

Atlas Financial Holdings, Inc.  
Form 10-Q  
November 09, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended:  
September 30, 2015

COMMISSION FILE NUMBER:  
000-54627

ATLAS FINANCIAL HOLDINGS, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CAYMAN ISLANDS	27-5466079
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
150 NW POINT BOULEVARD Elk Grove Village, IL (Address of principal executive offices)	60007 (Zip Code)
Registrant's telephone number, including area code: (847) 472-6700	

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

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company   
(do not check if a smaller reporting company)

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

There were 11,988,693 shares of the Registrant's common stock outstanding as of November 6, 2015, of which 11,855,830 are ordinary voting common shares and 132,863 are restricted voting common shares. Of the Registrant's ordinary voting common shares outstanding, 10,646,881 shares as of November 6, 2015 were held by non-affiliates of the Registrant.

For purposes of the foregoing calculation only, the Registrant has included in the shares owned by affiliates, those shares owned by directors and officers of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

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September 30, 2015

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## ATLAS FINANCIAL HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in '000s of US dollars, except for share and per share data)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Investments, available for sale		
Fixed income securities, at fair value (amortized cost \$188,886 and \$126,701)	\$189,257	\$126,949
Equity securities, at fair value (cost \$2,147 and \$2,220)	2,260	2,093
Other investments	21,547	14,366
Total Investments	213,064	143,408
Cash and cash equivalents	21,043	36,586
Accrued investment income	1,050	660
Accounts receivable and other assets (net of allowance of \$890 and \$560)	88,029	49,770
Reinsurance recoverables on amounts paid	4,077	2,230
Reinsurance recoverables on amounts unpaid	23,554	18,421
Prepaid reinsurance premiums	16,138	3,628
Deferred policy acquisition costs	10,700	8,166
Deferred tax asset, net	18,184	17,317
Intangible assets, net	5,916	740
Software and office equipment, net	2,693	2,819
Assets held for sale	166	166
Total Assets	\$404,614	\$283,911
Liabilities		
Claims liabilities	\$123,740	\$102,430
Unearned premiums	108,079	58,950
Due to reinsurers and other insurers	11,065	2,456
Note payable	17,500	—
Other liabilities and accrued expenses	16,045	10,676
Total Liabilities	\$276,429	\$174,512
Commitments and contingencies (see Note 8)		
Shareholders' Equity		
Preferred shares, \$0.001 par value, 100,000,000 shares authorized, shares issued and outstanding: 2015 - 6,940,500 and 2014 - 2,000,000. Liquidation value \$1.00 per share	\$6,941	\$2,000
Ordinary voting common shares, \$0.003 par value, 266,666,667 shares authorized, shares issued and outstanding: 2015 - 11,846,130 and 2014 - 11,638,723	36	34
Restricted voting common shares, \$0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: 2015 and 2014 - 132,863	—	—
Additional paid-in capital	197,325	196,079
Retained deficit	(78,697)	(88,794)
Accumulated other comprehensive income, net of tax	320	80
Total Atlas Shareholders' Equity	125,925	109,399
Shareholders' Equity Attributable to Non-controlling Interest	2,260	—
Total Shareholders' Equity	128,185	109,399

Total Liabilities and Shareholders' Equity	\$404,614	\$283,911
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See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
 (in '000s of US dollars, except for share and per share data)

	Three Month Periods Ended		Nine Month Periods Ended	
	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net premiums earned	\$41,666	\$25,575	\$110,137	\$70,835
Net investment income	1,093	768	2,804	2,226
Net realized investment gains	91	68	272	154
Other income	269	(1	)426	1
Total revenue	43,119	26,410	113,639	73,216
Net claims incurred	24,988	15,894	64,449	44,235
Acquisition costs	4,988	3,686	13,983	10,252
Other underwriting expenses	7,013	3,329	17,229	10,377
Expenses incurred related to Anchor acquisition and Gateway stock purchase agreement	—	—	1,920	—
Total expenses	36,989	22,909	97,581	64,864
Income from operations before income tax expense	6,130	3,501	16,058	8,352
Income tax expense	2,068	8	5,923	108
Net income including non-controlling interest	4,062	3,493	10,135	8,244
Net income attributable to non-controlling interest	38	—	38	—
Net income attributable to Atlas	4,024	3,493	10,097	8,244
Less: Preferred share dividends	81	24	196	70
Net income attributable to common shareholders	\$3,943	\$3,469	\$9,901	\$8,174
Basic weighted average common shares outstanding	12,008,624	11,808,624	11,956,611	10,643,507
Earnings per common share, basic	\$0.33	\$0.29	\$0.83	\$0.77
Diluted weighted average common shares outstanding	12,793,774	12,210,583	12,741,165	11,042,465
Earnings per common share, diluted	\$0.32	\$0.29	\$0.80	\$0.75
Consolidated Statements of Comprehensive Income				
Net income attributable to Atlas	\$4,024	\$3,493	\$10,097	\$8,244
Other comprehensive income (loss):				
Changes in net unrealized investment gains (losses)	555	(773	)165	1,748
Reclassification to income of net realized investment gains	4	60	199	172
Effect of income tax	(190	)242	(124	)653
Other comprehensive income (loss)	369	(471	)240	1,267
Comprehensive income attributable to Atlas	\$4,393	\$3,022	\$10,337	\$9,511

See accompanying Notes to Condensed Consolidated Financial Statements.



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ATLAS FINANCIAL HOLDINGS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
 (in '000s of US dollars, except for share and per share data)

	Preferred Shares	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive (Loss)/Income	Total Atlas Shareholders' Equity	Shareholders' Equity Attributable to Non-controlling Interest	Total Equity
Balance December 31, 2013	\$2,000	\$28	\$—	\$169,595	\$(106,496)	\$(1,429)	\$63,698	\$—	\$63,698
Net income					8,244		8,244		8,244
Proceeds from U.S. public offering, net of offering costs		6		25,015			25,021		25,021
Other comprehensive income						1,267	1,267		1,267
Share-based compensation		1		1,243			1,244		1,244
Balance September 30, 2014 (unaudited)	\$2,000	\$35	\$—	\$195,853	\$(98,252)	\$(162)	\$99,474	\$—	\$99,474
Balance December 31, 2014	\$2,000	\$34	\$—	\$196,079	\$(88,794)	\$80	\$109,399	\$—	\$109,399
Net income					10,097		10,097		10,097
Issuance of preferred shares	4,941						4,941		4,941
Other comprehensive income						240	240		240
Contributions from non-controlling interests								2,222	2,222
Net income attributable to non-controlling interest								38	38
Share-based compensation		2		1,246			1,248		1,248
Balance September 30, 2015 (unaudited)	\$6,941	\$36	\$—	\$197,325	\$(78,697)	\$320	\$125,925	\$2,260	\$128,185

See accompanying Notes to Condensed Consolidated Financial Statements.





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## ATLAS FINANCIAL HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in '000s of US dollars, except for share and per share data)

	Nine Month Periods Ended	
	September 30, 2015 (unaudited)	September 30, 2014 (unaudited)
Operating activities:		
Net income	\$ 10,097	\$ 8,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Income attributable to non-controlling interest	38	—
Depreciation and amortization of fixed assets	684	645
Share-based compensation expense	1,248	1,244
Amortization of deferred gain on sale of headquarters building	(32)	(32)
Deferred income taxes	(383)	(2,726)
Net realized gains	(272)	(154)
Gain in equity of investees	(805)	(402)
Amortization of bond premiums and discounts	1,129	603
Subsequent acquisition costs related to Gateway stock purchase agreement	941	—
Net changes in operating assets and liabilities (net of acquisition):		
Accounts receivable and other assets, net	(25,026)	(13,825)
Due from reinsurers and other insurers	(1,610)	2,619
Deferred policy acquisition costs	(706)	(2,279)
Other assets and accrued investment income	(27)	26
Claims liabilities	(9,421)	(2,751)
Unearned premiums	26,153	18,695
Due to reinsurers and other insurers	3,826	(91)
Accounts payable and accrued liabilities	(528)	3,445
Net cash flows provided by operating activities	5,306	13,261
Investing activities:		
Purchase of subsidiary (net of cash acquired)	(10,956)	)—
Purchases of:		
Fixed income securities	(62,039)	(19,687)
Equity securities	(1,340)	(973)
Other investments	(6,376)	(7,500)
Property, equipment and other	(535)	(829)
Proceeds from sale and maturity of:		
Fixed income securities	39,273	22,690
Equity securities	1,402	12
Property, equipment and other	—	10
Net cash flows used in investing activities	(40,571)	(6,277)
Financing activities:		
Proceeds from U.S. public offering, net of offering costs	—	25,021
Contributions from non-controlling interests	2,222	—
Proceeds from notes payable	18,000	—
Repayment of note	(500)	)—
Net cash flows provided by financing activities	19,722	25,021
Net change in cash and cash equivalents	(15,543)	32,005

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Cash and cash equivalents, beginning of period	36,586	9,811
Cash and cash equivalents, end of period	\$21,043	\$41,816

Supplemental disclosure of cash information (in '000's):

Cash paid for:

Income taxes	\$6,224	\$1,803
Interest	361	—

Supplemental disclosure of noncash investing and financing activities (in '000's):

Issuance of preferred shares related to Anchor acquisition	\$4,000	\$—
Issuance of preferred shares related to Gateway stock purchase agreement	941	—
See accompanying Notes to Condensed Consolidated Financial Statements.		

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ATLAS FINANCIAL HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Atlas Financial Holdings, Inc. ("Atlas" or the "Company") commenced operations on December 31, 2010. The primary business of Atlas is underwriting commercial automobile insurance in the United States, with a niche market orientation and focus on insurance for the "light" commercial automobile sector. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business autos. Automobile insurance products provide insurance coverage in three major areas: liability, accident benefits and physical damage. Liability insurance provides coverage, subject to policy terms and conditions where the insured is determined to be responsible and/or liable for an automobile accident, for the payment for injuries and property damage to third parties. Accident benefit policies or personal injury protection policies provide coverage for loss of income, medical and rehabilitation expenses for insured persons who are injured in an automobile accident, regardless of fault. Physical damage coverage subject to policy terms and conditions provides for the payment of damages to an insured automobile arising from a collision with another object or from other risks such as fire or theft. In the short run, automobile physical damage and liability coverage generally provides more predictable results than automobile accident benefit or personal injury insurance. Atlas' business is carried out through its insurance subsidiaries: American Country Insurance Company ("American Country"), American Service Insurance Company, Inc. ("American Service"), Gateway Insurance Company ("Gateway"), and as of March 11, 2015, Global Liberty Insurance Company of New York ("Global Liberty"), Anchor Group Management, Inc. ("Anchor Management"), Plainview Premium Finance Company, Inc. ("Plainview Delaware") and Plainview Delaware's wholly-owned subsidiary, Plainview Premium Finance Company of California, Inc. ("Plainview California" and together with Plainview Delaware, "Plainview").

The Insurance Subsidiaries distribute their insurance products through a network of retail independent agents.

Together, the Insurance Subsidiaries are licensed to write property and casualty insurance in 49 states and the District of Columbia in the United States. Atlas' core products are actively distributed in 40 of those states plus Washington, D.C. The Insurance Subsidiaries share common management and operating infrastructure.

Atlas' ordinary voting common shares were previously listed on the TSX Venture Exchange ("TSXV") under the symbol "AFH" from January 6, 2011 to June 4, 2013, when Atlas' application for the voluntary delisting of its ordinary voting common shares from the TSXV was approved.

Atlas' ordinary voting common shares became listed on the NASDAQ stock exchange on February 11, 2013, under the same symbol, AFH.

On December 7, 2012, a shareholder meeting was held where a one-for-three reverse stock split was unanimously approved. When the reverse stock split took effect on January 29, 2013, it decreased the authorized and outstanding ordinary voting common shares and restricted voting common shares at a ratio of one-for-three. The primary objective of the reverse stock split was to increase the per share price of Atlas' common shares to meet certain listing requirements of the NASDAQ Capital Market. Unless otherwise noted, all historical share and per share values in this Quarterly Report on Form 10-Q reflect the one-for-three reverse stock split.

Basis of presentation - These statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of Atlas Parent, our controlled subsidiaries (generally through a greater than 50 percent ownership of voting rights of a voting interest entity), and variable interest entities (VIEs) of which we are the primary beneficiary. Equity investments in entities that we do not consolidate, including corporate entities in which we have significant influence and partnership and partnership-like entities in which we have more than minor influence over operating and financial policies, are accounted for under the equity method unless we have elected the fair value option. All significant intercompany accounts and transactions have been eliminated. It is the opinion of management that these financial statements reflect all adjustments necessary for a fair statement of the interim results.

The results for the three and nine month periods ended September 30, 2015 are not necessarily indicative of the results expected for the full calendar year.

The accompanying unaudited condensed consolidated financial statements, in accordance with Securities and Exchange Commission (“SEC”) rules for interim periods, do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with the Atlas' Annual Report on Form 10-K for the year ended December 31, 2014, which provides a more complete understanding of the Company’s accounting policies, financial position, operating results, business properties, and other matters.

Seasonality - The property and casualty (P&C) insurance business is seasonal in nature. While Atlas' net premiums earned are generally stable from quarter to quarter, Atlas' gross premiums written follow the common renewal dates for the "light" commercial risks that represent its core lines of business. For example, January 1 and March 1 are common taxi cab renewal dates in Illinois and New York, respectively. Additionally, we implemented our New York “excess taxi program” in the third quarter of 2012,

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which has an annual renewal date in the third quarter. Net underwriting income is driven mainly by the timing and nature of claims, which can vary widely.

The accounting policies followed in these unaudited condensed consolidated financial statements are comparable to those applied in Atlas' audited annual consolidated financial statements in the Annual Report on Form 10-K for the period ended December 31, 2014. Atlas has consistently applied the same accounting policies throughout all periods presented.

Segmentation - The Company operates in one business segment, the property and casualty insurance business.

## 2. NEW ACCOUNTING STANDARDS

The accompanying consolidated financial statements have been prepared in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") of accounting principles generally accepted in the United States of America ("GAAP"). These interim financial statements should be read in conjunction with these notes and those included in the Company's 2014 Annual Report on Form 10-K incorporated herein by reference.

Pertinent accounting and disclosure pronouncements issued from time to time by the FASB are adopted by the Company as they become effective. In February 2015, the FASB issued updated consolidation guidance on determining whether limited partnerships are variable interest entities or voting interest entities. This guidance is effective for years beginning after December 15, 2015, and may be applied fully retrospectively or through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the guidance to determine the potential impact, if any, of its adoption on its consolidated financial statements.

In May 2015, the FASB issued guidance requiring additional disclosures about short-duration insurance contracts. The new disclosures, which are required for annual periods beginning after December 31, 2015 and for interim periods beginning after December 31, 2016, are intended to provide additional information about insurance liabilities including the nature, amount, timing, and uncertainty of future cash flows related to those liabilities. Except for the retrospective application of additional disclosure requirements, the new guidance will not impact the Company's consolidated financial statements.

In September 2015, the FASB issued updated business combination guidance requiring an acquirer to recognize and disclose adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This update eliminates the requirement to retrospectively account for those adjustments. For public entities, this guidance is effective for years beginning after December 15, 2015, including interim periods within those years. The Company will adopt this guidance for the reporting period ending December 31, 2015 and does not expect that the adoption will have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued a comprehensive revenue recognition standard which applies to all entities that have contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. The Company is currently evaluating the guidance, which will be effective in 2018, to determine the potential impact, if any, of its adoption on its consolidated financial statements.

The financial accounting and reporting process relies on estimates and on the exercise of judgment. In the opinion of management all adjustments consisting only of normal recurring accruals necessary for a fair presentation of the results have been recorded for the interim periods. Amounts shown in the consolidated financial statements and applicable notes are stated (except as otherwise indicated and as to share data) in thousands, which amounts may not add to totals shown due to truncation. Necessary reclassifications are made in prior periods' financial statements whenever appropriate to conform to the most current presentation.

### 3. ACQUISITION OF ANCHOR HOLDINGS GROUP, INC. ET. AL.

On March 11, 2015, Atlas acquired Anchor Holdings Group, Inc., a privately owned insurance holding company, and its wholly owned subsidiary, Global Liberty, along with its affiliated entities, Anchor Management, and Plainview (collectively "Anchor"), from an unaffiliated third party. Anchor provides specialized commercial insurance products, including commercial automobile insurance to niche markets such as taxi, black car and sedan service owners and operators primarily in the New York market.

Global Liberty is a New York-based insurance company that was writing approximately \$40.0 million of annual taxi and limousine net written premium in states deemed favorable to Atlas at the time of the acquisition. Global Liberty is an admitted carrier in 13 states plus the District of Columbia. Atlas' acquisition of Anchor will expand our distribution channel for core commercial automobile lines and provide incremental licensure as well as important infrastructure in the large New York market.

Under the terms of the stock purchase agreement, the purchase price was based on the combined U.S. GAAP book value of Anchor at December 31, 2014. Additional consideration, principally in the form of preferred shares, may be paid to the seller, or returned

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to us by the seller, depending upon the future development of Global Liberty's actual loss reserves for certain lines of business over time.

The total purchase price for the combined entities of Anchor was approximately \$23.2 million, consisting of a combination of cash and Atlas preferred shares, and is estimated at approximately 1.3 times combined U.S. GAAP book value. Consideration consisted of approximately \$19.2 million in cash and \$4.0 million of Atlas preferred shares (consisting of a total of 4,000,000 preferred shares at \$1.00 per preferred share), subject to future price adjustments, as noted above. We have contractual protections to offset up to \$4.0 million of future adverse reserve development. Global Liberty also wrote homeowners insurance in the northeast, which was non-renewed prior to the transaction. The Anchor acquisition was accounted for using the purchase method. Atlas began consolidating Anchor on March 11, 2015. The following unaudited pro forma summary presents Atlas' consolidated financial information for the three and nine month periods ended September 30, 2015 and 2014 as if Anchor had been acquired on January 1, 2014. These amounts have been calculated after applying the Company's accounting policies had the acquisition been completed on January 1, 2014. These results were prepared for comparative purposes only and do not purport to be indicative of the results of operations that may have actually resulted had the acquisition occurred on the indicated dates, nor are they indicative of potential future operating results of the Company.

(in '000s, except per share information)	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenue	\$43,119	\$34,614	\$119,099	\$98,568
Net income attributable to Atlas <sup>1</sup>	\$4,024	\$4,056	\$11,086	\$9,984
Basic earnings per share <sup>1</sup>	\$0.33	\$0.34	\$0.91	\$0.92
Diluted earnings per share <sup>1</sup>	\$0.32	\$0.33	\$0.86	\$0.88

<sup>1</sup> - Excludes expenses incurred in the connection with the Anchor acquisition

The value of certain assets and liabilities acquired are subject to adjustment as additional information is obtained, including, but not limited to, valuation of separately identifiable intangibles, the preferred stock issued to the seller, and deferred taxes. The valuations will be finalized within 12 months of the close of the acquisition (not including loss reserve development consideration). The changes upon finalization to the preliminary valuation of assets and liabilities may result in an adjustment to identifiable intangible assets and goodwill. The following table presents assets acquired and liabilities assumed for the Anchor acquisition based on its estimated fair value on March 11, 2015. (in \$ '000s)

Purchase Consideration	
Cash	\$ 19,199
Preferred stock	4,000
Total	\$ 23,199

## Allocation of Purchase Price

Cash and investments	\$ 48,508
Other current assets	33,303
Property and equipment	22
Deferred tax assets	608
Goodwill and identifiable intangible assets	5,176
Total Assets	\$ 87,617
Claims liabilities	\$ 30,731
Unearned premiums	22,976
Accounts payable and other liabilities	10,711
Total Liabilities	\$ 64,418



Net assets acquired

\$23,199

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The acquisition of Anchor resulted in the recognition of intangible assets and goodwill valued at \$5.2 million. Atlas continues to evaluate the allocation of purchase price and anticipates completing this process in the fourth quarter of 2015, at which time the Company would record any applicable adjustment to the purchase price allocation and any amortization related to the identified intangible assets. Atlas recognized no amortization expense during the nine month period ended September 30, 2015 related to intangible assets acquired in the Anchor transaction. Atlas incurred \$0 and \$978,000 in transaction expenses related to the Anchor acquisition for the three and nine month periods ended September 30, 2015, respectively, and \$694,000 in the fourth quarter of 2014.

**4. EARNINGS PER SHARE**

Earnings per ordinary voting common shares, restricted voting common shares and participative restricted stock units ("RSU's") (collectively, the "common shares") for the three and nine month periods ended September 30, 2015 and September 30, 2014 are as follows:

(in \$000's except for share and per share amounts)	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Basic:</b>				
Net income including non-controlling interest	\$4,062	\$3,493	\$10,135	\$8,244
Less: Net income attributable to non-controlling interest <sup>38</sup>	—	—	38	—
Net income attributable to Atlas	\$4,024	\$3,493	\$10,097	\$8,244
Less: Preferred share dividends	81	24	196	70
Net income attributable to common shareholders	\$3,943	\$3,469	\$9,901	\$8,174
Weighted average basic common shares outstanding	12,008,624	11,808,624	11,956,611	10,643,507
Basic earnings per common share	\$0.33	\$0.29	\$0.83	\$0.77
<b>Diluted:</b>				
Weighted average basic common shares outstanding	12,008,624	11,808,624	11,956,611	10,643,507
<b>Add:</b>				
Dilutive stock options outstanding	211,706	147,959	211,110	144,958
Preferred shares	573,444	254,000	573,444	254,000
Dilutive average common shares outstanding	12,793,774	12,210,583	12,741,165	11,042,465
Dilutive earnings per common share	\$0.32	\$0.29	\$0.80	\$0.75

Earnings per diluted common share is computed by dividing net income attributable to Atlas by the weighted average number of common shares outstanding for each period plus the incremental number of shares added as a result of converting dilutive potential ordinary voting common shares, calculated using the treasury stock method (or, in the case of the convertible preferred shares, the "if-converted" method). Atlas' dilutive potential ordinary voting common shares consist of stock options to purchase ordinary voting common shares and preferred shares potentially convertible to ordinary voting common shares at the option of the holders at any date after December 31, 2015 (2,940,500 preferred shares at the rate of 0.1270 ordinary voting common shares for each preferred share) and after March 11, 2018 (4,000,000 preferred shares at the rate of 0.05 ordinary voting common shares for each preferred share). The effects of these convertible instruments are excluded from the computation of earnings per diluted common share in periods in which the effect would be anti-dilutive. Convertible preferred shares are anti-dilutive when the amount of dividend declared or accumulated in the current period per common share obtainable upon conversion exceeds basic earnings per share. In the three and nine month periods ended September 30, 2015 and 2014, stock options and all of the convertible preferred shares were deemed to be dilutive.

**5. INVESTMENTS**

The amortized cost, gross unrealized gains and losses and fair value for Atlas' investments in fixed maturities, equity investments and other investments are as follows. Atlas' other investments are comprised of various limited partnerships that invest in income-producing real estate, equities, or catastrophe bonds. Atlas' interests in these investments are not deemed minor, and as a result, the Company uses the equity method of accounting. As of

September 30, 2015, the carrying values of these other investments were approximately \$21.5 million versus approximately \$14.4 million as of December 31, 2014. The carrying value of these investments is Atlas' share of the net book value for each limited partnership, an amount that approximates fair value. Atlas receives dividends on a routine basis that approximate the income earned on one of the limited partnerships that invest in income-producing real estate.

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The amortized cost, gross unrealized gains and losses and fair value for Atlas' investments in fixed income securities, equities and other investments are as follows (all amounts in '000s):

As of September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed Income Securities:</b>				
U.S. Government	\$45,132	\$302	\$(64)	)\$45,370
Corporate				
Banking/financial services	22,798	261	(98)	)22,961
Consumer goods	8,784	67	(69)	)8,782
Capital goods	16,367	234	(354)	)16,247
Energy	5,061	1	(206)	)4,856
Telecommunications/utilities	13,317	51	(184)	)13,184
Health care	3,038	2	(12)	)3,028
Total Corporate	69,365	616	(923)	)69,058
Mortgage backed - agency	35,243	315	(78)	)35,480
Mortgage backed - commercial	18,996	255	(89)	)19,162
Total Mortgage Backed	54,239	570	(167)	)54,642
Other asset backed	20,150	53	(16)	)20,187
Total Fixed Income Securities	188,886	1,541	(1,170)	)189,257
Equities	2,147	129	(16)	)2,260
Other investments	21,547	—	—	21,547
Totals	\$212,580	\$1,670	\$(1,186)	)\$213,064
As of December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Fixed Income Securities:</b>				
U.S. Government	\$20,506	\$32	\$(159)	)\$20,379
Corporate				
Banking/financial services	15,551	215	(31)	)15,735
Consumer goods	3,478	50	(13)	)3,515
Capital goods	14,285	354	(52)	)14,587
Energy	2,829	—	(84)	)2,745
Telecommunications/utilities	5,297	67	(8)	)5,356
Health care	1,948	—	(16)	)1,932
Total Corporate	43,388	686	(204)	)43,870
Mortgage backed - agency	30,772	250	(160)	)30,862
Mortgage backed - commercial	16,774	79	(269)	)16,584
Total Mortgage Backed	47,546	329	(429)	)47,446
Other asset backed	15,261	20	(27)	)15,254
Total Fixed Income Securities	126,701	1,067	(819)	)126,949
Equities	2,220	12	(139)	)2,093
Other investments	14,366	—	—	14,366
Totals	\$143,287	\$1,079	\$(958)	)\$143,408

The following tables summarize carrying amounts of fixed income securities by contractual maturity (all amounts in '000s). As certain securities and debentures have the right to call or prepay obligations, the actual settlement dates may differ from contractual maturity.

As of September 30, 2015	One year or less	One to five years	Five to ten years	More than ten years	Total
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Fixed income securities at fair value	\$10,074	\$70,066	\$46,014	\$63,103	\$189,257	
Percentage of total	5.3	%37.0	%24.3	%33.4	%100.0	%

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As of December 31, 2014	One year or less	One to five years	Five to ten years	More than ten years	Total	
Fixed income securities at fair value	\$ 1,875	\$ 54,349	\$ 23,166	\$ 47,559	\$ 126,949	
Percentage of total	1.5	% 42.8	% 18.2	% 37.5	% 100.0	%

Management performs a quarterly analysis of Atlas' investment holdings to determine if declines in fair value are other than temporary (equities may require more timely review in some cases). The analysis includes some or all of the following procedures as deemed appropriate by management:

identifying all security holdings in unrealized loss positions;

obtaining a valuation analysis from third party investment managers regarding these holdings based on their knowledge, experience and other market-based valuation techniques;

reviewing the trading range of certain securities over the preceding calendar period;

assessing whether declines in market value are other than temporary for debt security holdings based on credit ratings from third party security rating agencies; and

determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

The risks and uncertainties inherent in the assessment methodology utilized to determine declines in market value that are other than temporary include, but may not be limited to, the following:

the opinion of professional investment managers could prove to be incorrect;

the past trading patterns of individual securities may not reflect future valuation trends;

the credit ratings assigned by independent credit rating agencies may prove to be incorrect due to unforeseen or unknown facts related to a company's financial situation; and

the debt service pattern of non-investment grade securities may not reflect future debt service capabilities and may not reflect a company's unknown underlying financial problems.

There were no other than temporary impairments recorded in the three and nine month periods ended September 30, 2015 and September 30, 2014 as a result of the above analysis performed by management. Overall, Atlas' portfolio was in a net unrealized gain position as of September 30, 2015. This gain was primarily driven by the changes in market values during the first nine months of 2015. The total fair value of the securities currently in an unrealized loss position was \$68.3 million as of September 30, 2015 with a total temporary impairment relating to unrealized losses of \$1.2 million. Atlas has the ability and intent to hold these securities until their fair value is recovered. Atlas does not consider the unrealized losses to be other than temporary.

The aging of unrealized losses on the Company's investments in fixed income and equity securities is presented as follows (all amounts in '000s):

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As of September 30, 2015	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Income Securities:						
U.S. Government	\$4,878	\$(51)	\$4,659	\$(13)	\$9,537	\$(64)
Corporate						
Banking/financial services	8,323	(94)	596	(4)	8,919	(98)
Consumer goods	3,597	(69)	—	—	3,597	(69)
Capital goods	6,957	(255)	709	(99)	7,666	(354)
Energy	3,211	(153)	408	(53)	3,619	(206)
Telecommunications/utilities	7,281	(184)	—	—	7,281	(184)
Health care	1,729	(12)	—	—	1,729	(12)
Total Corporate	31,098	(767)	1,713	(156)	32,811	(923)
Mortgage backed - agency	8,008	(52)	2,039	(26)	10,047	(78)
Mortgage backed - commercial	6,054	(21)	4,623	(68)	10,677	(89)
Total Mortgage Backed	14,062	(73)	6,662	(94)	20,724	(167)
Other asset backed	4,268	(14)	872	(2)	5,140	(16)
Total Fixed Income Securities	\$54,306	\$(905)	\$13,906	\$(265)	\$68,212	\$(1,170)
Equities	42	(16)	—	—	42	(16)
Totals	\$54,348	\$(921)	\$13,906	\$(265)	\$68,254	\$(1,186)
As of December 31, 2014	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Income Securities:						
U.S. Government	\$2,228	\$(3)	\$9,395	\$(156)	\$11,623	\$(159)
Corporate						
Banking/financial services	3,298	(14)	1,523	(17)	4,821	(31)
Consumer goods	269	—	714	(13)	983	(13)
Capital goods	2,599	(19)	1,543	(33)	4,142	(52)
Energy	2,583	(82)	86	(2)	2,669	(84)
Telecommunications/utilities	1,371	(7)	168	(1)	1,539	(8)
Health care	1,443	(10)	488	(6)	1,931	(16)
Total Corporate	11,563	(132)	4,522	(72)	16,085	(204)
Mortgage backed - agency	4,196	(28)	9,202	(132)	13,398	(160)
Mortgage backed - commercial	1,409	(5)	9,781	(264)	11,190	(269)
Total Mortgage Backed	5,605	(33)	18,983	(396)	24,588	(429)
Other asset backed	10,021	(27)	—	—	10,021	(27)
Total Fixed Income Securities	\$29,417	\$(195)	\$32,900	\$(624)	\$62,317	\$(819)
Equities	1,230	(139)	—	—	1,230	(139)
Totals	\$30,647	\$(334)	\$32,900	\$(624)	\$63,547	\$(958)

The following table summarizes the components of net investment income for the three and nine month periods ended September 30, 2015 and 2014 (all amounts in '000s):

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	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Total investment income				
Interest income	\$933	\$726	\$2,427	\$2,121
Dividends	—	—	42	—
Income from other investments	380	154	882	439
Investment expenses	(220)	(112)	(547)	(334)
Net investment income	\$1,093	\$768	\$2,804	\$2,226

The following table summarizes the components of net investment gains (losses) for the three and nine month periods ended September 30, 2015 and 2014 (all amounts in '000's):

	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Fixed income securities	\$90	\$68	\$284	\$148
Equities	1	—	(12)	6
Net investment realized gains	\$91	\$68	\$272	\$154

## Collateral pledged:

As of September 30, 2015 and as of December 31, 2014, bonds and term deposits with a fair value of \$15.8 million and \$14.5 million, respectively, were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges securities to third parties to collateralize liabilities incurred under its policies of reinsurance assumed by the Company. As of September 30, 2015 and as of December 31, 2014, the amount of such pledged securities was \$3.6 million and \$6.8 million, respectively. The decrease in pledged securities for the nine month period ended September 30, 2015 was related to an assumed retroactive reinsurance agreement. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls. These assets and investment income related thereto remain the property of the Company while pledged. Neither the state, provincial regulatory authorities nor any other third party has the right to re-pledge or sell said securities held on deposit.

## 6. FINANCIAL AND CREDIT RISK MANAGEMENT

At September 30, 2015, Atlas' allowance for bad debt was \$890,000. Atlas increased its allowance for doubtful accounts by \$330,000 in the nine month period ended September 30, 2015 compared to the balance at December 31, 2014. This increase consists of: 1) an increase of \$20,000 related to the run-off worker's compensation program write-offs, 2) an increase of \$26,000 related to Anchor and 3) an increase of \$284,000 related to the allowance re-estimation process and growth in premiums written during the nine month period ended September 30, 2015. Fair value - Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

Atlas records the available for sale securities held in its securities portfolio at their fair value. Atlas primarily uses the services of external securities pricing vendors to obtain these values. The securities are valued using quoted market prices or prices established using observable market inputs. In volatile market conditions, these quoted market prices or observable market inputs can change rapidly causing a significant impact on fair value and financial results recorded.

Atlas employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The hierarchy is comprised of quoted prices in active markets (Level 1), third party pricing models using available trade, bid and market information (Level 2) and internal models without observable market information (Level 3). The following table summarizes Atlas' investments at fair value as of September 30, 2015 and as of December 31, 2014 (all amounts in '000s):

As of September 30, 2015	Level 1	Level 2	Level 3	Total
Fixed income securities	\$20,746	\$168,511	\$—	\$189,257
Equities	2,260	—	—	2,260



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Other investments	—	3,532	18,015	21,547
Totals	\$23,006	\$172,043	\$18,015	\$213,064

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As of December 31, 2014	Level 1	Level 2	Level 3	Total
Fixed income securities	\$12,608	\$114,341	\$—	\$126,949
Equities	2,093	—	—	2,093
Other investments	—	3,346	11,020	14,366
Totals	\$14,701	\$117,687	\$11,020	\$143,408

The Company's investments in fixed income securities that are classified as Level 1 in the two preceding tables consist only of U.S. Treasury Securities. The Company's investments in equity securities that are classified as Level 1 in the two preceding tables consist of investments in publicly-traded common stocks.

The Company's investments in fixed income securities that are classified as Level 2 in the two preceding tables consist of investments in corporate bonds, states and political subdivisions bonds and mortgage-backed securities of U.S. government agencies and other asset-backed bonds. The Company's other investments that are classified as Level 2 consist of a limited partnership that invests in equities.

For securities classified as Level 3, the Company uses valuations provided by third party fund managers. These valuations are typically the audited net book value for each underlying investment. These investments are in income-producing real estate, small business administration loans or catastrophe bonds.

Though Atlas believes its valuation methods are appropriate, the use of different methodologies or assumptions to determine its fair value could result in a different fair value as of September 30, 2015. Management does not believe that reasonable changes to the inputs to its valuation methodology would result in a significantly higher or lower fair value measurement.

There were no transfers in or out of Level 2 or Level 3 during the nine month period ended September 30, 2015.

Information by security type pertaining to the changes in fair value of the Company's investments classified as Level 3 for the three and nine month periods ended September 30, 2015 and 2014 are presented below (all amounts in '000s):

Three month period ended September 30, 2015	Fixed Income Securities	Other Investments	Total
Balance at beginning of period	\$—	\$11,937	\$11,937
Total gains included in:			
Consolidated statement of income	—	475	475
Purchases	—	5,603	5,603
Balance at end of period	\$—	\$18,015	\$18,015
Three month period ended September 30, 2014	Fixed Income Securities	Other Investments	Total
Balance at beginning of period	\$809	\$6,827	\$7,636
Total gains included in:			
Consolidated statement of income	95	150	245
Balance at end of period	\$904	\$6,977	\$7,881
Nine month period ended September 30, 2015	Fixed Income Securities	Other Investments	Total
Balance at beginning of period	\$—	\$11,020	\$11,020
Total gains included in:			
Consolidated statement of income	—	706	706
Purchases	—	6,289	6,289
Balance at end of period	\$—	\$18,015	\$18,015

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Nine month period ended September 30, 2014	Fixed Income Securities	Other Investments	Total
Balance at beginning of period	\$617	\$1,234	\$1,851
Total gains included in:			
Consolidated statement of income	287	243	530
Purchases	—	5,500	5,500
Balance at end of period	\$904	\$6,977	\$7,881

Capital management - The Company manages capital using both regulatory capital measures and internal metrics. The Company's capital is primarily derived from common shareholders' equity, retained deficit and accumulated other comprehensive income (loss).

As a holding company, Atlas could derive cash from its Insurance Subsidiaries generally in the form of dividends to meet its obligations, which will primarily consist of operating expense payments and debt payments. Atlas' Insurance Subsidiaries fund their obligations primarily through premium and investment income and maturities in the securities portfolio. The Insurance Subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. In the event that dividends available to the holding company are inadequate to cover its operating expenses and debt payments, the holding company would need to raise capital, sell assets or incur future debt.

The Insurance Subsidiaries must each maintain a minimum statutory capital and surplus of \$1.5 million, \$2.4 million and \$3.5 million under the provisions of the Illinois Insurance Code, the Missouri Insurance Code and New York Insurance Code, respectively. Dividends may only be paid from statutory unassigned surplus, and payments may not be made if such surplus is less than a stipulated amount. The dividend restriction is the greater of statutory net income or 10% of total statutory capital and surplus.

At September 30, 2015, our Insurance Subsidiaries had a combined statutory surplus of \$112.5 million and had combined net written premiums and combined statutory net income for the nine month period ended September 30, 2015 of \$137.1 million and \$7.7 million, respectively.

At December 31, 2014, American Country, American Service and Gateway had a combined statutory surplus of \$63.0 million and had combined net written premiums and combined statutory net income for the twelve months ended December 31, 2014 of \$111.4 million and \$7.6 million, respectively.

Atlas did not declare or pay any dividends to its common shareholders during the nine month period ended September 30, 2015 or in the year ended December 31, 2014.

**7. INCOME TAXES**

Atlas' effective tax rate was 33.9% and 37.0% for the three and nine month periods ended September 30, 2015, respectively, and, due to the partial reversal of the deferred tax valuation allowance during the first nine months of 2014, 0.2% and 1.3% for the three and nine month periods ended September 30, 2014, respectively. The below table reconciles the U.S. statutory income tax rate of 34% to the effective tax rate (all amounts in '000s):

	Three Month Periods Ended				Nine Month Periods Ended			
	September 30, 2015		September 30, 2014		September 30, 2015		September 30, 2014	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate of 34%	\$2,071	34.0	\$1,190	34.0	\$5,447	34.0	\$2,839	34.0
Provision for deferred tax assets deemed unrealizable (valuation allowance)	—	—	(1,191)	(34.0)	—	—	(2,811)	(33.7)
Nondeductible expenses	65	1.1	3	0.1	111	0.7	8	0.1
State tax (net of federal benefit)	(40)	(0.7)	6	0.1	105	0.7	72	0.9
Nondeductible purchase accounting adjustment	—	—	—	—	319	2.0	—	—
Other	(28)	(0.5)	—	—	(59)	(0.4)	—	—
	\$2,068	33.9	\$8	0.2	\$5,923	37.0	\$108	1.3

Provision for income taxes for  
continuing operations

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Income tax expense consists of the following for the three and nine month periods ended September 30, 2015 and September 30, 2014:

	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Current tax expense	\$2,616	\$1,487	\$6,306	\$2,834
Deferred tax benefit	(548)	(1,479)	(383)	(2,726)
Total	\$2,068	\$8	\$5,923	\$108

Upon the transaction forming Atlas on December 31, 2010, a yearly limitation as required by U.S. Internal Revenue Code of 1986 (as amended, "IRC") Section 382 that applies to changes in ownership on the future utilization of Atlas' net operating loss carryforwards was calculated. The Insurance Subsidiaries' prior parent retained those tax assets previously attributed to the Insurance Subsidiaries, which could not be utilized by Atlas as a result of this limitation. As a result, Atlas' ability to recognize future tax benefits associated with a portion of its deferred tax assets generated during prior years has been permanently limited to the amount determined under IRC Section 382. The result is a maximum expected net deferred tax asset that Atlas has available after the merger which is believed more likely than not to be utilized in the future, after consideration of the valuation allowance.

On July 22, 2013, as a result of shareholder activity, a "triggering event" as determined under IRC Section 382 occurred. As a result, under IRC Section 382, the use of the Company's net operating loss and other carryforwards will be limited as a result of this "ownership change" for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders owning 5% or greater portions of the Company's shares. Due to this triggering event, the Company estimates that it will retain total tax effected federal net operating loss carryforwards of approximately \$13.1 million as of September 30, 2015.

The components of net deferred income tax assets and liabilities as of September 30, 2015 and December 31, 2014 are as follows (all amounts in '000s):

As of:	September 30, 2015	December 31, 2014
Gross deferred tax assets:		
Unpaid claims and unearned premiums	\$8,278	\$5,560
Loss carryforwards	13,119	14,212
Bad debts	303	191
Other	2,453	1,266
Total gross deferred tax assets	24,153	21,229
Gross deferred tax liabilities:		
Deferred policy acquisition costs	3,638	2,776
Securities	697	740
Other	1,634	396
Total gross deferred tax liabilities	5,969	3,912
Net deferred tax assets	\$18,184	\$17,317

Amounts and expiration dates of the operating loss carryforwards as of September 30, 2015 are as follows (all amounts in '000s):

Year of Occurrence	Year of Expiration	Amount
2001	2021	\$5,767
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	7,121

2012	2032	2,576
Total		\$38,584

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Atlas has not established a valuation allowance for its gross future deferred tax assets as of September 30, 2015 or as of December 31, 2014. Based on Atlas' expectations of future taxable income, its ability to change its investment strategy, as well as reversing gross future tax liabilities, management believes it is more likely than not that Atlas will fully realize the net future tax assets. The Company, therefore, released its remaining valuation allowance at December 31, 2014.

Atlas accounts for uncertain tax positions in accordance with the income taxes accounting guidance. Atlas has analyzed filing positions in the federal and state jurisdiction where it is required to file tax returns, as well as the open tax years in these jurisdictions. Atlas believes that its federal and state income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain federal and state income tax positions have been recorded. Atlas would recognize interest and penalties related to unrecognized tax benefits as a component of the provision for federal income taxes. Atlas did not incur any federal income tax related interest income, interest expense or penalties for the nine month period ended September 30, 2015 or the year ended December 31, 2014. Tax years 2009 through 2015 are subject to examination by the Internal Revenue Service ("IRS"). The Company's 2012 tax year is currently under examination by the IRS.

**8. COMMITMENTS AND CONTINGENCIES**

On May 22, 2012, Atlas closed the sale of its headquarters building to 150 Northwest Point, LLC, a Delaware limited liability company. Atlas recognized a gain on the sale of this property of \$213,000, which will be deferred and recognized over the 5 year lease term. Atlas recognized \$11,000 as an offset to rent expense for each of the three month periods ended September 30, 2015 and September 30, 2014, respectively. Total rental expense recognized on the headquarters building was \$178,000 and \$169,000 for the three month periods ended September 30, 2015 and September 30, 2014, respectively. Atlas recognized \$32,000 as an offset to rent expense for each of the nine month periods ended September 30, 2015 and 2014. Total rental expense recognized on the headquarters building was \$533,000 and \$530,000 for the nine month periods ended September 30, 2015 and 2014, respectively.

As of September 30, 2015, Atlas has the following future minimum rentals, related principally to office space, required under operating leases (all amounts in '000s):

Year	2015	2016	2017	2018	2019 & Beyond	Total
Amount	\$472	\$1,555	\$1,012	\$753	\$2,533	\$6,325

The Company has entered into subscription agreements to commit up to \$10.3 million of capital to allow for participation by the Company in limited liability investments which invest in income-producing real estate, small business loans and equity securities. As of September 30, 2015, the unfunded commitment was \$6.5 million.

In the ordinary course of its business, Atlas is involved in legal proceedings, including lawsuits, regulatory examinations and inquiries. Based on currently available information, the Company does not believe that it is reasonably possible that any of its pending legal proceedings will have a material effect on the Company's Consolidated Financial Statements.

Atlas is exposed to credit risk on balances receivable from policyholders, agents and reinsurers. Credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. Atlas has procedures to monitor and minimize its exposure to delinquent agent balances including, but not limited to, reviewing account current statements, processing policy cancellations for non-payment and other collection efforts deemed appropriate. Atlas also has procedures to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvency.

Virtually all states require insurers licensed to do business therein to bear a portion of contingent and incurred claim handling expenses and the unfunded amount of "covered" claim and unearned premium obligations of impaired or insolvent insurance companies, either up to the policy's limit, the applicable guaranty fund covered claim obligation cap, or 100% of statutorily defined workers' compensation benefits, subject to applicable deductibles. These obligations are funded by assessments, made on a retrospective, prospective or pre-funded basis, which are levied by guaranty associations within the state, up to prescribed limits (typically 2% of "net direct written premium"), on all

member insurers in the state on the basis of the proportionate share of the premiums written by member insurers in certain covered lines of business in which the impaired, insolvent or failed insurer was engaged. In addition, as a condition to the ability to conduct business in certain states (and within the jurisdiction of some local governments), insurance companies are subject to or required to participate in various premium or loss based insurance-related assessments, including mandatory (a/k/a “involuntary”) insurance pools, underwriting associations, workers' compensation second-injury funds, reinsurance funds and other state insurance facilities.



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## 9. SOFTWARE AND OFFICE EQUIPMENT

Atlas held the following internal use software and capital assets as of September 30, 2015 and as of December 31, 2014, excluding assets held for sale (all amounts in '000s):

As of:	September 30, 2015	December 31, 2014
Leasehold improvements	\$ 501	\$ 501
Internal use software	7,484	7,372
Computer equipment	2,186	1,844
Furniture and other office equipment	588	397
Total	10,759	10,114
Accumulated depreciation	(8,066	)(7,295
Balance, end of period	\$2,693	\$2,819

Depreciation expense and amortization was \$290,000 and \$213,000 for the three month periods ended September 30, 2015 and September 30, 2014, respectively. Depreciation expense and amortization was \$684,000 and \$645,000 for the nine month periods ended September 30, 2015 and 2014, respectively. For the year ended December 31, 2014, depreciation expense and amortization was \$856,000.

Effective July 1, 2015, the Company implemented a new policy management software and began amortizing the cost of the software. Total capitalized cost of the software was approximately \$1.8 million. Amortization expense for the new software for the three and nine month periods ended September 30, 2015 was \$92,000.

## 10. UNDERWRITING POLICY AND REINSURANCE CEDED

**Underwriting Risk** - Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic loss risk, reinsurance coverage risk and that loss and loss adjustment expense reserves are not sufficient.

**Reinsurance Ceded** - As is customary in the insurance industry, Atlas reinsures portions of certain insurance policies it writes, thereby providing a greater diversification of risk and minimizing exposure on larger risks. Atlas remains contingently at risk with respect to any reinsurance ceded and would incur an additional loss if an assuming company were unable to meet its obligation under the reinsurance treaty.

Atlas monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Letters of credit are maintained for any unauthorized reinsurer to cover ceded unearned premium, ceded loss reserve balances and ceded paid losses. These policies mitigate the risk of credit quality or dispute from becoming a danger to financial strength. To date, the Company has not experienced any material difficulties in collecting reinsurance recoverables.

Gross premiums written and ceded premiums, losses and commissions for the three and nine month periods ended September 30, 2015 and 2014 are as follows (all amounts in '000s):

	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Direct premiums written	\$65,185	\$41,994	\$156,506	\$96,099
Assumed premiums written	130	52	357	(28
Ceded premiums written	(13,345	)(4,275	)(27,962	)(7,733
Net premiums written	\$51,970	\$37,771	\$128,901	\$88,338
Direct premiums earned	\$50,700	\$27,970	\$130,299	\$77,331
Assumed premiums earned	129	25	410	45
Ceded premiums earned	(9,163	)(2,420	)(20,572	)(6,541
Net premiums earned	\$41,666	\$25,575	\$110,137	\$70,835
Ceded losses and loss adjustment expenses	4,859	1,112	8,691	1,859

Ceding commissions	2,368	695	4,888	1,636
11. UNPAID CLAIMS				

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Claims liabilities - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the three and nine month periods ended September 30, 2015 and 2014 were as follows (all amounts in '000s):

	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Unpaid claims, beginning of period	\$126,458	\$99,305	\$102,430	\$101,385
Less: reinsurance recoverable	26,844	15,658	18,421	18,144
Net unpaid claims, beginning of period	99,614	83,647	84,009	83,241
Net reserves acquired	—	—	19,396	—
Change in retroactive reinsurance ceded	937	500	1,824	2,130
Incurred related to:				
Current year	25,632	16,135	66,371	44,851
Prior years	(644	)(241	)(1,922	)(616
	24,988	15,894	64,449	44,235
Paid related to:				
Current year	9,373	5,413	19,830	11,831
Prior years	15,980	10,459	49,662	33,606
	25,353	15,872	69,492	45,437
Net unpaid claims, end of period	100,186	84,169	100,186	84,169
Add: reinsurance recoverable	23,554	14,465	23,554	14,465
Unpaid claims, end of period	\$123,740	\$98,634	\$123,740	\$98,634

The process of establishing the estimated provision for unpaid claims is complex and imprecise, as it relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

The establishment of reserves is an inherently uncertain process involving estimates; and current provisions may not be sufficient. Adjustments to reserves, both positive and negative, are reflected quarterly in the statement of income as estimates are updated.

The favorable development in the three month period ended September 30, 2015 was related to a reserve study on the run-off workers' compensation program and a recovery on a surety claim from a prior accident year. Atlas utilizes a third party claims administrator for the run-off worker's compensation program. Actual unallocated loss adjustment expenses incurred related to the run-off workers' compensation program were less than expected.

The favorable development in the nine month period ended September 30, 2015 was primarily related to a redundancy in Gateway's commercial auto and other run-off programs' reserves offset by Atlas' participation in non-voluntary assigned risk pools. Assigned risk pools are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means. Gateway's favorable development was primarily related to claims incurred prior to the pre-acquisition period. Atlas issued preferred shares and recorded additional acquisition expense to partially offset this favorable development in the first quarter of 2015.

## 12. SHARE BASED COMPENSATION

On January 6, 2011, Atlas adopted a stock option plan (the "Stock Option Plan") in order to advance the interests of Atlas by providing incentives to eligible persons defined in the plan. In the second quarter of 2013, a new equity incentive plan (the "Equity Incentive Plan") was approved by the Company's common shareholders at the Annual General Meeting, and Atlas ceased to grant new stock options under the preceding Stock Option Plan. The Equity

Incentive Plan is a securities based compensation plan, pursuant to which Atlas may issue restricted stock grants for ordinary voting common shares, restricted units, stock grants for ordinary voting common shares, stock options and other forms of equity incentives to eligible persons as part of their compensation. The Equity Incentive Plan is considered an amendment and restatement of the Stock Option Plan, although outstanding stock options issued pursuant to the Stock Option Plan will continue to be governed by the terms of the Stock Option Plan.

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Stock options - Stock option activity for the nine month periods ended September 30, 2015 and 2014 follows (prices in Canadian dollars designated with "C\$" and United States dollars designated with "US\$"):

	Nine Month Periods Ended			
	September 30, 2015		September 30, 2014	
C\$ Denominated:	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding, beginning of period	224,623	C\$6.05	224,623	C\$6.05
Granted	—	—	—	—
Exercised	—	—	—	—
Outstanding, end of period	224,623	C\$6.05	224,623	C\$6.05

	Nine Month Periods Ended			
	September 30, 2015		September 30, 2014	
US\$ Denominated:	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding, beginning of period	175,000	US\$13.26	—	—
Granted	200,000	US\$20.29	175,000	US\$13.26
Exercised	—	—	—	—
Outstanding, end of period	375,000	US\$17.01	175,000	US\$13.26

There are 252,400 stock options that are exercisable as of September 30, 2015. The stock option grants outstanding have a weighted average remaining life of 7.89 years and have an intrinsic value of \$4.0 million as of September 30, 2015. On March 12, 2015, the Board of Directors of Atlas Financial Holdings, Inc. (the "Company") granted equity awards of (i) 200,000 restricted ordinary common shares of the Company ("Ordinary Shares") and (ii) 200,000 options to acquire Ordinary Shares to the executive officers of the Company as part of the Company's annual compensation process. The awards were made under the Company's Equity Incentive Plan.

The awards vest in five equal annual installments of 20%, provided that an installment shall not vest unless an annual performance target based on specific return on average equity growth rates is met. In the event the performance target is not met in any year, the 20% installment for such year shall not vest, but such non-vested installment shall carry forward and can become vested in future years (up to the fifth year from the date of grant), subject to achievement in a future year of the applicable performance target for such year.

The Monte-Carlo simulation model was used, for both the options and restricted share grants, to estimate the fair value of compensation expense as a result of the performance based component of these grants. Utilizing the Monte-Carlo simulation model, the fair values were \$1.5 million and \$1.9 million for the options and restricted share grants, respectively. This expense will be amortized over the anticipated vesting period.

Restricted shares - The activity for the restricted shares and restricted share units for the nine month periods ended September 30, 2015 and 2014 are as follows:

	Nine Month Periods Ended			
	September 30, 2015		September 30, 2014	
	Number of Shares	Weighted Average Fair Value at Grant Date	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested, beginning of period	185,190	\$12.20	—	\$—
Granted	200,000	17.99	185,190	12.20
Vested	(37,035)	) 12.20	—	—
Non-vested, end of period	348,155	\$15.53	185,190	\$12.20

In accordance with ASC 718 (Stock-Based Compensation), Atlas has recognized share-based compensation expense on a straight-line basis over the requisite service period of the last separately vesting portion of the award. Share-based

compensation expense is a component of other underwriting expenses on the income statement. Atlas recognized \$423,000 and \$1.2 million in share-based compensation expense for the three and nine month periods ended September 30, 2015, respectively. For the three and nine

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month periods ended September 30, 2014, we incurred \$301,000 and \$1.2 million, respectively, of share-based compensation expense. Total unearned share-based compensation expense was \$1.9 million related to all stock option grants and \$3.2 million related to restricted shares and restricted share units as of September 30, 2015. This unearned share-based compensation expense will be amortized over the next 53 months.

**13. OTHER EMPLOYEE BENEFIT PLANS**

**Defined Contribution Plan** - On March 1, 2011, Atlas formed a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Employees can choose to contribute up to 60% of their annual earnings, but not more than \$18,000 for 2015, to the plan. Qualifying employees age 50 and older can contribute an additional \$6,000 during 2015. Effective April 2014, Atlas matches 100% of the employee contribution up to 2.5% of annual earnings plus 50% of additional contributions up to 2.5% of annual earnings for a total maximum expense of 3.75% of annual earnings per participant. Atlas contributions are discretionary. Employees are 100% vested in their own contributions and vest in Atlas contributions based on years of service equally over 5 years with 100% vested after 5 years. Company contributions were \$225,000 and \$148,000 for the nine month periods ended September 30, 2015 and 2014, respectively.

**Employee Stock Purchase Plan** - On June 1, 2011, Atlas initiated the Atlas Employee Stock Purchase Plan (the "ESPP") to encourage continued employee interest in the operation, growth and development of Atlas and to provide an additional investment opportunity to employees. Beginning in June 2011, full time and permanent part time employees working more than 30 hours per week were allowed to invest up to 5% of adjusted salary in Atlas ordinary voting common shares. Effective April 2014, Atlas matches 100% of the employee contribution up to 2.5% of annual earnings plus 50% of additional contributions up to 5% of annual earnings for a total maximum expense of 5% of annual earnings per participant. Atlas also pays all administrative costs related to this plan. Atlas' costs incurred related to the matching portion of the ESPP were \$109,000 and \$77,000 for the nine month periods ended September 30, 2015 and 2014, respectively. Share purchases pursuant to this plan are made in the open market.

**14. SHARE CAPITAL**

The share capital is as follows:

	Shares Authorized	September 30, 2015		December 31, 2014	
		Shares Issued and Outstanding'000s)	Amount (in '000s)	Shares Issued and Outstanding'000s)	Amount (in '000s)
Preferred shares	100,000,000	6,940,500	\$6,941	2,000,000	\$2,000
Ordinary voting common shares	266,666,667	11,846,130	\$36	11,638,723	34
Restricted voting common shares	33,333,334	132,863	—	132,863	—
Total common shares	300,000,001	11,978,993	\$36	11,771,586	\$34

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by Kingsway Financial Services, Inc. (including its subsidiaries and affiliated companies, "Kingsway"). The restricted voting common shares are entitled to vote at all meetings of shareholders, except at meetings of holders of a specific class that are entitled to vote separately as a class. The restricted voting common shares as a class shall not carry more than 30% of the aggregate votes eligible to be voted at a general meeting of common shareholders. The restricted voting common shares will convert to ordinary voting common shares in the event that these Kingsway-owned shares are sold to non-affiliates of Kingsway.

There were 29,631 and 37,038 non-vested restricted stock units ("RSUs") as of September 30, 2015 and December 31, 2014, respectively. These RSUs are participative and are included in the computations of earnings per share and book value per share for these periods.

During the nine month period ended September 30, 2015, the Company issued 7,407 ordinary voting common shares as a result of the vesting of RSUs and 200,000 non-vested restricted shares to a director and the officers, respectively. These shares were granted and issued under the Company's Equity Incentive Plan.

During the first quarter of 2015, the Company issued 4,000,000 preferred shares as a portion of the consideration related to the Anchor acquisition and an additional 940,500 preferred shares pursuant to the Gateway stock purchase agreement. At September 30, 2015, there were 6,940,500 preferred shares outstanding. These preferred shares are

beneficially owned or controlled by the former parents of Gateway (2,940,500 preferred shares) and Anchor (4,000,000 preferred shares). The Gateway preferred shares issued during the first quarter of 2015 have been recorded as additional acquisition expense and not as an adjustment to goodwill because the fair value of the contingent consideration was determined to be zero at the date of the Gateway acquisition.



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In accordance with U.S. GAAP, such adjustments are reflected in the income statement in the period that the contingency is re-estimated. The estimate of this contingency could change in the future until all remaining claims are settled.

Preferred shareholders are entitled to dividends on a cumulative basis, whether or not declared by the Board of Directors, at the rate of \$0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. In liquidation, dissolution or winding-up of Atlas, preferred shareholders receive the greater of \$1.00 per share plus all declared and unpaid dividends or the amount they would receive in liquidation if the preferred shares had been converted to restricted voting common shares or ordinary voting common shares immediately prior to liquidation. The preferred shares are redeemable at the option of Atlas at a price of \$1.00 per share plus accrued and unpaid dividends, subject to certain conditions, prior to the conversion date. Preferred shares are not entitled to vote. Preferred shares are convertible into ordinary voting common shares at the option of the former parents of Gateway and Anchor at any date after the fifth year of issuance at the rate of 0.1270 and 0.0500, respectively, ordinary voting common shares for each preferred share. The conversion rate is subject to change if the number of ordinary voting common shares or restricted voting common shares changes by way of an anti-dilution event.

During the nine month period ended September 30, 2015, Atlas did not declare or pay dividends earned through the preferred shares. The former parents of Gateway and Anchor earned \$95,000 and \$101,000, respectively, in dividends during the nine month period ended September 30, 2015. Through September 30, 2015, Atlas has accrued \$279,000 and \$101,000 in dividends for the former parents of Gateway and Anchor, respectively, which remain unpaid.

**15. DEFERRED POLICY ACQUISITION COSTS**

Deferred policy acquisition costs for the nine month periods ended September 30, 2015 and 2014 (in '000s):

	Nine Month Periods Ended	
	September 30, 2015	September 30, 2014
Balance, beginning of period	\$8,166	\$6,674
Acquisition costs deferred	16,517	12,531
Amortization charged to income	13,983	10,252
Balance, end of period	\$10,700	\$8,953

**16. RELATED PARTY TRANSACTIONS**

During the periods presented, a small percentage of the Company's investment portfolio was allocated to investment vehicles, primarily focused on income generating real estate, that are considered related-party transactions. In these cases, one or more of the Company's directors may be deemed to control unrelated entities that may invest in these vehicles and may also manage these vehicles. In total, such related-party investments were less than 1% of the Company's total assets.

**17. NOTE PAYABLE**

On March 9, 2015, American Insurance Acquisition, Inc. ("American Acquisition") entered into a loan and security agreement ("Loan Agreement") for a \$35.0 million loan facility with Fifth Third Bank. The Loan Agreement includes a \$30.0 million line of credit ("Draw amount"), which can be drawn in increments at any time during the first twelve months of the agreement effective date of March 9, 2015. The \$30.0 million line of credit has a five year term and bears interest at one-month LIBOR plus 4.5%. The Loan Agreement also includes a \$5.0 million revolving line of credit ("Revolver") that bears interest at one month LIBOR plus 2.75%. This \$5.0 million revolving line of credit replaces the \$10.0 million revolving line of credit American Acquisition previously had in place with Fifth Third Bank.

The Loan Agreement also provides for the issuance of letters of credit in an amount up to \$2.0 million outstanding at any time. In addition, there is a non-utilization fee for each of the \$30.0 million line of credit and \$5.0 million revolving line of credit equal to 0.50% per annum of an amount equal to \$30.0 million and \$5.0 million, respectively, less the daily average of the aggregate principal amount outstanding under such credit lines (plus, in the case of the \$30.0 million line of credit, the aggregate amount of the letter of credit obligations outstanding).

The Loan Agreement requires American Acquisition to comply with customary affirmative and negative covenants, including those governing indebtedness, liens, investments, sales of assets, issuance of securities, and distributions. The Loan Agreement also requires American Acquisition to make mandatory prepayments under certain conditions

and to comply with certain financial covenants, including the ASI Pool Subsidiaries (defined below) maintaining a combined statutory net worth in an amount not less than \$60.0 million (subject to adjustment) and maintaining a minimum funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ratio. The Loan Agreement is secured by substantially all of the property of American Acquisition, including all of the outstanding shares of American Country, American Service and Gateway, which are wholly-owned direct subsidiaries of American Acquisition (the "ASI Pool Subsidiaries"). As of September 30, 2015, American Acquisition was in compliance with the covenants of the Loan Agreement.

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As of September 30, 2015, \$2.0 million in funds were accessed from the Revolver and used for the Anchor acquisition. \$15.5 million in funds were accessed against the Draw amount as of September 30, 2015. The draw was contributed to the ASI Pool Subsidiaries in exchange for surplus notes that carry a variable interest rate of prime plus 2% with a maturity date of April 30, 2020. No letters of credit were issued under the terms of this Loan Agreement as of September 30, 2015. As of September 30, 2015, the unused funds for the Revolver and the Draw Amount were \$3.0 million and \$14.5 million, respectively.

For the nine month period ended September 30, 2015, American Acquisition incurred interest expense of \$408,000 and bank fees of \$39,000 in connection with the Loan Agreement. As of September 30, 2015, unamortized bank fees associated with the Loan Agreement were \$298,000. These bank fees will be amortized over the next 53 months.

The following table provides the rollforward of Atlas' total debt outstanding for the three and nine month periods ended September 30, 2015 (all amounts in '000s):

	Balance at		Maturities and	Balance at
Three month period ended September 30, 2015	June 30, 2015	Issuances	Repayments	September 30, 2015
Revolver	\$2,500	\$—	\$(500)	)\$2,000
Draw amount	15,500	—	—	15,500
Total borrowings	\$18,000	\$—	\$(500)	)\$17,500
	Balance at		Maturities and	Balance at
Nine month period ended September 30, 2015	December 31, 2014	Issuances	Repayments	September 30, 2015
Revolver	\$—	\$2,500	\$(500)	)\$2,000
Draw amount	—	15,500	—	15,500
Total borrowings	\$—	\$18,000	\$(500)	)\$17,500

**18. VARIABLE INTEREST ENTITIES**

Atlas enters into various arrangements with variable interest entities (VIEs) in the normal course of business primarily to invest in income-producing real estate. These investments are with an unaffiliated third party developer within a limited liability company structure. The VIEs activities consist of the development, redevelopment and management of commercial, industrial or residential real estate.

We consolidate the VIEs when we determine we are the primary beneficiary of the VIE. This analysis includes a review of the VIE's capital structure, related contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and our involvement with the entity. When assessing the need to consolidate a VIE, we evaluate the design of the VIE as well as the related risks to which the entity exposes the variable interest holders.

Atlas deems itself to be a primary beneficiary of a VIE when we have the power to direct the activities of the VIE that most significantly affect the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, our consolidation conclusion depends on the breadth of our decision-making ability and our ability to influence activities that significantly affect the economic performance of the VIE.

During the third quarter of 2015, Atlas invested in several real estate entities that are VIEs in which we have determined that we are the primary beneficiary of these VIEs. As such, we have consolidated these entities and recorded a non-controlling interest for the third party economic interests of these entities. The following table presents the financial position of these variable interests in the consolidated VIEs, as classified in the financial statements (all amounts in '000s) as of September 30, 2015:

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	September 30, 2015
Assets	
Other investments	\$5,484
Cash and cash equivalents	295
Accounts receivable and other assets	18
Total Assets	\$5,797
Liabilities	
Other liabilities and accrued expenses	\$125
Total Liabilities	\$125
Shareholders' Equity	
Shareholders' equity attributable to Atlas	\$3,412
Shareholders' equity attributable to non-controlling interest	2,260
Total Shareholders' Equity	\$5,672

Third party ownership interests in consolidated VIEs are reflected as non-controlling interests in our financial statements.

## 19. SUBSEQUENT EVENTS

None.

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

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III.	<u>Application of Critical Accounting Estimates</u>	<u>30</u>
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear elsewhere in this document.

In this discussion and analysis, the term “common share” refers to the summation of restricted voting common shares and ordinary voting common shares when used to describe loss or book value per common share.

Forward-looking statements

This report contains “forward-looking statements,” within the meaning of the Private Securities Litigation Reform Act of 1995, which may include, but are not limited to, statements with respect to estimates of future expenses, revenue and profitability; trends affecting financial condition, cash flows and results of operations; the availability and terms of additional capital; dependence on key suppliers and other strategic partners; industry trends; the competitive and regulatory environment; the successful integration of acquisitions; the impact of losing one or more senior executives or failing to attract additional key personnel; and other factors referenced in this report.

Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Atlas to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political, regulatory and social uncertainties.

Although Atlas has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Factors that could cause or contribute to these differences include those discussed below and elsewhere, particularly in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2014. Forward-looking statements contained herein are made as of the date of this report, and Atlas disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty in them.

I. OVERVIEW

We are a financial services holding company incorporated under the laws of the Cayman Islands. Our core business is the underwriting of commercial automobile insurance policies, focusing on the “light” commercial automobile sector, which is carried out through our Insurance Subsidiaries. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business auto. Our goal is to always be the preferred specialty commercial transportation insurer in any geographic areas where our value proposition delivers benefit to all stakeholders. We are licensed to write property and casualty, or P&C, insurance in 49 states and the District of Columbia in the United States. The Insurance Subsidiaries distribute their products through a network of independent retail agents, and actively write insurance in 40 states and the District of Columbia. In addition, our recently acquired subsidiary, Global Liberty Insurance Company of New York, has approximately \$1 million of premium written in Florida; this business is currently under review to determine if market conditions appear to support the Company's expectations in terms of underwriting profit. This review involves both an internal pricing and competitive analysis as well as an external actuarial analysis which will examine both the Global Liberty book of business and industry results.

Over the past four years, we have disposed of non-core assets, consolidated infrastructure and placed into run-off certain non-core lines of business previously written by the Insurance Subsidiaries. Our focus going forward is the underwriting of commercial automobile insurance in the U.S. Substantially all of our new premiums written are in “light” commercial automobile lines of business.

Commercial Automobile

We insure people who move people around as a business. Our primary target market is made up of small to mid-size taxi, limousine, livery and non-emergency para-transit operators. The “light” commercial automobile policies we underwrite provide coverage for lightweight commercial vehicles typically with the minimum limits prescribed by statute, municipal or other regulatory requirements. The majority of our policyholders are individual owners or small fleet operators. In certain jurisdictions like Illinois and New York, we have also been successful working with larger operators who retain a meaningful amount of their own risk of loss through self-insurance or self-funded captive insurance entity arrangements. In these cases, we provide support in the areas of day-to-day policy administration and claims handling consistent with the value proposition we offer to all of our insureds,

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generally on a fee for service basis. We may also provide excess coverage above the levels of risk retained by the insureds where a better than average loss ratio is expected. Through these arrangements, we are able to effectively utilize the significant specialized operating infrastructure we maintain to generate revenue from business segments that may otherwise be more price sensitive in the current market environment.

The “light” commercial automobile sector is a subset of the historically profitable commercial automobile insurance industry segment. Commercial automobile insurance has generally outperformed the overall P&C industry over the past ten years based on data compiled by SNL Financial. This data indicates that for 2014 the total U.S. market for commercial automobile liability insurance was approximately \$26 billion. The size of the commercial automobile insurance market can be affected significantly by many factors, such as the underwriting capacity and underwriting criteria of automobile insurance carriers and general economic conditions. Historically, the commercial automobile insurance market has been characterized by periods of excess underwriting capacity and increased price competition followed by periods of reduced capacity and higher premium rates.

We believe that there is a positive correlation between the economy and commercial automobile insurance in general. Operators of “light” commercial automobiles may be less likely than other business segments within the commercial automobile insurance market to take vehicles out of service, as their businesses and business reputations rely heavily on availability. With respect to certain business lines such as the taxi line, there are also other factors such as the cost and limited supply of medallions, which may discourage a policyholder from taking vehicles out of service in the face of reduced demand for the use of the vehicle.

### Surety

Our surety program primarily consisted of U.S. Customs bonds. We engage a former affiliate, Avalon Risk Management, to help coordinate customer service and claim handling for the surety bonds written as this program runs off. This non-core program is 100% reinsured to an unrelated third party and has been transitioned to another carrier. No new business is being written in connection with this program in 2015, however, there was a small amount of renewals recorded in 2015.

### Other

The other line of business is comprised of Gateway's truck and workers' compensation programs, Atlas' non-standard personal lines business, Global Liberty's homeowners program and assigned risk business.

The Gateway truck and workers' compensation programs were put into run-off during 2012. The workers' compensation program is 100% reinsured retrospectively and prospectively to an unrelated third party. The process of non-renewing the Global Liberty homeowners program began prior to Atlas' acquisition of the company and remains underway. The homeowners program is also substantially reinsured.

### Revenues

We derive our revenues primarily from premiums from our insurance policies and income from our investment portfolio. Our underwriting approach is to price our products to generate consistent underwriting profit for the insurance companies we own. As with all P&C insurance companies, the impact of price changes is reflected in our financial results over time. Price changes on our in-force policies occur as they are renewed. This cycle generally takes twelve months for our entire book of business and up to an additional twelve months to earn a full year of premium at the renewal rate.

We approach investment and capital management with the intention of supporting insurance operations by providing a stable source of capital and income to supplement underwriting income. The goals of our investment policy are to protect capital while optimizing investment income and capital appreciation and maintaining appropriate liquidity. We follow a formal investment policy, and the Board of Directors reviews the portfolio performance at least quarterly for compliance with the established guidelines. The Investment Committee of the Board of Directors provides interim guidance and analysis with respect to asset allocation, as deemed appropriate.

### Expenses

Net claims incurred expenses are a function of the amount and type of insurance contracts we write and of the loss experience of the underlying risks. We record net claims incurred based on an actuarial analysis of the estimated losses we expect to be reported on contracts written. We seek to establish case reserves at the maximum probable exposure based on our historical claims experience. Our ability to estimate net claims incurred accurately at the time



of pricing our contracts is a critical factor in determining our profitability. The amount reported under net claims incurred in any period includes payments in the period net of the change in the value of the reserves for net claims incurred between the beginning and the end of the period as well as development of reserves for losses incurred in prior periods, whether favorable or unfavorable.

Commissions and other underwriting expenses consist principally of brokerage and agent commissions and, to a lesser extent, premium taxes. The brokerage and agent commissions are reduced by ceding commissions received from assuming reinsurers that represent a percentage of the premiums on insurance policies and reinsurance contracts written and vary depending upon the amount and types of contracts written.

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Other operating and general expenses consist primarily of personnel expenses (including salaries, benefits and certain costs associated with awards under our equity compensation plans, such as stock compensation expense) and other general operating expenses. An increased premium writings will improve our operating scale and will lead to reduced operating expense ratios as a result of the relatively fixed nature of a portion of our other underwriting expenses.

**II. CONSOLIDATED PERFORMANCE**

Third Quarter 2015 Financial Performance Summary (comparisons to Third Quarter 2014 unless otherwise noted):

• Gross premium written increased by 55.3% to \$65.3 million, which included an increase of 57.8% in our core commercial auto business

• In-force premium at September 30, 2015 was \$199.1 million

• Operating income was \$5.8 million for the three month period ended September 30, 2015, or \$0.46 per diluted share, compared to \$3.4 million for the three month period ended September 30, 2014, or \$0.28 per diluted share

• The combined ratio improved by 0.8 percentage points to 88.8%

• Underwriting results improved to \$4.7 million as compared to \$2.7 million for the same quarter of the prior year

• For the three month period ended September 30, 2015, net income attributable to Atlas was \$4.0 million compared to \$3.5 million for the three month period ended September 30, 2014

• Net earnings per diluted common share were \$0.32 representing a \$0.03 or 10.3% increase from third quarter 2014

• Book value per diluted common share on September 30, 2015 was \$9.88, compared to \$9.08 at December 31, 2014 and \$8.24 at September 30, 2014

• Annualized after tax return on common equity ("ROCE") was 13.6% in the third quarter of 2015, which includes the effect of Atlas becoming a full U.S. taxpayer in 2015 <sup>1</sup>

The following financial data is derived from Atlas' unaudited consolidated financial statements for the three and nine month periods ended September 30, 2015 and 2014.

Selected financial information (in '000s, except per share values)

	Three Month Periods Ended		Nine Month Periods Ended	
	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014
Gross premium written	\$65,315	\$42,046	\$156,863	\$96,071
Net premium earned	41,666	25,575	110,137	70,835
Net claims incurred	24,988	15,894	64,449	44,235
Acquisition costs	4,988	3,686	13,983	10,252
Other underwriting expenses	7,013	3,329	17,229	10,377
Net underwriting income	4,677	2,666	14,476	5,971
Net investment income	1,093	768	2,804	2,226
Income from operating activities, before tax	5,770	3,434	17,280	8,197
Less: Costs incurred related to acquisitions	—	—	1,920	—
Realized gains and other income	360	67	698	155
Net income before tax	6,130	3,501	16,058	8,352
Income tax expense	2,068	8	5,923	108
Net income including non-controlling interest	4,062	3,493	10,135	8,244
Less: net income attributable to non-controlling interest	38	—	38	—
Net income attributable to Atlas	\$4,024	\$3,493	\$10,097	\$8,244

**Key Financial Ratios:**

Loss ratio	60.0	% 62.2	% 58.6	% 62.5	%
Acquisition cost ratio	12.0	% 14.4	% 12.7	% 14.5	%
Other underwriting expense ratio	16.8	% 13.0	% 15.6	% 14.6	%
Combined ratio	88.8	% 89.6	% 86.9	% 91.6	%

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Return on equity (annualized)	13.2	% 14.3	% 11.5	% 13.5	%
Return on common equity (annualized) <sup>1</sup>	13.6	% 14.5	% 11.7	% 13.7	%
Adjusted operating income per diluted common share	\$0.46	\$0.28	\$1.36	\$0.74	
Earnings per diluted common share	\$0.32	\$0.29	\$0.80	\$0.75	
Book value per common shares outstanding	\$9.88	\$8.24	\$9.88	\$8.24	

<sup>1</sup> - Return on common equity (ROCE)=(net income - preferred dividends)/common equity; this formula is non-U.S. GAAP measure.

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## Third Quarter 2015 compared to Third Quarter 2014:

Atlas' combined ratio for the three month period ended September 30, 2015 was 88.8%, compared to 89.6% for the three month period ended September 30, 2014.

There was a 57.8% and a 37.8% increase in gross and net premium written, respectively, related to core commercial lines for the three month period ended September 30, 2015 compared to the three month period ended September 30, 2014. The loss ratio improvement in 2015 as compared to 2014 resulted primarily from pricing activity related to our core lines and the favorable development on our workers' compensation and surety programs. The overall loss ratio for the three month period ended September 30, 2015 improved to 60.0% from 62.2% in the three month period ended September 30, 2014. We continue to see opportunities to positively impact pricing in 2015.

Net premium earned increased by 62.9% in the three month period ended September 30, 2015 to \$41.7 million compared to \$25.6 million for the three month period ended September 30, 2014. Global Liberty accounted for \$8.0 million of this increase. The remaining increase in net earned premiums resulted from organic growth primarily in the states of California, Louisiana, Minnesota, Oregon and Washington. Excluding the impact of Global Liberty's incremental premium, organic growth in the third quarter of 2015 was 31.7% on a year over year basis. Further excluding our NY Excess Taxi program which is not expected to vary considerably in size year over year, organic growth was 47.2%.

Based on a recent analysis of the niche markets on which we focus, we believe that the total vehicle count has increased approximately 19% in the past two years. At our current rate levels, we believe the size of the addressable market in terms of premium has increased approximately 30% over that same period as compared to earlier projections. We believe that our insurance companies can continue to grow within these specialty segments to a market share of 20% without having a disproportionate share of the market. Atlas' focus has been, and continues to be, utilizing our expertise, experience and strong value proposition to maximize underwriting profit. It is important to note that we continue to see favorable market trends within our niche and believe that increased opportunity to expand underwriting margin will exist. These projections are subject to change should the competitive environment reverse from current trends. ROCE remains our priority, and our objective will always be to deliver better than industry level results based on our specialized focus. At current net written premium to surplus levels, we believe that managing volume, operating margin and financial leverage should result in the maximizing of ROCE and value creation for shareholders. Self funded growth is a priority, and tools such as our quota share reinsurance program and credit facility provide important flexibility in this regard.

Atlas generated net investment income of \$1.1 million for the three month period ended September 30, 2015, as well as \$360,000 of realized gains and other income. This resulted in a 2.1% annualized yield for the three month period ended September 30, 2015. Atlas generated net investment income of \$768,000 for the three month period ended September 30, 2014, as well as \$67,000 of realized gains. This resulted in a 1.9% annualized yield for the three month period ended September 30, 2014.

Overall, net income attributable to Atlas was \$4.0 million for the three month period ended September 30, 2015. After the dilutive impact of the convertible preferred shares and stock options, earnings per diluted common share in the three month period ended September 30, 2015 was \$0.32. This compares to net income of \$3.5 million and earnings per diluted common share of \$0.29 in the three month period ended September 30, 2014.

Adjusted operating income is an internal performance measure used in the management of the Company's operations. It represents after-tax operational results excluding, as applicable, net realized gains or losses, net impairment charges recognized in earnings and other items. These amounts are more heavily influenced by market opportunities and other external factors. Adjusted operating income should not be viewed as a substitute for U.S. GAAP net income.

The increase in Atlas' net income and the impact on earnings per diluted common share for the three month periods ended September 30, 2015 and 2014 are summarized in the table below:

Net Income (in '000's, except per share values)

Three Month Periods Ended	
September 30,	September 30,
2015	2014

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Adjusted operating income attributable to Atlas	\$5,732	\$0.46	\$3,434	\$0.28
Add: Other income	269	0.01	(1)	—
Add: Net investment gains	91	0.01	68	0.01
Less: income tax expense	2,068	0.16	8	—
Net income attributable to Atlas	\$4,024	\$0.32	\$3,493	\$0.29

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For the three month period ended September 30, 2015, adjusted operating income increased \$0.18 per diluted common share to \$0.46 primarily due to premium growth, increased operating efficiency and favorable rate increases, while the \$0.32 per diluted common share for three month period ended September 30, 2015 was tempered as compared to the \$0.29 per diluted common share for the three month period ended September 30, 2014 as a result of the tax treatment during 2014 where the company was offsetting tax expense with a corresponding decrease to its valuation allowance on its deferred tax asset.

Nine month period ended September 30, 2015 compared to Nine month period ended September 30, 2014:

Atlas' combined ratio for the nine month period ended September 30, 2015 was 86.9%, compared to 91.6% for the nine month period ended September 30, 2014.

There was a 66.5% and a 46.1% increase in gross and net premium written, respectively, related to core commercial lines for the nine month period ended September 30, 2015 compared to the nine month period ended September 30, 2014. The overall loss ratio for the nine month period ended September 30, 2015 improved to 58.6% from 62.5% in the nine month period ended September 30, 2014. The majority of this improvement resulted from a redundancy in Gateway's commercial auto and other run-off programs' reserves.

Net premium earned increased by 55.5% in the nine month period ended September 30, 2015 to \$110.1 million compared to \$70.8 million for the nine month period ended September 30, 2014. Global Liberty accounted for \$17.4 million of this increase. The remaining increase in net earned premiums resulted from organic growth primarily in the states of California, Louisiana, New York, Oregon and Washington excluding the impact of Global Liberty's incremental premium.

Atlas generated net investment income of \$2.8 million for the nine month period ended September 30, 2015, as well as \$698,000 of realized gains and other income. This resulted in a 2.1% annualized yield for the nine month period ended September 30, 2015. Atlas generated net investment income of \$2.2 million for the nine month period ended September 30, 2014, as well as \$155,000 of realized gains. This resulted in a 2.0% annualized yield for the nine month period ended September 30, 2014. The marginal increase in yield for the nine month period ended September 30, 2015 is attributable to positive returns on certain securities and other investments. An equity raise, which occurred during the second quarter of 2014, increased the Company's cash and cash equivalent balances, which are included in the average securities at cost.

Overall, Atlas generated net income, excluding non-controlling interest, of \$10.1 million for the nine month period ended September 30, 2015. After the dilutive impact of the convertible preferred shares and stock options, earnings per diluted common share in the nine month period ended September 30, 2015 was \$0.80. This compares to net income of \$8.2 million and earnings per diluted common share of \$0.75 in the nine month period ended September 30, 2014.

The increase in Atlas' net income and the impact on earnings per diluted common share for the nine month periods ended September 30, 2015 and 2014 are summarized in the table below:

Net Income (in '000's, except per share values)

	Nine Month Periods Ended			
	September 30, 2015		September 30, 2014	
Adjusted operating income attributable to Atlas	\$ 17,242	\$ 1.36	\$ 8,197	\$ 0.74
Add: Other income	426	0.03	1	0.01
Add: Net investment gains	272	0.02	154	0.01
Less: expenses incurred related to Anchor acquisition	978	0.08	—	—
Less: expense incurred pursuant to Gateway stock purchase agreement	942	0.07	—	—
Less: income tax expense	5,923	0.46	108	0.01
Net income attributable to Atlas	\$ 10,097	\$ 0.80	\$ 8,244	\$ 0.75

For the nine month period ended September 30, 2015, adjusted operating income increased \$0.62 per diluted common share primarily due to premium growth and favorable rate increases. Because the Company had no valuation allowance on its deferred tax asset to offset tax expense like it did for 2014, earnings per diluted common share for the nine month period ended September 30, 2015 increased \$0.05.



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III. APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements.

The most critical estimates include those used in determining:

- Fair value and impairment of financial assets;
- Deferred policy acquisition costs recoverability;
- Business combination;
- Reserve for property-liability insurance claims and claims expense estimation; and
- Deferred tax asset valuation ("DTA").

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. It is reasonably likely that changes in these items could occur from period to period and result in a material impact on our consolidated financial statements.

A brief summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these estimates, see the referenced sections of this document. For a complete summary of our significant accounting policies, see the notes to the condensed consolidated financial statements and our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Fair values of financial instruments - Atlas has used the following methods and assumptions in estimating its fair value disclosures:

Fair values for bonds and equity securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services through a bank trustee.

Atlas' fixed income portfolio is managed by a SEC registered investment advisor specializing in the management of insurance company portfolios. Management works directly with them to ensure that Atlas benefits from their expertise and also evaluates investments as well as specific positions independently using internal resources. Atlas' investment advisor has a team of credit analysts for all investment grade fixed income sectors. The investment process begins with an independent analyst review of each security's creditworthiness using both quantitative tools and qualitative review. At the issuer level, this includes reviews of past financial data, trends in financial stability, projections for the future, reliability of the management team in place, market data (credit spread, equity prices, trends in this data for the issuer and the issuer's industry). Reviews also consider industry trends and the macro-economic environment. This analysis is continuous, integrating new information as it becomes available. As of September 30, 2015, this process did not generate any significant difference in the rating assessment between Atlas' review and the rating agencies. Atlas employs specific control processes to determine the reasonableness of the fair value of its financial assets. These processes are designed to supplement those performed by our external portfolio manager to ensure that the values received from them are accurately recorded, that the data inputs and the valuation techniques utilized are appropriate and consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. For example, on a continuing basis, Atlas assesses the reasonableness of individual security values that have stale prices or whose changes exceed certain thresholds as compared to previous values received from our external portfolio manager or to expected prices. The portfolio is reviewed routinely for transaction volumes, new issuances, any changes in spreads, as well as the overall movement of interest rates along the yield curve to determine if sufficient activity and liquidity exists to provide a credible source for market valuations. When fair value determinations are expected to be more variable, they are validated through reviews by members of management or the Board of Directors who have relevant expertise and who are independent of those charged with executing investment transactions.

Impairment of financial assets - Atlas assesses, on a quarterly basis, whether there is objective evidence that a financial asset or group of financial assets is impaired. An investment is considered impaired when the fair value of



the investment is less than its cost or amortized cost. When an investment is impaired, the Company must make a determination as to whether the impairment is other-than-temporary.

Under U.S. GAAP, with respect to an investment in an impaired debt security, other-than temporary impairment ("OTTI") occurs if (a) there is intent to sell the debt security, (b) it is more likely than not it will be required to sell the debt security before its anticipated recovery, or (c) it is probable that all amounts due will be unable to be collected such that the entire cost basis of the security will not be recovered. If Atlas intends to sell the debt security, or will more likely than not be required to sell the debt security before the anticipated recovery, a loss in the entire amount of the impairment is reflected in net realized gains (losses) on investments in the consolidated statements of income and comprehensive income. If Atlas determines that it is probable it will be unable to collect all amounts and Atlas has no intent to sell the debt security, a credit loss is recognized in net realized gains (losses)

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on investments in the consolidated statements of income and comprehensive income to the extent that the fair value is less than the amortized cost basis; any difference between fair value and the new amortized cost basis (net of the credit loss) is reflected in other comprehensive income (losses), net of applicable income taxes.

For equity securities, the Company evaluates its ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Evidence considered to determine anticipated recovery are analysts' reports on the near-term prospects of the issuer and the financial condition of the issuer or the industry, in addition to the length and extent of the market value decline. If OTTI is identified, the equity security is adjusted to fair value through a charge to earnings.

Deferred policy acquisition costs - Atlas defers brokers' commissions, premium taxes and other underwriting and marketing costs directly relating to the successful acquisition of premiums written to the extent they are considered recoverable. These costs are then expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs. Atlas' deferred policy acquisition costs are reported net of deferred ceding commissions.

Claims liabilities - The provision for unpaid claims represents the estimated liabilities for reported claims, plus those incurred but not yet reported and the related estimated loss adjustment expenses. Unpaid claims expenses are determined using case-basis evaluations and statistical analyses, including insurance industry loss data, and represent estimates of the ultimate cost of all claims incurred. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate. The estimates are continually reviewed and adjusted as necessary; such adjustments are included in current operations and are accounted for as changes in estimates.

Valuation of deferred tax assets - Deferred taxes are recognized using the asset and liability method of accounting. Under this method, the future tax consequences attributable to temporary differences in the tax basis of assets, liabilities and items recognized directly in equity and the financial reporting basis of such items are recognized in the financial statements by recording deferred tax liabilities or deferred tax assets.

Deferred tax assets related to the carryforward of unused tax losses and credits and those arising from temporary differences are recognized only to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

In assessing the need for a valuation allowance, Atlas considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized, a valuation allowance is recorded.

As of September 30, 2015, there was no valuation allowance recorded against the Company's DTA.

Business combinations - The value of certain assets and liabilities acquired are subject to adjustment from the initial purchase price allocation as additional information is obtained, including, but not limited to, valuation of separately identifiable intangibles, the preferred stock issued to the seller, and deferred taxes.

The valuations are finalized within 12 months of the close of the acquisition (not including loss reserve development consideration, if applicable). The changes upon finalization to the initial purchase price allocation and valuation of assets and liabilities may result in an adjustment to identifiable intangible assets and goodwill. Adjustments to the provisional amounts identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined. The effect of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, are recorded in the same period's financial statements and presented separately on the income statement.



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## IV. OPERATING RESULTS

Three and nine month periods ended September 30, 2015 compared to the three and nine month periods ended September 30, 2014:

## Gross Premium Written

Atlas' core business is providing insurance for specialty operators in the public automobile insurance space, specifically users of light vehicles moving passengers for a fare. This business traditionally included taxi, limousine and paratransit operators. Today, it includes other commercially licensed livery operators as well. Each of the specialty business lines on which Atlas' strategy is focused is a subset of the approximately \$26 billion U.S. Commercial Auto industry segment.

There are a number of other programs that were written by our subsidiaries prior to Atlas' acquisition of these companies. These programs are non-core and have been placed into run-off as follows:

Our surety program primarily consisted of U.S. Customs bonds. We engage a former affiliate, Avalon Risk Management, to help coordinate customer service and claim handling for the surety bonds written as this program runs off. This non-core program is 100% reinsured to an unrelated third party and has been transitioned to another carrier. No new premiums are being written during 2015, however, a small amount of renewal business was recorded for the nine month period ended September 30, 2015. These policies will be non-renewed upon their next anniversary. The other lines of business in this category are comprised of Gateway's truck and workers' compensation programs, Atlas' non-standard personal lines business, Global Liberty's homeowners program and assigned risk business. The Gateway truck and workers' compensation programs were put into run-off during 2012. The workers' compensation program is 100% reinsured retrospectively and prospectively to an unrelated third party. The non-renewal process related to the Global Liberty homeowners program began prior to Atlas' acquisition and remains underway. This is a relatively small book of business which is substantially reinsured.

The following table summarizes gross premium written by line of business.

Gross premium written by line of business (in '000s)

	Three Month Periods Ended			Nine Month Periods Ended			
	September 30, 2015	September 30, 2014	% Change	September 30, 2015	September 30, 2014	% Change	
Commercial automobile	\$65,070	\$41,235	57.8	% \$155,930	\$93,628	66.5	%
Surety	(32)	)818	(103.9	)%175	2,626	(93.3	)%
Other	277	(7	)(4,057.1	)%758	(183	)(514.2	)%
	\$65,315	\$42,046	55.3	% \$156,863	\$96,071	63.3	%

For the three month period ended September 30, 2015, gross premium written was \$65.3 million compared to \$42.0 million in the three month period ended September 30, 2014, representing a 55.3% increase. In the three month period ended September 30, 2015, gross premium written from commercial automobile was \$65.1 million, representing an increase of 57.8% relative to the three month period ended September 30, 2014. We target primarily owner operators and small fleets within the taxi, limousine and paratransit segments. Our gross written premium from these target accounts increased 86.5% in the three month period ended September 30, 2015 as compared to the three month period ended September 30, 2014. For the third quarter of 2015, the Global Liberty acquisition accounted for 45.8% of the increase in gross premium from commercial automobile business relative to the third quarter of 2014. Deploying our hyper-focused model and strong value proposition, organic growth was achieved in mature states like Minnesota, developing states like California and through acquisition in the largest geographic market in our niche, New York. Meaningful increases in gross written premium for the three month period ended September 30, 2015 also resulted from organic growth in states such as Louisiana, Oregon and Washington.

For the nine month period ended September 30, 2015, gross premium written was \$156.9 million compared to \$96.1 million in the nine month period ended September 30, 2014, representing a 63.3% increase. Gross premium written from commercial automobile for the nine month period ended September 30, 2015 was \$155.9 million. Our gross written premium from our target accounts increased 66.5% in the nine month period ended September 30, 2015 as compared to the nine month period ended September 30, 2014. The Global Liberty acquisition accounted for 42.4% of the increase in gross written premium. In addition, during the period of January 1, 2015 through the date on which

Atlas acquired the company, Global Liberty wrote \$11.7 million in gross premiums. The remaining increase in gross written premium for the nine month period ended September 30, 2015 is attributable to Atlas' continued geographic penetration as a result of the positive response from both new and existing agents and insureds to Atlas' value proposition. Our net written premium from our target markets increased 37.8% and 46.1% for the three and nine month periods ended September 30, 2015, respectively, over the same periods last year.

As at September 30, 2015, in-force premium was \$199.1 million and the Company's gross unearned premium reserve was \$108.1 million.

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## Geographic Concentration

The following table summarizes gross premium written by state.

Gross premium written by state (\$ in '000s)

	Three Month Periods Ended				Nine Month Periods Ended				
	September 30, 2015		September 30, 2014		September 30, 2015		September 30, 2014		
New York	\$25,922	39.7	% \$16,645	39.6	% \$46,888	29.9	% \$25,313	26.3	%
California	7,870	12.0	% 3,317	7.9	% 15,667	10.0	% 5,908	6.1	%
Louisiana	4,498	6.9	% 3,415	8.1	% 9,626	6.1	% 4,995	5.2	%
Michigan	2,976	4.6	% 2,226	5.3	% 10,088	6.4	% 8,130	8.5	%
Virginia	2,328	3.6	% 1,024	2.4	% 4,987	3.2	% 2,770	2.9	%
Minnesota	2,266	3.5	% 1,481	3.5	% 6,815	4.3	% 5,217	5.4	%
Colorado	1,732	2.7	% 165	0.4	% 2,055	1.3	% 478	0.5	%
South Carolina	1,636	2.5	% 1,185	2.8	% 3,403	2.2	% 2,943	3.1	%
Missouri	1,511	2.3	% 1,267	3.0	% 2,664	1.7	% 2,499	2.6	%
Ohio	1,403	2.1	% 1,154	2.7	% 4,079	2.6	% 3,334	3.5	%
Other	13,173	20.1	% 10,167	24.3	% 50,591	32.3	% 34,484	35.9	%
Total	\$65,315	100.0	% \$42,046	100.0	% \$156,863	100.0	% \$96,071	100.0	%

This illustrates the geographically balanced growth of our gross premium written this year. Compared to the three month period ended September 30, 2014, we experienced growth in gross premium written in our core business in 31 states in the three month period ended September 30, 2015. We experienced quarter over quarter growth of greater than 100% in 11 of those 31 states, due to a continuing positive response from both new and existing agents to Atlas' value proposition and the current market environment.

Atlas saw similar geographic diversification in the nine month period ended September 30, 2015 where 18 states experienced growth of 50% or more as compared to the nine month period ended September 30, 2014.

## Ceded Premium Written

Ceded premium written is equal to premium ceded under the terms of Atlas' in force reinsurance treaties. Ceded premium written increased by 212.2% to \$13.3 million for the three month period ended September 30, 2015 compared to \$4.3 million for the three month period ended September 30, 2014. The increase in ceded premium written from the third quarter of 2014 is primarily due to Atlas' participation in a quota share reinsurance agreement for its commercial auto and general liability lines of business ("Quota Share"), which was implemented as of July 1, 2014. This reinsurance agreement had an initial cession rate of 5%, which was increased to 15% effective April 1, 2015. The Quota Share provides the Company with financial flexibility to manage expected growth and the timing of potential future capital raising activities. Global Liberty has 20% quota share reinsurance with SCOR Reinsurance Company ("SCOR Re").

In the nine month period ended September 30, 2015, ceded written premium increased by 261.6% to \$28.0 million compared to \$7.7 million in the nine month period ended September 30, 2014, primarily due to the Quota Share.

## Net Premium Written

Net premium written is equal to gross premium written less the ceded premium written under the terms of Atlas' in force reinsurance treaties. Net premium written increased 37.6% to \$52.0 million for the three month period ended September 30, 2015 compared to \$37.8 million for the three month period ended September 30, 2014. Net premium written increased 45.9% to \$128.9 million for the nine month period ended September 30, 2015 compared to \$88.3 million for the nine month period ended September 30, 2014. These changes are attributed to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above.

## Net Premium Earned

Premiums are earned ratably over the term of the underlying policy. Net premium earned was \$41.7 million in the three month period ended September 30, 2015, a 62.9% increase compared to \$25.6 million in the three month period ended September 30, 2014. These increases are attributed to the combined effects of the issues cited in the 'Gross

Premium Written' and 'Ceded Premium Written' sections above. Global Liberty accounted for \$8.0 million or 49.7% of this increase.

In the nine month period ended September 30, 2015, net premium earned increased 55.5% to \$110.1 million compared to \$70.8 million in the nine month period ended September 30, 2014, primarily due to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above. Global Liberty accounted for \$17.4 million or 44.4% of this increase.

Table of Contents**Claims Incurred**

The loss ratio relating to the claims incurred for the three month period ended September 30, 2015 was 60.0% compared to 62.2% for the three month period ended September 30, 2014. The loss ratio improvement relative to prior periods was primarily due to favorable development on run-off programs and better pricing in our core commercial auto lines. We believe that our extensive experience and expertise with respect to underwriting and claims management in all our commercial lines will allow us to continue this positive trend provided market conditions remain favorable. The Company is committed to maintaining and building on this underwriting and claim handling expertise as a core competency as the volume of business continues to increase.

The loss ratio relating to the claims incurred for the nine month period ended September 30, 2015 was 58.6% compared to 62.5% for the nine month period ended September 30, 2014. The loss ratio improvement relative to prior periods was primarily the result of favorable development on Gateway's commercial auto program, creating a 1.7% decrease in loss ratio for the nine month period ended September 30, 2015. Excluding the favorable development related to Gateway, the loss ratio for the nine month period ended September 30, 2015 was 60.3% compared to a 62.5% loss ratio for the nine month period ended September 30, 2014. The favorable development on run-off programs accounted for 0.6% of the decrease in loss ratio relative to prior periods.

**Acquisition Costs**

Acquisition costs represent commissions and taxes incurred on net premium earned offset by ceding commission on business reinsured by the Quota Share. Acquisition costs were \$5.0 million in the three month period ended September 30, 2015, or 12.0% of net premium earned, as compared to 14.4% in the three month period ended September 30, 2014. The decrease in the ratio is the result of the increased utilization of the Quota Share. On a pro-forma basis, without the effect of the Quota Share, the acquisition cost ratio would have been 15.8% in the third quarter of 2015.

For the nine month period ended September 30, 2015, acquisition costs were \$14.0 million, or 12.7% of net premium earned, as compared to 14.5% for the nine month period ended September 30, 2014. The decrease in the ratio is related to the Quota Share's ceding commissions. On a pro-forma basis, without the effect of Quota Share, the acquisition cost ratio would have been 15.5% for the nine month period ended September 30, 2015.

**Other Underwriting Expenses**

The other underwriting expense ratio was 16.8% in the three month period ended September 30, 2015 compared to 13.0% in the three month period ended September 30, 2014. For the nine month period ended September 30, 2015, the other underwriting expense ratio was 15.6% compared to 14.6% for the nine month period ended September 30, 2014. The increases in the other underwriting expense ratio are primarily related to the interest and bank charges related to the line of credit, retroactive reinsurance expense as a result of favorable development on Gateway's workers' compensation program and software amortization costs for the Company's new policy management system. Also, while the Quota Share provides a ceding commission to offset underwriting expense, this commission reduces acquisition costs rather than other underwriting expenses on the income statement. With this in mind, acquisition costs and other underwriting expenses should be examined collectively as total underwriting expenses to understand operating efficiency.

**Combined Ratio**

Underwriting profitability, as opposed to overall profitability or net earnings, is measured by the combined ratio. The combined ratio is the sum of the loss and loss adjustment expense (LAE) ratios, the acquisition cost ratio, and the underwriting expense ratio. The 2015 combined ratio improvement is attributable to the factors described in the 'Net Premium Earned', 'Claims Incurred', 'Acquisition Costs', and 'Other Underwriting Expenses' sections above. The table below indicates the impact of quota share reinsurance, interest expense and share based compensation on the combined ratio for the three and nine month periods ended September 30, 2015 and 2014:



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(in '000s, percentages to net earned premiums)

	Three Month Periods Ended				Nine Month Periods Ended					
	September 30, 2015		September 30, 2014		September 30, 2015		September 30, 2014			
	Amount	%	Amount	%	Amount	%	Amount	%		%
<b>Gross of Quota Share:</b>										
Net premiums earned	\$47,636	100.0	\$25,950	100.0	\$121,423	100.0	\$71,210	100.0		%
Net claims incurred	28,213	59.2	16,074	61.9	69,448	57.2	44,415	62.4		%
Acquisition costs	7,117	14.9	3,823	14.7	18,213	15.0	10,388	14.6		%
Other underwriting expenses excluding interest and share based compensation expenses	6,321	13.2	3,028	11.6	15,634	12.9	9,133	12.9		%
Interest expense	269	0.6	—	—	408	0.3	—	—		%
Share based compensation expense	423	0.9	301	1.2	1,187	1.0	1,244	1.7		%
Total underwriting profit and combined ratio	\$5,293	88.8	\$2,724	89.4	\$16,533	86.4	\$6,030	91.6		%
<b>Net of Quota Share:</b>										
Net premiums earned	\$41,666	100.0	\$25,575	100.0	\$110,137	100.0	\$70,835	100.0		%
Net claims incurred	24,988	60.0	15,894	62.2	64,449	58.6	44,235	62.5		%
Acquisition costs	4,988	12.0	3,686	14.4	13,983	12.7	10,252	14.5		%
Other underwriting expenses excluding interest and share based compensation expenses	6,321	15.2	3,028	11.8	15,634	14.2	9,133	12.8		%
Interest expense	269	0.6	—	—	408	0.3	—	—		%
Share based compensation expense	423	1.0	301	1.2	1,187	1.1	1,244	1.8		%
Total underwriting profit and combined ratio	\$4,677	88.8	\$2,666	89.6	\$14,476	86.9	\$5,971	91.6		%

## Net Investment Income

The following table summarizes investment results for the three and nine month periods ended September 30, 2015 and 2014 (in '000s except percentages):

	Three Month Periods Ended		Nine Month Periods Ended		
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	
Average securities at amortized cost	\$227,793	\$178,333	\$197,677	\$160,757	
Interest income after expenses	\$712	\$614	\$1,879	\$1,787	
Percent earned on average investments (annualized)	1.9	% 1.7	% 1.9	% 1.8	%
Net realized gains	\$91	\$68	\$272	\$154	
Dividend income	1	—	43	—	
Equity in investees	380	154	882	439	
Net investment income	\$1,184	\$836	\$3,076	\$2,380	
Total realized yield (annualized)	2.1	% 1.9	% 2.1	% 2.0	%

Investment income (excluding net realized gains) increased by 42.5% to \$1.1 million in the three month period ended September 30, 2015, compared to \$768,000 in the three month period ended September 30, 2014. These amounts are primarily comprised of interest income. The annualized realized yield on invested assets was 2.1% for the three month period ended September 30, 2015 and 1.9% for the three month period ended September 30, 2014. The increase in net investment income and total realized yield from the prior year period are the result of the Anchor acquisition and favorable returns on certain securities and other investments. The increase in average securities at cost is primarily the

result of the invested assets obtained from the Anchor acquisition.

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Investment income (excluding net realized gains) increased by 26.0% to \$2.8 million in the nine month period ended September 30, 2015, compared to \$2.2 million in the nine month period ended September 30, 2014. These amounts are primarily comprised of interest income. The annualized realized yield on invested assets was 2.1% for the nine month period ended September 30, 2015 and 2.0% for the nine month period ended September 30, 2014. The increase in net investment income and total realized yield from the prior year period are the result of the Anchor acquisition and favorable returns on certain securities and other investments. The increase in average securities at cost is primarily the result of the invested assets obtained from the Anchor acquisition.

**Net Realized Investment Gains**

Net realized investment gains in the three month period ended September 30, 2015 were \$91,000 compared to net realized investment gains of \$68,000 in the three month period ended September 30, 2014. The difference is the result of management's decision to sell certain securities to take advantage of favorable market conditions.

Net realized investment gains in the nine month period ended September 30, 2015 were \$272,000 compared to net realized investment gains of \$154,000 in the nine month period ended September 30, 2014. The difference is the result of management's decision to sell certain securities to take advantage of favorable market conditions.

**Other Income**

Atlas recorded other income of \$269,000 in the three month period ended September 30, 2015 and other expense of \$1,000 for the three month period ended September 30, 2014. This increase is primarily the result of fee income from Plainview and finder's fee associated with the Company's other investments. Atlas recorded other income of \$426,000 in the nine month period ended September 30, 2015 and \$1,000 for the nine month period ended September 30, 2014. This increase is primarily the result of fee income from Plainview and a finder's fee associated with the Company's other investments.

**Costs Related to Acquisitions**

Atlas incurred no expenses related to the acquisition of Anchor during the third quarter of 2015. For the nine month period ended September 30, 2015, Atlas recorded total expenses of \$1.9 million, or \$0.15 per diluted common share, related to the acquisition of Anchor and pursuant to the contingent adjustments relative to the Gateway stock purchase agreement. The Anchor costs of \$978,000 were incurred to effect the business combination including legal fees, advisory services, accounting fees, and internal general and administrative costs. The Gateway expense of \$942,000 related to the terms of the Gateway stock purchase agreement and the issuance of preferred shares pursuant to the terms of such agreement and is subject to adjustment in future periods.

**Income before Income Taxes**

Atlas generated pre-tax income of \$6.1 million in the three month period ended September 30, 2015, compared to pre-tax income of \$3.5 million in the three month period ended September 30, 2014, or a 75.1% increase over the prior quarter-to-date period. Atlas generated pre-tax income of \$16.1 million in the nine month period ended September 30, 2015, compared to pre-tax income of \$8.4 million in the nine month period ended September 30, 2014, or a 92.3% increase over the prior year-to-date period. The causes of these changes are attributed to the combined effects of the issues cited in the 'Net Premium Earned', 'Claims Incurred', 'Acquisition Costs', 'Other Underwriting Expenses', 'Net Investment Income', 'Net Realized Investment Gains', and 'Other Income' sections above.

**Income Tax Expense**

Atlas recognized tax expense of \$2.1 million in the three month period ended September 30, 2015 compared to \$8,000 in the three month period ended September 30, 2014. The Company was able to utilize deferred tax benefits to offset substantially all current income tax expense in the third quarter of 2014. Atlas recognized tax expense of \$5.9 million in the nine month period ended September 30, 2015 compared to \$108,000 in the nine month period ended September 30, 2014. The following table reconciles the statutory U.S. Federal tax rate of 34.0% to the actual effective tax rate for the three and nine month periods ended September 30, 2015 and 2014:

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## Tax Rate Reconciliation (in '000s)

	Three Month Periods Ended				Nine Month Periods Ended			
	September 30, 2015		September 30, 2014		September 30, 2015		September 30, 2014	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate of 34%	\$2,071	34.0	\$1,190	34.0	\$5,447	34.0	\$2,839	34.0
Provision for deferred tax assets deemed unrealizable (valuation allowance)	—	—	(1,191)	(34.0)	—	—	(2,811)	(33.7)
Nondeductible expenses	65	1.1	3	0.1	111	0.7	8	0.1
State tax (net of federal benefit)	(40)	(0.7)	6	0.1	105	0.7	72	0.9
Nondeductible purchase accounting adjustment	—	—	—	—	319	2.0	—	—
Other	(28)	(0.5)	—	—	(59)	(0.4)	—	—
Provision for income taxes for continuing operations	\$2,068	33.9	\$8	0.2	\$5,923	37.0	\$108	1.3

## Net Income and Earnings per Common Share

Atlas had net income of \$4.0 million during the three month period ended September 30, 2015 compared to \$3.5 million during the three month period ended September 30, 2014. After taking the impact of the liquidation preference of the preferred shares into consideration, earnings per diluted common share in the three month period ended September 30, 2015 was \$0.32 compared to \$0.29 in the three month period ended September 30, 2014. For the three month period ended September 30, 2015, operating income increased \$0.18 per diluted common share to \$5.8 million primarily due to premium and investment income growth.

Atlas had net income of \$10.1 million during the nine month period ended September 30, 2015 compared to \$8.2 million during the nine month period ended September 30, 2014. After taking the impact of the liquidation preference of the preferred shares into consideration, earnings per diluted common share in the nine month period ended September 30, 2015 was \$0.80 compared to \$0.75 in the nine month period ended September 30, 2014. For the nine month period ended September 30, 2015, operating income increased \$0.62 per diluted common share to \$17.3 million primarily due to premium and investment income growth. The increases in operating income and net investment gains were offset by legal and professional services expenses incurred related to the Anchor acquisition, expenses incurred pursuant to the Gateway stock purchase agreement and income tax expense.

The following chart illustrates Atlas' potential dilutive common shares for the three and nine month periods ended September 30, 2015 and 2014:

	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Weighted average common shares outstanding	12,008,624	11,808,624	11,956,611	10,643,507
Dilutive potential ordinary shares:				
Dilutive stock options	211,706	147,959	211,110	144,958
Dilutive shares upon preferred share conversion	573,444	254,000	573,444	254,000
Dilutive average common shares outstanding	12,793,774	12,210,583	12,741,165	11,042,465

## Adjusted Operating Income

Adjusted operating income is an internal performance measure used in the management of the Company's operations. It represents before-tax operational results excluding, as applicable, net realized gains or losses, net impairment charges recognized in earnings, and other non-recurring items. These amounts are more heavily influenced by market opportunities and other external factors. Adjusted operating income should not be viewed as a substitute for U.S. GAAP net income.

The components of Atlas' adjusted operating income and the impact on earnings per diluted common share for the three and nine month periods ended September 30, 2015 and 2014 are summarized in the table below:



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Adjusted Operating Income (in '000's, except per share values)

	Three Month Periods Ended				Nine Month Periods Ended			
	September 30, 2015		September 30, 2014		September 30, 2015		September 30, 2014	
U.S. GAAP net income	\$4,024	\$0.32	\$3,493	\$0.29	\$10,097	\$0.80	\$8,244	\$0.75
Add: income tax expense	2,068	0.16	8	—	5,923	0.46	108	0.01
Add: expenses incurred related to Anchor acquisition	—	—	—	—	978	0.08	—	—
Add: expenses incurred related to Gateway stock purchase agreement	—	—	—	—	942	0.07	—	—
Less: net investment gains	91	0.01	68	0.01	272	0.02	154	0.01
Less: other income	269	0.01	(1)	—	426	0.03	1	0.01
Adjusted operating income	\$5,732	\$0.46	\$3,434	\$0.28	\$17,242	\$1.36	\$8,197	\$0.74

The increase in adjusted operating income is attributable to the factors described in the 'Net Premium Earned', 'Claims Incurred', 'Acquisition Costs', 'Other Underwriting Expenses', and 'Net Investment Income' sections above.

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## V. FINANCIAL CONDITION

## Investments

## Overview and Strategy

Atlas aligns its securities portfolio to support the liabilities and operating cash needs of the Insurance Subsidiaries, to preserve capital and to generate investment returns. Atlas invests predominantly in corporate and government bonds with a portion of the portfolio in relatively short durations that correlate with the payout patterns of Atlas' claims liabilities. A third-party investment management firm manages Atlas' investment portfolio pursuant to the Company's investment policies and guidelines as approved by its Board of Directors. Atlas monitors the third-party investment manager's performance and its compliance with both its mandate and Atlas' investment policies and guidelines. Atlas' investment guidelines stress the preservation of capital, market liquidity to support payment of liabilities and the diversification of risk. With respect to fixed income securities, Atlas generally purchases securities with the expectation of holding them to their maturities; however, the securities are available for sale if liquidity needs arise. To the extent that interest rates increase or decrease, unrealized gains or losses may result. We believe that our investment philosophy and approach significantly mitigate the likelihood of such gains or losses being realized.

## Portfolio Composition

Atlas held securities with a fair value of \$213.1 million as of September 30, 2015, which were primarily comprised of fixed income securities. The securities held by the Insurance Subsidiaries must comply with applicable regulations that prescribe the type, quality and concentration of securities. These regulations in the various jurisdictions in which the Insurance Subsidiaries are domiciled permit investments in government, state, municipal and corporate bonds, preferred and common equities, and other high quality investments, within specified limits and subject to certain qualifications.

The amortized cost, gross unrealized gains and losses and fair value for Atlas' investments in fixed maturities, equity, and other investments by type and sector are as follows (all amounts in '000s):

Fair value of securities portfolio (in '000s)

As of September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income Securities:				
U.S. Government	\$45,132	\$302	\$(64)	)\$45,370
Corporate				
Banking/financial services	22,798	261	(98)	)22,961
Consumer goods	8,784	67	(69)	)8,782
Capital goods	16,367	234	(354)	)16,247
Energy	5,061	1	(206)	)4,856
Telecommunications/utilities	13,317	51	(184)	)13,184
Health care	3,038	2	(12)	)3,028
Total Corporate	69,365	616	(923)	)69,058
Mortgage backed - agency	35,243	315	(78)	)35,480
Mortgage backed - commercial	18,996	255	(89)	)19,162
Total Mortgage Backed	54,239	570	(167)	)54,642
Other asset backed	20,150	53	(16)	)20,187
Total Fixed Income Securities	188,886	1,541	(1,170)	)189,257
Equities	2,147	129	(16)	)2,260
Other investments	21,547	—	—	)21,547
Totals	\$212,580	\$1,670	\$(1,186)	)\$213,064

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As of December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income Securities:				
U.S. Government	\$20,506	\$32	\$(159)	)\$20,379
Corporate				
Banking/financial services	15,551	215	(31)	)15,735
Consumer goods	3,478	50	(13)	)3,515
Capital goods	14,285	354	(52)	)14,587
Energy	2,829	—	(84)	)2,745
Telecommunications/utilities	5,297	67	(8)	)5,356
Health care	1,948	—	(16)	)1,932
Total Corporate	43,388	686	(204)	)43,870
Mortgage backed - agency	30,772	250	(160)	)30,862
Mortgage backed - commercial	16,774	79	(269)	)16,584
Total Mortgage Backed	47,546	329	(429)	)47,446
Other asset backed	15,261	20	(27)	)15,254
Total Fixed Income Securities	126,701	1,067	(819)	)126,949
Equities	2,220	12	(139)	)2,093
Other investments	14,366	—	—	14,366
Totals	\$143,287	\$1,079	\$(958)	)\$143,408

For the nine month period ended September 30, 2015, investment holdings grew by \$47.7 million due to the Anchor acquisition. The remaining change in investment holdings is due to the purchase of investments by the Insurance Subsidiaries with a portion of the proceeds from the Loan Agreement as described further in the Liquidity and Capital Resources section.

**Liquidity and Cash Flow Risk**

The following table summarizes the fair value by contractual maturities of the fixed income securities portfolio, excluding cash and cash equivalents, at the dates indicated.

Fair value of fixed income securities by contractual maturity date (in '000s)

As of:	September 30, 2015		December 31, 2014		
	Amount	%	Amount	%	
Due in less than one year	\$10,074	5.3	%\$1,875	1.5	%
Due in one through five years	70,066	37.0	%54,349	42.8	%
Due after five through ten years	46,014	24.3	%23,166	18.2	%
Due after ten years	63,103	33.4	%47,559	37.5%	
Total	\$189,257	100.0	%\$126,949	100.0	%

As of September 30, 2015, 42.3% of the fixed income securities, including treasury bills, bankers' acceptances, government bonds and corporate bonds, had contractual maturities of five years or less. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. Atlas holds cash and high grade short-term assets which, along with fixed income security maturities, management believes are sufficient for the payment of claims on a timely basis. In the event that additional cash is required to meet obligations to policyholders, Atlas believes that high quality securities portfolio provides us with sufficient liquidity. With a weighted average life of 4.29 years and a duration of 3.65 years, changes in interest rates will have a modest market value impact on the Atlas portfolio relative to longer duration portfolios. Atlas can and typically does hold bonds to maturity by matching duration with the anticipated liquidity needs.

**Market Risk**

Market risk is the risk that Atlas will incur losses due to adverse changes in interest rates, currency exchange rates or equity prices. Having disposed of a majority of its asset backed securities, its primary market risk exposure in the fixed income securities portfolio is to changes in interest rates. Because Atlas' securities portfolio is comprised of



primarily fixed income securities that are usually held to maturity, periodic changes in interest rate levels generally impact its financial results to the extent that the securities in its available for sale portfolio are recorded at market value. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease, and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

**Credit Risk**

Credit risk is defined as the risk of financial loss due to failure of the other party to a financial instrument to discharge an obligation. Atlas is exposed to credit risk principally through its investments and balances receivable from policyholders, agents and reinsurers.

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It monitors concentration and credit quality risk through policies designed to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. government bonds) as well as through ongoing review of the credit ratings of issuers in the securities portfolio. Credit exposure to any one individual policyholder is not material. The Company's insurance policies, however, are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. Atlas has protocols to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvency.

The following table summarizes the composition of the fair value of the fixed income securities portfolio and excluding cash and cash equivalents, as of the dates indicated, by ratings assigned by Fitch, S&P or Moody's Investors Service. The fixed income securities portfolio consists of predominantly very high quality securities in corporate and government bonds with 85.5% rated 'A' or better as of September 30, 2015 compared to 87.4% as of December 31, 2014. The composition of the fair value of the fixed income securities portfolio changed with the Anchor acquisition. Credit ratings of fixed income securities portfolio (in '000s)

As of:	September 30, 2015		December 31, 2014		
	Amount	% of Total	Amount	% of Total	
AAA/Aaa	\$107,862	57.0	%\$77,856	61.3	%
AA/Aa	21,811	11.5	%10,897	8.6	%
A/A	32,054	17.0	%22,206	17.5	%
BBB/Baa	26,746	14.1	%15,990	12.6	%
BB	784	0.4	%—	—	%
Total Fixed Income Securities	\$189,257	100.0	%\$126,949	100.0	%

**Other-than-temporary impairment**

Atlas recognizes realized losses on securities for which a decline in market value was deemed to be other-than-temporary. Management performs a quarterly analysis of the securities holdings to determine if declines in market value are other-than-temporary. Atlas did not recognize charges for securities impairments that were considered other-than-temporary for the nine month period ended September 30, 2015 or the nine month period ended September 30, 2014.

The length of time securities may be held in an unrealized loss position may vary based on the opinion of the external portfolio manager and its respective analyses related to valuation and to the various credit risks that may prevent us from recapturing the principal investment. In cases of securities with a maturity date where the external portfolio manager determines that there is little or no risk of default prior to the maturity of a holding, Atlas would elect to hold the security in an unrealized loss position until the price recovers or the security matures. In situations where facts emerge that might increase the risk associated with recapture of principal, Atlas may elect to sell securities at a loss. The total fair value of the securities in an unrealized loss position as of September 30, 2015 was \$68.3 million compared to \$63.5 million as of December 31, 2014. This increase was primarily driven by the negative changes in market values during the first nine months of 2015. Atlas has the ability and intent to hold these securities until their fair value is recovered. Therefore, Atlas does not expect the market value loss position of these investments to be realized in the near term.

**Estimated impact of changes in interest rates and securities prices**

For Atlas' available-for-sale fixed income securities, a 100 basis point increase in interest rates on such held fixed income securities would have increased net investment income and income before taxes by approximately \$136,000 and \$100,000 as of September 30, 2015 and December 31, 2014, respectively. Conversely, a 100 basis point decrease in interest rates on such held fixed income securities would have decreased net investment income and income before taxes by \$136,000 and \$102,000 as of September 30, 2015 and December 31, 2014, respectively.

A 100 basis point increase would have also decreased other comprehensive income by approximately \$6.8 million and \$4.6 million as of September 30, 2015 and December 31, 2014, respectively, due to "mark-to-market" requirements; however, holding investments to maturity would mitigate this impact. Conversely, a 100 basis point decrease would have increased other comprehensive income by the same amount. The impacts described here are approximately linear to the change in interest rates.

Due from Reinsurers and Other Insurers

Atlas purchases reinsurance from third parties in order to reduce its liability on individual risks and its exposure to large losses. Reinsurance is coverage purchased by one insurance company from another for part of the risk originally underwritten by the purchasing (ceding) insurance company. The practice of ceding insurance to reinsurers allows an insurance company to reduce its exposure to loss by size, geographic area, and type of risk or on a particular policy. An effect of ceding insurance is to permit

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an insurance company to write additional insurance for risks in greater number or in larger amounts than it would otherwise insure independently, based on its statutory capital, risk tolerance and other factors.

Atlas generally purchases reinsurance to limit net exposure to a maximum amount on any one loss of \$500,000 with respect to commercial automobile liability claims. Atlas also purchases reinsurance to protect against awards in excess of its policy limits. Atlas continually evaluates and adjusts its reinsurance needs based on business volume, mix, and supply levels. As a result, the Company has entered into a quota share reinsurance contract ("Quota Share") with Swiss Reinsurance America Corporation ("Swiss Re"), a highly accredited global reinsurer for the companies in our ASI Pool (American Country, American Service and Gateway). Our initial cession was 5% of subject written premiums which was increased to 15% effective April 1, 2015. Under this contract, cessions can be increased at our election should we want to utilize it as a means of deleveraging. This facility gives us flexibility in terms of the timing and approach to potential future capital raising activities in light of anticipated increased operating leverage. Global Liberty historically maintained lower reinsurance retention limits. For 2015, we are leaving the reinsurance program for this subsidiary unchanged.

Reinsurance ceded does not relieve Atlas of its ultimate liability to its insured in the event that any reinsurer is unable to meet their obligations under its reinsurance contracts. Therefore, Atlas enters into reinsurance contracts with only those reinsurers deemed to have sufficient financial resources to provide the requested coverage. Reinsurance treaties are generally subject to cancellation by the reinsurers or Atlas on the anniversary date and are subject to renegotiation annually. Atlas regularly evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk to minimize its exposure to significant losses as a result of the insolvency of a reinsurer. Atlas believes that the amounts it has recorded as reinsurance recoverables are appropriately established. Estimating amounts of reinsurance recoverables, however, is subject to various uncertainties, and the amounts ultimately recoverable may vary from amounts currently recorded. Atlas had \$27.6 million recoverable from third party reinsurers (exclusive of amounts prepaid) and other insurers as of September 30, 2015 as compared to \$20.7 million as of December 31, 2014. The increase is attributable primarily to the Global Liberty acquisition with some impact from the increase in the Quota Share cession rate effective April 1, 2015.

Estimating amounts of reinsurance recoverables is also impacted by the uncertainties involved in the establishment of provisions for unpaid claims. As underlying reserves potentially develop, the amounts ultimately recoverable may vary from amounts currently recorded. Atlas' reinsurance recoverables are generally unsecured, with the exception of the new reinsurance agreement established as a condition to close the Gateway acquisition, which is secured by a letter of credit valued at 150% of the claims reserves. Atlas regularly evaluates its reinsurers, and the respective amounts recoverable, and an allowance for uncollectible reinsurance is provided for, if needed.

Atlas' largest reinsurance partners are Great American Insurance Company ("Great American"), a subsidiary of American Financial Group, Inc., General Reinsurance Corporation ("Gen Re"), a subsidiary of Berkshire Hathaway, Inc., SCOR Re, a subsidiary of SCOR U.S. Corporation, Swiss Re and White Rock Insurance (SAC) Ltd. ("White Rock"). Great American has a financial strength rating of A+ from Standard & Poor's, Gen Re has a financial strength rating of AA from Standard & Poor's, SCOR Re has a financial strength rating of A1 from Moody's, Swiss Re has a financial strength rating of Aa3 from Moody's, and White Rock is unrated. The White Rock balances are specifically related to the Gateway workers' compensation program that was exited during 2013 and are fully secured by a letter-of-credit.

## Deferred Tax Asset

## Components of Net Deferred Tax (in '000s)

As of:	September 30, 2015	December 31, 2014
Gross deferred tax assets:		
Unpaid claims and unearned premiums	\$8,278	\$5,560
Loss carryforwards	13,119	14,212
Bad debts	303	191
Other	2,453	1,266
Total gross deferred tax assets	\$24,153	\$21,229

Gross deferred tax liabilities:

Deferred policy acquisition costs	\$3,638	\$2,776
Securities	697	740
Other	1,634	396
Total gross deferred tax liabilities	5,969	3,912
Net deferred tax assets	\$18,184	\$17,317

Atlas has not established a valuation allowance for its gross future deferred tax assets as of September 30, 2015 or as of December 31, 2014. Based on Atlas' expectations of future taxable income, its ability to change its investment strategy, as well as reversing gross

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future tax liabilities, management believes it is more likely than not that Atlas will fully realize the net future tax assets. The Company, therefore, released its remaining valuation allowance as of December 31, 2014.

Atlas has the following total net operating loss carryforwards as of September 30, 2015:

Net operating loss carryforward by expiry (in '000s)

Year of Occurrence	Year of Expiration	Amount
2001	2021	\$5,767
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	7,121
2012	2032	2,576
Total		\$38,584

#### Claims Liabilities

The table below shows the amounts of total case reserves and incurred but not reported (“IBNR”) claims provision as of September 30, 2015 and as of the year ended December 31, 2014. The provision for unpaid claims increased by 20.8% to \$123.7 million as of September 30, 2015 compared to \$102.4 million as of December 31, 2014. The increase was primarily due to the Anchor acquisition offset by \$2.5 million of favorable reserve development compared to December 31, 2014 on Gateway's commercial auto program and other run-off programs during 2015. During the nine month period ended September 30, 2015, case reserves increased by 21.6% compared to December 31, 2014, and IBNR reserves increased by 19.7%. The increase in IBNR related primarily to premium growth offset by the favorable development on Gateway's commercial auto program and other run-off programs. The Global Liberty acquisition increased case reserves by 20.2% and IBNR by 41.7%. Excluding the Global Liberty acquisition, gross case reserves on Atlas' core lines increased by 7.8% during the first nine months of 2015 due to updates in the estimated costs on outstanding unpaid claims.

Provision for unpaid claims by type - gross (\$ in '000s)

As of:	September 30, 2015	December 31, 2014	YTD% Change
Case reserves	\$74,867	\$61,588	21.6 %
IBNR	48,873	40,842	19.7 %
Total	\$123,740	\$102,430	20.8 %

Provision for unpaid claims by line of business – gross (\$ in '000s)

As of:	September 30, 2015	December 31, 2014	YTD% Change
Commercial auto	112,267	87,123	28.9 %
Other	11,473	15,307	(25.0) %
Total	\$123,740	\$102,430	20.8 %

Provision for unpaid claims by line of business - net of reinsurance recoverables (\$ in '000s)

As of:	September 30, 2015	December 31, 2014	YTD% Change
Commercial Auto	\$99,510	\$82,164	21.1 %
Other	676	1,845	(63.4) %
Total	\$100,186	\$84,009	19.3 %

Claims liabilities - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the three and nine month periods ended September 30, 2015 and September 30, 2014 were as follows:

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	Three Month Periods Ended		Nine Month Periods Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Unpaid claims, beginning of period	\$126,458	\$99,305	\$102,430	\$101,385
Less: reinsurance recoverable	26,844	15,658	18,421	18,144
Net unpaid claims, beginning of period	99,614	83,647	84,009	83,241
Net reserves acquired	—	—	19,396	—
Change in retroactive reinsurance ceded	937	500	1,824	2,130
Incurred related to:				
Current year	25,632	16,135	66,371	44,851
Prior years	(644	)(241	)(1,922	)(616
	24,988	15,894	64,449	44,235
Paid related to:				
Current year	9,373	5,413	19,830	11,831
Prior years	15,980	10,459	49,662	33,606
	25,353	15,872	69,492	45,437
Net unpaid claims, end of period	100,186	84,169	100,186	84,169
Add: reinsurance recoverable	23,554	14,465	23,554	14,465
Unpaid claims, end of period	\$123,740	\$98,634	\$123,740	\$98,634

The process of establishing the estimated provision for unpaid claims is complex and imprecise, as it relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

The change to the provision for unpaid claims is consistent with the change in written premium. However, because the establishment of reserves is an inherently uncertain process involving estimates, current provisions may not be sufficient. Adjustments to reserves, both positive and negative, are reflected quarterly in the statement of income as estimates are updated.

The favorable development in the three month period ended September 30, 2015 resulted from a reserve study on the run-off workers' compensation program and a recovery on a surety claim from a prior accident year. Atlas utilizes a third party claims administrator for the run-off worker's compensation program. Actual administrative costs incurred related to the run-off workers' compensation program were less than expected.

The favorable development in the nine month period ended September 30, 2015 was primarily related to a redundancy in Gateway's commercial auto and other run-off programs' reserves offset by Atlas' participation in non-voluntary assigned risk pools. Assigned risk pools are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means. Gateway's favorable development was primarily related to claims incurred prior to the pre-acquisition period. Atlas issued preferred shares and recorded additional acquisition expense to partially offset this favorable development in the first quarter of 2015. The preferred shares are redeemable at the option of Atlas at a price of \$1.00 per share plus accrued and unpaid dividends, subject to certain conditions. The favorable development in the three and nine month periods ended September 30, 2014 was related to a program that remains in run-off.

## Off-balance sheet arrangements

As of September 30, 2015, Atlas has the following cash obligations related to its operating leases:

Operating Lease Commitments (in '000s)

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Year	2015	2016	2017	2018	2019 & Beyond Total	
Amount	\$472	\$1,555	\$1,012	\$753	\$2,533	\$6,325

The Company has entered into subscription agreements to commit up to \$10.3 million of capital to allow for participation by the Company in limited liability investments which invest in income-producing real estate, small business loans and equity securities. As of September 30, 2015, the unfunded commitment was \$6.5 million.



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## Arrangements with Variable Interest Entities

Atlas enters into various arrangements with variable interest entities (VIEs) in the normal course of business primarily to invest in income-producing real estate. These investments are with an unaffiliated third party developer within a limited liability company structure. The VIEs activities consist of the development, redevelopment and management of commercial, industrial or residential real estate.

We consolidate the VIEs when we determine we are the primary beneficiary of the VIE. This analysis includes a review of the VIE's capital structure, related contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and our involvement with the entity. When assessing the need to consolidate a VIE, we evaluate the design of the VIE as well as the related risks to which the entity exposes the variable interest holders.

Atlas deems itself to be a primary beneficiary of a VIE when we have the power to direct the activities of the VIE that most significantly affect the entity's economic performance and the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, our consolidation conclusion depends on the breadth of our decision-making ability and our ability to influence activities that significantly affect the economic performance of the VIE.

During the third quarter of 2015, Atlas invested in several real estate entities that are VIEs in which we have determined that we are the primary beneficiary of these VIEs. As such, we have consolidated these entities and recorded a non-controlling interest for the third party economic interests of these entities. The following table presents the financial position of these variable interests in the consolidated VIEs, as classified in the financial statements (all amounts in '000s) as of September 30, 2015:

	September 30, 2015
Assets	
Other investments	\$5,484
Cash and cash equivalents	295
Accounts receivable and other assets	18
Total Assets	\$5,797
Liabilities	
Other liabilities and accrued expenses	\$125
Total Liabilities	\$125
Shareholders' Equity	
Shareholders' equity attributable to Atlas	\$3,412
Shareholders' equity attributable to non-controlling interest	2,260
Total Shareholders' Equity	\$5,672

Third party ownership interests in consolidated VIEs are reflected as non-controlling interests in our financial statements.

## Shareholders' Equity

The table below identifies changes in shareholders' equity for the nine month periods ended September 30, 2015 and 2014:

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	Preferred Shares	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive (Loss)/Income	Total Atlas Share-holders' Equity	Shareholders' Equity Attributable to Non-controlling Interest	Total Equity
Balance December 31, 2013	\$2,000	\$28	\$—	\$169,595	\$(106,496)	\$(1,429)	\$63,698	\$—	\$63,698
Net income					8,244		8,244		8,244
Proceeds from U.S. public offering, net of offering costs		6		25,015			25,021		25,021
Other comprehensive income						1,267	1,267		1,267
Share-based compensation		1		1,243			1,244		1,244
Balance September 30, 2014 (unaudited)	\$2,000	\$35	\$—	\$195,853	\$(98,252)	\$(162)	\$99,474	\$—	\$99,474
Balance December 31, 2014	\$2,000	\$34	\$—	\$196,079	\$(88,794)	\$80	\$109,399	\$—	\$109,399
Net income					10,097		10,097		10,097
Issuance of preferred shares	4,941						4,941		4,941
Other comprehensive income						240	240		240
Contributions from non-controlling interests							—	2,222	2,222
Net income attributable to non-controlling interest							—	38	38
Share-based compensation		2		1,246			1,248		1,248
Balance September 30, 2015 (unaudited)	\$6,941	\$36	\$—	\$197,325	\$(78,697)	\$320	\$125,925	\$2,260	\$128,185

As of November 6, 2015, there were 11,855,830 ordinary voting common shares outstanding, 132,863 restricted voting common shares outstanding, 29,631 restricted stock units, and 6,940,500 preferred shares issued and outstanding.

The holders of restricted voting common shares are entitled to vote at all meetings of shareholders, except at meetings of holders of a specific class that are entitled to vote separately as a class. The restricted voting common shares as a class shall not carry more than 30% of the aggregate votes eligible to be voted at a general meeting of common

shareholders.

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by Kingsway, or its affiliated entities. The restricted voting common shares will convert to ordinary voting common shares in the event that these Kingsway owned shares are sold to non-affiliates of Kingsway.

The preferred shares are beneficially owned or controlled by the former parents of Gateway and Anchor. Preferred shareholders are entitled to dividends on a cumulative basis, whether or not declared by the Board of Directors, at the rate of \$0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. In liquidation, dissolution or winding-up of Atlas, preferred shareholders receive the greater of \$1.00 per share plus all declared and unpaid dividends or the amount they would receive in liquidation if the preferred shares had been converted to restricted voting common shares or ordinary voting common shares immediately prior to liquidation. The preferred shares are redeemable at the option of Atlas at a price of \$1.00 per share plus accrued and unpaid dividends, subject to certain conditions, prior to the conversion date. Preferred shares are not entitled to vote. Preferred shares are convertible into ordinary voting common shares at the option of the former parents of Gateway and Anchor at any date after the fifth year of issuance at the rate of 0.1270 and 0.0500, respectively, ordinary voting common shares for each preferred share. The conversion rate is subject to change if the number of ordinary voting common shares or restricted voting common shares changes by way of an anti-dilution event.

During the nine month period ended September 30, 2015, Atlas did not declare or pay dividends earned through the preferred shares. The former parents of Gateway and Anchor earned \$95,000 and \$101,000, respectively, in dividends during the nine month

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period ended September 30, 2015. Through September 30, 2015, Atlas has accrued \$279,000 and \$101,000 in dividends for the former parents of Gateway and Anchor, respectively, which remain unpaid.

## Book Value per Common Share

Book value per common share was as follows:

As of: (in '000s, except for shares and per share data)	September 30, 2015	December 31, 2014
Total Atlas shareholders' equity	\$125,925	\$109,399
Less: Preferred stock in equity	6,941	2,000
Less: Accumulated dividends on preferred stock	380	184
Common equity	\$118,604	\$107,215
Participative shares:		
Common shares outstanding	11,978,993	11,771,586
Restricted stock units (RSUs)	29,631	37,038
Total participative shares	12,008,624	11,808,624
Book value per participative share outstanding	\$9.88	\$9.08

Year-to-date in 2015, book value per common share increased by \$0.80 relative to December 31, 2014 as follows: an increase of \$0.96 related to net income after tax (excluding expenses incurred with the acquisition of subsidiaries), an increase of \$0.02 related to realized gains after tax, an increase of \$0.02 related to the change in unrealized gains/losses after tax, a net decrease of \$0.05 related to share based compensation impacts, a \$0.02 decrease related to preferred dividends and a decrease of \$0.13 related to expenses incurred with the acquisition of subsidiaries.

## Liquidity and Capital Resources

The purpose of liquidity management is to ensure there is sufficient cash to meet all financial commitments and obligations as they become due. The liquidity requirements of Atlas' business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for payment of claims and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

As a holding company, Atlas may derive cash from its subsidiaries generally in the form of dividends and in the future may charge management fees to the extent allowed by statute or other regulatory approval requirements to meet its obligations. The Insurance Subsidiaries fund their obligations primarily through premium and investment income and maturities in their securities portfolio. Refer also to the discussion "Investments Overview and Strategy." The Insurance Subsidiaries require regulatory approval for the return of capital and, in certain circumstances, payment of dividends. In the event that dividends and management fees available to the holding company are inadequate to service its obligations, the holding company would need to raise capital, sell assets or incur debt obligations.

On March 9, 2015, American Acquisition entered into a loan and security agreement ("Loan Agreement") for a \$35.0 million loan facility with Fifth Third Bank. The Loan Agreement includes a \$30.0 million line of credit, which can be drawn in increments at any time during the first twelve months of the agreement effective date of March 9, 2015. The \$30.0 million line of credit has a five year term and bears interest at one-month LIBOR plus 4.5%. The Loan Agreement also includes a \$5.0 million revolving line of credit that bears interest at one month LIBOR plus 2.75%. This \$5.0 million revolving line of credit replaces the \$10.0 million revolving line of credit American Acquisition previously had in place with Fifth Third Bank.

The Loan Agreement also provides for the issuance of letters of credit in an amount up to \$2.0 million outstanding at any time. In addition, there is a non-utilization fee for each of the \$30.0 million line of credit and \$5.0 million revolving line of credit equal to 0.50% per annum of an amount equal to \$30.0 million and \$5.0 million, respectively, less the daily average of the aggregate principal amount outstanding under such credit lines (plus, in the case of the \$30.0 million line of credit, the aggregate amount of the letter of credit obligations outstanding).

The Loan Agreement requires American Acquisition to comply with customary affirmative and negative covenants, including those governing indebtedness, liens, investments, sales of assets, issuance of securities, and distributions. The Loan Agreement also requires American Acquisition to make mandatory prepayments under certain conditions and to comply with certain financial covenants, including the ASI Pool Subsidiaries (defined below) maintaining a combined statutory net worth in an amount not less than \$60.0 million (subject to adjustment) and maintaining a

minimum funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ratio. The Loan Agreement is secured by substantially all of the property of American Acquisition, including all of the outstanding shares of American Country Insurance Company, American Service Insurance Company, Inc., and Gateway

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Insurance Company, which are wholly-owned direct subsidiaries of American Acquisition (the “ASI Pool Subsidiaries”). As of September 30, 2015, American Acquisition was in compliance with the covenants of the Loan Agreement.

As of September 30, 2015, \$2.0 million in funds were accessed from the revolving line of credit and used for the Anchor acquisition and \$15.5 million were accessed from the line of credit and contributed to the ASI Pool companies in exchange for surplus notes. The surplus notes carry a variable interest rate of prime plus 2% with a maturity date of April 30, 2020. No letters of credit were issued under the terms of this Loan Agreement as of September 30, 2015. As of September 30, 2015, the unused funds for the Revolver and the Draw Amount were \$3.0 million and \$14.5 million, respectively.

For the nine month period ended September 30, 2015, American Acquisition incurred interest expense of \$408,000 and bank fees of \$39,000 in connection with the Loan Agreement. As of September 30, 2015, unamortized bank fees associated with the Loan Agreement were \$298,000. These bank fees will be amortized over the next 53 months.

The following table summarizes consolidated cash flow activities:

Summary of Cash Flows (in ‘000s)

	Nine Month Period Ended September 30, 2015	Twelve Month Period Ended December 31, 2014
Net cash flows provided by operating activities	\$5,306	\$13,716
Net cash flows provided by financing activities	19,722	25,022
Net cash flows used in investing activities	(40,571	)(11,963
Net (decrease) increase in cash	\$(15,543	)\$26,775

Cash provided by operations during the nine month period ended September 30, 2015 was primarily due to an increase in net income offset by increases in operating assets and liabilities. Cash provided by financing activities during the nine month period ended September 30, 2015 was the result of the proceeds related to the Loan Agreement. Cash used in investing activities during the nine month period ended September 30, 2015 was primarily a result of the acquisition of Anchor and other investments.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective such that the information required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

On March 11, 2015, Atlas completed its acquisition of Anchor Holdings Group, Inc., at which time the acquired companies became Atlas subsidiaries. See Note 3, "Acquisition of Anchor Holdings Group, Inc. et al.," to the Condensed Consolidated Financial Statements (Unaudited) in Part I of this Form 10-Q for further details of the transaction. The Company is currently in the process of assessing Anchor's material internal controls over financial reporting. Other than in connection with this acquisition, 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.

In connection with its operations, the Company and its Insurance Subsidiaries are, from time to time, named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided, and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions. All such actions are ordinary routine litigation incidental to the Company's business.

Item 1A. Risk Factors.

There have been no material changes to the risk factors that were discussed in Part I, Item 1A of the Company's Annual Report on Form 10K for the year ended December 31, 2014.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6.	Exhibits.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.



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SIGNATURE

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

Date: November 9, 2015

Atlas Financial Holdings, Inc.  
(Registrant)

By: /s/ Paul A. Romano  
Paul A. Romano  
Vice President and Chief Financial Officer