

Atlas Financial Holdings, Inc.  
Form 10-Q  
May 09, 2014  
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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:  
March 31, 2014

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 <input type="checkbox"/>	Accelerated Filer <input type="checkbox"/>
Non-Accelerated Filer <input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/>

(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 9,610,586 shares of the Registrant's common stock outstanding as of May 6, 2014, of which 9,477,723 are ordinary voting common shares and 132,863 are restricted voting common shares. Of the Registrant's ordinary voting common shares outstanding, 7,518,918 shares as of May 6, 2014 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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March 31, 2014

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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)

	March 31, 2014 (unaudited)	December 31, 2013
Assets		
Investments, available for sale		
Fixed income securities, at fair value (amortized cost \$129,690 and \$130,751)	\$128,785	\$128,585
Equity securities, at fair value (cost \$252 and \$258)	298	258
Other investments	3,372	1,234
Total Investments	132,455	130,077
Cash and cash equivalents	10,349	9,811
Accrued investment income	713	694
Accounts receivable and other assets (net of allowance of \$510 and \$776)	45,135	37,944
Reinsurance recoverables on amounts paid	6,527	6,921
Reinsurance recoverables on amounts unpaid	11,942	12,225
Prepaid reinsurance premiums	2,017	2,207
Deferred policy acquisition costs	7,540	6,674
Deferred tax asset, net	9,289	9,319
Intangible assets	740	740
Software and office equipment, net	2,698	2,500
Assets held for sale	166	166
Total Assets	\$229,571	\$219,278
Liabilities		
Claims liabilities	\$100,179	\$101,385
Unearned premiums	51,302	44,232
Due to reinsurers and other insurers	2,564	2,613
Other liabilities and accrued expenses	8,131	7,350
Total Liabilities	\$162,176	\$155,580
Shareholders' Equity		
Preferred shares, par value per share \$0.001, 100,000,000 shares authorized, 2,000,000 shares issued and outstanding at March 31, 2014 and December 31, 2013.	\$2,000	\$2,000
Liquidation value \$1.00 per share		
Ordinary voting common shares, par value per share \$0.003, 266,666,667 shares authorized, 9,477,723 shares issued and outstanding at March 31, 2014 and 9,291,871 shares issued and outstanding at December 31, 2013	29	28
Restricted voting common shares, par value per share \$0.003, 33,333,334 shares authorized, 132,863 shares issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Additional paid-in capital	170,237	169,595
Retained deficit	(104,304	)(106,496

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Accumulated other comprehensive loss, net of tax	(567	) (1,429	)
Total Shareholders' Equity	67,395	63,698	
Total Liabilities and Shareholders' Equity	\$229,571	\$219,278	

See accompanying Notes to Condensed Consolidated Financial Statements.

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	
	March 31, 2014	March 31, 2013
	(unaudited)	(unaudited)
Net premiums earned	\$21,954	\$15,888
Net investment income	779	613
Net investment (losses)/gains	(11	) 93
Other income	2	4
Total revenue	22,724	16,598
Net claims incurred	13,919	10,261
Acquisition costs	3,090	2,270
Other underwriting expenses	3,523	3,059
Expenses incurred related to Gateway acquisition	—	406
Total expenses	20,532	15,996
Income from operations before income tax expense	2,192	602
Income tax expense	—	—
Net income attributable to Atlas	2,192	602
Less: Preferred share dividends	23	276
Net income attributable to common shareholders	\$2,169	\$326
Basic weighted average common shares outstanding	9,498,995	7,044,724
Earnings per common share, basic	\$0.23	\$0.05
Diluted weighted average common shares outstanding	9,883,555	7,062,409
Earnings per common share, diluted	\$0.22	\$0.05

Consolidated Statements of Comprehensive Income

Net income attributable to Atlas	\$2,192	\$602	
Other comprehensive income/(loss):			
Changes in net unrealized gains/(losses)	1,268	(166	)
Reclassification to income	38	(155	)
Effect of income tax	(444	) 109	
Other comprehensive income/(loss) for the period	862	(212	)
Total comprehensive income	\$3,054	\$390	

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 Income/(Loss)	Total
Balance December 31, 2012	\$18,000	\$4	\$14	\$152,768	\$(112,675 )	\$1,753	\$59,864
Net income					602		602
U.S. Initial Public Offering		16	(10 )	9,750			9,756
Issuance of Preferred Shares	2,000						2,000
Other comprehensive loss						(212 )	(212 )
Share-based compensation				59			59
Preferred dividends declared and paid				(1,874 )			(1,874 )
Balance March 31, 2013 (unaudited)	\$20,000	\$20	\$4	\$160,703	\$(112,073 )	\$1,541	\$70,195
Balance December 31, 2013	\$2,000	\$28	\$—	\$169,595	\$(106,496 )	\$(1,429 )	\$63,698
Net income					2,192		2,192
Other comprehensive income						862	862
Share-based compensation		1		642			643
Balance March 31, 2014 (unaudited)	\$2,000	\$29	\$—	\$170,237	\$(104,304 )	\$(567 )	\$67,395

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)

	Three Month Period Ended	
	March 31, 2014	March 31, 2013
	(unaudited)	(unaudited)
Operating activities:		
Net income	\$ 2,192	\$ 602
Adjustments to reconcile net income to net cash provided /(used) by operating activities:		
Amortization of fixed assets	217	169
Share-based compensation expense	642	59
Amortization of deferred gain on sale of headquarters building	(11	) (11
Deferred income taxes	(415	) —
Net realized loss/(gain)	11	(93
(Gain)/loss in equity of investee	(137	) 34
Amortization of bond premiums and discounts	230	294
Net changes for non-cash items:		
Accounts receivable and other assets, net	(7,191	) (3,090
Due from reinsurers and other insurers	867	(14,864
Deferred policy acquisition costs	(866	) 128
Other assets and accrued investment income	(19	) (115
Claims liabilities	(1,206	) (385
Unearned premiums	7,069	1,959
Due to reinsurers and other insurers	(48	) (858
Accounts payable and accrued liabilities	792	360
Net cash flows provided/(used) in operating activities	2,127	(15,811
Investing activities:		
Purchase of Gateway (net of cash acquired)	—	11,126
Purchases of investments	(6,850	) (25,621
Proceeds from sale and maturity of investments	5,666	26,429
Purchases of property and equipment and other	(406	) (147
Net cash flows (used)/provided by investing activities	(1,590	) 11,787
Financing activities:		
Proceeds from U.S. initial public offering	—	9,756
Share based compensation	1	—
Dividends paid	—	(1,874
Net cash flows provided by financing activities	1	7,882
Net change in cash and cash equivalents	538	3,858
Cash and cash equivalents, beginning of period	9,811	19,912
Cash and cash equivalents, end of period	\$ 10,349	\$ 23,770

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") and, as of January 1, 2013, Gateway Insurance Company ("Gateway"). 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"). 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 month period ended March 31, 2014 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, 2013, 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. Net underwriting income is driven mainly by

the timing and nature of claims, which can vary widely. Atlas' ability to generate written premium is also impacted by the timing of policy periods in the states in which Atlas operates.

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, 2013. Atlas has consistently applied the same accounting policies throughout all periods presented.

## 2. NEW ACCOUNTING STANDARDS

**Presentation of Comprehensive Income** - In February 2013, the FASB issued ASU 2013-02, which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. ASU 2013-02 requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of

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accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. Atlas adopted this guidance effective January 1, 2013. Atlas' adoption of this standard did not have a significant impact on its unaudited condensed consolidated financial statements.

**3. ACQUISITION OF GATEWAY INSURANCE COMPANY**

On January 2, 2013 Atlas acquired Camelot Services, Inc. ("Camelot Services"), a privately owned insurance holding company, and its sole subsidiary, Gateway, from Hendricks Holding Company, Inc. ("Hendricks"), an unaffiliated third party. Gateway provides specialized commercial insurance products, including commercial automobile insurance to niche markets such as taxi, black car and sedan service owners and operators.

Under the terms of the stock purchase agreement, the purchase price equaled the tangible GAAP book value of Camelot Services at December 31, 2012, subject to certain pre and post-closing adjustments, including, among others, claim development between the signing of the stock purchase agreement and December 31, 2012. Additional consideration may be paid to the seller, or returned to Atlas by the seller, depending upon, among other things, the future development of Gateway's actual loss reserves for certain lines of business and the utilization of certain deferred tax assets, which expire 5 years and 20 years from the date of acquisition, respectively. Gateway also wrote a workers' compensation insurance program which is being run-off. However, an indemnity reinsurance agreement was entered into pursuant to which 100% of Gateway's workers' compensation business was ceded to a third party captive reinsurer funded and collateralized by the seller as part of the transaction.

The total purchase price for all of Camelot Services' outstanding shares was \$14.3 million, consisting of a combination of cash and Atlas preferred shares. Consideration consisted of a \$6.0 million dividend paid by Gateway immediately prior to the closing, \$2.0 million of Atlas preferred shares (consisting of a total of 2,000,000 preferred shares) and \$6.3 million in cash. The agreement includes contractual protections to offset up to \$2.0 million of future reserve development. Atlas has also agreed to provide the sellers up to \$2.0 million in additional consideration in the event of favorable reserve development.

The Gateway acquisition was accounted for using the purchase method. Atlas began consolidating Gateway on January 1, 2013, therefore their financial results are included in Atlas' consolidated financial results for all periods reported.

The value of certain assets and liabilities acquired were subject to adjustment as additional information was obtained, including, but not limited to, valuation of separately identifiable intangibles, the preferred stock issued to the seller, and deferred taxes. The valuations were finalized within 12 months of the close of the acquisition (not including loss reserve consideration). The changes upon finalization to the preliminary valuation of assets and liabilities resulted in an adjustment to identifiable intangible assets and goodwill. Changes to the purchase price allocation were adjusted in the first quarter of 2013. The following table presents assets acquired and liabilities assumed for the Gateway acquisition based on its estimated fair value on January 1, 2013.

(in \$ '000s)

**Purchase Consideration**

Cash	\$ 12,282
Preferred stock	2,000
Total	\$ 14,282

**Allocation of Purchase Price**

Cash and investments	\$ 45,421
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Accounts receivable and other assets	9,249
Reinsurance recoverables	6,007
Intangible assets	740
Property and equipment	923
Value of business acquired	1,234
Total Assets	\$ 63,574
Claims liabilities	\$ 36,209
Unearned premiums	9,601
Accounts payable and other liabilities	3,482
Total Liabilities	\$ 49,292
Net assets acquired	\$ 14,282

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The acquisition of Gateway resulted in the recognition of intangible assets, comprised entirely of state insurance licenses valued at \$740,000. The state insurance licenses are considered to have an indefinite life and will not be amortized, but will be evaluated for impairment at least annually. Thus, Atlas recognized no amortization expense during the three month periods ended March 31, 2014 or March 31, 2013 related to intangible assets acquired in the Gateway transaction.

Atlas incurred \$406,000 in legal and professional fee expenses related to the transaction during the three month period ended March 31, 2013.

Atlas also incurred \$337,000 in one-time employee termination costs during the twelve month period ended December 31, 2013, plans for which were formulated and expenses recorded in the first quarter of 2013. These expenses are included in "Other Underwriting Expenses" on the Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited) for the three month period ended March 31, 2013.

**4. EARNINGS PER SHARE**

Earnings per ordinary voting common share and restricted voting common share (collectively, the "common shares") for the three month periods ended March 31, 2014 and March 31, 2013 are as follows:

(in \$000's except for share and per share amounts)	Three Month Period Ended	
	March 31, 2014	March 31, 2013
Basic:		
Net income attributable to Atlas	\$2,192	\$602
Less: Preferred share dividends	23	276
Net income attributable to common shareholders	\$2,169	\$326
Weighted average basic common shares outstanding	9,498,995	7,044,724
Basic earnings per common share	\$0.23	\$0.05
Diluted:		
Weighted average basic common shares outstanding	9,498,995	7,044,724
Add:		
Dilutive stock options outstanding	130,560	6,439
Dilutive warrants	—	11,246
Preferred shares	254,000	—
Dilutive average common shares outstanding	9,883,555	7,062,409
Dilutive earnings per common share	\$0.22	\$0.05

Diluted earnings per share is computed by dividing net income attributable to Atlas by the weighted average number of common shares outstanding 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).

In computing the diluted earnings per share for three month period ended March 31, 2013, the Company included the fully dilutive impact of the warrants using the "if-converted" method rather than the treasury stock method. This dilutive impact increased the denominator in the first quarter of 2013 diluted EPS computation by 1,316,588 shares; however, this has no impact on the actual earnings used for the numerator in the EPS computation. The table above excludes the dilutive impact of the warrants related to the "if-converted" method for the three month period ended March 31, 2013 and does apply the treasury method. As a result, there were 7,044,724 weighted average common shares outstanding used to compute basic earnings per share and 7,062,409 for diluted earnings per share. The previously reported diluted earnings per share for the period ended March 31, 2013 was \$0.04.

Atlas' dilutive potential ordinary voting common shares consist of outstanding restricted stock units, stock options to purchase ordinary voting common shares, warrants to purchase ordinary voting common shares of Atlas (2013 only), and preferred shares potentially convertible to ordinary voting common shares at the option of the holders at any date after December 31, 2013 (18,000,000 preferred shares) and December 31, 2015 (2,000,000 preferred shares) at the rate of 0.1270 ordinary voting common shares for each preferred share. The effects of these convertible instruments are excluded from the computation of diluted earnings per 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 month period ended March 31, 2014, stock options and all of the remaining convertible preferred shares were deemed to be dilutive.

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On July 7, 2013, Atlas entered into a non-binding letter of intent to purchase all outstanding preferred shares that were eligible for redemption (all 18,000,000 shares), for 90% of their liquidation value. Definitive agreements in connection with this transaction were executed on August 1, 2013 (collectively, the "Share Repurchase Agreement"). Upon execution of the Share Repurchase Agreement, an initial amount of \$8.3 million (which included dividends accrued and declared through August 1, 2013) was paid against the total purchase price of \$16.2 million, leaving a remaining amount due of \$7.9 million, which carries a non-compounding annual interest rate of 4.5%. The remaining amount due, plus accrued interest, was paid during the fourth quarter of 2013 in accordance with the terms of the Share Repurchase Agreement.

## 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 in limited partnerships. Atlas' interests in these investments are not deemed minor, and the Company uses the equity method of accounting. As of the three month period ended March 31, 2014, the carrying values of these other investments were approximately \$3.4 million versus approximately \$1.2 million as of the year ended December 31, 2013. The carrying values of these other investments was equal to Atlas' share of the net book value, an amount that approximates fair value (all amounts in '000s):

As of March 31, 2014		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income:					
U.S.	Government	\$21,978	\$ 47	\$ 397	\$21,628
	Corporate				
	Banking/Financial Services	17,239	287	125	17,401
	Consumer Goods	5,031	44	42	5,033
	Capital Goods	14,195	282	98	14,379
	Energy	4,703	1	50	4,654
	Telecommunications/Utilities	3,856	82	14	3,924
	Health Care	1,950	—	55	1,895
	Total Corporate	46,974	696	384	47,286
	Mortgage backed - Agency	27,912	134	622	27,424
	Mortgage backed - Commercial	20,308	74	477	19,905
	Total Mortgage Backed	48,220	208	1,099	47,329
	Other Asset Backed	12,518	25	1	12,542
	Total Fixed Income	129,690	976	1,881	128,785
	Equities	252	46	—	298
	Other	3,372	—	—	3,372
	Totals	\$133,314	\$ 1,022	\$ 1,881	\$132,455
As of December 31, 2013					
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income:					
U.S.	Government	\$22,067	\$ 36	\$ 620	\$21,483
	Corporate				
	Banking/Financial Services	16,656	238	248	16,646
	Consumer Goods	5,044	28	77	4,995
	Capital Goods	12,951	208	180	12,979
	Energy	3,928	—	114	3,814
	Telecommunications/Utilities	4,979	50	55	4,974
	Health Care	2,025	—	87	1,938

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Total Corporate	45,583	524	761	45,346
Mortgage backed - Agency	28,877	120	910	28,087
Mortgage backed - Commercial	22,131	53	614	21,570
Total Mortgage Backed	51,008	173	1,524	49,657
Other Asset Backed	12,093	15	9	12,099
Total Fixed Income	130,751	748	2,914	128,585
Equities	258	—	—	258
Other	1,234	—	—	1,234
Totals	\$132,243	\$ 748	\$ 2,914	\$130,077

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

As of March 31, 2014	One year or less	One to five years	Five to ten years	More than ten years	Total	
Fixed income securities	\$8,561	\$48,263	\$24,884	\$47,077	\$128,785	
Percentage of total	6.6	%37.5	%19.3	%36.6	%100.0	%
As of December 31, 2013	One year or less	One to five years	Five to ten years	More than ten years	Total	
Fixed income securities	\$7,571	\$43,693	\$28,080	\$49,241	\$128,585	
Percentage of total	5.9	%34.0	%21.8	%38.3	%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 month period ended March 31, 2014 as a result of the above analysis performed by management. As of the three month period ended March 31, 2014, a portion of Atlas' portfolio was in an unrealized loss position. This was primarily driven by a rise in the 5-year US Treasury interest rate during the second quarter of 2013. All securities in an unrealized loss position as of March 31, 2014 and December 31, 2013 have been in said position for less than 12 months. The total fair value of the securities currently in an unrealized loss position was \$70.4 million at March 31, 2014 with a total temporary impairment relating to unrealized losses of \$1.9 million. Atlas has the ability and intent to hold these securities until their fair value is recovered. Therefore, Atlas does not expect the near term change in market value of these securities to be realized.

The following table summarizes the components of net investment income for the three months ended March 31, 2014 and 2013 (all amounts in '000s):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Total investment income		
Interest income	\$701	\$726
Dividends	—	4
Income from other investments	187	—
Investment expenses	(109)	(117)
Net investment income	\$779	\$613



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The following table summarizes the components of net investment gains for the three months ended March 31, 2014 and 2013 (all amounts in '000's):

	Three Months Ended	
	March 31, 2014	March 31, 2013
Fixed income securities	\$(17	)\$93
Equities	6	—
Net investment realized (losses)/gains	\$(11	)\$93

## Collateral pledged:

At March 31, 2014 and at December 31, 2013, bonds and term deposits with a fair value of \$14.5 million 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 insurance. At March 31, 2014 and at December 31, 2013, the amount of such pledged securities was \$7.9 million. 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 and/or 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 March 31, 2014, Atlas' allowance for bad debt was \$510,000. Atlas decreased its allowance for doubtful accounts by \$266,000 in the three month period ended March 31, 2014 compared to the balance at December 31, 2013. This decrease does not relate to any specific uncollectible account but rather relates to formulaic modeling correlating to the changes in accounts receivable experienced during the three month period ended March 31, 2014.

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 market prices (Level 1), third party models using observable market information (Level 2) and internal models without observable market information (Level 3). The following table summarizes Atlas' investments at fair value as of the period ended March 31, 2014 and as of the year ended December 31, 2013 (all amounts in '000s):

	Level 1	Level 2	Level 3	Total
As of March 31, 2014				
Fixed income securities	\$12,619	\$115,453	\$713	\$128,785
Equities	298	—	—	298
Other investments	—	2,005	1,367	3,372
Totals	\$12,917	\$117,458	\$2,080	\$132,455
As of December 31, 2013	Level 1	Level 2	Level 3	Total
Fixed income securities	\$12,624	\$115,344	\$617	\$128,585
Equities	258	—	—	258
Other investments	—	—	1,234	1,234
Totals	\$12,882	\$115,344	\$1,851	\$130,077

Of the total portfolio of fixed income securities, only holdings of U.S. Treasury Securities are classified within Level 1. There were no transfers in or out of Level 2 or Level 3 during either period.

The fair value of the fixed income security in Level 3 was calculated using risk-adjusted value ranges and estimates, and the asset is the same at March 31, 2014 as at December 31, 2013. In the three month period ended March 31,

2014, approximately \$95,000 was recognized in investment income from this investment. The other investment in Level 3 at March 31, 2014 is also the same as at December 31, 2013. Its effect on income for the quarter ended March 31, 2014 was \$132,000 . Both securities received Level 3 classification due to the absence of fair value quotes from Atlas' third party valuation service provider.

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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 March 31, 2014. 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.

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. 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, 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 and \$2.4 million under the provisions of the Illinois Insurance Code and the Missouri 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 March 31, 2014 our insurance subsidiaries had a combined statutory surplus of \$53.8 million and had combined net written premiums and combined net income for the three months ended March 31, 2014 of \$29.2 million and \$1.2 million, respectively.

At December 31, 2013 our insurance subsidiaries had a combined statutory surplus of \$53.1 million and had combined net written premiums and combined net income for the twelve months ended December 31, 2013 of \$80.5 million and \$7.3 million, respectively.

Atlas did not declare or pay any dividends to its common shareholders during the three month period ended March 31, 2014 or in the year ended December 31, 2013.

## 7. INCOME TAXES

Due to the reversal of the valuation allowance which has offset our tax expense, Atlas' effective tax rate was 0.0% for the three month period ended March 31, 2014, and for the three month period ended March 31, 2013, compared to the U.S. statutory income tax rate of 34% as shown below (all amounts in '000s):

	Three Month Period Ended				
	March 31, 2014		March 31, 2013		
	Amount	%	Amount	%	%
Provision for taxes at U.S. statutory marginal income tax rate of 34%	\$746	34.0	% \$205	34.0	%
Reversal of valuation allowance	(748)	)(34.1	)(% (345	)(57.2	)(%)
Nondeductible expenses	2	0.1	% 141	23.4	%
Other	—	—	%(1	)(0.2	)(%)
Provision for income taxes for continuing operations	\$—	—	% \$—	—	%

Income tax expense consists of the following for the three month periods ended March 31, 2014 and March 31, 2013:

	Three Month Period Ended	
	March 31, 2014	March 31, 2013
Current tax expense	\$415	\$—
Deferred tax expense	333	345
Reversal of valuation allowance	(748)	)(345
Total	\$—	\$—

Upon the reverse merger transaction forming Atlas on December 31, 2010, a yearly limitation as required by Section 382 of the Internal Revenue Code of 1986 ("IRC Section 382") that applies to changes in ownership on the future utilization of Atlas' net operating loss carry-forwards 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 and the current year has been permanently limited to the amount determined under IRC Section 382. The result is a maximum expected net deferred tax asset

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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 of the Company's shares.

Following this triggering event, the Company estimates that it will retain total tax effected federal net operating loss carryforwards of approximately \$15.0 million as of March 31, 2014. Book value per common share was unaffected by this event, as the amount of lost net deferred tax assets of \$578,000 were offset by a corresponding decrease in the valuation allowance which was already held against the majority of these assets. The completion and filing of the Company's 2013 U.S. Federal tax return will determine the final adjustment.

Utilization of deferred tax assets related to net operating loss carryforwards were limited for the periods ended March 31, 2014 and March 31, 2013 due to IRC Section 382 annual limitations. However, based upon taxable income generated for the periods ended March 31, 2014 and March 31, 2013, the Company reassessed the valuation allowance and reduced such valuation allowance in amounts in excess of the annual limitations based upon the expectation that these amounts will be realized.

The components of deferred income tax assets and liabilities as of March 31, 2014 and December 31, 2013 are as follows (all amounts in '000s):

	March 31, 2014	December 31, 2013
Deferred tax assets:		
Taxable loss carry-forwards	\$ 15,042	\$ 15,265
Unpaid claims and unearned premiums	5,253	4,783
Bad debts	173	264
Other	1,249	1,446
Valuation allowance	(8,699)	(9,446)
Total deferred tax assets, net of allowance	13,018	12,312
Deferred tax liabilities:		
Deferred policy acquisition costs	(2,564)	(2,269)
Investment securities	(786)	(345)
Other	(379)	(379)
Total gross deferred tax liabilities	(3,729)	(2,993)
Net deferred tax assets	\$ 9,289	\$ 9,319

Amounts and expiration dates of the operating loss carry forwards as of March 31, 2014 are as follows (all amounts in '000s):

Year of Occurrence	Year of Expiration	Amount
2001	2021	\$ 10,722
2002	2022	4,317
2006	2026	7,825
2007	2027	3,763
2008	2028	1,949
2009	2029	1,949
2010	2030	2,296
2011	2031	10,183
2012	2032	1,237
Total		\$ 44,241

Atlas established a valuation allowance of \$8.7 million and \$9.4 million for its gross deferred tax assets as of the period ended March 31, 2014 and as of the year ended December 31, 2013, respectively.

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 or if it is deemed premature to conclude that these assets will be realized in the near future, a valuation allowance is recorded. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets. Atlas' assessment also considered



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the recent spin-off from prior ownership, the nature and extent of cumulative financial losses and trends in recent quarterly earnings. The Company has been reducing its valuation allowance against deferred tax assets by an amount equal to the amount of income tax expense generated for the period. The Company will continue this process until such time as management determines that certain specific events warrant a reassessment of this policy which could result in future reductions or the elimination of the valuation allowance. These events include but are not limited to continued underwriting profitability, the lack of significant prior year loss reserve development, continuing favorable market conditions, continued positive trend in taxable earnings, and other such indications deemed positive.

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 three month period ended March 31, 2014 or the year ended December 31, 2013. Tax years 2010 and forward are subject to examination by the Internal Revenue Service.

**8. OPERATING LEASE COMMITMENTS**

As of March 31, 2014, Atlas has the following cash obligations related to its operating leases (all amounts in '000s):

Year	2014	2015	2016	2017	2018 & Beyond	Total
Amount	\$873	\$1,186	\$845	\$281	\$—	\$3,185

**9. SOFTWARE AND OFFICE EQUIPMENT**

Atlas held the following internal use software and capital assets at March 31, 2014 and December 31, 2013, excluding assets held for sale (all amounts in '000s):

As of:	March 31, 2014	December 31, 2013
Leasehold improvements	\$501	\$501
Internal use software	6,709	6,344
Computer equipment	1,770	1,750
Furniture and other office equipment	376	394
Total	9,356	8,989
Accumulated depreciation	(6,658)	(6,489)
Balance, end of period	\$2,698	\$2,500

Depreciation expense and amortization was \$217,000 for the three month period ended March 31, 2014. For the year ended December 31, 2013 depreciation expense and amortization was \$795,000.

**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 as of and for the three month periods ended March 31, 2014 and March 31, 2013 are as follows (all amounts in '000s):

	Three Month Period Ended	
	March 31, 2014	March 31, 2013
Gross premiums written	\$31,224	\$22,354
Less: Ceded premiums written	2,011	7,078
Net premiums written	29,213	15,276
Ceded premiums earned	2,201	4,507
Ceded losses and loss adjustment expenses	620	3,069
Ceding commissions	512	616

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## 11. UNPAID CLAIMS

Claims liabilities - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the three month periods ended March 31, 2014 and March 31, 2013 were as follows (all amounts in '000s):

	Three Month Period Ended	
	March 31, 2014	March 31, 2013
Unpaid claims, beginning of period	\$101,385	\$70,067
Less: reinsurance recoverable	12,225	5,680
Net beginning unpaid claims reserves	89,160	64,387
Net reserves acquired	—	29,923
Incurred related to:		
Current year	14,129	10,243
Prior years	(210)	) 19
	13,919	10,262
Paid related to:		
Current year	2,189	1,656
Prior years	12,653	11,195
	14,842	12,851
Net unpaid claims, end of period	88,237	91,721
Add: reinsurance recoverable	11,942	14,170
Unpaid claims, end of period	\$100,179	\$105,891

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.

## 12. STOCK OPTIONS AND WARRANTS

Stock options - Stock option activity for the three month periods ended March 31, 2014 and March 31, 2013 follows (prices in Canadian dollars designated with "C\$"):

	Three Month Period Ended			
	March 31, 2014		March 31, 2013	
	Number	Avg. Price	Number	Avg. Price
Outstanding, beginning of period	224,623	C\$ \$6.05	133,955	C\$ \$5.76
Granted	175,000	\$13.26	91,668	C\$ \$6.45
Exercised	—		—	
Outstanding, end of period	399,623	*	225,623	C\$ \$6.05

\* - Avg. Price not computed due to currency differences.

Information about options outstanding at March 31, 2014 is as follows:

Grant Date	Expiration Date	Number Outstanding	Number Exercisable
March 18, 2010	March 18, 2020	9,700	9,700
January 18, 2011	January 18, 2021	123,255	123,255
January 11, 2013	January 11, 2023	91,668	30,557
March 6, 2014	March 6, 2024	175,000	—
Total		399,623	163,512

The options granted on March 18, 2010 have an exercise price of C\$3.00 per share. These options were granted to directors of Atlas' predecessor company, JJR VI.



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On January 18, 2011, Atlas granted options to purchase 123,255 ordinary voting common shares of Atlas stock to officers and directors at an exercise price of C\$6.00 per share. The options vest 25% at date of grant and 25% on each of the next three anniversary dates and expire on January 18, 2021. Using the Black-Scholes option pricing model, the weighted average grant date fair value of these options is C\$3.72 per share.

On January 11, 2013, Atlas granted options to purchase 91,668 ordinary voting common shares under the Company's stock option plan, all of which were granted to the Company's officers. The granted options have an exercise price of C\$6.45 and vest equally on the first, second and third anniversaries of the grant date. The options expire on January 11, 2023. Using the Black-Scholes option pricing model, the weighted average grant date fair value of these options is C\$4.54 per share.

On March 6, 2014, Atlas granted options to purchase 175,000 ordinary voting common shares under the Company's Equity Incentive Plan, all of which were granted to the Company's officers. The granted options have an exercise price of \$13.26 and vest equally on the first, second and third anniversaries of the grant date. The options expire on March 6, 2024. Using the Black-Scholes option pricing model, the weighted average grant date fair value of these options is \$7.03 per share.

The Black-Scholes option pricing model was used to estimate the fair value of compensation expense using the following assumptions – risk-free interest rate 1.88% to 3.18%; dividend yield 0.0%; expected volatility 38% to 100%; expected life of 6 to 10 years.

In accordance with Accounting Standard Codification 718 (Stock-Based Compensation), Atlas has recognized stock compensation expense on a straight-line basis over the requisite service period of the last separately vesting portion of the award. In the three month period ended March 31, 2014, Atlas recognized \$97,000 in expense compared to \$59,000 in the three month period ended March 31, 2013. Stock compensation expense is a component of other underwriting expenses on the income statement. Total unrecognized stock compensation expense related to all option grants is \$1.5 million as of the period ended March 31, 2014 which will be recognized over the next 35 months. The weighted average exercise price of all the shares exercisable at March 31, 2014 is C\$6.05 on outstanding options granted prior to December 31, 2013 and \$13.26 on outstanding options granted after January 1, 2014 versus C\$6.05 at December 31, 2013. The grants have a weighted average remaining life of 8.6 years and the stock options outstanding have an intrinsic value as of the period ended March 31, 2014 of \$1.9 million.

In the second quarter of 2013, a new Equity Incentive Plan was approved by Shareholders at the Annual General Meeting. Atlas will cease to grant new stock options under the existing Stock Option Plan. The Equity Incentive Plan is a new 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.

Under the Equity Incentive Plan, a director who either directly or indirectly purchases up to \$100,000 of Atlas ordinary voting common stock on the open market, through the employee stock purchase plan, or via other means acceptable under this plan (see note 13) will receive a 3 to 1 matching grant of restricted stock grants for ordinary voting common shares (or for Canadian taxpayers, restricted stock units) based on the aggregate purchase price of ordinary voting common shares the director purchases during the six-month period beginning on June 18, 2013 and ending on December 31, 2013, or for new directors within 6 months of their initial appointment date (the "Purchase Period"). Matching share grants of 148,152 restricted stock grants for ordinary voting common shares and 37,038 restricted stock units were made on February 28, 2014 (the "Grant Date"). The number of ordinary voting common shares issued on the Grant Date were determined by dividing (A) the dollar amount of the Company matching contribution due based on purchases during the Purchase Period by (B) the closing common share price of one share of Company ordinary voting common stock at close of market on June 17, 2013 (the "Closing Price") which was \$8.10 per share. The restricted stock grants for ordinary voting common shares will vest 20% on each anniversary of the Grant Date, subject to the terms of the Guidelines. The matching grant will be subject to all of the terms and conditions of the Equity Incentive Plan and applicable grant agreements. The Company will incur \$25,000 of

compensation expense per month relating to these restricted grants for ordinary voting common shares. As of the three month period ended March 31, 2014 the Company has expensed \$25,000.

Warrants - On November 1, 2010, 1,327,840 subscription receipts were issued in a private placement for ordinary voting common shares of Atlas as well as warrants to purchase 1,327,840 ordinary voting common shares of Atlas for C\$6.00 per share. The subscription receipts were converted to Atlas ordinary voting common shares at Atlas' formation. During 2013, all outstanding warrants were exercised prior to their expiration on December 31, 2013.

### 13. OTHER EMPLOYEE BENEFIT PLANS

Defined Contribution Plan - In January 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 \$17,500 for 2014, to the plan. Qualifying employees age 50 and older can contribute an additional \$5,500 in 2014. Atlas matches 50% of the employee contribution up to 5% of annual earnings for a total maximum expense of 2.5% of annual earnings per participant.

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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 \$32,000 and \$34,000 for the three months ended March 31, 2014 and 2013, respectively.

Employee Stock Purchase Plan - In the second quarter of 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 are allowed to invest up to 5% of adjusted salary in Atlas ordinary voting common shares. Atlas matches 50% of the employee contribution up to 5% of annual earnings for a total maximum expense of 2.5% of annual earnings per participant. Atlas will also pay administrative costs related to this plan. Costs incurred related to this plan were \$15,000 and \$12,000 for the three months ended March 31, 2014 and 2013, respectively.

**14. SHARE CAPITAL**

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' ordinary voting common shares to meet certain listing requirements of the NASDAQ Capital Market. The share capital for the common shares is as follows:

	Shares Authorized	March 31, 2014		December 31, 2013	
		Shares Issued and Outstanding	Amount (in '000s)	Shares Issued and Outstanding	Amount (in '000s)
Ordinary Voting Common	266,666,667	9,477,723	\$29	9,291,871	\$28
Restricted Voting Common	33,333,334	132,863	—	132,863	—
Total common shares	300,000,001	9,610,586	\$29	9,424,734	\$28

On February 11, 2013, an aggregate of 4,125,000 Atlas ordinary voting common shares were offered in Atlas' initial public offering in the United States. 1,500,000 ordinary voting common shares were offered by Atlas and 2,625,000 ordinary voting common shares were sold by Kingsway America Inc. ("KAI"), a wholly-owned subsidiary of Kingsway Financial Services Inc., or other Kingsway subsidiaries (collectively "Kingsway") at a price of \$5.85 per share, less underwriting discounts and expenses. Atlas also granted the underwriters an option to purchase up to an aggregate of 618,750 additional shares at the public offering price of \$5.85 per share to cover over-allotments, if any. On March 11, 2013, the underwriters exercised this option and purchased an additional 451,500 shares. After underwriting and other expenses, Atlas realized combined proceeds of \$9.8 million.

During the three month period ended March 31, 2014, the Company issued 148,152 restricted grants for ordinary voting common shares and 37,700 fully vested ordinary voting common shares to directors and officers, respectively. The Company also issued 37,038 restricted stock units (RSU) to its non-US director. These shares and RSU's were granted under the Company's equity incentive plan.

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by 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 the Company.

There were 2,000,000 preferred shares outstanding at March 31, 2014, all are beneficially owned or controlled by Hendricks. 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 it 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. Preferred shares are convertible into ordinary voting common shares at the option of

the holder at any date after the fifth year of issuance at the rate of 0.1270 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. The preferred shares are redeemable at the option of Atlas at a price of \$1.00 per share plus accrued and unpaid dividends commencing two years from January 1, 2013 (the issuance date of the preferred shares). Preferred shares are not entitled to vote.



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During the three month period ended March 31, 2014, Atlas did not declare or pay dividends earned through the preferred shares. Hendricks earned \$23,000 in dividends during the three month period ended March 31, 2014, and has \$113,000 accrued through March 31, 2014 which remains unpaid. The 18,000,000 preferred shares previously owned by Kingsway were repurchased by the Company on August 1, 2013 pursuant to the Share Repurchase Agreement.

**15. DEFERRED POLICY ACQUISITION COSTS**

Deferred policy acquisition costs for the three month periods ended March 31, 2014 and March 31, 2013 (in '000s):

	Three Month Period Ended	
	March 31, 2014	March 31, 2013
Balance, beginning of period	\$6,674	\$3,764
Acquired in business combination	—	1,233
Acquisition costs deferred	3,956	2,143
Amortization charged to income	3,090	2,270
Balance, end of period	\$7,540	\$4,870

**16. RELATED PARTY TRANSACTIONS**

The business of Atlas is carried on through its insurance subsidiaries. Atlas' insurance subsidiaries have been parties to various transactions with affiliates in the past, although activity in this regard has diminished over time. Related party transactions, including services provided or received by Atlas' insurance subsidiaries, are carried out in the normal course of operations and are measured at the amount of consideration paid or received as established and agreed upon by the parties. Such transactions typically include claims handling services, marketing services and commission payments. Management believes that consideration paid for such services approximates fair value.

As a result of the preferred shares repurchased by the Company on August 1, 2013 pursuant to the Share Repurchase Agreement and the restricted voting common shares sold on October 18, 2013, Atlas is no longer considered part of the Kingsway holding company system and, therefore, no longer deemed a significant affiliate.

**17. SUBSEQUENT EVENTS**

On April 25, 2014, the Company filed a shelf registration on Form S-3 with the SEC, pursuant to which the Company may, from time to time, sell ordinary voting common shares, preferred shares, debt securities, warrants, depositary shares, stock purchase contracts, stock purchase units, or any combination thereof in one or more offerings.

On May 7, 2014, American Insurance Acquisition, Inc., a subsidiary of Atlas Financial Holdings, Inc., entered into a loan and security agreement ("Loan Agreement") for a \$10 million revolving loan facility. More information is available on Form 8-K as filed with the SEC.

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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 Gateway; 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, 2013. 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.

Our core business is the underwriting of commercial automobile insurance policies, focusing on the “light” commercial automobile sector. Over the past three 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

Our primary target market is made up of small to mid-size taxi, limousine 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, 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.

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The “light” commercial automobile sector is a subset of the historically profitable commercial automobile insurance industry segment. Commercial automobile insurance has outperformed the overall P&C industry in each of the past ten years based on data compiled by A.M. Best. Recent data from A.M. Best estimates the total U.S. market for commercial automobile liability insurance to be approximately \$24 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.

### Non-Standard Automobile

Non-standard automobile insurance is principally provided to individuals who do not qualify for standard automobile insurance coverage because of their payment history, driving record, place of residence, age, vehicle type or other factors. Such drivers typically represent higher than normal risks and pay higher insurance rates for comparable coverage.

Consistent with Atlas’ focus on commercial automobile insurance, Atlas has transitioned away from the non-standard auto line. Our insurance subsidiaries ceased writing new and renewal policies of this type in 2011 and earned premium discontinued in 2012, allowing surplus and resources to be devoted to the expected growth of the commercial automobile business.

### Surety

Our surety program primarily consists 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. This non-core program is 100% reinsured to an unrelated third party and is being transitioned to another carrier. We anticipate the program will be fully transitioned during 2014.

### Other

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

The Gateway truck and workers' compensation programs were put into run-off during 2012. The truck program had little earned premium during 2012 and the workers' compensation program is 100% reinsured retrospectively and prospectively to an unrelated third party.

### 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.

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. Our personnel expenses are primarily fixed in nature and do not vary with the amount of premiums written.

Atlas' management incentive compensation plan is based on a return on equity ("ROE") target set annually by the Company's board of directors. The Company has reached its previously communicated minimum efficient operating scale of an annualized \$50 to \$60 million in earned premium and, therefore, anticipates that it is likely that the 2014 ROE targets will be reached and bonuses will be paid. As a result, the Company intends to begin bonus accruals based on projected future payments that will be made throughout the year. Atlas' executive management team received 100% of their bonuses for 2013 in stock, as opposed to cash, in the first quarter of 2014.

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## II. CONSOLIDATED PERFORMANCE

First Quarter 2014 Financial Performance Summary (comparisons to First Quarter 2013 unless otherwise noted):

- Gross premium written increased by 39.7%, which included an increase of 46.1% in our core commercial auto business
- Premium related to core products was written in 39 states during the three month period ended March 31, 2014
- The combined ratio improved by 4.6 percentage points to 93.5%
- Underwriting results improved by \$1.1 million
- Operating income was \$2.2 million for the three month period ended March 31, 2014 compared to \$911,000 for the three month period ended March 31, 2013
- Diluted earnings per common share was \$0.22
- Book value per common share on March 31, 2014 was \$6.79, compared to \$6.54 at December 31, 2013 and \$6.20 at March 31, 2013

The following financial data is derived from Atlas' consolidated financial statements for the three month periods ended March 31, 2014 and March 31, 2013.

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

	Three Month Period Ended		
	March 31, 2014	March 31, 2013	
Gross premium written	\$31,224	\$22,354	
Net premium earned	21,954	15,888	
Losses on claims	13,919	10,261	
Acquisition costs	3,090	2,270	
Other underwriting expenses	3,523	2,722	
Underwriting expenses related to the integration of Gateway	—	337	
Net underwriting income	1,422	298	
Net investment income	779	613	
Income from operating activities, before tax	2,201	911	
Less: Legal/professional fees incurred related to Gateway acquisition	—	406	
Realized (losses)/gains and other income	(9	) 97	
Net income before tax	2,192	602	
Income tax expense	—	—	
Net income	\$2,192	\$602	
Key Financial Ratios:			
Loss ratio	63.4	% 64.6	%
Acquisition cost ratio	14.1	% 14.3	%
Other underwriting expense ratio	16.0	% 19.2	%
Combined ratio	93.5	% 98.1	%
Return on equity (annualized)	13.4	% 3.7	%
Return on common equity (annualized)	13.7	% 2.9	%
Operating income per common share	\$0.22	\$0.13	
Diluted earnings per common share	\$0.22	\$0.05	
Book value per common share, basic and diluted	\$6.79	\$6.20	

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. Operating income should not be viewed as a substitute for U.S. GAAP net income.





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First Quarter 2014 compared to First Quarter 2013:

Atlas' combined ratio for the three month period ended March 31, 2014 was 93.5%, compared to 98.1% for the three month period ended March 31, 2013. For the three month period ended March 31, 2014, we incurred \$827,000 of expense related to discretionary management incentive compensation which was paid in the first quarter of 2014, \$500,000 of which was an amount in excess of the first quarter 2014 bonus accrual. The amount in excess of the accrual had an effect of approximately 2.3% on the underwriting expense and combined ratios for the three month period ended March 31, 2014.

There was a 46.1% increase in gross premium written related to core commercial lines for the three month period ended March 31, 2014 compared to the three month period ended March 31, 2013. The increased proportion of commercial auto policies, which historically have had more favorable overall underwriting results, coupled with pricing activity were the primary drivers for loss ratio improvement in 2014. The overall loss ratio for the three month period ended March 31, 2014 improved to 63.4% from 64.6% in the three month period ended March 31, 2013. Atlas generated net investment income of \$779,000 for the three month period ended March 31, 2014, as well as \$9,000 of realized losses net of other income. This resulted in a 2.2% annualized yield for the three month period ended March 31, 2014.

Overall, Atlas generated net income of \$2.2 million for the three month period ended March 31, 2014. After the dilutive impact of the convertible preferred shares, warrants (2013 only) and stock options, diluted earnings per common share in the three month period ended March 31, 2014 was \$0.22. This compares to net income of \$602,000 or diluted earnings per common share of \$0.05 in the three month period ended March 31, 2013.

Eliminating the impact of the discretionary management incentive compensation expenses in excess of amounts accrued in the first quarter of 2014, on a pro-forma Non-GAAP basis, Atlas generated \$0.27 of diluted earnings per share for the three month period ended March 31, 2014.

### 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;  
Reserve for property-liability insurance claims and claims expense estimation; and  
Deferred tax asset valuation.

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, 2013.

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 credit worthiness 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. In short, Atlas does not rely on rating agency ratings to make investment decisions, but instead, with the support of its independent investment advisors, performs an independent fundamental credit analysis to find the best securities possible. Together with its investment advisor, Atlas found that over time this process creates an ability to sell securities prior to rating agency downgrades or to buy

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securities before upgrades. As of March 31, 2014, 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 investment advisor to ensure that the values received from them are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, 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 which have stale prices or whose changes exceed certain thresholds as compared to previous values received from our investment advisor 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 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) on investments in the consolidated statements of comprehensive income to the extent that the present value of expected cash flows 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 carry-forward 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.

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## IV. OPERATING RESULTS

Three month period ended March 31, 2014 compared to three month period ended March 31, 2013:

## Gross Premium Written

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

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

	Three Month Period Ended		% Change	
	March 31, 2014	March 31, 2013		
Commercial automobile	\$30,146	\$20,639	46.1	%
Surety	951	1,088	(12.6)	)%
Other	127	627	(79.8)	)%
	\$31,224	\$22,354	39.7	%

## First Quarter 2014

For the three month period ended March 31, 2014, gross premium written was \$31.2 million compared to \$22.4 million in the three month period ended March 31, 2013 and \$22.1 million in the three month period ended December 31, 2013, representing a 39.7% increase and 41.5% increase, respectively. In the three month period ended March 31, 2014, gross premium written from commercial automobile was \$30.1 million, representing an increase of 46.1% relative to the three month period ended March 31, 2013 and a 41.7% increase relative to the three month period ended December 31, 2013.

The \$8.9 million improvement since first quarter of 2013 is attributable to Atlas' expansion of core lines of business in several key states, and a continuing positive response from both new and existing agents to Atlas' value proposition. The increase from the three month period ended December 31, 2013 can be attributed to seasonality of renewals in our key markets. As our book of business continues to grow and become more diversified, the impact of seasonality will be reduced.

As a percentage of the insurance subsidiaries' overall book of business, commercial auto gross premium written represented 96.5% of gross premium written in the three month period ended March 31, 2014 compared to 92.3% during the three month period ended March 31, 2013 and 96.4% in the three month period ended December 31, 2013. Commercial automobile insurance has outperformed the overall P&C industry in each of the past ten years based on data compiled by the National Association of Insurance Commissioners (NAIC). Each of the specialty business lines on which Atlas' strategy is focused is a subset of this industry segment.

## Geographic Concentration

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

	Three Month Period Ended				
	March 31, 2014		March 31, 2013		
Illinois	\$9,696	31.0	%\$6,822	30.5	
New York	5,044	16.2	%2,495	11.2	%
Michigan	2,934	9.4	%2,060	9.2	%
Minnesota	1,503	4.8	%832	3.7	%
Georgia	1,328	4.3	%1,236	5.5	%
Texas	1,175	3.8	%819	3.7	%
Ohio	1,134	3.6	%658	2.9	%
California	947	3.0	%1,022	4.6	%
Virginia	779	2.5	%522	2.3	%
Louisiana	739	2.4	%622	2.8	%
Other	5,945	19.0	%5,266	23.6	%
Total	\$31,224	100.0	%\$22,354	100.0	%

## First Quarter 2014

Illinois had the most gross premium written during the three month period ended March 31, 2014, with 31% of Atlas' gross premium written. Although Atlas' core lines of business are becoming increasingly diversified from a geographic standpoint on an annual basis, in the first quarter as a result of the significant volume of business written in Illinois, which is our most mature market and

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has a common January 1 renewal date for taxi business, 65.7% of gross premium written was generated in our five highest-volume states.

This illustrates the geographically balanced growth of our gross premium written this year. Compared to the three month period ended March 31, 2013, we experienced growth in gross premium written in 39 states in the three month period ended March 31, 2014. In 14 of those 39 states, we experienced quarter over quarter growth of greater than 100% due to our continued marketing and underwriting efforts.

### Ceded Premium Written

Ceded premium written is equal to premium ceded under the terms of Atlas' in force reinsurance treaties. Ceded premium written decreased 71.6% to \$2.0 million for the three month period ended March 31, 2014 compared with \$7.1 million for the three month period ended March 31, 2013 and increased 20.2% compared to \$1.7 million for the three month period ended December 31, 2013. The reduction from the prior year first quarter is primarily due to the workers' compensation reinsurance agreement entered into as a result of the Gateway acquisition which ceded \$5.3 million of premium related to the Gateway workers' compensation program.

### 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 91.2% to \$29.2 million for the three month period ended March 31, 2014 compared with \$15.3 million for the three month period ended March 31, 2013 and increased 43.2% compared to the three month period ended December 31, 2013. As a percentage of the insurance subsidiaries' overall book of business, virtually 100% of net premium written related to commercial auto. 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 \$22.0 million in the three month period ended March 31, 2014, a 38.2% increase compared with \$15.9 million in the three month period ended March 31, 2013 and a 7.0% increase relative to the three month period ended December 31, 2013. These increases are a result of the continued growth in our gross premiums written.

Net premiums earned related to core commercial lines increased by 42.0% in the three month period ended March 31, 2014 versus the three month period ended March 31, 2013 and 7.1% since the three month period ended December 31, 2013.

### Claims Incurred

The loss ratio relating to the claims incurred in the three month period ended March 31, 2014 was 63.4% compared to 64.6% in the three month period ended March 31, 2013. Loss ratios improved in the three month period ended March 31, 2014 relative to prior periods primarily due to the increased percentage of commercial auto, which has historically had a better overall underwriting result, relative to total written premium. In both years, the excess taxi program contributed significantly to favorable loss results in the year as we expect better than average claim experience from this program. 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 decreasing trend since we expect 100% of net premium earned to be related to core lines of business moving forward. The Company is committed to retain this claim handling expertise as a core competency as the volume of business increases.

The increased proportion of commercial auto business in the past year, which historically has had more favorable overall underwriting results, coupled with price and underwriting initiatives, are the primary drivers for loss ratio improvement in 2014.

### Acquisition Costs

Acquisition costs represent commissions and taxes incurred on net premium earned. Acquisition costs were \$3.1 million in the three month period ended March 31, 2014 or 14.1% of net premium earned, as compared to 14.3% in the three month period ended March 31, 2013 and 14.7% in the three month period ended December 31, 2013. These changes in acquisition costs are the result of the geographic and business mix of our gross premiums written as commission and tax rates vary.

### Other Underwriting Expenses



The other underwriting expense ratio was 16.0% in the three month period ended March 31, 2014 compared to 19.2% in the three month period ended March 31, 2013 and 13.4% for the three month period ended December 31, 2013. For the three month period ended March 31, 2013, we incurred \$337,000 of severance costs related to former Gateway employees who were severed from Atlas during 2013. This had an effect of approximately 2.1% on the underwriting expense ratio on three month period ended March 31, 2013.

For the three month period ended March 31, 2014, we incurred \$827,000 of expense related to discretionary management incentive compensation which was paid in the first quarter of 2014, \$500,000 of which was an amount in excess of the first quarter 2014 discretionary bonus accrual. These expenses are included in the other underwriting expenses. The amount in excess of the accrual had an effect of approximately 2.3% on the underwriting expense ratio for the three month period ended March 31, 2014.

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The other underwriting expense ratio in 2013 excludes \$406,000 in transaction costs incurred in conjunction with the acquisition of Gateway.

Net Investment Income

Investment Results (in '000s)

	Three Month Period Ended		
	March 31, 2014	March 31, 2013	
Average securities at cost	\$142,858	\$130,576	
Interest income after expenses	\$592	\$609	
Percent earned on average investments (annualized)	1.7	% 1.9	%
Net realized (losses) gains	\$(11	) \$93	
Dividend income	—	4	
Equity in investee	187	—	
Net investment income	\$768	\$706	
Total realized yield (annualized)	2.2	% 2.2	%

Investment income (excluding net realized gains) increased by 27.2% to \$779,000 in the three month period ended March 31, 2014, compared to \$613,000 in the three month period ended March 31, 2013. These amounts are primarily comprised of interest income. The annualized realized yield on invested assets was 2.2% for the three month periods ended March 31, 2014 and March 31, 2013 and 1.2% for the three month period ended December 31, 2013.

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. For the three month period ended March 31, 2014, we incurred \$827,000 of expense related to discretionary management incentive compensation which was paid in the first quarter of 2014, \$500,000 of which was an amount in excess of the first quarter 2014 discretionary bonus accrual. The amount in excess of the accrual had an effect of approximately 2.3% on the underwriting expense and combined ratios for the three month period ended March 31, 2014.

Atlas' combined ratio for the three months ended March 31, 2014 and 2013 are summarized in the table below. 2014 combined ratio improvement is attributable to the factors described in the 'Claims Incurred', 'Acquisition Costs', 'Other Underwriting Expenses' and 'Net Premium Earned' sections above.

Combined Ratios (in '000s)

Three Month Period Ended	March 31, 2014	March 31, 2013	
Net premium earned	\$21,954	\$15,888	
Underwriting expenses <sup>1</sup>	20,531	15,590	
Combined ratio	93.5	% 98.1	%

1 - Underwriting expenses are the combination of claims incurred, acquisition costs, and other underwriting expenses

Operating Income

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 non-recurring items. These amounts are more heavily influenced by market opportunities and other external factors. Operating income should not be viewed as a substitute for U.S. GAAP net income.

Atlas' operating income for the three months ended March 31, 2014 and 2013 are summarized in the table below:

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## Operating Income (in '000's)

	Three Month Period Ended	
	March 31, 2014	March 31, 2013
U.S. GAAP net income	\$2,192	\$602
Add: Expenses incurred related to Gateway acquisition	—	406
Less: Net realized (losses) gains	(11	)93
Less: Other income	2	4
Operating Income	\$2,183	\$911

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

## Net Realized Investment Gains (Losses)

Net realized investment losses in the three month period ended March 31, 2014 were \$11,000 compared to net realized gains of \$93,000 in the three month period ended March 31, 2013 and \$8,000 of net realized gains in the three month period ended December 31, 2013. The difference is the result of management's decision to sell certain securities in the first quarter of 2013 to take advantage of favorable market conditions.

## Other Income

Atlas recorded other income in the three month period ended March 31, 2014 of \$2,000 compared to \$4,000 for the three month period ended March 31, 2013.

## Income/Loss before Income Taxes

Atlas generated pre-tax income of \$2.2 million in the three month period ended March 31, 2014, compared to pre-tax income of \$0.6 million in the three month period ended March 31, 2013 and \$2.2 million of income in the three month period ended December 31, 2013. Excluding the impact of the discretionary management incentive compensation expenses in excess of the amounts accrued of \$500,000 which were paid in the first quarter of 2014, adjusted pre-tax income was \$2.7 million for the three month period ended March 31, 2014.

## Income Tax Expense

Atlas recognized no tax expense in the three month period ended March 31, 2014 and the three month period ended March 31, 2013 due to the reversal of the valuation allowance which has offset our tax expense for these periods. The following table reconciles the statutory U.S. Federal tax rate of 34.0% to the actual percentage of pre-tax income provided for the three month periods ended March 31, 2014 and 2013:

## Tax Rate Reconciliation (in '000s)

	Three Month Period Ended			
	March 31, 2014		March 31, 2013	
	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate of 34%	\$746	34.0	% \$205	34.0
Reversal of valuation allowance	(748	)(34.1	)%(345	)(57.2
Nondeductible expenses	2	0.1	% 141	23.4
Other	—	—	%(1	)(0.2
Total	\$—	—	% \$—	—

## Net Income and Earnings per Common Share

Atlas had net income of \$2.2 million during the three month period ended March 31, 2014 versus \$602,000 during the three month period ended March 31, 2013 and \$2.2 million for the three month period ended December 31, 2013.

After taking the impact of the liquidation preference of the preferred shares into consideration, diluted earnings per common share in the three month period ended March 31, 2014 was \$0.22 versus \$0.05 in the three month period ended March 31, 2013 and \$0.22 in the three month period ended December 31, 2013.

Eliminating the impact of the discretionary management incentive compensation expenses in excess of amounts accrued in the first quarter of 2014, on a pro-forma Non-GAAP basis, Atlas generated \$0.27 of diluted earnings per share for the three month period ended March 31, 2014.



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For the three month period ended March 31, 2014, there were 9,498,995 weighted average common shares outstanding used to compute basic earnings per share and 9,883,555 used for diluted earnings per share.

The following chart illustrates Atlas' potential dilutive common shares:

	Three Month Period Ended	
	March 31, 2014	March 31, 2013
Weighted average common shares outstanding	9,498,995	7,044,724
Dilutive potential ordinary shares:		
Dilutive stock options	130,560	6,439
Dilutive warrants	—	11,246
Dilutive shares upon preferred share conversion	254,000	—
Dilutive average common shares outstanding	9,883,555	7,062,409

In computing the diluted earnings per share for three month period ended March 31, 2013, the Company included the fully dilutive impact of the warrant using the "if-converted" method rather than the treasury stock method. This dilutive impact increased the denominator in the first quarter of 2013 diluted EPS computation by 1,316,588 shares; however, this has no impact on the actual earnings used for the numerator in the EPS computation. Excluding the dilutive impact of the warrants related to the "if-converted" method for the three month period ended March 31, 2013 and applying the treasury method, there were 7,044,724 weighted average common shares outstanding used to compute basic earnings per share and 7,062,409 for diluted earnings per share. The previously reported diluted earnings per share for the period ended March 31, 2013 was \$0.04.

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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 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.

## Portfolio Composition

Atlas held securities with a fair value of \$132.5 million as of March 31, 2014, 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 and equity investments are as follows (all amounts in '000s):

Fair value of securities portfolio (in '000s)

As of March 31, 2014		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income:					
U.S.	Government	\$21,978	\$47	\$397	\$21,628
	Corporate				
	Banking/Financial Services	17,239	287	125	17,401
	Consumer Goods	5,031	44	42	5,033
	Capital Goods	14,195	282	98	14,379
	Energy	4,703	1	50	4,654
	Telecommunications/Utilities	3,856	82	14	3,924
	Health Care	1,950	—	55	1,895
	Total Corporate	46,974	696	384	47,286
	Mortgage backed - Agency	27,912	134	622	27,424
	Mortgage backed - Commercial	20,308	74	477	19,905
	Total Mortgage Backed	48,220	208	1,099	47,329
	Other Asset Backed	12,518	25	1	12,542
Total Fixed Income		129,690	976	1,881	128,785
Equities		252	46	—	298
Other		3,372	—	—	3,372
Totals		\$133,314	\$1,022	\$1,881	\$132,455

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As of December 31, 2013		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income:					
U.S.	Government	\$22,067	\$36	\$620	\$21,483
	Corporate				
	Banking/Financial Services	16,656	238	248	16,646
	Consumer Goods	5,044	28	77	4,995
	Capital Goods	12,951	208	180	12,979
	Energy	3,928	—	114	3,814
	Telecommunications/Utilities	4,979	50	55	4,974
	Health Care	2,025	—	87	1,938
	Total Corporate	45,583	524	761	45,346
	Mortgage backed - Agency	28,877	120	910	28,087
	Mortgage backed - Commercial	22,131	53	614	21,570
	Total Mortgage Backed	51,008	173	1,524	49,657
	Other Asset Backed	12,093	15	9	12,099
Total Fixed Income		130,751	748	2,914	128,585
Equities		258	—	—	258
Other		1,234	—	—	1,234
Totals		\$132,243	\$748	\$2,914	\$130,077

## 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:	March 31, 2014		December 31, 2013		
	Amount	%	Amount	%	%
Due in less than one year	\$8,561	6.6	%\$7,571	5.9	%
Due in one through five years	48,263	37.5	%43,693	34.0	%
Due after five through ten years	24,884	19.3	%28,080	21.8	%
Due after ten years	47,077	36.6	%49,241	38.3	%
Total	\$128,785	100.0	%\$128,585	100.0	%

As of the three month period ended March 31, 2014, 44.1% 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 duration of 3.9 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 and reinsurers. 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



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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 (excluding the bond which has been classified in Level 3 within the fair value hierarchy), 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 87.3% rated 'A' or better as of the period ended March 31, 2014 compared to 88.3% as of the year ended December 31, 2013.

Credit ratings of fixed income securities portfolio (in '000s)

As of:	March 31, 2014		December 31, 2013		
	Amount	% of Total	Amount	% of Total	
AAA/Aaa	\$73,812	57.6	%\$76,616	59.9	%
AA/Aa	14,622	11.4	%12,733	10.0	%
A/A	23,434	18.3	%23,624	18.4	%
BBB/Baa	16,204	12.7	%14,995	11.7	%
Total Securities	\$128,072	100.0	%\$127,968	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 three month period ended March 31, 2014 or the three month period ended March 31, 2013.

The length of time securities may be held in an unrealized loss position may vary based on the opinion of the appointed investment manager and their 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 appointed investment 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 currently in an unrealized loss position is \$70.4 million. Atlas has the ability and intent to hold these securities until their fair value is recovered. Therefore, Atlas does not expect the near term change in market value of these securities to be realized.

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

For Atlas' available-for-sale fixed income securities held as of the period ended March 31, 2014, 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 \$66,000. 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 \$30,000.

A 100 basis point increase would have also decreased other comprehensive income by approximately \$5.1 million 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 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.

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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 \$18.5 million recoverable from third party reinsurers (exclusive of amounts prepaid) and other insurers as of the period ended March 31, 2014 as compared to \$19.1 million as of the year ended December 31, 2013. The decrease is attributable to collections during the first quarter of 2014.

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. and Gen Re, a subsidiary of Berkshire Hathaway, Inc. Great American has a financial strength rating of A+ from Standard & Poor's, while Gen Re has a financial strength rating of Aa1 from Moody's.

## Deferred Tax Asset

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

As of:	March 31, 2014	December 31, 2013
Deferred tax assets:		
Taxable loss carry-forwards	\$15,042	\$15,265
Unpaid claims and unearned premiums	5,253	4,783
Bad debts	173	264
Other	1,249	1,446
Valuation allowance	(8,699)	(9,446)
Total deferred tax assets, net of allowance	\$13,018	\$12,312
Deferred tax liabilities:		
Deferred policy acquisition costs	\$(2,564)	\$(2,269)
Investment securities	(786)	(345)
Other	(379)	(379)
Total gross deferred tax liabilities	(3,729)	(2,993)
Net deferred tax assets	\$9,289	\$9,319

Atlas established a valuation allowance of approximately \$8.7 million and \$9.4 million for its gross future deferred tax assets as of the period ended March 31, 2014 and as of the year ended December 31, 2013, respectively.

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. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets. Atlas' assessment also considered the recent spin-off from prior ownership, the nature and extent of cumulative financial losses and trends in recent quarterly earnings.

Atlas has the following total net operating loss carry-forwards as of the period ended March 31, 2014:



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## Net operating loss carry-forward by expiry (in '000s)

Year of Occurrence	Year of Expiration	Amount
2001	2021	\$10,722
2002	2022	4,317
2006	2026	7,825
2007	2027	3,763
2008	2028	1,949
2009	2029	1,949
2010	2030	2,296
2011	2031	10,183
2012	2032	1,237
Total		\$44,241

## Claims Liabilities

The table below shows the amounts of total case reserves and incurred but not reported (“IBNR”) claims provision as of the period ended March 31, 2014 and as of the year ended December 31, 2013. The provision for unpaid claims decreased by 1.2% to \$100.2 million as of the period ended March 31, 2014 compared to \$101.4 million as of the year ended December 31, 2013. During the three month period ended March 31, 2014, case reserves increased by 4.3% compared to December 31, 2013, and IBNR reserves decreased by 17.0%. Overall, payments and settlements of claims from prior years outpaced current year incurred amounts.

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

As of:	March 31, 2014	December 31, 2013	YTD% Change
Case reserves	\$78,493	\$75,260	4.3 %
IBNR	21,686	26,125	(17.0) %
Total	\$100,179	\$101,385	(1.2) %

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

As of:	March 31, 2014	December 31, 2013	YTD% Change
Non-standard auto	\$2,112	\$2,846	(25.8) %
Commercial auto	81,371	80,903	0.6 %
Other	16,696	17,636	(5.3) %
Total	\$100,179	\$101,385	(1.2) %

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

As of:	March 31, 2014	December 31, 2013	YTD% Change
Non-standard Auto	\$2,112	\$2,846	(25.8) %
Commercial Auto	77,277	76,750	0.7 %
Other	8,848	9,564	(7.5) %
Total	\$88,237	\$89,160	(1.0) %

Claims liabilities - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the three month periods ended March 31, 2014 and March 31, 2013 were as follows:

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	March 31, 2014	December 31, 2013
Unpaid claims, beginning of period	\$101,385	\$70,067
Less: reinsurance recoverable	12,225	5,680
Net beginning unpaid claims reserves	89,160	64,387
Net reserves acquired	—	29,923
Incurred related to:		
Current year	14,129	45,604
Prior years	(210)	)8
	13,919	45,612
Paid related to:		
Current year	2,189	12,874
Prior years	12,653	37,888
	14,842	50,762
Net unpaid claims, end of period	88,237	89,160
Add: reinsurance recoverable	11,942	12,225
Unpaid claims, end of period	\$100,179	\$101,385

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 reduction of the provision for unpaid claims is consistent with the change in written premium in prior years. 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.

**Due to Reinsurers**

The decrease in due to reinsurers is consistent with the payout patterns of the underlying claims liabilities.

**Restructuring**

We incurred \$337,000 in one-time employee termination costs during the three month period ended March 31, 2013, plans for which were formulated in the same period. This expense is included in "Other Underwriting Expenses" on the Condensed Consolidated Statements of Income and Comprehensive Income. The objective of the restructuring is to eliminate managerial and staff positions deemed duplicative subsequent to the acquisition. \$337,000 represents the entirety of the expected expense related to this plan. We expect the impact of the restructuring on future results of operations, liquidity and sources and uses of capital resources to be favorable.

**Off-balance sheet arrangements**

As of March 31, 2014, Atlas has the following cash obligations related to its operating leases:

**Operating Lease Commitments (in '000s)**

Year	2014	2015	2016	2017	2018 & Beyond	Total
Amount	\$873	\$1,186	\$845	\$281	\$—	\$3,185

**Shareholders' Equity**

The table below identifies changes in shareholders' equity for the three month periods ended March 31, 2014 and March 31, 2013:



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## Changes in Shareholders' Equity (in '000s)

	Preferred Shares	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2012	\$18,000	\$4	\$14	\$152,768	\$(112,675)	\$1,753	\$59,864
Net income					602		602
U.S. Initial Public Offering Issuance of Preferred Shares	2,000	16	(10)	9,750			9,756
Other comprehensive loss						(212)	(212)
Share-based compensation				59			59
Preferred dividends declared and paid				(1,874)			(1,874)
Balance March 31, 2013 (unaudited)	\$20,000	\$20	\$4	\$160,703	\$(112,073)	\$1,541	\$70,195
Balance December 31, 2013	\$2,000	\$28	\$—	\$169,595	\$(106,496)	\$(1,429)	\$63,698
Net income					2,192		2,192
Other comprehensive income						862	862
Share-based compensation		1		642			643
Balance March 31, 2014 (unaudited)	\$2,000	\$29	\$—	\$170,237	\$(104,304)	\$(567)	\$67,395

As of May 6, 2014, there were 9,477,723 ordinary voting common shares outstanding, 132,863 restricted voting common shares outstanding, 37,038 restricted stock units, and 2,000,000 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 KAI, or its affiliated entities. The restricted voting common shares will convert to ordinary voting common shares in the event that these KAI owned shares are sold to non-affiliates of KAI.

There were 2,000,000 preferred shares outstanding at March 31, 2014, all are beneficially owned or controlled by Hendricks. 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 it 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. Preferred shares are convertible into ordinary voting common shares at the option of the holder at any date after the fifth year of issuance at the rate of 0.1270 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. The preferred shares are redeemable at the option of Atlas at a price of \$1.00 per share plus accrued and unpaid dividends commencing two years from January 1, 2013 (the issuance date of the preferred shares). Preferred shares are not entitled to vote.

During the three month period ended March 31, 2014, Atlas did not declare or pay dividends earned through the preferred shares. Hendricks earned \$23,000 in dividends during the three month period ended March 31, 2014 and has



\$113,000 accrued through March 31, 2014 which remains unpaid. The 18,000,000 preferred shares previously owned by Kingsway were repurchased by the Company on August 1, 2013 pursuant to the Share Repurchase Agreement.

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## Book Value per Common Share

Book value per common share was as follows:

As of: (in '000s, except for shares and per share data)	March 31, 2014	December 31, 2013
Shareholders' equity	\$67,395	\$63,698
Preferred stock in equity	2,000	2,000
Accumulated dividends on preferred stock	113	90
Common equity	\$65,282	\$61,608
Shares outstanding	9,610,586	9,424,734
Book value per common share outstanding	\$6.79	\$6.54

Year-to-date in 2014, book value changed relative to December 31, 2013 as follows: an increase of \$0.14 related to net income after tax, an increase of \$0.09 related to change in net realized gains/losses after tax, an increase of \$0.08 related to the change in deferred tax valuation allowance, and a decrease of \$0.06 related to share based compensation.

## 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.

The total purchase price for all of Camelot Services' outstanding shares was \$14.3 million, consisting of a combination of cash and Atlas preferred shares. Consideration consisted of a \$6.0 million dividend paid by the sellers immediately prior to the closing, \$2.0 million of Atlas preferred shares (consisting of a total of 2,000,000 preferred shares) and \$6.3 million in cash. This transaction had no material effect on our near-term liquidity.

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. As at March 31, 2014, other than the amounts due under the preferred share redemption, Atlas did not have any other outstanding debt, and therefore, no near term debt service obligations. Atlas currently has no material commitments for capital expenditures, other than the disclosed repurchase of the preferred shares pursuant to the Share Repurchase Agreement, which occurred on August 1, 2013.

The following table summarizes consolidated cash flow activities:

## Summary of Cash Flows (in '000s)

For the Three and Twelve Month Periods Ended	March 31, 2014	December 31, 2013
Cash Provided/(Used) by Operating Activities	\$2,127	\$(5,920)
Cash Provided/(Used) by Financing Activities	1	(1,405)
Cash Provided/(Used) by Investing Activities	(1,590)	\$(2,776)
Net increase in cash	\$538	\$(10,101)

Cash provided by operations during the three month period ended March 31, 2014 was primarily due to an increase in net income. Cash provided by investing activities during the three month period ended March 31, 2014 was primarily as a result of the increase in the cash and invested assets.



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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

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 as of the period ended March 31, 2014, 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.

Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our 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.

Not applicable.

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:  
May 9, 2014

Atlas Financial Holdings, Inc.  
(Registrant)

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