for similar credit risks, the carrying amount approximates fair value. These values are net of allowance for doubtful accounts.

Notes and Accounts Receivable: To the extent that carrying amounts differ from fair value, fair value is determined based on contractual cash flows discounted at market rates for similar credits. Categorized under Level 2 in the fair value hierarchy.

Debt: The carrying value, which approximates fair value of LIBOR based debt, represents the total debt balance at face value excluding the unamortized discount. The fair value of the Junior subordinated notes is determined based on dealer quotes. Categorized under Level 3 in the fair value hierarchy.

Additionally, the following financial assets and liabilities on the condensed consolidated balance sheets are not carried at fair value, but whose carrying amounts approximate their fair value:

Cash and Cash Equivalents: The carrying amounts of cash and cash equivalents are carried at cost which approximates fair value. Categorized under Level 1 in the fair value hierarchy.

Accounts and Premiums Receivable, net, retrospective commissions receivable and other receivables: The carrying amounts approximate fair value since no interest rate is charged on these short duration assets. Categorized under Level 2 in the fair value hierarchy. See Note (6) Notes and Accounts Receivable, net.

Due from Brokers, Dealers, and Trustees and Due to Brokers, Dealers and Trustees: The carrying amounts are included in other assets and other liabilities and accrued expenses and approximate their fair value due to their short term nature. Categorized under Level 2 in the fair value hierarchy.

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(12) Liability for Unpaid Claims and Claim Adjustment Expenses

Roll forward of Claim Liability

The following table presents the activity in the net liability for unpaid losses and allocated loss adjustment expenses of short duration contracts for the following periods:

	Nine Months Ended September 30,	
	2019	2018
Policy liabilities and unpaid claims balance as of January 1,	\$ 131,611	\$ 112,003
Less : liabilities of policy-holder accounts balances, gross	(13,659)	(15,474)
Less : non-insurance warranty benefit claim liabilities	(94)	(58)
Gross liabilities for unpaid losses and loss adjustment expenses	117,858	96,471
Less : reinsurance recoverable on unpaid losses - short duration	(90,016)	(73,778)
Less : other lines, gross	(227)	(224)
Net balance as of January 1, short duration	27,615	22,469
Incurring (short duration) related to:		
Current year	104,506	94,311
Prior years	4,126	5,512
Total incurred	108,632	99,823
Paid (short duration) related to:		
Current year	89,315	73,665
Prior years	9,909	21,311
Total paid	99,224	94,976
Net balance as of September 30, short duration	37,023	27,316
Plus : reinsurance recoverable on unpaid losses - short duration	85,318	82,973
Plus : other lines, gross	220	224
Gross liabilities for unpaid losses and loss adjustment expenses	122,561	110,513
Plus : liabilities of policy-holder accounts balances, gross	11,877	13,499
Plus : non-insurance warranty benefit claim liabilities	63	90
Policy liabilities and unpaid claims balance as of September 30,	\$ 134,501	\$ 124,102

The following schedule reconciles the total short duration contracts per the table above to the amount of total losses incurred as presented in the condensed consolidated statement of operations, excluding the amount for member benefit claims:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Short duration incurred	\$ 39,213	\$ 39,011	\$ 108,632	\$ 99,823
Other lines incurred	(11)	—	180	123
Unallocated loss adjustment expense	144	1,188	651	2,509
Total losses incurred	\$ 39,346	\$ 40,199	\$ 109,463	\$ 102,455

For the nine months ended September 30, 2019, the Company's specialty insurance business experienced an increase in prior year case development of \$4,126, primarily from its non-standard auto business.

For the nine months ended September 30, 2018, the Company's specialty insurance business experienced an increase in prior year case development of \$5,512. This included \$2,692 in non-standard auto and \$4,882 in credit. This development was partially offset by favorable development in its warranty business. The warranty and credit lines of business are primarily in retrospective commission arrangements that cause loss development to minimally impact the operating income of the Company.

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(13) Revenue From Contracts with Customers

Revenue from contracts with customers is primarily comprised of asset management fee income included as a part of other revenue, and warranty coverage, car club and other revenues included as a part of service and administrative fees in our specialty insurance business. The following table presents the disaggregated amounts of revenue from contracts with customers by product type for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Asset management fee income	\$ —	\$ 2,335	\$ 1,267	\$ 5,229
Warranty coverage revenue	6,423	6,730	20,367	19,132
Car club revenue	9,130	8,152	26,675	23,825
Other	1,767	1,849	5,495	5,802
Revenue from contracts with customers	<u>\$ 17,320</u>	<u>\$ 19,066</u>	<u>\$ 53,804</u>	<u>\$ 53,988</u>

Management Fees

The Company earned asset management fee income in the form of base management fees and incentive fees from the CLOs it managed. These base management fees were billed as the services were provided and paid periodically in accordance with the terms of the individual management agreements for as long as the Company managed the funds. Base management fees typically consisted of fees based on the amount of assets held in the CLOs. Base management fees were recognized as revenue when earned. The Company did not recognize incentive fees until all contractual contingencies were removed.

Service and Administrative Fees

Service fee revenue is recognized as the services are performed. These services include fulfillment, software development, and claims handling for our customers. Management reviews the financial results under each significant contract on a monthly basis. Any losses that may occur due to a specific contract would be recognized in the period in which the loss is determined probable.

Administrative fee revenue includes the administration of premium associated with our producers and their producer owned reinsurance companies (PORCs). In addition, we also earn fee revenue from debt cancellation programs, motor club programs, and warranty programs. Related administrative fee revenue is recognized consistent with the earnings recognition pattern of the underlying insurance policies, debt cancellation contracts and motor club memberships being administered, using Rule of 78's, modified Rule of 78's, pro rata, or other methods as appropriate for the contract. Management selects the appropriate method based on available information, and periodically reviews the selections as additional information becomes available.

Information on Remaining Performance Obligations

We do not disclose information about remaining performance obligations pertaining to contracts that have an original expected duration of one year or less. The transaction price allocated to remaining unsatisfied or partially unsatisfied performance obligations with an original expected duration exceeding one year was not material at September 30, 2019.

Contract Balances

The timing of our revenue recognition may differ from the timing of payment by our customers. We record a receivable when revenue is recognized prior to payment and we have an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, we record deferred revenue until the performance obligations are satisfied.

The following table presents the activity in the significant deferred assets and liabilities related to revenue from contracts with customers for the nine months ended September 30, 2019.

	January 1, 2019			September 30, 2019
	Beginning balance	Additions	Amortizations	Ending balance
<u>Deferred costs</u>				
Warranty coverage revenue	\$ 1,274	\$ 472	\$ 733	\$ 1,013
Car club revenue	12,189	20,600	20,249	12,540
Total	<u>\$ 13,463</u>	<u>\$ 21,072</u>	<u>\$ 20,982</u>	<u>\$ 13,553</u>

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Deferred revenue								
Warranty coverage revenue	\$	39,835	\$	28,601	\$	20,367	\$	48,069
Car club revenue		16,128		26,873		26,675		16,326
Total		<u>\$ 55,963</u>		<u>\$ 55,474</u>		<u>\$ 47,042</u>		<u>\$ 64,395</u>

Bad debt expense was not material for any period presented.

(14) Other Assets and Other Liabilities and Accrued Expenses

Other Assets

The following table presents the components of other assets as reported in the condensed consolidated balance sheets:

	As of	
	September 30, 2019	December 31, 2018
Right of use asset - Operating leases ⁽¹⁾	\$ 25,551	\$ —
Furniture, fixtures and equipment, net	12,561	6,122
Prepaid expenses	7,132	7,351
Income tax receivable	2,067	2,307
Subsidiary sale receivable ⁽²⁾	750	10,676
Other	26,489	19,578
Total other assets	<u>\$ 74,550</u>	<u>\$ 46,034</u>

⁽¹⁾ See Note (2) Summary of Significant Accounting Policies - Recent Accounting Standards and Note (20) Commitments and Contingencies for additional information.

⁽²⁾ Related to the gain contingency on sale of Care recorded in December 2018. \$9,926 was received in cash in 2019. The remaining amount is expected to be paid off by 2021. See Note (3) Dispositions, Assets Held for Sale & Discontinued Operations.

The following table presents the depreciation expense related to furniture, fixtures and equipment for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	Depreciation expense related to furniture, fixtures and equipment	\$ 769	\$ 505	\$ 1,928

Other Liabilities and Accrued Expenses

The following table presents the components of other liabilities and accrued expenses as reported in the condensed consolidated balance sheets:

	As of	
	September 30, 2019	December 31, 2018
Accounts payable and accrued expenses	\$ 66,119	\$ 63,751
Operating lease liability ⁽¹⁾	31,329	—
Deferred tax liabilities, net	29,800	25,433
Due to brokers	21,484	486
Commissions payable	6,626	11,074
Accrued interest payable	5,126	3,452
Other	23,688	19,981
Total other liabilities and accrued expenses	<u>\$ 184,172</u>	<u>\$ 124,197</u>

⁽¹⁾ See Note (2) Summary of Significant Accounting Policies - Recent Accounting Standards and Note (20) Commitments and Contingencies for additional information.

(15) Other Revenue, Other Expenses and Other Income

Other Revenue

The following table presents the components of other revenue as reported in the condensed consolidated statement of operations.

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Other revenue is primarily generated by Tiptree Capital's non-insurance activities except as noted in the footnote to the table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Other investment income ⁽¹⁾	\$ 12,626	\$ 7,701	\$ 31,781	\$ 18,798
Gain on sale of businesses ⁽²⁾	—	—	7,598	—
Management fee income	—	2,335	1,267	5,229
Other ⁽³⁾	162	1,033	638	3,309
Total other revenue	\$ 12,788	\$ 11,069	\$ 41,284	\$ 27,336

⁽¹⁾ See Note (5) Investments for the components of Other investment income.

⁽²⁾ Related to the sale of Telos. See Note (3) Dispositions, Assets Held for Sale & Discontinued Operations.

⁽³⁾ Includes \$1,303 and \$660 related to Specialty Insurance for the three months ended September 30, 2019 and 2018, respectively. Includes \$3,068 and \$1,946 related to Specialty Insurance for the nine months ended September 30, 2019 and 2018, respectively.

Other Expenses

The following table presents the components of other expenses as reported in the condensed consolidated statement of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Professional fees	\$ 6,137	\$ 4,311	\$ 13,975	\$ 13,018
General and administrative	3,855	4,168	14,098	11,755
Premium taxes	3,990	3,625	11,102	10,647
Mortgage origination expenses	3,099	2,313	8,657	6,765
Rent and related	3,110	2,923	9,329	7,857
Operating expenses from vessels	2,508	1,144	6,130	1,268
Loss on extinguishment of debt	—	—	1,241	428
Other	2,231	2,105	6,651	5,616
Total other expenses	\$ 24,930	\$ 20,589	\$ 71,183	\$ 57,354

(16) Stockholders' Equity

Stock Repurchases

On December 10, 2018, the Company engaged a broker in connection with a daily stock repurchase program for the repurchase of up to \$10.0 million of shares of the Company's outstanding Common Stock. On December 10, 2018, the Company's Board of Directors authorized the Company to make block repurchases of up to \$10.0 million of shares in the aggregate, at the discretion of the Company's Executive Committee. On January 24, 2019, the Company's Board of Directors replenished the block repurchase authorization to repurchase up to \$10.0 million of shares of the Company's outstanding Common Stock. On May 2, 2019, the Board of Directors replenished the overall repurchase authorization up to \$20.0 million and removed the dollar allocation between daily purchases and block trades.

	Nine Months Ended September 30, 2019	
	Number of shares purchased	Average price per share
Share repurchase programs	60,421	\$ 5.86
Block repurchase program	1,412,309	6.18
Total	1,472,730	6.17
Remaining repurchase authorization		\$ 20,000

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Dividends

The Company declared cash dividends per share for the following periods presented below:

	Dividends per share for the Nine Months Ended September 30,	
	2019	2018
First Quarter	\$ 0.040	\$ 0.035
Second Quarter	0.040	0.035
Third Quarter ⁽¹⁾	0.040	0.035
Total cash dividends declared	\$ 0.120	\$ 0.105

(1) See Note (23) Subsequent Events for when dividend was declared.

Statutory Reporting and Insurance Company Subsidiaries Dividend Restrictions

The Company's regulated insurance company subsidiaries may pay dividends to our insurance holding company, subject to statutory restrictions. Payments in excess of statutory restrictions (extraordinary dividends) to our insurance holding company are permitted only with prior approval of the insurance department of the applicable state of domicile. The Company eliminated all dividends from its subsidiaries in the condensed consolidated financial statements.

The following table presents the dividends paid to our insurance holding company by its regulated insurance company subsidiaries for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Ordinary dividends	\$ —	\$ —	\$ 9,001	\$ —
Extraordinary dividends	—	—	1,188	—
Total dividends	\$ —	\$ —	\$ 10,189	\$ —

The following table presents the combined statutory capital and surplus of the Company's insurance company subsidiaries, the required minimum statutory capital and surplus, as required by the laws of the states in which they are domiciled, and the combined amount available for ordinary dividends of the Company's insurance company subsidiaries for the following periods:

	As of	
	September 30, 2019	December 31, 2018
Combined statutory capital and surplus of the Company's insurance company subsidiaries	\$ 127,649	\$ 131,859
Required minimum statutory capital and surplus	\$ 17,950	\$ 17,950
Amount available for ordinary dividends of the Company's insurance company subsidiaries	\$ 4,531	\$ 13,532

At September 30, 2019, the maximum amount of dividends that our regulated insurance company subsidiaries could pay under applicable laws and regulations without regulatory approval was approximately \$4,531. The Company may seek regulatory approval to pay dividends in excess of this permitted amount, but there can be no assurance that the Company would receive regulatory approval if sought.

Under the National Association of Insurance Commissioners (NAIC) Risk-Based Capital Act of 1995, a company's Risk-Based Capital (RBC) is calculated by applying certain risk factors to various asset, claim and reserve items. If a company's adjusted surplus falls below calculated RBC thresholds, regulatory intervention or oversight is required. The Company's insurance company subsidiaries' RBC levels, as calculated in accordance with the NAIC's RBC instructions, exceeded all RBC thresholds as of September 30, 2019.

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The following table presents the statutory net income of the Company's statutory insurance companies for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income of statutory insurance companies	\$ 978	\$ 1,442	\$ 3,738	\$ 11,173

(17) Accumulated Other Comprehensive Income (Loss)

The following table presents the activity in accumulated other comprehensive income (loss) (AOCI), net of tax, for the following periods:

	Unrealized gains (losses) on			Amount attributable to noncontrolling interests		Total AOCI (loss) to Tiptree Inc.
	Available for sale securities	Interest rate swaps	Total AOCI (loss)	TFP	Other	
Balance at December 31, 2017	\$ (460)	\$ 2,074	\$ 1,614	\$ (222)	\$ (426)	\$ 966
Other comprehensive income (losses) before reclassifications	(3,021)	835	(2,186)	61	213	(1,912)
Amounts reclassified from AOCI	426	—	426	—	—	426
Reclassification of AOCI - interest rate swaps ⁽¹⁾	—	(2,909)	(2,909)	502	226	(2,181)
Reorganization merger	—	—	—	(341)	—	(341)
Period change	(2,595)	(2,074)	(4,669)	222	439	(4,008)
Balance at September 30, 2018	\$ (3,055)	\$ —	\$ (3,055)	\$ —	\$ 13	\$ (3,042)
Balance at December 31, 2018	\$ (2,069)	\$ —	\$ (2,069)	\$ —	\$ 11	\$ (2,058)
Other comprehensive income (losses) before reclassifications	5,067	—	5,067	—	(24)	5,043
Amounts reclassified from AOCI	(970)	—	(970)	—	—	(970)
Period change	4,097	—	4,097	—	(24)	4,073
Adoption of accounting standard ⁽²⁾	(99)	—	(99)	—	—	(99)
Balance at September 30, 2019	\$ 1,929	\$ —	\$ 1,929	\$ —	\$ (13)	\$ 1,916

⁽¹⁾ Relates to the sale of Care. See Note (3) Dispositions, Assets Held for Sale & Discontinued Operations.

⁽²⁾ Amounts reclassified to retained earnings due to adoption of ASU 2018-02. See Note (2) Summary of Significant Accounting Policies.

The following table presents the reclassification adjustments out of AOCI included in net income and the impacted line items on the condensed consolidated statement of operations for the following periods:

Components of AOCI	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line item in condensed consolidated statement of operations
	2019	2018	2019	2018	
Unrealized gains (losses) on available for sale securities	\$ 187	\$ (16)	\$ 1,228	\$ (538)	Net realized and unrealized gains (losses)
Related tax (expense) benefit	(37)	3	(258)	112	Provision for income tax
Net of tax	\$ 150	\$ (13)	\$ 970	\$ (426)	
Reclassification of AOCI - interest rate swaps ⁽¹⁾	—	—	\$ —	\$ 3,845	Gain on sale of discontinued operations
Related tax (expense) benefit	—	—	—	(936)	Provision for income tax
Net of tax	\$ —	\$ —	\$ —	\$ 2,909	

⁽¹⁾ Relates to the sale of Care. See Note (3) Dispositions, Assets Held for Sale & Discontinued Operations.

(18) Stock Based Compensation

2017 Omnibus Incentive Plan

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The Company adopted the Tiptree 2017 Omnibus Incentive Plan (2017 Equity Plan) on June 6, 2017, which permits the grant of stock units, stock, and stock options up to a maximum of 6,100,000 shares of Common Stock. The general purpose of the 2017 Equity Plan is to attract, motivate and retain selected employees and directors for the Company and its subsidiaries, to provide them with incentives and rewards for performance and to better align their interests with the interests of the Company's stockholders. Unless otherwise extended, the 2017 Equity Plan terminates automatically on June 6, 2027. The table below summarizes changes to the issuances under the Company's 2017 Equity Plan for the periods indicated, excluding awards granted under the Company's subsidiary incentive plans that are exchangeable for Tiptree Common Stock:

	Number of shares⁽¹⁾
Available for issuance as of December 31, 2018	5,474,214
RSU and option awards granted	(692,017)
Forfeited	8,318
Subsidiary exchanged shares	(14,405)
Available for issuance as of September 30, 2019	4,776,111

⁽¹⁾ Excludes awards granted under the Company's subsidiary incentive plans that are exchangeable for Tiptree Common Stock.

Restricted Stock Units (RSUs)

Tiptree Corporate Incentive Plans

The Company values RSUs at their grant-date fair value as measured by Tiptree's Common Stock price. Generally, the Tiptree RSUs vest and become nonforfeitable with respect to one-third of Tiptree shares granted on each of the first, second and third anniversaries of the date of the grant, and expensed using the straight-line method over the requisite service period.

The following table presents changes to the issuances of RSUs under the 2017 Equity Plan for the periods indicated:

	Number of shares issuable	Weighted average grant date fair value
Unvested units as of December 31, 2018	676,630	\$ 6.27
Granted	466,197	6.23
Vested	(175,899)	6.39
Forfeited	(8,318)	6.10
Unvested units as of September 30, 2019	958,610	\$ 6.23

The following tables present the detail of the granted and vested RSUs for the periods indicated:

	Three Months Ended	Nine Months Ended		Three Months Ended	Nine Months Ended
	September 30, 2019			September 30, 2019	
Directors	11,869	37,824	Directors	11,869	37,824
Employees ⁽¹⁾	—	428,373	Employees	—	138,075
Total Granted	11,869	466,197	Total Vested	11,869	175,899
			Taxes	—	(35,621)
			Exchanged	—	14,405
			Net Vested	11,869	154,683

⁽¹⁾ Includes 307,148 shares that vest ratably over three years, 112,907 shares that cliff vest in February 2021 and the remaining shares vested immediately.

Subsidiary Incentive Plans

Certain of the Company's subsidiaries have established RSU programs under which they are authorized to issue RSUs or their equivalents, representing equity of such subsidiaries to certain of their employees. Such awards are accounted for as equity. These RSUs are subject to performance-vesting criteria based on the performance of the subsidiary (performance vesting RSUs) and time-vesting subject to continued employment (time vesting RSUs). Following the service period, such vested RSUs may be exchanged at fair market value, at the option of the holder, for Tiptree Common Stock under the 2017 Equity Plan. The service

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period for certain grants has been achieved and those vested subsidiary RSU's are currently eligible for exchange. The Company has the option, but not the obligation to settle the exchange right in cash.

The following table presents changes to the issuances of subsidiary RSU's under the subsidiary incentive plans for the periods indicated:

	Grant date fair value of equity shares issuable
Unvested balance as of December 31, 2018	\$ 8,710
Granted	—
Vested	(4,991)
Unvested balance as of September 30, 2019	\$ 3,719

The net vested and unvested balance (assuming full vesting) translates to an aggregate of 2,728,675 shares of Common Stock if converted as of September 30, 2019, of which 981,400 are vested and eligible for exchange as of September 30, 2019.

Stock Options - Tiptree Corporate

Option awards have been granted to the Executive Committee with an exercise price equal to the fair market value of our Common Stock on the date of grant. The option awards have a 10-year term and are subject to the recipient's continuous service, a market requirement, and vest one third on each of the third, fourth and fifth anniversary of the grant date. The market requirement is a book value per share target that can be met at any time before the option expires and it only needs to be met once for the option to remain exercisable for the remainder of its term. If the service condition is met, the full amount of the compensation expense will be recognized over the appropriate vesting period whether the market requirement is met or not. The options granted in 2018 include a retirement provision and are amortized over the lesser of the service condition or expected retirement date.

The fair value option grants are estimated on the date of grant using a Black-Scholes-Merton option pricing formula embedded within a Monte Carlo model used to simulate the future stock prices of the Company, which assumes that the market requirement is achieved. Historical volatility was computed based on historical daily returns of the Company's stock between the grant date and July 1, 2013, the date of the business combination through which Tiptree became a public company. The valuation is done under a risk-neutral framework using the 10-year zero-coupon risk-free interest rate derived from the Treasury Constant Maturities yield curve on the grant date. The current quarterly dividend rates in effect as of the date of the grant are used to calculate a spot dividend yield as of the date of grant for use in the model.

The following table presents the assumptions used to estimate the fair values of the stock options granted for the following periods:

Valuation Input	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
	Assumption	Average	Assumption	Average
Historical volatility	27.69%	N/A	30.63%	N/A
Risk-free rate	2.62%	N/A	2.85%	N/A
Dividend yield	2.21%	N/A	2.03%	N/A
Expected term (years)		6.5		6.5

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The following table presents the Company's stock option activity for the current period:

	Options outstanding	Weighted average exercise price (in dollars per stock option)	Weighted average grant date value (in dollars per stock option)	Options exercisat
Balance, December 31, 2018 ⁽¹⁾	1,064,527	\$ 6.24	\$ 2.61	—
Granted	225,815	6.26	1.69	—
Balance, September 30, 2019	1,290,342	6.24	2.45	—
Weighted average remaining contractual term at September 30, 2019 (in years)		7.7		

⁽¹⁾ Book value targets for grants in 2019, 2018, 2017, and 2016 are \$10.79, \$9.97, \$10.14, and \$8.96, respectively.

Stock-based Compensation Expense

The following table presents total stock-based compensation expense and the related income tax benefit recognized on the condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Employee compensation and benefits	\$ 1,439	\$ 1,520	\$ 4,285	\$ 3,804
Director compensation	75	78	227	228
Income tax benefit	(327)	(345)	(975)	(871)
Net stock-based compensation expense	\$ 1,187	\$ 1,253	\$ 3,537	\$ 3,161

Additional information on total non-vested stock-based compensation is as follows:

	As of September 30, 2019	
	Stock options	Restricted stock awards and RSUs
Unrecognized compensation cost related to non-vested awards	\$ 855	\$ 4,566
Weighted - average recognition period (in years)	2.18	1.66

(19) Income Taxes

The following table presents the income tax expense (benefit):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total income tax expense (benefit) from continuing operations	\$ (649)	\$ (611)	\$ 3,706	\$ (1,478)
Effective tax rate (ETR)	38.8% ⁽¹⁾	53.7% ⁽²⁾	19.2% ⁽³⁾	22.4% ⁽⁴⁾
Income tax expense (benefit) from discontinued operations	\$ —	\$ —	\$ —	\$ 12,327

⁽¹⁾ Higher than the U.S. federal statutory income tax rate of 21% due to the dividends received deduction and other discrete items, partially offset by state income taxes and the impact of foreign operations.

⁽²⁾ Higher than the U.S. federal statutory income tax rate of 21% due to the effect of state income taxes, the dividends received deduction and other discrete items, partially offset by the valuation allowance on state net operating losses.

⁽³⁾ Slightly lower than the U.S. federal statutory income tax rate of 21% due to the effect of the dividends received deduction and other discrete items, largely offset by state income taxes and the impact of foreign operations.

⁽⁴⁾ Higher than the U.S. federal statutory income tax rate of 21% due to the effect of state income taxes, the dividends received deduction and other discrete items, partially offset by the valuation allowance on state net operating losses.

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(20) Commitments and Contingencies

Operating Leases

All leases are office space leases and are classified as operating leases that expire through 2028. Some of our office leases include the option to extend for up to five years or less at management's discretion. Such extension options were not included in the measurement of the lease liability. Below is a summary of our right of use asset and lease liability as of September 30, 2019:

	As of
	September 30, 2019
Right of use asset - Operating leases	\$ 25,551
Operating lease liability	\$ 31,329
Weighted-average remaining lease term (years)	6.7
Weighted-average discount rate ⁽¹⁾	7.0%

⁽¹⁾ Discount rate was determined by applying available market rates to lease obligations based upon their term.

As of September 30, 2019, the approximate aggregate minimum future lease payments required for our lease liability over the remaining lease periods are as follows:

	September 30, 2019
Remainder of 2019	\$ 1,908
2020	7,169
2021	6,879
2022	5,625
2023	5,020
2024 and thereafter	16,308
Total minimum payments	42,909
Less: liabilities held for sale	(412)
Less: present value adjustment	(11,168)
Total	\$ 31,329

The following table presents rent expense for the Company's office leases recorded on the condensed consolidated statements of operations for the following periods:

	Three Months Ended September 30,		Nine Months Ended	
	2019	2018	September 30,	
	2019	2018	2019	2018
Rent expense for office leases	\$ 2,094	\$ 2,013	\$ 6,508	\$ 5,197

Litigation

The Company is a defendant in *Mullins v. Southern Financial Life Insurance Co.*, which was filed in February 2006, in the Pike Circuit Court, in the Commonwealth of Kentucky. A class was certified in June 2010. At issue is the duration or term of coverage under certain disability and life credit insurance policies. The action alleges violations of the Consumer Protection Act and certain insurance statutes, as well as common law fraud and seeks compensatory and punitive damages, attorney fees and interest. To date, the court has not awarded sanctions in connection with Plaintiffs' April 2012 Motion for Sanctions. In January 2015, the trial court issued an Order denying the Company's motion to decertify the class, which was upheld on appeal. Following a February 2017 hearing, the court denied the Company's Motion for Summary Judgment as to certain disability insurance policies. In January 2018, the court vacated its November 2017 order granting Company's Motion for Summary Judgment as to the life certificates at issue with leave to refile. No trial or additional hearings are currently scheduled.

The Company considers such litigation customary in the insurance industry. In management's opinion, based on information

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available at this time, the ultimate resolution of such litigation, which it is vigorously defending, should not be materially adverse to the financial position of the Company. It should be noted that large punitive damage awards, bearing little relation to actual damages sustained by plaintiffs, have been awarded in certain states against other companies in the credit insurance business. At this time, the Company cannot estimate a range of loss that is reasonably possible.

The Company and its subsidiaries are parties to other legal proceedings in the ordinary course of business. Although the Company's legal and financial liability with respect to such proceedings cannot be estimated with certainty, the Company does not believe that these proceedings, either individually or in the aggregate, are likely to have a material adverse effect on the Company's financial position.

(21) Earnings Per Share

The Company calculates basic net income per share of Common Stock (Common Share) based on the weighted average number of Common Shares outstanding (inclusive of vested corporate restricted share units). The unvested corporate restricted share units have the non-forfeitable right to participate in dividends declared and paid on the Company's Common Stock on an as vested basis and are therefore considered a participating security. The Company calculates basic earnings per share using the "two-class" method. For the nine months ended September 30, 2019, the income available to Common Stockholders was allocated to the unvested restricted stock units.

Diluted net income per Common Share for the nine months ended September 30, 2019 includes the effect of unvested subsidiaries' RSUs. For the nine months ended September 30, 2019, the assumed exercise of all potentially dilutive instruments were anti-dilutive, and therefore, were not included in the diluted net income per common share calculation.

The following table presents a reconciliation of basic and diluted net income per Common Share for the following periods:

	Three Months Ended September 30,		Nine Months Ended	
	2019	2018	September 30,	
			2019	2018
Net income (loss) from continuing operations	\$ (949)	\$ (527)	\$ 15,556	\$ (5,126)
Less:				
Net income (loss) attributable to non-controlling interests	508	91	1,342	(975)
Net income allocated to participating securities	—	—	359	—
Net income (loss) from continuing operations attributable to Common Shares	(1,457)	(618)	13,855	(4,151)
Net income (loss) from discontinued operations	—	—	—	34,481
Less:				
Net income (loss) from discontinued operations attributable to non-controlling interests	—	—	—	6,562
Net income (loss) from discontinued operations attributable to Common Shares	—	—	—	27,919
Net income (loss) attributable to Common Shares - basic	\$ (1,457)	\$ (618)	\$ 13,855	\$ 23,768
Effect of Dilutive Securities:				
Securities of subsidiaries	—	—	(507)	—
Net income (loss) attributable to Common Shares - diluted	\$ (1,457)	\$ (618)	\$ 13,348	\$ 23,768
Weighted average number of shares of Common Stock outstanding - basic	34,552,171	36,402,129	34,583,709	34,309,551
Weighted average number of shares of Common Stock outstanding - diluted	34,552,171	36,402,129	34,583,709	34,309,551
Basic:				
Net income (loss) from continuing operations	\$ (0.04)	\$ (0.02)	\$ 0.40	\$ (0.12)
Net income (loss) from discontinued operations	—	—	—	0.81
Net income (loss) attributable to Common Shares	\$ (0.04)	\$ (0.02)	\$ 0.40	\$ 0.69
Diluted:				
Net income (loss) from continuing operations	\$ (0.04)	\$ (0.02)	\$ 0.39	\$ (0.12)
Net income (loss) from discontinued operations	—	—	—	0.81
Net income (loss) attributable to Common Shares	\$ (0.04)	\$ (0.02)	\$ 0.39	\$ 0.69

(22) Related Party Transactions

On February 15, 2019, the Company and Corvid Peak (formerly known as Tricadia), entered into a Strategic Combination

TIPTREE INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2019

(in thousands, except share data)

Agreement and Amended and Restated Transition Services Agreement (the Transition Services Agreement). Corvid Peak is a related party of the Company because Corvid Peak is deemed to be controlled by Michael Barnes, the Company's Executive Chairman. Tiptree agreed to invest \$75 million to seed new investment funds to be managed by Corvid Peak. As of September 30, 2019, \$25 million has been funded. The Company will pay Corvid Peak an annual management fee of 1.25% of the net asset value of invested capital, 1.25% of the \$75 million commitment to the extent not invested and an incentive fee equal to 20% of the net profits.

No consideration was paid at the closing of the Strategic Combination Agreement. Tiptree will over time receive a 51% economic interest in certain profit shares interests in Corvid Peak, in increments stepping up by 10.2% each year, beginning in 2021. Beginning on January 1, 2026, Tiptree has the right to acquire the remaining economic interests in Corvid Peak that are held by Mr. Barnes, based upon a fair value-based formula. Beginning on January 1, 2027, Mr. Barnes has the reciprocal right to put his remaining economic interests in Corvid Peak to Tiptree using the same formula. Mr. Barnes has substantive participating rights over specified actions at Corvid Peak so long as he owns at least 10% of the equity of Corvid Peak. Tiptree and Corvid Peak have agreed to provide each other with certain support services on an arms'-length basis, pursuant to the Transition Services Agreement. The Company has concluded that it will account for any ownership interest it obtains in Corvid Peak using the equity method of accounting until such time as a controlling financial interest (as defined in the applicable accounting guidance) in Corvid Peak is obtained.

Pursuant to the Transition Services Agreement, Tiptree and Corvid Peak have mutually agreed to provide certain services to one another (the Services). At the present time, the Services consist primarily of Tiptree providing to Corvid Peak office space, legal and compliance services, information technology services, insurance coverage, and certain finance, accounting and tax services. The Services are provided on arms'-length terms. The effective date of the Transition Services Agreement is January 1, 2019.

The Transition Services Agreement will terminate upon a change of control of Corvid Peak. Corvid Peak may terminate any Services upon 30 days written notice and Tiptree may terminate any Services upon 150 days written notice, but Tiptree may not terminate any Services prior to June 30, 2020.

Management fees and payments under the Transition Services Agreement in the nine months ended September 30, 2019 and 2018 were not material.

(23) Subsequent Events

On November 5, 2019, the Company's board of directors declared a quarterly cash dividend of \$0.04 per share to holders of Common Stock with a record date of November 18, 2019, and a payment date of November 25, 2019.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our Management's Discussion and Analysis of Financial Conditions and Results of Operations is presented in this section as follows:

- Overview
- Results of Operations
- Non-GAAP Reconciliations
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates
- Off-Balance Sheet Arrangements

OVERVIEW

Tiptree is a holding company that combines insurance operations with investment management capabilities. Our principal operating subsidiary is a leading provider of specialty insurance products and related services. We also allocate capital across a broad spectrum of businesses, assets and other investments, which we refer to as Tiptree Capital. When considering capital allocation decisions, we take a diversified approach with a longer-term investment horizon. We evaluate our performance primarily by the comparison of our shareholder's long-term total return on capital, as measured by Adjusted EBITDA, Operating EBITDA and growth in book value per share plus dividends.

Year-to-date 2019 highlights include:

Overall:

- Delivered a year-to-date return of 7.0%, as measured by growth in book value per share plus dividends paid.
- Year-to-date 2019, we purchased and retired 1,472,730 shares of our Common Stock for \$9.1 million through open market purchases and block purchases.
- Increased our quarterly dividend for the third consecutive year to \$0.04 per share, a 14.3% increase over the prior year.

Insurance:

- Gross written premiums for year-to-date 2019 were \$736.1 million, up 18.8% from the prior year. Net written premiums were \$434.8 million, up 29.2%, driven by growth in all product lines.
- Within our insurance investment portfolio, we earned an average annualized yield of 4.1%, up from 2.2% from the prior year period, driven primarily by lower unrealized losses and lower investment portfolio interest expense.
- As part of our strategy to grow our specialty insurance operations in Europe, we acquired a majority interest in Defend, an automotive finance and insurance provider and insurance administrator operating in the Czech Republic, Poland, Hungary, Slovakia, and the UK.

Tiptree Capital:

- Operating EBITDA grew year over year, driven primarily by the inclusion of our shipping operations and improvements in specialty finance.
- Increased invested capital, primarily due to additional investments in shipping operations.

Our results of operations are affected by a variety of factors including, but not limited to, general economic conditions and GDP growth, market liquidity and volatility, consumer confidence, U.S. demographics, employment and wage growth, business confidence and investment, inflation, interest rates and spreads, the impact of the regulatory environment, and the other factors set forth in Item 1A. "Risk Factors" in our 10-K. Generally, our businesses are positively affected by a healthy U.S. consumer, stable to gradually rising interest rates, stable markets and business conditions, and global growth and trade flows. Conversely, rising unemployment, volatile markets, rapidly rising interest rates, changing regulatory requirements and slowing business conditions can have a material adverse effect on our results of operations or financial condition.

Our specialty insurance business generally focuses on products which have low severity but high frequency loss experiences and are short-duration. Our insurance business has historically generated significant fee based revenues. In general, the types of products we offer tend to have limited aggregation risk, and thus, limited exposure to catastrophic and residual risk. We mitigate our underwriting risk through a combination of reinsurance and retrospective commission structures with our distribution partners and/or third-party reinsurers. Our insurance results primarily depend on our pricing, underwriting, risk retention and the accuracy of reserves, reinsurance arrangements, returns on invested assets, and policy and contract renewals and run-off. While our insurance operations have historically maintained a relatively stable combined ratio which support steady earnings, our initiatives to change our business mix along with economic factors could generate different results than we have historically

experienced. We believe there are additional growth opportunities to expand our warranty and specialty programs insurance business model to other niche products and markets.

Our insurance company investment portfolio primarily serves as a source to pay claims and secondarily as a source of income for our operations. Our investments include fixed maturity securities, loans, credit investment funds, equity securities, real estate and CLOs. Many of our investments are held at fair value. Changes in fair value for loans, credit investment funds, equity securities and CLO assets and liabilities are reported quarterly as unrealized gains or losses in revenues and can be impacted by changes in interest rates, credit risk, or market risk, including specific company or industry factors. Our equity holdings are relatively concentrated. General equity market trends, along with company and industry specific factors, can impact the fair value of our holdings and can result in unrealized gains and losses affecting our results. In addition, both as part of our insurance company investments and separately in Tiptree Capital, as of February 1, 2018, common shares of Invesque represent a significant asset on our balance sheet. Any change in the fair value of Invesque's common stock or Invesque's dividend policy could have a significant impact on our financial condition and results of operations.

The shipping industry is highly competitive and fragmented. Demand for shipping capacity is a function of world economic conditions and the related demand for commodities, production and consumption patterns, as well as events, which interrupt production, trade routes, and consumption. The shipping industry is cyclical with high volatility in charter hire rates and profitability. General global economic conditions, along with company and industry specific factors, can impact the fair value of our vessels and their operating results.

Our business can also be impacted in various ways by changes in interest rates, which can result in fluctuations in fair value of our investments, revenues associated with floating rate loans, volume and revenues in our mortgage business and interest expense associated with floating rate debt used to fund many of our operations.

RESULTS OF OPERATIONS

The following is a summary of our consolidated financial results for the three and nine months ended September 30, 2019 and 2018. In addition to GAAP results, management uses the Non-GAAP measures Operating EBITDA, Adjusted EBITDA and book value per share as measurements of operating performance. Management believes these measures provide supplemental information useful to investors as they are frequently used by the financial community to analyze financial performance, debt service and comparison among companies. Management uses Operating EBITDA as part of its capital allocation process and to assess comparative returns on invested capital. Adjusted EBITDA is also used in determining incentive compensation for the Company's executive officers. The Company defines Adjusted EBITDA as GAAP net income of the Company adjusted (i) to add back corporate interest expense, consolidated income taxes and consolidated depreciation and amortization expense, (ii) for the effect of purchase accounting, (iii) for non-cash fair value adjustments, and (iv) for any significant non-recurring expenses. Operating EBITDA represents Adjusted EBITDA plus stock based compensation expense, less realized and unrealized gains and losses and less third party non-controlling interests. Operating EBITDA and Adjusted EBITDA are not measurements of financial performance or liquidity under GAAP and should not be considered as an alternative or substitute for GAAP net income. See "Non-GAAP Reconciliations" for a reconciliation of these measures to their GAAP equivalents.

Selected Key Metrics

(\$ in millions, except per share information)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
GAAP:				
Total revenues	\$ 189.2	\$ 172.6	\$ 564.2	\$ 473.2
Net income (loss) before non-controlling interests	(0.9)	(0.5)	15.6	29.2
Net income (loss) attributable to Common Stockholders	(1.5)	(0.6)	14.2	23.3
Diluted earnings per share	(0.04)	(0.02)	0.39	0.62
Cash dividends paid per common share	0.040	0.035	0.115	0.100
Non-GAAP: ⁽¹⁾				
Operating EBITDA	17.3	14.4	42.6	38.2
Adjusted EBITDA	6.2	7.7	43.7	23.3
Book value per share ⁽²⁾	11.43	10.77	11.43	10.77

(1) For information relating to Operating and Adjusted EBITDA and book value per share, including a reconciliation to GAAP financials, see "—Non-GAAP Reconciliations."

(2) For periods prior to April 10, 2018, book value per share assumed full exchange of the limited partnership units of TFP for Common Stock.

Revenues

For the three months ended September 30, 2019, revenues were \$189.2 million, which increased \$16.6 million, or 9.6%, over the prior year period. For the nine months ended September 30, 2019, revenues were \$564.2 million, which increased \$90.8 million, or 19.2%, over the prior year period. The increase for both periods was primarily driven by growth in earned premiums, lower unrealized losses on Invesque, improvements in specialty finance results, the inclusion of revenue from shipping operations and the gain on sale of our CLO management business. Earned premiums were \$364.7 million for the nine months ended September 30, 2019, up from \$317.8 million in the comparable 2018 period driven by growth in net written premiums. The combination of unearned premiums and deferred revenues on the balance sheet grew by \$162.4 million, or 25.9%, from September 30, 2018 to September 30, 2019 as a result of increased written premiums primarily in credit protection and warranty programs.

Income (loss) before taxes (from continuing and discontinued operations)

The table below highlights key drivers impacting our consolidated results on a pre-tax basis. Many of our investments are carried at fair value and marked to market through unrealized gains and losses. As a result, we expect our earnings relating to these investments to be relatively volatile between periods in contrast to our fixed income securities, which are marked to market through AOCI in stockholders' equity. On February 1, 2018, we sold our senior living operations to Invesque in exchange for a net of 16.6 million shares of Invesque common stock which resulted in a pre-tax gain on sale of \$56.9 million in 2018, of which \$46.2 million was recorded in the nine months ended September 30, 2018.

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net realized and unrealized gains (losses) ⁽¹⁾	\$ (8.9)	\$ (5.1)	\$ 7.5	\$ (11.1)
Discontinued operations (Care) ⁽²⁾	\$ —	\$ —	\$ —	\$ 46.8

(1) Excludes Mortgage realized and unrealized gains and losses - Performing and NPLs. Nine months ended September 30, 2019 includes \$7.6 million gain on sale of our CLO business.

(2) Represents Care for the nine months ended September 30, 2018 including a \$46.2 million pre-tax gain on sale.

Net Income (Loss) before non-controlling interests

For the three months ended September 30, 2019, net loss before non-controlling interests was \$0.9 million compared to \$0.5 million in the 2018 period. The higher loss was driven primarily by higher unrealized losses on Invesque, partially offset by improved specialty insurance results.

For the nine months ended September 30, 2019, net income before non-controlling interests was \$15.6 million compared to \$29.4 million in the 2018 period, a decrease of \$13.8 million. The decrease was primarily driven by the non-recurring gain on sale of Care, which occurred in 2018, partially offset by improved insurance operating performance, the realized gain on the sale of our CLO asset management business, and increased realized and unrealized gains on investments.

Net Income (Loss) Available to Common Stockholders

For the three months ended September 30, 2019, net loss available to Common Stockholders was \$1.5 million, an increase of \$0.9 million from the prior year period. For the nine months ended September 30, 2019, net income available to Common Stockholders was \$14.2 million, a decrease of \$9.6 million from the prior year period. The key drivers of net income (loss) available to Common Stockholders were the same factors which impacted the net income before non-controlling interests.

Operating and Adjusted EBITDA - Non-GAAP

Operating EBITDA for the three months ended September 30, 2019 was \$17.3 million compared to \$14.4 million for the 2018 period, an increase of \$2.9 million, or 20.1%. For the three month period, the increase was driven by growth in insurance operations and contributions from our shipping and mortgage operations within Tiptree Capital. Operating EBITDA for the nine months ended September 30, 2019 was \$42.6 million compared to \$38.3 million for the 2018 period, an increase of \$4.3 million, or 11.2%. For the nine month period, the key drivers of the increase were driven by improved performance in Tiptree Capital.

Adjusted EBITDA for the three months ended September 30, 2019 was \$6.2 million compared to \$7.7 million for the 2018 period. Adjusted EBITDA for the nine months ended September 30, 2019 was \$43.7 million compared to \$23.2 million for the 2018 period. The key drivers of the increase in the nine month period were the same factors that drove improved performance in Operating EBITDA plus lower unrealized losses on investments in the insurance portfolio and the gain on sale of our Telos asset management business. See "— Non-GAAP Reconciliations" for a reconciliation to GAAP net income.

Book Value per share - Non-GAAP

Total stockholders' equity was \$407.4 million as of September 30, 2019 compared to \$396.0 million as of September 30, 2018, primarily driven by net income, partially offset by share repurchases and dividends paid. Over the past twelve months, Tiptree returned \$14.7 million to shareholders through share repurchases and dividends paid. Book value per share for the period ended September 30, 2019 was \$11.43, an increase from book value per share of \$10.77 as of September 30, 2018. The key drivers of the period-over-period impact were earnings per share and the purchase of 1.5 million shares at an average 40% discount to book value. Those increases were partially offset by dividends paid of \$0.15 per share and officer compensation share issuances.

Results by Segment

Tiptree is a holding company that combines insurance operations with investment management capabilities. Our principal operating subsidiary is a leading provider of specialty insurance products and related services. We also allocate capital across a broad spectrum of businesses, assets and other investments, which we refer to as Tiptree Capital. We classify our business into one reportable segment, specialty insurance, with the remainder of our non-insurance operations aggregated into Tiptree Capital. For the year ended December 31, 2018, Mortgage and Asset Management, which previously were reportable segments, no longer met the quantitative threshold for disclosure. Those are now reported in Other, which we refer to as Tiptree Capital. Prior year segments have been conformed to the current year presentation. Corporate activities include holding company interest expense, employee compensation and benefits, and other expenses. The following table presents the components of total pre-tax income including continuing and discontinued operations.

Pre-tax Income

(\$ in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Specialty Insurance	\$ 8.3	\$ 5.7	\$ 28.4	\$ 15.8
Tiptree Capital	(1.4)	1.0	16.2	(1.2)
Corporate	(8.6)	(7.8)	(25.4)	(21.2)
Pre-tax income (loss) from continuing operations	\$ (1.7)	\$ (1.1)	\$ 19.2	\$ (6.6)
Pre-tax income (loss) from discontinued operations ⁽¹⁾	\$ —	\$ —	\$ —	\$ 46.8

(1) Represents Care for the nine months ended September 30, 2018, which includes \$46.2 million pre-tax gain on sale.

Invested Capital, Total Capital and Operating EBITDA - Non-GAAP ⁽¹⁾

Management evaluates the return on Invested Capital and Total Capital, which are non-GAAP financial measures, when making capital decisions. Invested Capital represents its total equity investment, including any re-investment of earnings, and acquisition costs, net of tax. Total Capital represents Invested Capital plus Corporate Debt. Management believes the use of these financial measures provide supplemental information useful to investors as they are frequently used by the financial community to analyze how the Company has allocated capital over-time and provide a basis for determining the return on capital to shareholders. Management uses both of these measures when making capital decisions, including reinvesting cash, and evaluating the relative performance of its businesses and investments. The following tables present the components of Invested Capital, Total Capital, Operating EBITDA and Adjusted EBITDA.

(\$ in millions)

	As of September 30,			
	Invested Capital		Total Capital	
	2019	2018	2019	2018
Specialty Insurance	\$ 304.1	\$ 292.9	\$ 464.1	\$ 454.9
Tiptree Capital	198.3	173.3	198.3	173.3
Corporate	(55.5)	(33.8)	13.7	39.3
Total Tiptree	\$ 446.9	\$ 432.4	\$ 676.1	\$ 667.5

Operating and Adjusted EBITDA

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Specialty Insurance	\$ 16.0	\$ 15.6	\$ 44.5	\$ 45.1
Tiptree Capital ⁽²⁾	7.0	4.5	15.3	11.4
Corporate	(5.7)	(5.7)	(17.2)	(18.2)
Operating EBITDA	\$ 17.3	\$ 14.4	\$ 42.6	\$ 38.3
Stock-based compensation expense	(1.5)	(1.5)	(4.5)	(3.8)
Vessel depreciation, net of capital expenditures	(0.7)	—	(1.9)	—
Realized and unrealized gains (losses) ⁽³⁾	(8.9)	(5.1)	7.5	(11.1)
Third party non-controlling interests ⁽⁴⁾	—	(0.1)	—	(0.2)
Adjusted EBITDA	\$ 6.2	\$ 7.7	\$ 43.7	\$ 23.2

(1) For further information relating to Invested Capital, Total Capital, Operating EBITDA and Adjusted EBITDA, including a reconciliation to GAAP total stockholders equity and pre-tax income, see “—Non-GAAP Reconciliations.”

(2) Includes discontinued operations related to Care for the 2018 period. As of February 1, 2018, invested capital from Care discontinued operations is represented by our Invesque common shares. For more information, see “Note—(3) Dispositions, Assets Held for Sale & Discontinued Operations.”

(3) Excludes Mortgage realized and unrealized gains and losses - Performing and NPLs.

(4) Removes the Operating EBITDA associated with third party non-controlling interests. Does not remove the non-controlling interests related to employee based shares.

Specialty Insurance

Our principal operating subsidiary is a provider of specialty insurance products and related services, including credit protection insurance, warranty products, and insurance programs which underwrite niche personal and commercial lines of insurance. We also offer fee-based administration and fronting services for our self-insured clients who own captive producer owned reinsurance companies (PORCs). We generate income from insurance underwriting operations and our investment portfolio. Insurance underwriting revenues are primarily generated from net earned premiums, service and administrative fees and ceding commissions. We measure insurance underwriting operations performance by underwriting margin, combined ratio and Operating EBITDA. The investment portfolio income consists of investment income, gains and losses and is measured by net portfolio income.

The following tables present the specialty insurance segment results for the three and nine months ended September 30, 2019 and 2018.

Operating Results

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gross written premiums	\$ 275.1	\$ 225.4	\$ 736.1	\$ 619.5
Net written premiums	160.1	131.5	434.8	336.5
Revenues:				
Net earned premiums	\$ 129.2	\$ 116.1	\$ 364.7	\$ 317.8
Service and administrative fees	26.1	26.1	78.7	75.6
Ceding commissions	1.6	2.3	7.2	6.8
Net investment income	3.0	4.6	10.7	13.7
Net realized and unrealized gains (losses)	(1.1)	(1.1)	4.7	(3.1)
Other income	1.3	0.6	3.1	1.9
Total revenues	\$ 160.1	\$ 148.6	\$ 469.1	\$ 412.7
Expenses:				
Policy and contract benefits	44.0	44.5	124.3	115.3
Commission expense	77.5	69.2	225.1	194.4
Employee compensation and benefits	12.6	11.1	36.7	33.1
Interest expense	3.6	4.7	11.2	13.8
Depreciation and amortization expenses	2.3	2.7	6.9	8.1
Other expenses	11.8	10.7	36.5	32.2
Total expenses	\$ 151.8	\$ 142.9	\$ 440.7	\$ 396.9
Pre-tax income (loss)	\$ 8.3	\$ 5.7	\$ 28.4	\$ 15.8

Results

Our specialty insurance operations are currently expanding product lines in an effort to increase written premiums, and commensurately grow the insurance portfolio. As part of this process, the business is investing to grow warranty and other specialty programs, while maintaining a leading position in our credit protection markets. That, combined with the earnings performance of the investment portfolio, are key drivers in comparing 2019 versus 2018 results. The growth in written premiums, combined with higher retention in select products, has resulted in an increase of unearned premiums and deferred revenue on the balance sheet of 25.9% from \$627.4 million as of September 30, 2018 to \$789.8 million as of September 30, 2019.

Pre-tax income was \$8.3 million for the three months ended September 30, 2019, an increase of \$2.6 million, over the prior year period. The primary drivers of the increase were higher net earned premiums, partially offset by growth in commission expense, both as a result of growth in premiums written. Insurance underwriting results improved versus the prior year period, driven primarily by increased underwriting margin of \$5.3 million.

Pre-tax income was \$28.4 million for the nine months ended September 30, 2019, an increase of \$12.6 million, over the prior year period. The primary drivers of the increase were growth in net earned premiums, net realized and unrealized gains of \$4.7 million in the 2019 period versus \$3.1 million of losses in the 2018 period, primarily related to equities and loans held at fair value in the portfolio, partially offset by higher policy and contract benefits and commission expense. Insurance underwriting results improved versus the prior year period, driven primarily by increased underwriting margin of \$11.9 million. Interest expense decreased by \$2.6 million from the prior year period, primarily associated with a reduction of asset-based debt on consolidated loan funds within the investment portfolio. Other expenses increased \$4.3 million, primarily associated with higher premium taxes due to the growth in written premiums and debt extinguishment expenses on the investment portfolio asset-based debt.

Revenues

Revenues are generated by the sale of the following products: credit protection, warranty, other specialty programs, services and other. Credit protection products include credit life, credit disability, credit property, involuntary unemployment, and accidental death and dismemberment. Warranty products include vehicle service contracts, furniture and appliance service contracts and mobile device protection. Other specialty programs are primarily personal and commercial lines and other property-casualty products.

For the three months ended September 30, 2019, total revenues were \$160.1 million, up \$11.5 million, or 7.7%, primarily driven by an increase in earned premiums of \$13.1 million. The increase in earned premiums was driven by growth in credit and warranty programs. For the three months ended September 30, 2019, revenues on the investment portfolio contributed \$1.9 million compared to \$3.5 million in the 2018 period, a decrease of \$1.6 million.

For the nine months ended September 30, 2019, total revenues were \$469.1 million, up \$56.4 million, or 13.7%, primarily driven by an increase in earned premiums of \$46.9 million and increases in service and administrative fees of \$3.1 million. The increase in earned premiums was driven by growth in credit and warranty programs. For the nine months ended September 30, 2019, revenues on the investment portfolio contributed \$15.4 million compared to \$10.6 million in the 2018 period, an increase of \$4.8 million, driven by net realized and unrealized gains versus losses in the prior year period. See “—Specialty Insurance Investment Portfolio” for further discussion of the investment results.

Expenses

Total expenses include policy and contract benefits, commissions expense and operating expenses. For the three months ended September 30, 2019, total expenses were \$151.8 million compared to \$142.9 million in the 2018 period. For the nine months ended September 30, 2019, total expenses were \$440.7 million compared to \$396.9 million in the 2018 period. The primary drivers of the increases were policy and contract benefits and commission expense as written premiums and insurance revenues increased over the 2018 period.

There are two types of expenses for claims under insurance and warranty service contracts included in policy and contract benefits which are member benefit claims and net losses and loss adjustment expenses. Member benefit claims represent the costs of services and replacement devices incurred in warranty protection and car club service contracts. Net losses and loss adjustment expenses represent actual insurance claims paid, changes in unpaid claim reserves, net of amounts ceded, and the costs of administering claims for credit life and other insurance lines. Incurred claims are impacted by loss frequency, which is a measure of the number of claims per unit of insured exposure, and loss severity, which is based on the average size of claims. Loss occurrences in our insurance products are characterized by low severity and high frequency. Factors affecting loss frequency

and loss severity include the volume of underwritten contracts, changes in claims reporting patterns, claims settlement patterns, judicial decisions, economic conditions, morbidity patterns and the attitudes of claimants towards settlements.

For the three months ended September 30, 2019, policy and contract benefits were \$44.0 million, down \$0.5 million from the prior year. For the nine months ended September 30, 2019, policy and contract benefits were \$124.3 million, up \$9.0 million, primarily as a result of growth in written premiums.

Commission expense is incurred on most product lines, the majority of which are retrospective commissions paid to distributors and retailers selling our products, including credit insurance policies, warranty and mobile device protection service contracts, and motor club memberships. Credit insurance commission rates are, in many cases, set by state regulators and are also impacted by market conditions and retention levels.

For the three months ended September 30, 2019, total commission expense was \$77.5 million compared to \$69.2 million in the 2018 period. Total commission expense for the nine months ended September 30, 2019 was \$225.1 million compared to \$194.4 million in the 2018 period. The primary drivers of the increase in both periods were the commission expense associated with the growth in written premiums.

Operating expenses include employee compensation and benefits, interest expense, depreciation and amortization expenses and other expenses. For the three months ended September 30, 2019, employee compensation and benefits were \$12.6 million, up \$1.5 million. For the nine months ended September 30, 2019, employee compensation and benefits were \$36.7 million, up \$3.6 million. Interest expense of \$11.2 million in 2019 decreased by \$2.6 million versus the prior year period, primarily from reduced asset based borrowings on certain investments within the investment portfolio. Other expenses for the nine months ended September 30, 2019 were \$36.5 million, up \$4.3 million from 2018 primarily from higher premium taxes due to growth in written premiums and debt extinguishment expenses associated with the asset-based debt. Depreciation and amortization expense was lower period-over-period as a result of the decline in VOBA purchase accounting impact from the amortization of the fair value attributed to the insurance policies and contracts acquired.

Key Operating Metrics and Non-GAAP Operating Results

Gross & Net Written Premiums

Gross written premiums represents total premiums from insurance policies and warranty service contracts written during a reporting period. Net written premiums are gross written premiums less that portion of premiums ceded to third-party reinsurers or PORCs. The amount ceded is based on the individual reinsurance agreements. Net earned premiums are the earned portion of our net written premiums. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums, which are earned in subsequent periods over the remaining term of the policy.

Written Premium Metrics

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	Gross Written Premiums		Net Written Premiums		Gross Written Premiums		Net Written Premiums	
	2019	2018	2019	2018	2019	2018	2019	2018
Insurance Products:								
Credit protection	\$ 177.1	\$ 150.8	\$ 113.3	\$ 93.2	\$ 467.7	\$ 401.3	\$ 303.1	\$ 255.1
Warranty	54.4	25.9	26.7	11.9	164.6	79.8	87.8	41.4
Other specialty programs	43.6	48.7	20.1	26.4	103.8	138.4	43.9	40.0
Total	\$ 275.1	\$ 225.4	\$ 160.1	\$ 131.5	\$ 736.1	\$ 619.5	\$ 434.8	\$ 336.5

Total gross written premiums for the three months ended September 30, 2019 were \$275.1 million, which represented an increase of \$49.7 million, or 22.0%, from the prior year period. The increase was driven by growth in credit protection and warranty programs. Total net premiums written for the three months ended September 30, 2019 were \$160.1 million, up \$28.6 million, or 21.7%, driven primarily by growth in credit protection and warranty products.

Total gross written premiums for the nine months ended September 30, 2019 were \$736.1 million, which represented an increase of \$116.6 million, or 18.8%, from the prior year period. The increase was driven by growth in credit and warranty programs. The amount of business retained was 59.1%, up from 54.3% in the prior year period. Total net premiums written for the nine months ended September 30, 2019 were \$434.8 million, up \$98.3 million, or 29.2%, driven by growth in all products. We believe our warranty service contracts and light commercial programs provide opportunity for growth through expanded product

offerings, new clients and geographic expansion.

Product Underwriting Margin - Non-GAAP

The following table presents product specific revenue and expenses within the specialty insurance segment. We generally limit the underwriting risk we assume using both reinsurance (e.g., quota share and excess of loss) and retrospective commission agreements with our partners (e.g., commissions paid are adjusted based on the actual underlying losses incurred), which manage and mitigate our risk. Period-over-period comparisons of revenues and expenses are often impacted by the PORCs and distribution partners choice as to whether to retain risk, specifically service and administration expenses and ceding commissions, both components of revenue, and policy and contract benefits and commissions paid to our partners and reinsurers. Generally, when losses are incurred, the risk which is retained by our partners and reinsurers is reflected in a reduction in commissions paid. In order to better explain to investors the net financial impact of the risk retained by the Company of the insurance contracts written and the impact on profitability, we use the Non-GAAP metric - Underwriting Margin.

Underwriting Revenues and Underwriting Margin - Non-GAAP⁽¹⁾

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	Underwriting Revenues		Underwriting Margin		Underwriting Revenues		Underwriting Margin	
	2019	2018	2019	2018	2019	2018	2019	2018
Insurance products:								
Credit protection	\$ 110.2	\$ 95.4	\$ 23.0	\$ 19.5	\$ 323.9	\$ 280.3	\$ 65.0	\$ 56.2
Warranty	31.9	22.0	8.7	6.8	86.8	66.2	25.1	20.3
Other specialty programs	13.3	25.7	2.2	3.1	35.4	49.2	6.5	9.5
Services and other	2.8	2.0	2.8	2.0	7.6	6.4	7.7	6.4
Total	\$ 158.2	\$ 145.1	\$ 36.7	\$ 31.4	\$ 453.7	\$ 402.1	\$ 104.3	\$ 92.4

(1) For further information relating to the Company's underwriting margin, including a reconciliation to GAAP financials, see "—Non-GAAP Reconciliations."

For the three months ended September 30, 2019, underwriting margin was \$36.7 million, up \$5.3 million from the prior year period, driven primarily by increases in credit protection and warranty products.

Underwriting margin for the nine months ended September 30, 2019 was \$104.3 million, up from \$92.4 million in the 2018 period. Credit protection underwriting margin was \$65.0 million, an increase from the 2018 period of \$8.8 million, or 15.7%. Credit protection products continue to provide opportunities for steady growth through a combination of expanded product offerings and new clients. Underwriting margin for warranty products was \$25.1 million for the 2019 period, up \$4.8 million, or 23.6%, from the prior year period. The improvement was driven primarily by growth in auto, furniture and appliances warranty service contracts. Specialty programs underwriting margin for the nine months ended September 30, 2019 was \$6.5 million, down 31.6% from 2018, as certain non-standard auto programs were discontinued. Services and other contributed \$7.7 million in nine months ended September 30, 2019, which was up 20.3% as compared to 2018.

Invested Capital, Total Capital, Operating EBITDA and Insurance Operating Ratios

We use the combined ratio as an operating metric to evaluate our insurance underwriting performance, both overall and relative to peers. Expressed as a percentage, it represents the relationship of policy and contract benefits, commission expense (net of ceding commissions), employee compensation and benefits, and other expenses to net earned premiums, service and administrative fees, and other income. Investors use this ratio to evaluate our ability to profitably underwrite the risks we assume over time and manage our operating costs. A combined ratio less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. The below table outlines the insurance operating ratios, capital invested and the drivers of Operating EBITDA split between underwriting and investments as management evaluates the return on the investment portfolio separately from the returns from underwriting activities.

Invested Capital, Total Capital, Operating EBITDA and Operating Ratios - Non-GAAP⁽¹⁾

(\$ in millions)

	As of September 30,	
	2019	2018
Invested Capital ⁽¹⁾	\$ 304.1	\$ 292.9
Total Capital ⁽¹⁾	\$ 464.1	\$ 454.9

(\$ in millions)

Operating EBITDA drivers:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Underwriting	\$ 12.9	\$ 10.9	\$ 33.9	\$ 31.2
Investments	3.1	4.7	10.6	13.9
Specialty Insurance Operating EBITDA ⁽¹⁾	\$ 16.0	\$ 15.6	\$ 44.5	\$ 45.1
Insurance operating ratios:				
Combined ratio	92.1%	93.2%	92.8%	93.1%

(1) For further information relating to the Company's Operating EBITDA, Invested and Total Capital, adjusted combined ratio, and Net Portfolio Income (Loss), including a reconciliation to GAAP financials, see "—Non-GAAP Reconciliations."

For the three months ended September 30, 2019, the combined ratio was 92.1% compared to 93.2% for the prior year period. The combined ratio was 92.8% for the nine months ended September 30, 2019, compared to 93.1% for the prior year period. The ratio improvement in the three and nine month periods was driven by increased revenues from our investment in new products and geographies. See "—Insurance Investment Portfolio" for further discussion of the investment results and "—Non-GAAP Reconciliations" for a reconciliation to GAAP pre-tax income.

Insurance Investment Portfolio

Our investment portfolio is subject to different regulatory considerations, including with respect to types of assets, concentration limits, affiliate transactions and the use of leverage. Our investment strategy is designed to achieve attractive risk-adjusted returns over the entire investment horizon across select asset classes, sectors and geographies while maintaining adequate liquidity to meet our claims payment obligations. As such, volatility from realized and unrealized gains and losses may impact period-over-period performance. Unrealized gains and losses on equity securities and loans held at fair value impact current period net income, while unrealized gains and losses on AFS securities impact AOCI.

In managing our investment portfolio, we analyze net investments and net portfolio income, which are non-GAAP measures. Our presentation of net investments equals total investments plus cash and cash equivalents minus asset based financing related to certain investments. Our presentation of net portfolio income equals net investment income plus realized and unrealized gains and losses, excluding unrealized gains and losses on securities which are taken to AOCI, and minus interest expense associated with asset based financing of investments. Net investments and net portfolio income are used to calculate average annualized yield, which is one of the measures management uses to analyze the profitability of our investment portfolio. Management believes this information on a cumulative basis is useful since it allows investors to evaluate the performance of our investment portfolio based on the capital at risk and on a non-consolidated basis. Our calculation of net investments and net portfolio income may differ from similarly titled non-GAAP financial measures used by other companies. Net investments and net portfolio income are not measures of financial performance or liquidity under GAAP and should not be considered a substitute for total investments or net investment income. See "—Non-GAAP Reconciliations" for a reconciliation to GAAP total investments and investment income.

Specialty Insurance Investment Portfolio - Non-GAAP

(\$ in millions)

	As of September 30,	
	2019	2018
Cash and cash equivalents ⁽¹⁾	\$ 99.4	\$ 36.0
Available for sale securities, at fair value	315.2	255.8
Equity securities	55.3	32.8
Loans, at fair value ⁽²⁾	16.5	84.9
Real estate, net	4.3	11.6
Other investments	23.0	17.2
Net investments	\$ 513.7	\$ 438.3

(1) Cash and cash equivalents, plus restricted cash, net of due from/due to brokers on consolidated loan funds, see “—Non-GAAP Reconciliations”, for a reconciliation to GAAP financials.

(2) Loans, at fair value, net of asset based debt, see “—Non-GAAP Reconciliations”, for a reconciliation to GAAP financials.

Specialty Insurance Net Investment Portfolio Income - Non-GAAP

(\$ in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net investment income	\$ 3.0	\$ 4.6	\$ 10.7	\$ 13.7
Realized gains (losses)	2.2	(0.4)	5.8	5.2
Unrealized gains (losses)	(3.3)	(0.7)	(1.1)	(8.3)
Interest expense	—	(1.2)	(0.6)	(3.6)
Net portfolio income (loss)	\$ 1.9	\$ 2.3	\$ 14.8	\$ 7.0
Average Annualized Yield % ⁽¹⁾	1.5%	2.1%	4.1%	2.2%

(1) Average Annualized Yield % represents the ratio of annualized net investment income, realized and unrealized gains (losses) less investment portfolio interest expense to the average of the prior two quarters total investments less investment portfolio debt plus cash, but does not reflect the cumulative return on the portfolio.

Net investments of \$513.7 million have grown 17.2% from September 30, 2018 through a combination of organic growth in written premiums and increased retention.

Our net investment income includes interest and dividends, net of investment expenses, on our invested assets. Our loans, at fair value, are generally floating rate and therefore earn LIBOR plus a spread. Generally, our interest income on those loans will increase in a rising interest rate environment, or decrease in a declining rate environment, subject to any LIBOR floors. Our held to maturity investments generally carry fixed coupons, which can impact our returns on investment. We report net realized gains and losses on our investments separately from our net investment income. Net realized gains occur when we sell our investment securities for more than their costs or amortized costs, as applicable. Net realized losses occur when we sell our investment securities for less than their costs or amortized costs, as applicable, or we write down the investment securities as a result of other-than-temporary impairment. We report net unrealized gains and losses on securities classified as AFS separately within AOCI on our balance sheet. For loans, at fair value, and equity securities, we report unrealized gains and losses within net realized gains and losses on the condensed consolidated statement of operations.

For the nine months ended September 30, 2019, the net investment portfolio income was \$14.8 million compared to \$7.0 million in the comparable 2018 period. Net investment income was \$10.7 million, down \$3.0 million, or 21.9% from 2018, driven primarily by our efforts to reduce exposure to levered credit through the sale of loans held at fair value, as mentioned earlier. For the nine months ended September 30, 2019, fair market value changes on equities resulted in unrealized and realized gains of \$4.2 million compared to losses of \$6.0 million in the 2018 period. The average annualized yield for the year improved from 2.2% in 2018 to 4.1% in 2019. The improvement was a result of lower asset-based interest expense, and unrealized gains compared to unrealized losses in the prior year.

Tiptree Capital

Tiptree Capital consists of our non-insurance operating businesses and investments. As of September 30, 2019, Tiptree Capital includes our asset management, mortgage and shipping operations, and other investments (including our Invesque shares). We manage Tiptree Capital on a total return basis, balancing current cash flow and long-term value appreciation.

The following table summarizes total revenues, pre-tax income from continuing and discontinued operations from Tiptree Capital.

Operating Results

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total revenues	\$ 29.1	\$ 24.0	\$ 95.1	\$ 60.7
Pre-tax income (loss) from continuing operations	\$ (1.4)	\$ 1.0	\$ 16.2	\$ (1.2)
Pre-tax income (loss) from discontinued operations	\$ —	\$ —	\$ —	\$ 46.8

Drivers of pre-tax income from continuing and discontinued operations

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Asset management fees and credit investments	\$ —	\$ 1.2	\$ 8.0	\$ 1.5
Shipping	0.5	(0.7)	1.0	(1.8)
Specialty finance and other	2.1	0.6	1.0	1.1
Senior Living:				
Invesque ⁽¹⁾	(4.0)	—	6.2	(1.6)
Care - discontinued operations ⁽²⁾	—	—	—	46.8

(1) Within Tiptree Capital, includes \$2.5 million and \$7.6 million of dividends and \$6.5 million and \$1.4 million of unrealized losses for the three and nine months ended September 30, 2019, and \$2.5 million and \$6.7 million of dividends and \$2.5 million and \$8.3 million of unrealized losses for the three and nine months ended September 30, 2018.

(2) Discontinued operations related to Care for the nine months ended September 30, 2018 includes \$46.2 million pre-tax gain on sale of Care.

Results from Continuing Operations

Tiptree Capital earns revenues from net interest income; mortgage gains and origination fees; asset management fees from CLOs under management (prior to the sale of our Telos asset management business); distributions and realized and unrealized gains on the Company's investment holdings (primarily Invesque); and charter revenue from vessels within our shipping operations.

Revenues for the three months ended September 30, 2019 were \$29.1 million, an increase of \$5.1 million from the prior year period. Pre-tax loss from continuing operations for the three months ended September 30, 2019 was \$1.4 million compared to income of \$1.0 million in the 2018 period. The primary driver of the reduction was higher unrealized losses on our Invesque shares in the 2019 period versus the 2018 period. For the three months ended September 30, 2019, we received \$2.5 million of dividends from Invesque and recorded \$6.5 million of unrealized losses compared to \$2.5 million of dividends and \$2.5 million of unrealized losses in the 2018 period. Additionally, pre-tax income from our shipping operations improved by \$1.2 million period-over-period primarily driven by increased revenues and non-recurring start-up expenses impacting the 2018 period.

Revenues for the nine months ended September 30, 2019 were \$95.1 million, an increase of \$34.4 million from the prior year period. Pre-tax income from continuing operations for the nine months ended September 30, 2019 was \$16.2 million, compared to a loss of \$1.2 million in the 2018 period. The primary driver of improvement in pre-tax income for the nine month period was the gain on sale of our Telos asset management business and lower unrealized losses on Invesque. For the nine months ended September 30, 2019, we received \$7.6 million of dividends from Invesque and incurred \$1.4 million of unrealized losses compared to \$6.7 million of dividends and \$8.3 million of unrealized losses in the 2018 period. Additionally, pre-tax income from our shipping operations improved by \$2.8 million period-over-period primarily driven by increased revenues and non-recurring start-up expenses impacting the 2018 period.

Results from Discontinued Operations

Discontinued Operations includes the results from Care, previously reported in the Senior Living segment. In the nine months ended September 30, 2018, pre-tax income was \$46.8 million which included a \$46.2 million gain on sale of Care.

Tiptree Capital - Invested Capital and Operating EBITDA - Non-GAAP⁽¹⁾

(\$ in millions)

	Invested Capital ⁽¹⁾		Operating EBITDA ⁽¹⁾			
	As of September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018	2019	2018
Asset management fees & credit investments ⁽²⁾	\$ 1.2	\$ 4.1	\$ —	\$ 1.4	\$ 0.5	\$ 2.9
Senior living (Invesque) ⁽³⁾	93.8	102.4	2.5	2.5	7.6	7.3
Shipping	73.9	35.2	1.2	(0.1)	2.9	(0.2)
Specialty finance and other	29.4	31.6	3.3	0.7	4.3	1.4
Tiptree Capital	\$ 198.3	\$ 173.3	\$ 7.0	\$ 4.5	\$ 15.3	\$ 11.4

(1) For information relating to Invested Capital and Operating EBITDA, including a reconciliation to GAAP financials, see “—Non-GAAP Reconciliations.”

(2) Includes management and incentive fees net of operating expenses including compensation.

(3) Includes discontinued operations related to Care in 2018. For more information, see “Note—(3) Dispositions, Assets Held for Sale & Discontinued Operations.”

Invested Capital

Invested Capital increased from \$173.3 million as of September 30, 2018 to \$198.3 million as of September 30, 2019. On February 1, 2018, we completed the sale of Care to Invesque. We received consideration of 16.6 million shares of which 13.7 million shares are held as equity securities in Tiptree Capital, and 2.9 million shares are held in the insurance investment portfolio. In 2018, we invested approximately \$50 million into three unlevered vessels which are reported in other investments. In the third quarter of 2019, we increased our investment in our shipping operations by \$18.9 million through the investment in an additional vessel.

Operating EBITDA

For the nine months ended September 30, 2019, Operating EBITDA increased from \$11.4 million in the 2018 period to \$15.3 million in the 2019 period. The key drivers of Operating EBITDA were the same factors which impacted pre-tax income. See “— Non-GAAP Reconciliations” for a reconciliation to GAAP net income.

Corporate

(\$ in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Employee compensation and benefits	\$ 2.0	\$ 1.8	\$ 5.3	\$ 5.2
Employee incentive compensation expense	2.0	1.8	7.0	5.8
Interest expense	1.6	1.6	4.8	3.4
Depreciation and amortization expenses	0.3	—	0.5	0.1
Other expenses	2.7	2.6	7.8	6.7
Total expenses	\$ 8.6	\$ 7.8	\$ 25.4	\$ 21.2

Results

Corporate expenses include expenses of the holding company for interest, employee compensation and benefits, and other costs. Corporate employee compensation and benefits includes the expense of management, legal and accounting staff. Other expenses primarily consisted of audit and professional fees, insurance, office rent and other related expenses.

For the three months ended September 30, 2019, total expenses were \$8.6 million, up \$0.8 million, primarily driven by an increase in employee incentive compensation and other expenses, primarily office rent.

Employee compensation and benefits, including incentive compensation expense, increased \$1.3 million for the nine months ended September 30, 2019 compared to the 2018 period, driven primarily by employee incentive expenses. Interest expense for the nine months ended September 30, 2019 was \$4.8 million, an increase of \$1.4 million driven by higher LIBOR. As of September 30, 2019, the outstanding borrowings were \$69.2 million compared to \$73.1 million at September 30, 2018. Other expenses were \$7.8 million for the 2019 period as compared to \$6.7 million in 2018. The period-over-period increase was primarily driven by increased rent expense and expenses associated with the relocation of our corporate offices.

Provision for Income Taxes

Provision for income taxes - Total Operations

The total income tax expense of \$3.7 million for the nine months ended September 30, 2019 and total income tax expense of \$10.8 million for the nine months ended September 30, 2018 are reflected as components of net income (loss). For the nine months ended September 30, 2019, the Company's effective tax rate was equal to 19.2%. The effective rate for the nine months ended September 30, 2019 is slightly lower than the U.S. federal statutory income tax rate of 21%, primarily from the impact of the dividends received deduction and other discrete items, largely offset by state taxes and the impact of foreign operations. For the nine months ended September 30, 2018, the Company's effective tax rate was equal to 27.0%. The effective rate for the nine months ended September 30, 2018 is higher than the U.S. federal statutory income tax rate of 21%, primarily from state taxes on the gain on sale of Care.

Provision for income taxes - Continuing Operations

The Company had a tax expense from continuing operations of \$3.7 million for the nine months ended September 30, 2019 as compared to a tax benefit from continuing operations of \$1.5 million for the nine months ended September 30, 2018. The effective tax rate on income from continuing operations for the nine months ended September 30, 2019 was approximately 19.2% compared to 22.4% for the nine months ended September 30, 2018. Differences from the U.S. federal statutory income tax rate for the nine months ended September 30, 2019 and 2018 are primarily the result of the dividends received deduction offset by other discrete items.

Balance Sheet Information - as of September 30, 2019 compared to the year ended December 31, 2018

Tiptree's total assets were \$2,056.5 million as of September 30, 2019, compared to \$1,864.9 million as of December 31, 2018. The \$191.6 million increase in assets is primarily attributable to the growth in the insurance company.

Total stockholders' equity was \$407.4 million as of September 30, 2019, compared to \$399.3 million as of December 31, 2018, primarily driven by net income, which was partially offset by stock repurchases and dividends. As of September 30, 2019, there were 34,552,301 shares of Common Stock outstanding as compared to 35,870,348 as of December 31, 2018.

The following table is a summary of certain balance sheet information:

(\$ in millions)	As of September 30, 2019			
	Specialty Insurance	Tiptree Capital	Corporate	Total
Total assets	\$ 1,622.5	\$ 405.8	\$ 28.2	\$ 2,056.5
Corporate debt	\$ 160.0	\$ —	\$ 69.2	\$ 229.2
Asset based debt	19.7	88.6	—	108.3
Tiptree Inc. stockholders' equity	\$ 252.2	\$ 198.3	\$ (55.7)	\$ 394.8
Non-controlling interests - Other	11.4	1.2	—	12.6
Total stockholders' equity	\$ 263.6	\$ 199.5	\$ (55.7)	\$ 407.4

NON-GAAP RECONCILIATIONS

Adjusted EBITDA and Operating EBITDA - Non-GAAP

The Company defines Adjusted EBITDA as GAAP net income of the Company adjusted to add (i) corporate interest expense, consolidated income taxes and consolidated depreciation and amortization expense, (ii) adjust for the effect of purchase accounting, (iii) adjust for non-cash fair value adjustments, and (iv) any significant non-recurring expenses. Operating EBITDA represents Adjusted EBITDA plus stock based compensation expense and vessel depreciation expense, less realized and unrealized gains and losses and less third party non-controlling interests. Operating EBITDA and Adjusted EBITDA are not measurements of financial performance or liquidity under GAAP and should not be considered as an alternative or substitute for GAAP net income.

(\$ in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss) attributable to Common Stockholders	\$ (1.5)	\$ (0.6)	\$ 14.2	\$ 23.8
Add: net (loss) income attributable to noncontrolling interests	0.5	0.1	1.3	5.6
Less: net income from discontinued operations	—	—	—	34.5
Income (loss) from continuing operations	\$ (1.0)	\$ (0.5)	\$ 15.5	\$ (5.1)
Corporate debt related interest expense ⁽¹⁾	5.0	4.9	14.9	13.3
Consolidated income tax expense (benefit)	(0.7)	(0.6)	3.7	(1.5)
Depreciation and amortization expense ⁽²⁾	3.4	2.7	9.5	8.2
Non-cash fair value adjustments ⁽³⁾	(1.0)	—	(2.4)	0.1
Non-recurring expenses ⁽⁴⁾	0.5	1.2	2.5	2.1
Adjusted EBITDA from continuing operations	\$ 6.2	\$ 7.7	\$ 43.7	\$ 17.1
Add: Stock-based compensation expense	1.5	1.5	4.5	3.8
Add: Vessel depreciation, net of capital expenditures	0.7	—	1.9	—
Less: Realized and unrealized gain (loss) ⁽⁵⁾	(8.9)	(5.1)	7.5	(16.6)
Less: Third party non-controlling interests ⁽⁶⁾	—	(0.1)	—	(0.2)
Operating EBITDA from continuing operations	\$ 17.3	\$ 14.4	\$ 42.6	\$ 37.7
Income (loss) from discontinued operations	\$ —	\$ —	\$ —	\$ 34.5
Consolidated income tax expense (benefit)	—	—	—	12.3
Non-cash fair value adjustments ⁽³⁾	—	—	—	(40.7)
Adjusted EBITDA from discontinued operations	\$ —	\$ —	\$ —	\$ 6.1
Less: Realized and unrealized gain (loss) ⁽⁵⁾	—	—	—	5.5
Operating EBITDA from discontinued operations	\$ —	\$ —	\$ —	\$ 0.6
Total Adjusted EBITDA	\$ 6.2	\$ 7.7	\$ 43.7	\$ 23.2
Total Operating EBITDA	\$ 17.3	\$ 14.4	\$ 42.6	\$ 38.3

- (1) Corporate Debt interest expense includes Secured corporate credit agreements, junior subordinated notes and preferred trust securities. Interest expense associated with asset-specific debt in specialty insurance and asset management, mortgage and other operations is not added-back for Adjusted EBITDA and Operating EBITDA.
- (2) Represents total depreciation and amortization expense less purchase accounting amortization related adjustments at the Insurance Company. Following the purchase accounting adjustments, current period expenses associated with deferred costs were more favorably stated and current period income associated with deferred revenues were less favorably stated. Thus, the purchase accounting effect related to our Insurance company increased EBITDA above what the historical basis of accounting would have generated.
- (3) For our specialty insurance operations, depreciation and amortization on senior living real estate that is within net investment income is added back to Adjusted EBITDA. For Care (Discontinued Operations), the reduction in EBITDA is related to accumulated depreciation and amortization, and certain operating expenses, which were previously included in Adjusted EBITDA in prior periods.
- (4) Acquisition, start-up and disposition costs including debt extinguishment, legal, taxes, banker fees and other costs. In 2018, includes payments pursuant to a separation agreement, dated November 10, 2015.
- (5) Adjustment excludes Mortgage realized and unrealized gains and losses - Performing and NPLs as those are recurring in nature and align with those business models.
- (6) Removes the Operating EBITDA associated with third party non-controlling interests. Does not remove the non-controlling interests related to employee based shares.

Adjusted EBITDA and Operating EBITDA - Non-GAAP

The tables below present Adjusted EBITDA and Operating EBITDA by business component.

(\$ in millions)

	Three Months Ended September 30, 2019			
	Specialty Insurance	Tiptree Capital	Corporate Expenses	Total
Pre-tax income/(loss) from continuing operations	\$ 8.3	\$ (1.4)	\$ (8.6)	\$ (1.7)
<u>Adjustments:</u>				
Corporate debt related interest expense ⁽²⁾	3.4	—	1.6	5.0
Depreciation and amortization expenses ⁽³⁾	2.2	0.9	0.3	3.4
Non-cash fair value adjustments ⁽⁴⁾	—	(1.0)	—	(1.0)
Non-recurring expenses ⁽⁵⁾	0.3	—	0.2	0.5
Adjusted EBITDA	\$ 14.2	\$ (1.5)	\$ (6.5)	\$ 6.2
Add: Stock-based compensation expense	0.7	—	0.8	1.5
Add: Vessel depreciation, net of capital expenditures	—	0.7	—	0.7
Less: Realized and unrealized gain (loss) ⁽⁶⁾	(1.1)	(7.8)	—	(8.9)
Operating EBITDA	\$ 16.0	\$ 7.0	\$ (5.7)	\$ 17.3

	Nine Months Ended September 30, 2019			
<i>(\$ in millions)</i>	Specialty Insurance	Tiptree Capital	Corporate Expenses	Total
Pre-tax income/(loss) from continuing operations	\$ 28.4	\$ 16.2	\$ (25.4)	\$ 19.2
Adjustments:				
Corporate debt related interest expense ⁽²⁾	10.1	—	4.8	14.9
Depreciation and amortization expenses ⁽³⁾	6.5	2.5	0.5	9.5
Non-cash fair value adjustments ⁽⁴⁾	—	(2.4)	—	(2.4)
Non-recurring expenses ⁽⁵⁾	1.7	0.2	0.6	2.5
Adjusted EBITDA	\$ 46.7	\$ 16.5	\$ (19.5)	\$ 43.7
Add: Stock-based compensation expense	2.0	0.2	2.3	4.5
Add: Vessel depreciation, net of capital expenditures	—	1.9	—	1.9
Less: Realized and unrealized gain (loss) ⁽⁶⁾	4.2	3.3	—	7.5
Operating EBITDA	\$ 44.5	\$ 15.3	\$ (17.2)	\$ 42.6

	Three Months Ended September 30, 2018			
<i>(\$ in millions)</i>	Specialty Insurance	Tiptree Capital	Corporate Expenses	Total
Pre-tax income/(loss) from continuing operations	\$ 5.7	\$ 1.0	\$ (7.8)	\$ (1.1)
Adjustments:				
Corporate debt related interest expense ⁽²⁾	3.4	—	1.5	4.9
Depreciation and amortization expenses ⁽³⁾	2.6	0.1	—	2.7
Non-cash fair value adjustments ⁽⁴⁾	—	—	—	—
Non-recurring expenses ⁽⁵⁾	0.6	0.5	0.1	1.2
Adjusted EBITDA	\$ 12.3	\$ 1.6	\$ (6.2)	\$ 7.7
Add: Stock-based compensation expense	0.7	0.3	0.5	1.5
Less: Realized and unrealized gain (loss) ⁽⁶⁾	(2.6)	(2.5)	—	(5.1)
Operating EBITDA	\$ 15.6	\$ 4.4	\$ (5.7)	\$ 14.3

	Nine Months Ended September 30, 2018			
<i>(\$ in millions)</i>	Specialty Insurance	Tiptree Capital	Corporate Expenses	Total
Pre-tax income/(loss) from continuing operations	\$ 15.8	\$ (1.2)	\$ (21.2)	\$ (6.6)
Pre-tax income/(loss) from discontinued operations ⁽¹⁾	—	46.8	—	46.8
Adjustments:				
Corporate debt related interest expense ⁽²⁾	10.0	—	3.3	13.3
Depreciation and amortization expenses ⁽³⁾	7.6	0.5	0.1	8.2
Non-cash fair value adjustments ⁽⁴⁾	—	(40.6)	—	(40.6)
Non-recurring expenses ⁽⁵⁾	2.8	1.5	(2.2)	2.1
Adjusted EBITDA	\$ 36.2	\$ 7.0	\$ (20.0)	\$ 23.2
Add: Stock-based compensation expense	1.9	0.1	1.8	3.8
Less: Realized and unrealized gain (loss) ⁽⁶⁾	(7.0)	(4.1)	—	(11.1)
Less: Third party non-controlling interests ⁽⁷⁾	—	(0.2)	—	(0.2)
Operating EBITDA	\$ 45.1	\$ 11.4	\$ (18.2)	\$ 38.3

The footnotes below correspond to the tables above, under “—Adjusted EBITDA and Operating EBITDA - Non-GAAP”

- (1) Includes discontinued operations related to Care. For more information, see “Note—(3) Dispositions, Assets Held for Sale & Discontinued Operations.”
- (2) Corporate Debt interest expense includes Secured corporate credit agreements, junior subordinated notes and preferred trust securities. Interest expense associated with asset-specific debt in specialty insurance and asset management, mortgage and other operations is not added-back for Adjusted EBITDA and Operating EBITDA.
- (3) Represents total depreciation and amortization expense less purchase accounting amortization related adjustments at the Insurance Company. Following the purchase accounting adjustments, current period expenses associated with deferred costs were more favorably stated and current period income associated with deferred revenues were less favorably stated. Thus, the purchase accounting effect related to our Insurance company increased EBITDA above what the historical basis of accounting would have generated.
- (4) For our specialty insurance operations, depreciation and amortization on senior living real estate that is within net investment income is added back to Adjusted EBITDA. For Care (Discontinued Operations), the reduction in EBITDA is related to accumulated depreciation and amortization, and certain operating expenses, which were previously included in Adjusted EBITDA in prior periods.
- (5) Acquisition, start-up and disposition costs including debt extinguishment, legal, taxes, banker fees and other costs. In 2018, includes payments pursuant to a separation agreement, dated November 10, 2015.
- (6) Adjustment excludes Mortgage realized and unrealized gains and losses - Performing and NPLs as those are recurring in nature and align with those business models.
- (7) Removes the Operating EBITDA associated with third party non-controlling interests. Does not remove the non-controlling interests related to employee based shares.

Book Value per share - Non-GAAP

Management believes the use of this financial measure provides supplemental information useful to investors as book value is frequently used by the financial community to analyze company growth on a relative per share basis. The following table provides a reconciliation between total stockholders' equity and total shares outstanding, net of treasury shares.

(\$ in millions, except per share information)

	As of September 30,	
	2019	2018
Total stockholders' equity	\$ 407.4	\$ 396.0
Less non-controlling interests - other	12.6	9.1
Total stockholders' equity, net of non-controlling interests - other	\$ 394.8	\$ 386.9
Total Common shares outstanding	34.6	35.9
Book value per share	\$ 11.43	\$ 10.77

Invested & Total Capital - Non-GAAP

Invested Capital represents its total cash investment, including any re-investment of earnings, and acquisition costs, net of tax. Total Capital represents Invested Capital plus corporate debt.

(\$ in millions)

	As of September 30,	
	2019	2018
Total stockholders' equity	\$ 407.4	\$ 396.0
Less non-controlling interest - other	12.6	9.1
Total stockholders' equity, net of non-controlling interests - other	\$ 394.8	\$ 386.9
Plus Specialty Insurance accumulated depreciation and amortization, net of tax	47.9	41.4
Plus acquisition costs	4.2	4.1
Invested Capital	\$ 446.9	\$ 432.4
Plus corporate debt	229.2	235.1
Total Capital	\$ 676.1	\$ 667.5

Specialty Insurance - Underwriting Margin - Non-GAAP

Underwriting margin is a measure of the underwriting profitability of our specialty insurance operations. It represents net earned premiums, service and administrative fees, ceding commissions and other income less policy and contract benefits and commission expense. We use the combined ratio as an insurance operating metric to evaluate our underwriting performance, both overall and relative to peers. Expressed as a percentage, it represents the relationship of policy and contract benefits, commission expense (net of ceding commissions), employee compensation and benefits, and other expenses to net earned premiums, service and administrative fees, and other income.

The following table provides a reconciliation between underwriting margin and pre-tax income for the following periods:

(\$ in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Net earned premiums	\$ 129.2	\$ 116.1	\$ 364.7	\$ 317.8
Service and administrative fees	26.1	26.1	78.7	75.6
Ceding commissions	1.6	2.3	7.2	6.8
Other income	1.3	0.6	3.1	1.9
Underwriting Revenues - Non-GAAP	\$ 158.2	\$ 145.1	\$ 453.7	\$ 402.1
Less underwriting expenses:				
Policy and contract benefits	44.0	44.5	124.3	115.3
Commission expense	77.5	69.2	225.1	194.4
Underwriting Margin - Non-GAAP	\$ 36.7	\$ 31.4	\$ 104.3	\$ 92.4
Less operating expenses:				
Employee compensation and benefits	12.6	11.1	36.7	33.1
Other expenses (excluding debt extinguishment expenses)	11.8	10.7	35.3	31.8
Combined Ratio	92.1 %	93.2 %	92.8 %	93.1 %
Plus investment revenues:				
Net investment income	3.0	4.6	10.7	13.7
Net realized and unrealized gains	(1.1)	(1.1)	4.7	(3.1)
Less other expenses:				
Interest expense	3.6	4.7	11.2	13.8
Debt extinguishment expenses	—	—	1.2	0.4
Depreciation and amortization expenses	2.3	2.7	6.9	8.1
Pre-tax income (loss)	\$ 8.3	\$ 5.7	\$ 28.4	\$ 15.8

Specialty Insurance Investment Portfolio - Non-GAAP

The following table provides a reconciliation between total investments and net investments for the following periods:

(\$ in millions)	As of September 30,	
	2019	2018
Total Investments	\$ 414.3	\$ 495.7
Investment portfolio debt ⁽¹⁾	—	(93.4)
Cash and cash equivalents	117.8	31.1
Restricted cash ⁽²⁾	—	3.0
Receivable due from brokers ⁽³⁾	3.1	2.3
Liability due to brokers ⁽³⁾	(21.5)	(0.4)
Net investments - Non-GAAP	\$ 513.7	\$ 438.3

(1) Consists of asset-based financing on loans including certain credit investments, see Note—(10) Debt, net for further details.

(2) Restricted cash available to invest within certain credit investment funds which are consolidated under GAAP.

(3) Receivable due from and Liability due to brokers for unsettled trades within certain credit investment funds which are consolidated under GAAP.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are unrestricted cash, cash equivalents and other liquid investments and distributions from operating subsidiaries, including income from our investment portfolio and sales of assets and investments. We intend to use our cash resources to continue to fund our operations and grow our businesses. We may seek additional sources of cash to fund acquisitions or investments. These additional sources of cash may take the form of debt or equity and may be at the parent, subsidiary or asset level. We are a holding company and our liquidity needs are primarily for interest payments on the Fortress credit facility, compensation, professional fees, office rent and insurance costs.

Our subsidiaries' ability to generate sufficient net income and cash flows to make cash distributions will be subject to numerous business and other factors, including restrictions contained in our subsidiaries' financing agreements, regulatory restrictions, availability of sufficient funds at such subsidiaries, general economic and business conditions, tax considerations, strategic plans, financial results and other factors such as target capital ratios and ratio levels anticipated by rating agencies to maintain or improve current ratings. We expect our cash and cash equivalents and distributions from operating subsidiaries and our subsidiaries' access to financing to be adequate to fund our operations for at least the next 12 months.

As of September 30, 2019, cash and cash equivalents, excluding restricted cash, were \$136.1 million, compared to \$86.0 million at December 31, 2018, an increase of \$50.1 million.

Our mortgage business relies on short term uncommitted sources of financing as a part of their normal course of operations. To date, we have been able to obtain and renew uncommitted warehouse credit facilities. If we were not able to obtain financing, then we may need to draw on other sources of liquidity to fund our mortgage business. See Note—(10) Debt, net for additional information regarding our mortgage warehouse borrowings.

For purposes of determining enterprise value and Adjusted EBITDA, we consider corporate credit agreements and preferred trust securities, which we refer to as corporate debt, as corporate financing and associated interest expense is added back. The below table outlines this amount by debt outstanding and interest expense at the insurance company and corporate level.

Corporate Debt

(\$ in millions)	Corporate Debt Outstanding as of September 30,		Interest Expense for the Three Months Ended September 30,		Interest Expense for the Nine Months Ended September 30,	
	2019	2018	2019	2018	2019	2018
	Specialty insurance	\$ 160.0	\$ 162.0	\$ 3.3	\$ 3.4	\$ 10.0
Corporate	69.2	73.1	1.6	2.2	4.8	3.4
Total	\$ 229.2	\$ 235.1	\$ 4.9	\$ 5.6	\$ 14.8	\$ 13.4

Our credit facility with Fortress carries a rate of LIBOR (with a minimum LIBOR rate of 1.25%), plus a margin of 5.50% per annum. We are required to make quarterly principal payments of approximately \$1.0 million, subject to adjustment based on the Net Leverage Ratio (as defined in the credit agreement) at the end of each fiscal quarter. The outstanding debt under the Fortress credit agreement was \$69.2 million as of September 30, 2019 compared to \$73.1 million as of September 30, 2018. On May 4, 2018, we amended the Fortress credit agreement to increase the amount outstanding, while extending the maturity date to September 18, 2020 and lowering the interest rate margin from 6.50% to 5.50%.

On October 16, 2017, Fortegra completed an offering of \$125 million Junior Subordinated Notes due 2057. The Junior Subordinated Notes contain customary financial covenants that require, among other items, maximum leverage and limitations on restricted payments under certain circumstances. As a result, in certain adverse circumstances, such limitations could restrict our ability to grow, or limit the dividends to the holding company to pay our obligations. Substantially all of the net proceeds from the Junior Subordinated Notes were used to repay existing indebtedness. We believe these funds will reposition Fortegra's balance sheet, strengthen the Company's positioning with industry rating agencies, and generate a source of long term capital. See Note (10) Debt, net for additional information of our debt and that of our subsidiaries.

Consolidated Comparison of Cash Flows

(\$ in millions)	Nine Months Ended September 30,	
	2019	2018
Total cash provided by (used in):		
Net cash (used in) provided by:		
Operating activities	19.4	43.6
Investing activities	67.7	(92.1)
Financing activities	(27.8)	(7.0)
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 59.3	\$ (55.5)

Cash provided by operating activities was \$19.4 million for the nine months ended September 30, 2019 compared to \$43.6 million of cash provided by operating activities in the prior year period. In 2019, the primary sources of cash from operating activities included consolidated net income (excluding unrealized gains and losses), increases in unearned premiums and deferred revenues, offset by increases in notes and accounts receivable, reinsurance receivables and deferred acquisition costs related to growth in our insurance operations. In the 2018 period, the primary sources of cash included mortgage sales outpacing originations in our loan origination business and increases in unearned premiums, reinsurance payable and policy liabilities in our insurance operations, partially offset primarily by increases in reinsurance receivables and notes and accounts receivable.

Cash provided by investing activities was \$67.7 million for the nine months ended September 30, 2019 compared to \$92.1 million of cash used in investing activities for the prior year period. During 2019, we reduced our investments in loans and used a substantial portion of the proceeds to repay asset-based debt. We also received proceeds associated with a contingent earn-out from our sale of Care. In the 2018 period, the primary uses of cash were purchases of investments exceeding proceeds from

sales and maturities of investments in our insurance investment portfolio.

Cash used in financing activities was \$27.8 million for the nine months ended September 30, 2019 compared to \$7.0 million in the prior year period. In 2019, we fully repaid outstanding asset-based borrowings in our credit loan fund held within our insurance investment portfolio and we repurchased \$9.1 million of the Company's Common Stock. In the 2018 period, the primary uses of cash from financing activities were repurchases of Common Stock, principal paydowns on outstanding asset-based borrowings in our credit loan and non-performing loan funds held within our insurance investment portfolio and principal paydowns exceeding new borrowings on debt facilities in our mortgage business, partially offset by new borrowings under our credit facility.

Contractual Obligations

The table below summarizes consolidated contractual obligations by period for payments that are due as of September 30, 2019:

(\$ in millions)	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Corporate debt	\$ 69.2	\$ —	\$ —	\$ 160.0	\$ 229.2
Asset based debt	88.6	19.7	—	—	108.3
Total debt ⁽¹⁾	\$ 157.8	\$ 19.7	\$ —	\$ 160.0	\$ 337.5
Operating lease obligations ⁽²⁾	7.3	13.0	9.8	12.8	42.9
Total	\$ 165.1	\$ 32.7	\$ 9.8	\$ 172.8	\$ 380.4

(1) See Note (10) Debt, net, in the accompanying condensed consolidated financial statements for additional information.

(2) Minimum rental obligation for office leases. The total rent expense for the nine months ended September 30, 2019 and 2018 was \$6.5 million and \$5.2 million, respectively.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with U.S. GAAP, which requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. There have been no material changes to the critical accounting policies and estimates as discussed in our 2018 Annual Report on Form 10-K.

Recently Adopted and Issued Accounting Standards

For a discussion of recently adopted and issued accounting standards, see the section "*Recent Accounting Standards*" in Note (2) Summary of Significant Accounting Policies of the notes to the accompanying condensed consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we enter into various off-balance sheet arrangements including entering into derivative financial instruments and hedging transactions, operating leases and sponsoring and owning interests in consolidated and non-consolidated variable interest entities.

Further disclosure on our off-balance sheet arrangements as of September 30, 2019 is presented in the "Notes to Condensed Consolidated Financial Statements" in "Part II. Item 8. Financial Statements and Supplementary Data" of this filing as follows:

- Note (9) Derivative Financial Instruments and Hedging
- Note (20) Commitments and Contingencies

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our 2018 Annual Report on Form 10-K described our Quantitative and Qualitative Disclosures About Market Risk. There were no material changes to the assumptions or risks during the nine months ended September 30, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act) as of the end of the period covered by this

report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and on a timely basis. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Fortegra is a defendant in *Mullins v. Southern Financial Life Insurance Co.*, which was filed in February 2006, in the Pike Circuit Court, in the Commonwealth of Kentucky. A class was certified in June 2010. At issue is the duration or term of coverage under certain disability and life credit insurance policies. The action alleges violations of the Consumer Protection Act and certain insurance statutes, as well as common law fraud and seeks compensatory and punitive damages, attorney fees and interest. To date, the court has not awarded sanctions in connection with Plaintiffs' April 2012 Motion for Sanctions. In January 2015, the trial court issued an Order denying Fortegra's motion to decertify the class, which was upheld on appeal. Following a February 2017 hearing, the court denied Fortegra's Motion for Summary Judgment as to certain disability insurance policies. In January 2018, in response to a Plaintiffs' motion, the court vacated its November 2017 order granting Fortegra's Motion for Summary Judgment as to the life certificates at issue with leave to refile. No trial or additional hearings are currently scheduled.

In management's opinion, based on information available at this time, the ultimate resolution of such litigation, which it is vigorously defending, should not be materially adverse to the financial position of Tiptree. It should be noted that large punitive damage awards, bearing little relation to actual damages sustained by plaintiffs, have been awarded in certain states against other companies in the credit insurance business. At this time, the Company cannot reasonably estimate a range of loss.

Tiptree and its subsidiaries are parties to other legal proceedings in the ordinary course of business. Although Tiptree's legal and financial liability with respect to such proceedings cannot be estimated with certainty, Tiptree does not believe that these proceedings, either individually or in the aggregate, are likely to have a material adverse effect on Tiptree's financial position or results of operations.

Item 1A. Risk Factors

For information regarding factors that could affect our Company, results of operations and financial condition, see the risk factors discussed under Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2018. There have been no material change in those risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share repurchase activity for the three months ended September 30, 2019 was as follows:

Period	Purchaser	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1, 2019 to July 31, 2019	Tiptree Inc.	—	\$ —	—	\$ 20,000,000
August 1, 2019 to August 31, 2019	Tiptree Inc.	—	\$ —	—	\$ 20,000,000
September 1, 2019 to September 30, 2019	Tiptree Inc.	—	\$ —	—	\$ 20,000,000
	Total	—	\$ —	—	\$ —

(1) On May 2, 2019, the Board of Directors of Tiptree (“Board”) authorized Tiptree’s Executive Committee to repurchase up to \$20 million of its outstanding Common Stock in the aggregate from time to time.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits, Financial Statement Schedules

The following documents are filed as a part of this Form 10-Q:

Financial Statements (Unaudited):

Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018	F- 3
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018	F- 4
Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2019 and 2018	F- 5
Condensed Consolidated Statement of Changes in Stockholders’ Equity for the periods ended September 30, 2019 and 2018	F- 6
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018	F- 8
Notes to Condensed Consolidated Financial Statements	F- 9

Exhibits:

The Exhibits listed in the Index of Exhibits, which appears immediately following the signature page, is incorporated herein by reference and is filed as part of this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Tiptree Inc. has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

Date: November 6, 2019

Date: November 6, 2019

Date: November 6, 2019

Tiptree Inc.

By: /s/ Michael Barnes
Michael Barnes
Executive Chairman

By: /s/ Jonathan Ilany
Jonathan Ilany
Chief Executive Officer

By: /s/ Sandra Bell
Sandra Bell
Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Executive Chairman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.3	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Executive Chairman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.3	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018, (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018, (iii) the Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2019 and 2018, (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and nine month periods ended September 30, 2019 and 2018, (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 and (vi) the Notes to the Condensed Consolidated Financial Statements.

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Section 2: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1

CERTIFICATIONS

I, Michael Barnes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tiptree Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred

during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Michael Barnes

Michael Barnes
Executive Chairman

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Section 3: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

CERTIFICATIONS

I, Jonathan Ilany, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tiptree Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Jonathan Ilany

Jonathan Ilany

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Section 4: EX-31.3 (EXHIBIT 31.3)

EXHIBIT 31.3

CERTIFICATIONS

I, Sandra Bell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tiptree Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Sandra Bell

Sandra Bell

Chief Financial Officer

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Section 5: EX-32.1 (EXHIBIT 32.1)

EXHIBIT 32.1

Certification Pursuant to Section 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Tiptree Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Barnes, the Executive Chairman of the Company, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Barnes

Michael Barnes
Executive Chairman

Date: November 6, 2019

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Section 6: EX-32.2 (EXHIBIT 32.2)

EXHIBIT 32.2

**Certification Pursuant to Section 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Tiptree Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jonathan Ilany, the Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jonathan Ilany

Jonathan Ilany
Chief Executive Officer

Date: November 6, 2019

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Section 7: EX-32.3 (EXHIBIT 32.3)

EXHIBIT 32.3

**Certification Pursuant to Section 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Tiptree Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sandra Bell, the Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sandra Bell

Sandra Bell
Chief Financial Officer

Date: November 6, 2019

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