

Atlas Financial Holdings, Inc.
Form 10-Q
August 01, 2016
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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: COMMISSION FILE NUMBER:
June 30, 2016 000-54627
ATLAS FINANCIAL HOLDINGS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CAYMAN ISLANDS 27-5466079
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

150 NW POINT BOULEVARD 60007
Elk Grove Village, IL (Zip Code)
(Address of principal executive offices)
Registrant's telephone number, including area code: (847) 472-6700

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

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

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

Large Accelerated Filer ☐ Accelerated Filer ☒

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

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

There were 12,023,295 shares of the Registrant's common stock outstanding as of July 29, 2016, of which 11,895,104 are ordinary voting common shares and 128,191 are restricted voting common shares. Of the Registrant's ordinary voting common shares outstanding, 10,685,487 shares as of July 29, 2016 were held by non-affiliates of the Registrant.

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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, but such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

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June 30, 2016

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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)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Investments, available for sale		
Fixed income securities, at fair value (amortized cost \$181,392 and \$185,455)	\$ 184,572	\$ 183,773
Equity securities, at fair value (cost \$6,147 and \$4,147)	6,287	4,240
Other investments	27,040	22,937
Total Investments	217,899	210,950
Cash and cash equivalents	22,438	22,354
Accrued investment income	918	1,036
Premiums receivable (net of allowance of \$923 and \$846)	77,483	82,529
Reinsurance recoverables on amounts paid	7,614	3,277
Reinsurance recoverables on amounts unpaid	25,691	29,399
Prepaid reinsurance premiums	19,873	17,412
Deferred policy acquisition costs	10,657	10,235
Deferred tax asset, net	14,087	17,166
Goodwill	2,726	2,726
Intangible assets, net	4,730	4,925
Internal use software and office equipment, net	2,362	2,589
Other assets	6,580	6,694
Total Assets	\$ 413,058	\$ 411,292
Liabilities		
Claims liabilities	\$ 112,457	\$ 127,011
Unearned premiums	112,437	108,202
Due to reinsurers and other insurers	10,928	10,781
Note payable, net	17,653	17,219
Other liabilities and accrued expenses	16,625	18,457
Total Liabilities	\$ 270,100	\$ 281,670
Commitments and contingencies (see Note 8)		
Shareholders' Equity		
Preferred shares, \$0.001 par value, 100,000,000 shares authorized, shares issued and outstanding: June 30, 2016 - 6,538,560 and December 31, 2015 - 6,940,500. Liquidation value \$1.00 per share	\$ 6,539	\$ 6,941
Ordinary voting common shares, \$0.003 par value, 266,666,667 shares authorized, shares issued and outstanding: June 30, 2016 - 11,895,104 and December 31, 2015 - 11,883,025	36	36
Restricted voting common shares, \$0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: June 30, 2016 - 128,191 and December 31, 2015 - 132,863	—	—
Additional paid-in capital	198,877	198,041
Retained deficit	(64,653)	(74,364)
Accumulated other comprehensive income (loss), net of tax	2,159	(1,032)
Total Shareholders' Equity	142,958	129,622
Total Liabilities and Shareholders' Equity	\$ 413,058	\$ 411,292

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

Condensed Consolidated Statements of Income	Three Month Periods		Six Month Periods	
	Ended June 30, 2016	June 30, 2015	Ended June 30, 2016	June 30, 2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net premiums earned	\$41,802	\$ 38,304	\$83,555	\$ 68,471
Net investment income	1,112	1,191	1,765	1,711
Net realized investment gains	155	44	394	181
Other income	127	125	229	157
Total revenue	43,196	39,664	85,943	70,520
Net claims incurred	24,574	22,529	49,514	39,461
Acquisition costs	3,970	5,077	8,023	8,995
Other underwriting expenses	6,783	5,490	13,354	10,035
Amortization of intangible assets	98	—	195	—
Interest expense	266	172	499	181
Expenses (recovered) incurred pursuant to Gateway stock purchase agreement	—	—	(402)	)942
Expenses incurred related to acquisition of subsidiaries	—	228	—	978
Total expenses	35,691	33,496	71,183	60,592
Income from operations before income tax expense	7,505	6,168	14,760	9,928
Income tax expense	2,605	2,232	5,049	3,855
Net income	4,900	3,936	9,711	6,073
Less: Preferred share dividends	78	80	161	115
Net income attributable to common shareholders	\$4,822	\$ 3,856	\$9,550	\$ 5,958
Basic weighted average common shares outstanding	12,045,519	12,008,624	12,045,519	11,930,172
Earnings per common share basic	\$0.40	\$ 0.32	\$0.79	\$ 0.50
Diluted weighted average common shares outstanding	12,747,751	12,800,920	12,749,083	12,714,450
Earnings per common share diluted	\$0.38	\$ 0.31	\$0.76	\$ 0.48

Condensed Consolidated Statements of Comprehensive Income

Net income	\$4,900	\$ 3,936	\$9,711	\$ 6,073
Other comprehensive income (loss):				
Changes in net unrealized investment gains (losses)	1,756	(1,980)	)4,661	(390)
Reclassification to income of net realized investment gains	288	189	248	195
Effect of income tax	(715)	)609	(1,718)	)66
Other comprehensive income (loss)	1,329	(1,182)	)3,191	(129)
Total comprehensive income	\$6,229	\$ 2,754	\$12,902	\$ 5,944

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 Share-holders' Equity
Balance December 31, 2014	\$ 2,000	\$ 34	\$	—\$ 196,079	\$(88,794)	\$ 80	\$ 109,399
Net income	—	—	—	—	6,073	—	6,073
Issuance of preferred shares	4,941	—	—	—	—	—	4,941
Other comprehensive loss	—	—	—	—	—	(129)	(129)
Share-based compensation	—	2	—	823	—	—	825
Balance June 30, 2015 (unaudited)	\$ 6,941	\$ 36	\$	—\$ 196,902	\$(82,721)	\$ (49)	\$ 121,109
Balance December 31, 2015	\$ 6,941	\$ 36	\$	—\$ 198,041	\$(74,364)	\$ (1,032)	\$ 129,622
Net income	—	—	—	—	9,711	—	9,711
Retirement of preferred shares	(402)	—	—	—	—	—	(402)
Other comprehensive income	—	—	—	—	—	3,191	3,191
Share-based compensation	—	—	—	836	—	—	836
Balance June 30, 2016 (unaudited)	\$ 6,539	\$ 36	\$	—\$ 198,877	\$(64,653)	\$ 2,159	\$ 142,958

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)

	Six Month Periods Ended	
	June 30, 2016	June 30, 2015
	(unaudited)	(unaudited)
Operating activities:		
Net income	\$9,711	\$ 6,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets	480	394
Share-based compensation expense	836	825
Amortization of deferred gain on sale of headquarters building	(21)	(21)
Amortization of intangible assets	195	—
Deferred income taxes	1,361	165
Net realized gains	(394)	(181)
Gain in equity of investees	(215)	(452)
Amortization of bond premiums and discounts	683	707
Amortization of financing costs	34	22
Expenses (recovered) incurred pursuant to Gateway stock purchase agreement	(402)	941
Net changes in operating assets and liabilities (net of acquisition):		
Premiums receivable and other assets, net	5,160	(11,680)
Due from reinsurers and other insurers	(3,090)	(1,124)
Deferred policy acquisition costs	(422)	(167)
Accrued investment income	118	(37)
Claims liabilities	(14,554)	(6,703)
Unearned premiums	4,235	11,667
Due to reinsurers and other insurers	147	2,130
Other liabilities and accrued expenses	(1,811)	(1,632)
Net cash flows provided by operating activities	2,051	927
Investing activities:		
Purchase of subsidiary (net of cash acquired)	—	(10,956)
Purchases of:		
Fixed income securities	(36,827)	(51,141)
Equity securities	(2,000)	(1,340)
Other investments	(5,361)	(686)
Property, equipment and other	(252)	(439)
Proceeds from sale and maturity of:		
Fixed income securities	40,601	23,608
Equity securities	—	1,399
Other investments	1,472	—
Net cash flows used in investing activities	(2,367)	(39,555)
Financing activities:		
Proceeds from notes payable	500	18,000
Repayment of note	(100)	—
Net cash flows provided by financing activities	400	18,000

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Net change in cash and cash equivalents	84	(20,628)
Cash and cash equivalents, beginning of period	22,354	36,586
Cash and cash equivalents, end of period	\$22,438	\$ 15,958

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

Cash paid for:

Income taxes	\$3,353	\$ 3,639
Interest	358	139

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

Issuance of preferred shares related to purchase of subsidiary	\$—	\$ 4,000
Issuance of preferred shares related to Gateway stock purchase agreement	—	941
Retirement of preferred shares related to Gateway stock purchase agreement	(402)	—

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

The Insurance Subsidiaries distribute their insurance products through a network of retail independent agents. Together, the Insurance Subsidiaries are licensed to write property and casualty insurance in 49 states and the District of Columbia in the United States. Atlas' core products are actively distributed in 41 of those states plus the District of Columbia. The Insurance Subsidiaries share common management and operating infrastructure.

Atlas' ordinary voting common shares are listed on the NASDAQ stock exchange under the symbol "AFH."

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

The results for the three and six month periods ended June 30, 2016 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, 2015, which provides a more complete understanding of the Company's accounting policies, financial position, operating results, business properties, and other matters. Atlas has consistently applied the same accounting policies throughout all periods presented.

Estimates and assumptions - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period

in which they are determined. The liability for unpaid loss and loss adjustment expenses and related amounts recoverable from reinsurers represents the most significant estimate in the accompanying financial statements. Significant estimates in the accompanying financial statements also include the fair values of investments, deferred tax asset valuation, premium receivable bad debt allowance and deferred policy acquisition cost recoverability. Seasonality - The property and casualty ("P&C") insurance business is seasonal in nature. While Atlas' net premiums earned are generally stable from quarter to quarter, Atlas' gross premiums written follow the common renewal dates for the "light" commercial risks that represent its core lines of business. For example, January 1 and March 1 are common taxi cab renewal dates in Illinois and New York, respectively. Additionally, our New York "excess taxi program" has an annual renewal date in the third quarter. Net underwriting income is driven mainly by the timing and nature of claims, which can vary widely.

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Segmentation - The Company has one reportable business segment. Resources are allocated and management assesses financial performance based on this reportable segment.

2. NEW ACCOUNTING STANDARDS

With the exception of the accounting and disclosure pronouncements discussed below, there have been no recent pronouncements or changes in pronouncements during the six month period ended June 30, 2016, as compared to those described in our Annual Report on Form 10-K for the twelve months ended December 31, 2015, that are of significance or potential significance to Atlas.

Pertinent Accounting Standard Updates ("ASU's") are issued from time to time by the Financial Accounting Standards Board ("FASB") and are adopted by the Company as they become effective. All recently issued accounting pronouncements with effective dates prior to July 1, 2016 have been adopted by the company.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The provisions of this update require an entity to broaden the information that it considers in developing its allowance for credit losses for assets. For public entities, this guidance is effective for years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. The Company plans on adopting the update on the required effective date and is currently evaluating the potential impact of its adoption on its consolidated financial statements.

In May 2016 and April 2016, the FASB issued ASU 2016-12 and ASU 2016-10, Revenue from Contracts with Customers (Topic 606), respectively, which is associated with the updates in ASU 2014-09 and ASU 2015-14. The provisions of this update enhance the guidance on identifying performance obligations and licensing implementation. The effective date of this ASU follows the guidance in ASU 2015-14 discussed below. Along with ASU 2014-09, the Company plans to adopt these standards on the required effective date and is currently evaluating the guidance to determine the potential impact, if any, of its adoption on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). The provisions of this update simplify certain areas around share-based compensation transactions including income taxes and cash flow classifications. Each amendment within this update has specific guidance on the method of application, which includes prospective, retrospective, and modified retrospective applications. For public entities, this guidance is effective for years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted. The Company plans on adopting the update on the required effective date and is currently evaluating the potential impact of its adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The provisions of this update impact the classification criteria, disclosure requirements, and other specific transactions in lease accounting. The update requires the use of a modified retrospective approach, which requires leases to be measured at the beginning of the earliest period presented. For public entities, this guidance is effective for years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted. The Company plans on adopting the update on the required effective date. The Company is currently evaluating the potential impact of its adoption on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. One provision of this update requires that equity investments, except those accounted for under the equity method, be measured at fair value and changes in fair value recognized in net income. The provisions of this update are recognized as a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. For public entities, this guidance is effective for years beginning after December 15, 2017, including interim periods within those years. Early adoption is not permitted,

except for certain provisions. The Company plans on adopting the update on the required effective date. The Company is currently evaluating the potential impact of its adoption on its consolidated financial statements.

In May 2015, the FASB issued ASU 2015-09, Financial Services - Insurance (Topic 944): Disclosures about Short-Duration Contracts. The new disclosures, which are required for annual periods beginning after December 31, 2015 and for interim periods beginning after December 31, 2016, are intended to provide additional information about insurance liabilities including the nature, amount, timing, and uncertainty of future cash flows related to those liabilities. Early adoption is permitted. Except for the retrospective application of additional disclosure requirements, the new guidance will not impact the Company's consolidated financial statements. The Company plans on adopting the update on the required effective date.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issuance Costs. The new disclosures require debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The amendments in this disclosure are effective

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for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company adopted this new disclosure in the first quarter of 2016. See Note 19 regarding this change in accounting principle.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update is a comprehensive revenue recognition standard that applies to all entities that have contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. Updates may be applied retrospectively to each period presented or retrospectively with the cumulative effect recognized at the date of initial application. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606) Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 by one year. The update is now effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but only for interim and annual periods beginning after December 15, 2016. The Company plans to adopt the update on the required effective date and is currently evaluating the guidance to determine the potential impact, if any, of its adoption on its consolidated financial statements.

All other recently issued pronouncements with effective dates after June 30, 2016 are not expected to have a material impact on the Consolidated Financial Statements.

3. ACQUISITIONS

Acquisition of Anchor Holdings Group, Inc. et. al.

On March 11, 2015, Atlas acquired Anchor Holdings Group, Inc., a privately owned insurance holding company, and its wholly owned subsidiary, Global Liberty, along with its affiliated entities, Anchor Management, and Plainview (collectively, "Anchor"), from an unaffiliated third party. Anchor provides specialized commercial insurance products, including commercial automobile insurance to niche markets such as taxi, black car and sedan service owners and operators primarily in the New York market. Atlas' acquisition of Anchor expanded our distribution channel for core commercial automobile lines and provided incremental licensure as well as important infrastructure in the large New York market. Global Liberty also wrote homeowners insurance in the northeast, which was put into runoff, subject to applicable regulatory requirements, prior to the transaction.

Under the terms of the stock purchase agreement, the purchase price was based on the combined U.S. GAAP book value of Anchor at December 31, 2014. Additional consideration, principally in the form of preferred shares, may be paid to the seller, or returned to us by the seller, depending upon the future development of Global Liberty's actual loss reserves for certain lines of business over time.

The total purchase price for the combined entities of Anchor was \$23.2 million, consisting of a combination of cash and Atlas preferred shares, and was estimated at approximately 1.3 times combined U.S. GAAP book value.

Consideration consisted of approximately \$19.2 million in cash and \$4.0 million of Atlas preferred shares (consisting of a total of 4,000,000 preferred shares at \$1.00 per preferred share), subject to future price adjustments, as noted above. We have contractual protections to offset up to \$4.0 million of future adverse reserve development during the five year period after the acquisition.

The Anchor acquisition was accounted for using the acquisition method. Atlas began consolidating Anchor on March 11, 2015, therefore their financial results are included in Atlas' consolidated financial results starting with the three month period ended March 31, 2015. However, the following unaudited pro forma summary presents Atlas' consolidated financial information for the three and six month periods ended June 30, 2015 as if Anchor had been acquired on January 1, 2015. These amounts have been calculated after applying the Company's accounting policies had the acquisition been completed on January 1, 2015. These results were prepared for comparative purposes only and do not purport to be indicative of the results of operations that may have actually resulted had the acquisition occurred on the indicated dates, nor are they indicative of potential future operating results of the Company.

(in '000s, except per share data)

Three	Six
Month	Month
Period	Period

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	Ended June 30, 2015	Ended June 30, 2015
Revenue	\$39,664	\$75,980
Income from operations before income tax expense ¹	\$6,396	\$11,462
Net income ¹	\$4,086	\$7,062
Earnings per common share basic ¹	\$0.33	\$0.58
Earnings per common share diluted ¹	\$0.31	\$0.54

¹ - Excludes expenses incurred in connection with the Anchor acquisition

From the date of acquisition through June 30, 2015, Anchor earned revenue of \$9.9 million and net income of \$990,000.

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The value of certain assets and liabilities acquired are subject to adjustment as additional information is obtained, including, but not limited to, valuation of separately identifiable intangibles, the preferred stock issued to the seller, and deferred taxes. The valuations were finalized during the year ended December 31, 2015 (not including loss reserve development consideration). The changes upon finalization to the preliminary valuation of assets and liabilities resulted in an adjustment to identifiable intangible assets, goodwill, deferred tax, and other liabilities. The following table presents the adjusted values of assets acquired and liabilities assumed for the Anchor acquisition based on its estimated fair value on March 11, 2015.

(in '000s)

Purchase Consideration

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

Allocation of Purchase Price

Cash and investments	\$ 48,508
Other current assets	33,303
Property and equipment	22
Goodwill	2,726
Intangible assets	4,500
Total Assets	\$ 89,059

Claims liabilities	\$ 30,731
Unearned premiums	22,976
Accounts payable and other liabilities	11,231
Deferred tax liabilities, net	922
Total Liabilities	\$ 65,860

Net assets acquired	\$ 23,199
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The acquisition of Anchor resulted in the recognition of intangible assets and goodwill valued at \$4.5 million and \$2.7 million, respectively. The Company recorded an adjustment to the purchase price allocation and amortization related to the identified intangible assets during the fourth quarter of 2015. Atlas recognized amortization expense of \$98,000 and \$195,000 for the three and six month periods ended June 30, 2016, respectively, related to intangible assets acquired in the Anchor transaction. Atlas recognized no amortization expense for the three and six month periods ended June 30, 2015. Atlas incurred no transaction expenses related to the Anchor acquisition for the three and six month periods ended June 30, 2016 and \$228,000 and \$978,000 in expenses for the three and six month periods ended June 30, 2015, respectively.

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Intangible Assets

The following table presents a summary of intangible assets by major asset class at June 30, 2016 and December 31, 2015:

(in '000s)

At June 30, 2016	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade name and trademark	15 years	\$ 1,800	\$ 157	\$ 1,643
Customer relationship	10 years	2,700	353	2,347
State insurance licenses	Indefinite	740	—	740
		\$ 5,240	\$ 510	\$ 4,730

At December 31, 2015	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade name and trademark	15 years	\$ 1,800	\$ 97	\$ 1,703
Customer relationship	10 years	2,700	218	2,482
State insurance licenses	Indefinite	740	—	740
		\$ 5,240	\$ 315	\$ 4,925

4. EARNINGS PER SHARE

Earnings per ordinary voting common shares, restricted voting common shares and participative restricted stock units ("RSUs") (collectively, the "common shares") for the three and six month periods ended June 30, 2016 and 2015 are as follows:

(in '000s, except share and per share data)	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Basic:				
Income from operations before income tax expense	\$7,505	\$ 6,168	\$14,760	\$ 9,928
Income tax expense	2,605	2,232	5,049	3,855
Net income	\$4,900	\$ 3,936	\$9,711	\$ 6,073
Less: Preferred share dividends	78	80	161	115
Net income attributable to common shareholders	\$4,822	\$ 3,856	\$9,550	\$ 5,958
Basic weighted average common shares outstanding	12,045,520	12,008,624	12,045,519	12,008,624
Earnings per common share basic	\$0.40	\$ 0.32	\$0.79	\$ 0.50
Diluted:				
Basic weighted average common shares outstanding	12,045,520	12,008,624	12,045,519	12,008,624
Add:				
Dilutive stock options outstanding	179,832	18,852	181,167	210,834
Dilutive shares upon preferred share conversion	522,397	573,444	522,397	573,444
Diluted weighted average common shares outstanding	12,747,749	12,600,920	12,749,083	12,792,902
Earnings per common share diluted	\$0.38	\$ 0.31	\$0.76	\$ 0.48

Earnings per common share diluted is computed by dividing net income by the weighted average number of common shares outstanding for each period plus the incremental number of shares added as a result of converting dilutive potential ordinary voting common shares, calculated using the treasury stock method (or, in the case of the convertible preferred shares, using the "if-converted" method). Atlas' dilutive potential ordinary voting common shares consist of stock options to purchase ordinary voting common shares and preferred shares potentially convertible to ordinary voting common shares at the option of the holders at any date after December 31, 2018 (2,538,560 preferred shares at

the rate of 0.1270 ordinary voting common shares for each preferred share) and after March 11, 2020 (4,000,000 preferred shares at the rate of 0.05 ordinary voting common shares for each preferred share). The effects of these convertible instruments are excluded from the computation of earnings per common share diluted 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 earnings per common share

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basic. In the three and six month periods ended June 30, 2016 and 2015, stock options and all of the convertible preferred shares were deemed to be dilutive.

5. INVESTMENTS

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

As of June 30, 2016	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income Securities:				
U.S. Treasury and other U.S. government obligations	\$ 24,227	\$ 389	\$ —	\$24,616
States, municipalities and political subdivisions	13,991	513	—	14,504
Corporate				
Banking/financial services	20,807	496	(17	) 21,286
Consumer goods	9,259	209	(13	) 9,455
Capital goods	11,613	361	(95	) 11,879
Energy	3,949	72	(77	) 3,944
Telecommunications/utilities	10,584	222	(116	) 10,690
Health care	3,663	73	—	3,736
Total Corporate	59,875	1,433	(318	) 60,990
Mortgage backed - agency	40,634	830	(45	) 41,419
Mortgage backed - commercial	18,627	321	(68	) 18,880
Total Mortgage Backed	59,261	1,151	(113	) 60,299
Other asset backed	24,038	155	(30	) 24,163
Total Fixed Income Securities	181,392	3,641	(461	) 184,572
Equities	6,147	155	(15	) 6,287
Totals	\$ 187,539	\$ 3,796	\$ (476	) \$190,859
As of December 31, 2015	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income Securities:				
U.S. Treasury and other U.S. government obligations	\$ 23,555	\$ 12	\$ (84	) \$23,483
States, municipalities and political subdivisions	21,974	232	(52	) 22,154
Corporate				
Banking/financial services	21,963	117	(166	) 21,914
Consumer goods	7,813	43	(121	) 7,735
Capital goods	15,524	127	(556	) 15,095
Energy	4,807	—	(401	) 4,406
Telecommunications/utilities	12,298	27	(450	) 11,875
Health care	3,038	—	(17	) 3,021
Total Corporate	65,443	314	(1,711	) 64,046
Mortgage backed - agency	34,874	112	(313	) 34,673
Mortgage backed - commercial	19,961	158	(244	) 19,875
Total Mortgage Backed	54,835	270	(557	) 54,548
Other asset backed	19,648	14	(120	) 19,542
Total Fixed Income Securities	185,455	842	(2,524	) 183,773
Equities	4,147	139	(46	) 4,240
Totals	\$ 189,602	\$ 981	\$ (2,570	) \$188,013

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

	One year or less	One to five years	Five to ten years	More than ten years	Total contractual maturity	Total mortgage and asset backed	Total
As of June 30, 2016							
Amortized Cost	\$ 12,729	\$ 51,051	\$ 25,730	\$ 8,583	\$ 98,093	\$ 83,299	\$ 181,392
Fair Value	12,769	51,701	26,821	8,819	100,110	84,462	184,572
	One year or less	One to five years	Five to ten years	More than ten years	Total contractual maturity	Total mortgage and asset backed	Total
As of December 31, 2015							
Amortized Cost	\$ 11,494	\$ 55,371	\$ 35,462	\$ 8,645	\$ 110,972	\$ 74,483	\$ 185,455
Fair Value	11,518	54,752	35,148	8,265	109,683	74,090	183,773

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 that have existed for at least six months or other circumstances that management believes may impact the recoverability of the security;

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 for the three and six month periods ended June 30, 2016 and 2015 as a result of the above analysis performed by management.

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

	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of June 30, 2016						
Fixed Income Securities:						
U.S. Treasury and other U.S. government obligations	\$—	\$ —	\$—	\$ —	\$—	\$ —
States, municipalities and political subdivisions	535	—	—	—	535	—
Corporate						
Banking/financial services	785	(1)	1,893	(16)	2,678	(17)
Consumer goods	—	—	216	(13)	216	(13)
Capital goods	418	(67)	619	(28)	1,037	(95)
Energy	1,411	(24)	593	(53)	2,004	(77)
Telecommunications/utilities	596	(4)	1,647	(112)	2,243	(116)
Health care	—	—	—	—	—	—
Total Corporate	3,210	(96)	4,968	(222)	8,178	(318)
Mortgage backed - agency	3,697	(35)	1,267	(10)	4,964	(45)
Mortgage backed - commercial	2,307	(13)	4,225	(55)	6,532	(68)
Total Mortgage Backed	6,004	(48)	5,492	(65)	11,496	(113)
Other asset backed	3,889	(4)	3,665	(26)	7,554	(30)
Total Fixed Income Securities	13,638	(148)	14,125	(313)	27,763	(461)
Equities	985	(15)	—	—	985	(15)
Totals	\$14,623	\$ (163)	\$14,125	\$ (313)	\$28,748	\$ (476)

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	Less Than 12 Months		More Than 12 Months		Total	
As of December 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Income Securities:						
U.S. Treasury and other U.S. government obligations	\$9,712	\$ (49)	\$3,256	\$ (35)	\$12,968	\$ (84)
States, municipalities and political subdivisions	5,870	(46)	553	(6)	6,423	(52)
Corporate						
Banking/financial services	12,216	(161)	595	(5)	12,811	(166)
Consumer goods	6,044	(121)	—	—	6,044	(121)
Capital goods	9,425	(428)	755	(128)	10,180	(556)
Energy	3,862	(337)	544	(64)	4,406	(401)
Telecommunications/utilities	8,811	(450)	—	—	8,811	(450)
Health care	3,021	(17)	—	—	3,021	(17)
Total Corporate	43,379	(1,514)	1,894	(197)	45,273	(1,711)
Mortgage backed - agency	25,168	(255)	1,921	(58)	27,089	(313)
Mortgage backed - commercial	10,022	(129)	3,445	(115)	13,467	(244)
Total Mortgage Backed	35,190	(384)	5,366	(173)	40,556	(557)
Other asset backed	16,203	(113)	1,084	(7)	17,287	(120)
Total Fixed Income Securities	110,354	(2,106)	12,153	(418)	122,507	(2,524)
Equities	1,062	(46)	—	—	1,062	(46)
Totals	\$111,416	\$ (2,152)	\$12,153	\$ (418)	\$123,569	\$ (2,570)

As of June 30, 2016, we held 96 and 1 individual fixed income and equity securities, respectively, that were in an unrealized loss position, of which 51 individual fixed income securities were in a continuous loss position for longer than 12 months. As of December 31, 2015, we held 435 and 1 individual fixed income and equity securities, respectively, that were in an unrealized loss position, of which 35 individual fixed income securities were in a continuous loss position for longer than 12 months. We did not recognize the unrealized losses in earnings on these fixed income securities for the three and six month periods ended June 30, 2016 or for the year ended December 31, 2015, because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized costs.

The following table summarizes the components of net investment income for the three and six month periods ended June 30, 2016 and 2015 (\$ in '000s):

	Three Month Periods Ended June 30, 2016		Six Month Periods Ended June 30, 2015	
Total investment income				
Interest income	\$937	\$902	\$1,919	\$1,494
Dividends	—	13	—	42
Income from other investments	399	449	296	502
Investment expenses	(224)	(173)	(450)	(327)
Net investment income	\$1,112	\$1,191	\$1,765	\$1,711

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The following table presents the gross realized gains and gross realized losses from sales of fixed income securities and equities for the three and six month periods ended June 30, 2016 and 2015 (\$ in '000s):

	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Fixed income securities:				
Gains on sales	\$ 191	\$ 71	\$ 506	\$ 208
Losses on sales	(36)	(14)	(112)	(14)
Equities:				
Gains on sales	\$ —	\$ 69	\$ —	\$ 69
Losses on sales	—	(82)	—	(82)
Total:				
Gains on sales	\$ 191	\$ 140	\$ 506	\$ 277
Losses on sales	(36)	(96)	(112)	(96)

The aggregate proceeds from sales of fixed income securities and equities included in the table above for the three and six month periods ended June 30, 2016 are \$7.7 million and \$29.2 million, respectively, and \$6.0 million and \$8.0 million for the three and six month periods ended June 30, 2015, respectively.

The following table summarizes the components of net investment realized gains (losses) for the three and six month periods ended June 30, 2016 and 2015 (\$ in '000s):

	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Fixed income securities	\$ 55	\$ 57	\$ 394	\$ 194
Equities	(13)	—	(13)	—
Net investment realized gains	\$ 42	\$ 57	\$ 381	\$ 194

Other Investments:

Atlas' other investments are comprised of collateral loans and various limited partnerships that invest in income-producing real estate, equities, or catastrophe bonds. Atlas' interests in these limited partnership investments are not deemed minor, and as a result, the Company uses the equity method of accounting. As of June 30, 2016, the carrying values of these other investments were approximately \$27.0 million versus approximately \$22.9 million as of December 31, 2015. The carrying values of the equity method limited partnerships were \$24.8 million and \$22.8 million as of June 30, 2016 and December 31, 2015, respectively. The carrying value of these investments is Atlas' share of the net book value for each limited partnership, an amount that approximates fair value. Atlas receives payments on a routine basis that approximate the income earned on two of the limited partnerships that invest in income-producing real estate. The carrying values of the collateral loans were \$2.2 million and \$0.1 million as of June 30, 2016 and December 31, 2015, respectively.

The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other-than temporary. To determine if an other-than temporary impairment has occurred, the Company

evaluates whether or not the investee could sustain a level of earnings that would justify the carrying amount of the investment. Collateral loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans equal to the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows discounted at the loan's original effective interest rate. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or the present value of the loan's expected future repayment cash flows. As of June 30, 2016 and as of December 31, 2015, the Company had no valuation allowances established for impaired loans.

Collateral pledged:

As of June 30, 2016 and as of December 31, 2015, bonds and term deposits with a fair value of \$15.3 million and \$15.8 million, respectively, were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges securities to and deposits cash with third parties to collateralize liabilities incurred under its policies of reinsurance assumed and other commitments made by the Company. As of June 30, 2016 and as of December 31, 2015, the amounts of such pledged securities were \$3.6 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

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income related thereto remain the property of the Company while pledged. Neither the state, provincial regulatory authorities nor any other third party has the right to re-pledge or sell said securities held on deposit.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. GAAP requires certain assets and liabilities to be reported at fair value in the financial statements and provides a framework for establishing that fair value. Level 1 inputs are given the highest priority in the hierarchy while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Atlas' assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the placement of the asset or liability within the fair value hierarchy levels.

The following is a summary of significant valuation techniques for assets measured at fair value on a recurring basis:

Level 1

Equities: Comprised of publicly-traded common stocks. Valuation is based on unadjusted quoted prices for identical assets in active markets that Atlas can access.

Fixed Income: Comprised of certain U.S. Treasury fixed income securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that Atlas can access.

Level 2

States, Municipalities and Political Subdivisions: Comprised of U.S. States, Territories and Possessions, U.S. Political Subdivisions of States, Territories and Possessions, U.S. Special Revenue and Special Assessment Obligations. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Corporate Bonds: Comprised of investment-grade fixed income securities. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Mortgage-backed and Other asset-backed: Comprised of securities that are collateralized by mortgage obligations and other assets. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields, collateral performance and credit spreads.

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The following table summarizes Atlas' investments at fair value as of June 30, 2016 and as of December 31, 2015 (\$ in '000s):

As of June 30, 2016	Level 1	Level 2	Level 3	Total
Fixed Income Securities:				
U.S. Treasury and other U.S. government obligations	\$24,616	\$—	\$—	\$24,616
States, municipalities and political subdivisions	—	14,504	—	14,504
Corporate				
Banking/financial services	—	21,286	—	21,286
Consumer goods	—	9,455	—	9,455
Capital goods	—	11,879	—	11,879
Energy	—	3,944	—	3,944
Telecommunications/utilities	—	10,690	—	10,690
Health care	—	3,736	—	3,736
Total Corporate	—	60,990	—	60,990
Mortgage backed - agency	—	41,419	—	41,419
Mortgage backed - commercial	—	18,880	—	18,880
Total Mortgage Backed	—	60,299	—	60,299
Other asset backed	—	24,163	—	24,163
Total Fixed Income Securities	24,616	159,956	—	184,572
Equities	6,287	—	—	6,287
Totals	\$30,903	\$159,956	\$—	\$190,859
As of December 31, 2015	Level 1	Level 2	Level 3	Total
Fixed Income Securities:				
U.S. Treasury and other U.S. government obligations	\$23,483	\$—	\$—	\$23,483
States, municipalities and political subdivisions	—	22,154	—	22,154
Corporate				
Banking/financial services	—	21,914	—	21,914
Consumer goods	—	7,735	—	7,735
Capital goods	—	15,095	—	15,095
Energy	—	4,406	—	4,406
Telecommunications/utilities	—	11,875	—	11,875
Health care	—	3,021	—	3,021
Total Corporate	—	64,046	—	64,046
Mortgage backed - agency	—	34,673	—	34,673
Mortgage backed - commercial	—	19,875	—	19,875
Total Mortgage Backed	—	54,548	—	54,548
Other asset backed	—	19,542	—	19,542
Total Fixed Income Securities	23,483	160,290	—	183,773
Equities	4,240	—	—	4,240
Totals	\$27,723	\$160,290	\$—	\$188,013

Atlas primarily uses the services of external securities pricing vendors to obtain these values. Atlas then reviews these valuations to ensure that the values are accurately recorded and that the data inputs and valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value.

Though Atlas believes the valuation methods used in determining fair value are appropriate, different methodologies or assumptions could result in a different fair value as of June 30, 2016. Management does not believe that reasonable changes to the inputs to its valuation methodology would result in a significantly higher or lower fair value

measurement.

There were no transfers in or out of Level 2 or Level 3 during the three and six month periods ended June 30, 2016 and 2015.

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7. INCOME TAXES

Atlas' effective tax rate was 34.7% and 34.2% for the three and six month periods ended June 30, 2016, respectively, and 36.1% and 38.8% for the three and six month periods ended June 30, 2015. The below table reconciles the U.S. statutory marginal income tax rate to the effective tax rate (\$ in '000s):

	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016		June 30, 2015	
	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	\$2,627	35.0 %	\$2,097	34.0 %
Nondeductible expenses	9	0.1 %	27	0.4 %
Tax-exempt income	(12)	(0.1) %	—	— %
State tax (net of federal benefit)	(19)	(0.3) %	130	2.1 %
Nondeductible acquisition accounting adjustment	—	— %	—	— %
Other	—	— %	(22)	(0.4) %
Provision for income taxes for continuing operations	\$2,605	34.7 %	\$2,232	36.1 %

Income tax expense consists of the following for the three and six month periods ended June 30, 2016 and 2015 (\$ in '000s):

	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Current tax expense	\$2,025	\$2,056	\$3,689	\$3,690
Deferred tax expense	580	176	1,360	165
Total	\$2,605	\$2,232	\$5,049	\$3,855

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

On July 22, 2013, as a result of shareholder activity, a "triggering event" as determined under IRC Section 382 occurred. As a result, under IRC Section 382, the use of the Company's net operating loss and other carryforwards will be limited as a result of this "ownership change" for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders owning 5% or greater portions of the Company's shares. Due to this triggering event, the Company estimates that it will retain total tax effected federal net operating loss carryforwards of approximately \$11.9 million as of June 30, 2016.

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The components of net deferred income tax assets and liabilities as of June 30, 2016 and December 31, 2015 are as follows (\$ in '000s):

	June 30, 2016	December 31, 2015
Gross deferred tax assets:		
Losses carried forward	\$ 11,905	\$ 12,656
Unpaid claims and unearned premiums	8,049	8,122
Tax credits	662	662
Investments	—	36
Commissions	1,407	1,306
Other	1,162	1,457
Total gross deferred tax assets	23,185	24,239
Gross deferred tax liabilities:		
Deferred policy acquisition costs	3,730	3,582
Investments	1,577	—
Fixed assets	401	401
Intangible assets	1,397	1,465
Other	1,993	1,625
Total gross deferred tax liabilities	9,098	7,073
Net deferred tax assets	\$ 14,087	\$ 17,166

Amounts and expiration dates of the operating loss carryforwards as of June 30, 2016 are as follows (\$ in '000s):

Year of Occurrence	Year of Expiration	Amount
2001	2021	\$ 4,506
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	3,499
2012	2032	2,890
Total		\$ 34,015

Atlas has not established a valuation allowance for its gross future deferred tax assets as of June 30, 2016 or as of December 31, 2015. Based on Atlas' expectations of future taxable income, its ability to change its investment strategy, as well as reversing gross future tax liabilities, management believes it is more likely than not that Atlas will fully realize the net future tax assets.

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 and six month periods ended June 30, 2016 and 2015. Tax years 2012 through 2016 are subject to examination by the Internal Revenue Service ("IRS"). The IRS completed its audit of tax year 2012 during the three month period ended March 31, 2016. No changes to tax year 2012 were made to our reported tax.

8. COMMITMENTS AND CONTINGENCIES

On May 22, 2012, Atlas closed the sale and leaseback of its headquarters building to 150 Northwest Point, LLC, a Delaware limited liability company. Atlas recognized a gain on the sale of this property of \$213,000, which will be deferred and recognized over the five year lease term, which ends in May 2017. Atlas recognized \$10,000 as an offset to rent expense for each of the three month periods ended June 30, 2016 and 2015. Total rental expense recognized on the headquarters building was \$175,000 and

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\$172,000 for the three month periods ended June 30, 2016 and 2015, respectively. Atlas recognized \$21,000 as an offset to rent expense for each of the six month periods ended June 30, 2016 and 2015. Total rental expense recognized on the headquarters building was \$358,000 and \$355,000 for the six month periods ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, Atlas has the following future minimum rentals, related principally to office space, required under operating leases (\$ in '000s):

Year	2016	2017	2018	2019	2020	2021 & Beyond	Total
Amount	\$881	\$1,269	\$948	\$952	\$955	\$1,058	\$6,063

The Company has entered into subscription agreements to commit up to \$8.5 million of capital to allow for participation by the Company in limited liability investments, which invest in income-producing real estate, small business loans and equity securities. As of June 30, 2016, the unfunded commitment was \$3.8 million.

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

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

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

In addition, as a condition to the ability to conduct business in certain states (and within the jurisdiction of some local governments), insurance companies are subject to or required to participate in various premium or loss based insurance-related assessments, including mandatory (a/k/a "involuntary") insurance pools, underwriting associations, workers' compensation second-injury funds, reinsurance funds and other state insurance facilities.

9. INTERNAL USE SOFTWARE AND OFFICE EQUIPMENT

Atlas held the following internal use software and office equipment as of June 30, 2016 and as of December 31, 2015 (excluding assets held for sale) (\$ in '000s):

	June 30, December 31,	
	2016	2015
Leasehold improvements	\$520	\$ 507
Internal use software	7,628	7,611
Computer equipment	2,429	2,225
Furniture and other office equipment	612	593
Total	11,189	10,936
Accumulated depreciation	(8,827)	(8,347)
Balance, end of period	\$2,362	\$ 2,589

Depreciation expense and amortization was \$218,000 and \$194,000 for the three month periods ended June 30, 2016 and 2015, respectively. Depreciation expense and amortization was \$480,000 and \$394,000 for the six month periods ended June 30, 2016 and 2015, respectively. For the year ended December 31, 2015, depreciation expense and amortization was \$966,000.

Effective July 1, 2015, the Company implemented a new policy management software and began amortizing the cost of the software. Total capitalized cost of the software was approximately \$2.0 million. Amortization expense for the new software for

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the three and six month periods ended June 30, 2016 was \$98,000 and \$196,000, respectively. Amortization expense for the year ended December 31, 2015 was \$186,000.

10. 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 and six month periods ended June 30, 2016 and 2015 are as follows (\$ in '000s):

	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Direct premiums written	\$48,312	\$46,453	\$109,380	\$91,321
Assumed premiums written	41	122	2,998	227
Ceded premiums written	(13,096)	(10,223)	(27,050)	(14,617)
Net premiums written	\$35,257	\$36,352	\$85,328	\$76,931
Direct premiums earned	\$53,877	\$45,546	\$106,661	\$79,599
Assumed premiums earned	864	152	1,482	281
Ceded premiums earned	(12,939)	(7,394)	(24,588)	(11,409)
Net premiums earned	\$41,802	\$38,304	\$83,555	\$68,471
Ceded losses and loss adjustment expenses	\$4,685	\$2,934	\$9,122	\$3,832
Ceding commissions	4,299	1,350	6,232	2,520

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Claims liabilities - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the three and six month periods ended June 30, 2016 and 2015 were as follows (\$ in '000s):

	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Unpaid claims, beginning of period	\$ 121,379	\$ 130,440	\$ 127,011	\$ 102,430
Less: reinsurance recoverable	28,272	29,156	29,399	18,421
Net unpaid claims, beginning of period	93,107	101,284	97,612	84,009
Net reserves acquired	—	—	—	19,396
Change in retroactive reinsurance ceded	271	901	274	887
Incurred related to:				
Current year	24,513	22,178	49,150	40,739
Prior years	61	351	364	(1,278)
	24,574	22,529	49,514	39,461
Paid related to:				
Current year	8,453	7,313	13,740	10,457
Prior years	22,733	17,787	46,894	33,682
	31,186	25,100	60,634	44,139
Net unpaid claims, end of period	86,766	99,614	86,766	99,614
Add: reinsurance recoverable	25,691	26,844	25,691	26,844
Unpaid claims, end of period	\$ 112,457	\$ 126,458	\$ 112,457	\$ 126,458

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

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

The unfavorable development for the three month period ended June 30, 2016 primarily resulted from Atlas' participation in non-voluntary assigned risk pools offset by favorable development on the run-off surety program. Assigned risk pools are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means. For the three month period ended June 30, 2015, the unfavorable development resulted from development on non-voluntary assigned risk pools.

The unfavorable development for the six month period ended June 30, 2016 primarily resulted from development of mandatory assigned risk pool reserves. For the six month period ended June 30, 2015, the favorable development was primarily due to a redundancy in Gateway's commercial auto reserves offset by Atlas' participation in non-voluntary assigned risk pools.

12. SHARE BASED COMPENSATION

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

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

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Stock options - Stock option activity for the six month periods ended June 30, 2016 and 2015 follows (prices in Canadian dollars designated with "C\$" and United States dollars designated with "US\$"):

	Six Month Periods Ended			
	June 30, 2016		June 30, 2015	
C\$ Denominated:	Number	Average Exercise Price	Number	Average Exercise Price
	of Shares		of Shares	
Outstanding, beginning of period	187,728	C\$6.22	224,623	C\$6.05
Granted	—	—	—	—
Exercised	—	—	—	—
Outstanding, end of period	187,728	C\$6.22	224,623	C\$6.05

	Six Month Periods Ended			
	June 30, 2016		June 30, 2015	
US\$ Denominated:	Number	Average Exercise Price	Number	Average Exercise Price
	of Shares		of Shares	
Outstanding, beginning of period	375,000	US\$17.01	175,000	US\$13.26
Granted	—	—	200,000	US\$20.29
Exercised	—	—	—	—
Outstanding, end of period	375,000	US\$17.01	375,000	US\$17.01

There are 304,395 stock options that are exercisable as of June 30, 2016. The stock option grants outstanding have a weighted average remaining life of 7.33 years and have an intrinsic value of \$3.0 million as of June 30, 2016. On March 12, 2015, the Board of Directors of Atlas granted equity awards of (i) 200,000 restricted voting common shares of the Company and (ii) 200,000 options to acquire ordinary voting common shares to the executive officers of the Company as part of the Company's annual compensation process. The awards were made under the Company's Equity Incentive Plan.

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

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

Restricted shares - The activity for the restricted voting common shares and restricted share units for the six month periods ended June 30, 2016 and 2015 are as follows:

	Six Month Periods Ended			
	June 30, 2016		June 30, 2015	
	Number	Weighted Average Fair Value at Grant Date	Number	Weighted Average Fair Value at Grant Date
	of Shares		of Shares	
Non-vested, beginning of period	348,155	\$ 15.53	185,190	\$ 12.20
Granted	—	—	200,000	17.99

Vested	(37,035)	12.20	(37,035)	12.20
Non-vested, end of period	311,120	\$ 15.92	348,155	\$ 15.53

In accordance with ASC 718 (Stock-Based Compensation), Atlas has recognized share-based compensation expense on a straight-line basis over the requisite service period of the last separately vesting portion of the award. Share-based compensation expense is a component of other underwriting expenses on the income statement. Atlas recognized \$388,000 and \$836,000 in share-based compensation expense, including income tax expense, for the three and six month periods ended June 30, 2016, respectively. For the three and six month periods ended June 30, 2015, we incurred \$391,000 and \$824,000, respectively, of share-based compensation

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expense, including income tax expense. Total unearned share-based compensation expense was \$1.4 million related to all stock option grants and \$2.6 million related to restricted voting common shares and restricted share units as of June 30, 2016. This unearned share-based compensation expense will be amortized over the next 44 months.

13. OTHER EMPLOYEE BENEFIT PLANS

Defined Contribution Plan - Atlas has a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Contributions to this plan are limited based on IRS guidelines. Atlas matches 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 2.5% of annual earnings, for a total maximum expense of 3.75% of annual earnings per participant. Atlas' matching 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 \$106,000 and \$80,000 for the three month periods ended June 30, 2016 and 2015, respectively. Company contributions were \$217,000 and \$151,000 for the six month periods ended June 30, 2016 and 2015, respectively.

Employee Stock Purchase Plan - The Atlas Employee Stock Purchase Plan (the "ESPP") encourages employee interest in the operation, growth and development of Atlas and provides an additional investment opportunity to employees. Full time and permanent part time employees working more than 30 hours per week were allowed to invest up to 7.5% of adjusted salary in Atlas ordinary voting common shares. Atlas matches 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 5% of annual earnings, for a total maximum expense of 5% of annual earnings per participant. Atlas also pays all administrative costs related to this plan. Atlas' costs incurred related to the matching portion of the ESPP were \$52,000 and \$40,000 for the three month periods ended June 30, 2016 and 2015, respectively, and \$96,000 and \$73,000 for the six month periods ended June 30, 2016 and 2015, respectively. Share purchases pursuant to this plan are made in the open market.

14. SHARE CAPITAL

The share capital is as follows:

		June 30, 2016	December 31, 2015
	Shares	Shares	Amount
	Authorized	Issued and (in	Issued and (in
		Outstanding000s)	Outstanding000s)
Preferred shares	100,000,000	6,538,560	\$ 6,539 6,940,500 \$ 6,941
Ordinary voting common shares	266,666,667	11,895,104	\$ 36 11,883,025 \$ 36
Restricted voting common shares	33,333,334	128,191	— 132,863 —
Total common shares	300,000,001	12,023,295	\$ 36 12,015,888 \$ 36

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by Kingsway Financial Services, Inc. (including its subsidiaries and affiliated companies, "Kingsway"). The restricted voting common shares are entitled to vote at all meetings of shareholders, except at meetings of holders of a specific class that are entitled to vote separately as a class. The restricted voting common shares as a class shall not carry more than 30% of the aggregate votes eligible to be voted at a general meeting of common shareholders. The restricted voting common shares will convert to ordinary voting common shares in the event that these Kingsway-owned shares are sold to non-affiliates of Kingsway. During the second quarter of 2016, 4,672 restricted voting common shares were converted to ordinary voting common shares due to the sale by Kingsway of the shares to a non-affiliate.

There were 22,224 and 29,631 non-vested restricted stock units ("RSUs") as of June 30, 2016 and December 31, 2015, respectively. These RSUs are participative and are included in the computations of earnings per share and book value per share for these periods.

During the six month period ended June 30, 2016, the Company issued 7,407 ordinary voting common shares as a result of the vesting of RSUs. The Company issued 7,407 ordinary voting common shares as a result of the vesting of RSUs and 200,000 non-vested restricted voting common shares during the six month period ended June 30, 2015 to a director and the officers, respectively. These shares were granted and issued under the Company's Equity Incentive Plan.

During the first quarter of 2015, the Company issued 4,000,000 preferred shares as a portion of the consideration related to the Anchor acquisition and an additional 940,500 preferred shares pursuant to the Gateway stock purchase agreement. During the first quarter of 2016, the Company retired 401,940 preferred shares pursuant to the Gateway stock purchase agreement. At June 30, 2016, there were 6,538,560 preferred shares outstanding. These preferred shares are beneficially owned or controlled by the former owners of Gateway (2,538,560 preferred shares) and Anchor (4,000,000 preferred shares). The Gateway preferred shares retired during the first quarter of 2016 and the preferred shares issued during the first quarter of 2015 have been recorded as a recovery of acquisition expense and additional acquisition expense, respectively, and not as an adjustment to goodwill, because the fair

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value of the contingent consideration was determined to be zero at the date of the Gateway acquisition. In accordance with U.S. GAAP, such adjustments are reflected in the income statement in the period that the contingency is re-estimated. The estimate of this contingency could change in the future until all remaining claims are settled. Preferred shareholders are entitled to dividends on a cumulative basis, whether or not declared by the Board of Directors, at the rate of \$0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. In liquidation, dissolution or winding-up of Atlas, preferred shareholders receive the greater of \$1.00 per share plus all declared and unpaid dividends or the amount they would receive in liquidation if the preferred shares had been converted to restricted voting common shares or ordinary voting common shares immediately prior to liquidation. The preferred shares are redeemable at the option of Atlas at a price of \$1.00 per share plus accrued and unpaid dividends, subject to certain conditions, prior to the conversion date. Preferred shareholders are not entitled to vote. Preferred shares are convertible into ordinary voting common shares at the option of the former owners of Gateway and Anchor at any date after the fifth year of issuance at the rate of 0.1270 and 0.0500, respectively, ordinary voting common shares for each preferred share. The conversion rate is subject to change if the number of ordinary voting common shares or restricted voting common shares changes by way of an anti-dilution event.

During the six month period ended June 30, 2016, Atlas did not declare or pay dividends earned through the preferred shares. The former owners of Gateway and Anchor earned \$68,000 and \$93,000, respectively, in dividends during the six month period ended June 30, 2016. Through June 30, 2016, Atlas has accrued \$383,000 and \$239,000 in dividends for the former owners of Gateway and Anchor, respectively, which remain unpaid.

15. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs for the six month periods ended June 30, 2016 and 2015 consisted of the following (\$ in '000s):

	Six Month Periods Ended June 30, June 30, 2016 2015	
Balance, beginning of period	\$ 10,235	\$ 8,166
Acquisition costs deferred	8,445	10,991
Amortization charged to income	8,023	8,995
Balance, end of period	\$ 10,657	\$ 10,162

16. RELATED PARTY TRANSACTIONS

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

17. NOTE PAYABLE

On March 9, 2015, American Insurance Acquisition, Inc. ("American Acquisition"), a wholly-owned direct subsidiary of Atlas Financial Holdings, Inc., and parent of the ASI Pool Subsidiaries (defined below), entered into a loan and security agreement ("Loan Agreement") for a \$35.0 million loan facility with Fifth Third Bank. On May 7, 2016, American Acquisition entered into a Modification of Loan Documents with Fifth Third Bank to amend its Loan Agreement. The Loan Agreement, as modified, includes a \$30.0 million line of credit ("Draw Amount"), which can be drawn in increments at any time until December 31, 2016. The \$30.0 million line of credit has a five year term and bears interest at one-month LIBOR plus 4.5%, effectively 4.97% at June 30, 2016. The Loan Agreement also includes a \$5.0 million revolving line of credit ("Revolver") that bears interest at one month LIBOR plus 2.75%, effectively 3.22% at June 30, 2016.

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

The Loan Agreement requires American Acquisition to comply with customary affirmative and negative covenants, including those governing indebtedness, liens, investments, sales of assets, issuance of securities, and distributions. The Loan Agreement also requires American Acquisition to make mandatory prepayments under certain conditions and to comply with certain financial covenants, including the ASI Pool Subsidiaries (defined below) maintaining a combined statutory net worth in an amount not less than \$60.0 million (subject to adjustment) and maintaining a minimum funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization ratio. The Loan Agreement is secured by substantially all of the property of American Acquisition, including all of the outstanding shares of American Country, American Service and Gateway, which are wholly-owned direct subsidiaries

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of American Acquisition (the “ASI Pool Subsidiaries”). As of June 30, 2016, American Acquisition was in compliance with the covenants of the Loan Agreement.

As of June 30, 2016, \$2.4 million in funds were accessed from the Revolver and used to support Anchor's operations. \$15.5 million in funds were accessed against the Draw Amount as of June 30, 2016. The draw was contributed to the ASI Pool Subsidiaries in exchange for surplus notes that carry a variable interest rate of prime plus 2% with a maturity date of April 30, 2020. No letters of credit were issued under the terms of this Loan Agreement as of June 30, 2016. As of June 30, 2016, the unused funds for the Revolver and the Draw Amount were \$2.6 million and \$14.5 million, respectively.

For the three month period ended June 30, 2016, American Acquisition incurred interest expense, including amortized loan costs, of \$266,000 in connection with the Loan Agreement. For the three month period ended June 30, 2015, interest expense, including amortized loan costs, was \$172,000. For the six month period ended June 30, 2016, American Acquisition incurred interest expense, including amortized loan costs, of \$499,000 in connection with the Loan Agreement. For the six month period ended June 30, 2015, interest expense, including amortized loan costs, was \$181,000. As of June 30, 2016, unamortized bank fees associated with the Loan Agreement were \$247,000. These bank fees will be amortized over the next 44 months.

Note payable outstanding as of June 30, 2016 and as of December 31, 2015 (\$ in '000s):

	June 30, 2016	December 31, 2015
Revolver	\$2,400	\$ 2,000
Line of credit	15,500	15,500
Total outstanding borrowings	17,900	17,500
Unamortized issuance costs	(247)	(281)
Total note payable	\$17,653	\$ 17,219

In 2016, \$500,000 was accessed from the Revolver. Atlas also repaid \$100,000 from the Revolver's outstanding borrowings.

18. STATUTORY INFORMATION

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

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

At June 30, 2016, our Insurance Subsidiaries had a combined statutory surplus of \$128.6 million and had combined net written premiums and combined statutory net income for the six month period ended June 30, 2016 of \$85.3 million and \$9.5 million, respectively.

At December 31, 2015, our Insurance Subsidiaries had a combined statutory surplus of \$118.5 million and had combined net written premiums and combined statutory net income for the twelve months ended December 31, 2015 of \$177.8 million and \$12.7 million, respectively.

Atlas did not declare or pay any dividends to its common shareholders during the six month period ended June 30, 2016 or during the year ended December 31, 2015.

19. CHANGE IN ACCOUNTING PRINCIPLE

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Topic 835-30): Simplifying the Presentation of Debt Issuance Costs. The Company adopted this new disclosure during the first quarter of 2016 and

applied its provisions retrospectively. Under the new guidance, unamortized debt issuance costs are to be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The adoption of this new disclosure reduced other assets and notes payable by \$281,000.

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The following line items presented in the Consolidated Statements of Financial Position as of December 31, 2015 were affected by the adoption of the new disclosure:

(in '000s)	As Originally Reported	As Adjusted	Effect of Change
Impact on Assets as of December 31, 2015:			
Other assets ¹	\$ 6,975	\$ 6,694	\$ (281)
Total Assets	411,573	411,292	(281)
Impact on Liabilities and Shareholders' Equity at December 31, 2015:			
Notes payable	17,500	17,219	(281)
Total Liabilities	281,951	281,670	(281)
Total Liabilities and Shareholders' Equity	411,573	411,292	(281)

¹ - Other assets as of December 31, 2015 includes the balance previously reported as Assets held for sale under the column As Originally Reported

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

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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 addition to historical consolidated financial information, the following discussion contains forward-looking statements that 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 and the competitive and regulatory environment; the successful integration of future acquisitions; the impact of losing one or more senior executives or failing to attract additional key personnel; and other factors referenced in this document. Our actual results could differ materially from those discussed in the forward-looking statements.

Forward-looking statements contained herein are made as of the date of this filing, and we disclaim any obligation to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. 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, 2015.

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 earnings (loss) or book value per common share.

Forward-looking statements

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

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

Although Atlas has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. 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": American Country Insurance Company ("American Country"), American Service Insurance Company, Inc. ("American Service"), Gateway Insurance Company ("Gateway") and Global Liberty Insurance Company of New York ("Global Liberty"). 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 ("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 41 states and the District of Columbia. We embrace continuous

improvement, analytics and technology as a means of building on the strong heritage our subsidiary companies cultivated in the niche markets we serve.

Over the past five 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.

Our primary target market is made up of small to mid-size taxi, limousine, other livery and non-emergency para-transit operators. The “light” commercial automobile policies we underwrite provide coverage for lightweight commercial vehicles typically with the minimum limits prescribed by statute, municipal or other regulatory requirements. The majority of our

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policyholders are individual owners or small fleet operators. In certain jurisdictions like Illinois, Louisiana, Nevada and New York, we have also been successful working with larger operators who retain a meaningful amount of their own risk of loss through higher retentions, 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.

The “light” commercial automobile sector is a subset of the historically profitable commercial automobile insurance industry segment. In more recent years the commercial automobile insurance industry has seen profitability pressure within certain segments, however, it has outperformed the overall P&C industry generally over the past fifteen years based on data compiled by A.M. Best Aggregates & Averages. Data compiled by SNL Financial also indicates that for 2015 the total market for commercial automobile liability insurance was approximately \$31.3 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.

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II. OPERATING RESULTS

CONSOLIDATED PERFORMANCE

Second Quarter 2016 Financial Performance Summary (comparisons to Second Quarter 2015 unless otherwise noted):

• Gross premium written increased by 3.8% to \$48.4 million, which included an increase of 3.5% in our core commercial auto business

• In-force premium at June 30, 2016 was \$219.8 million, compared to \$210.6 million at December 31, 2015 and \$186.2 million at June 30, 2015

• The combined ratio for the second quarter of 2016 improved by 2.2 percentage points to 84.8%

• Underwriting income for the second quarter of 2016 improved to \$6.4 million, compared to \$5.0 million

• Net income for the second quarter of 2016 was \$4.9 million, or \$0.38 per common share diluted, compared to \$3.9 million, or \$0.31 per common share diluted, representing a \$0.07 or 22.6% increase from second quarter 2015

• Book value per common share on June 30, 2016 was \$11.27, compared to \$10.15 at December 31, 2015 and \$9.48 at June 30, 2015

• Annualized return on equity was 14.0% as compared to 13.2% in the prior year same quarter

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The following financial data is derived from Atlas' unaudited condensed consolidated financial statements for the three and six month periods ended June 30, 2016 and 2015.

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

	Three Month Periods Ended		Six Month Periods Ended		
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	
Gross premium written	\$48,353	\$46,575	\$112,378	\$91,548	
Net premium earned	41,802	38,304	83,555	68,471	
Net claims incurred	24,574	22,529	49,514	39,461	
Underwriting expense:					
Acquisition costs	3,970	5,077	8,023	8,995	
Share based compensation (gross of income taxes) ¹	388	392	776	765	
Expenses incurred (recovered) related to acquisitions and stock purchase agreements	—	228	(402)	1,920	
Other underwriting expenses	6,493	5,098	12,773	9,270	
Total underwriting expenses	10,851	10,795	21,170	20,950	
Underwriting income	6,377	4,980	12,871	8,060	
Net investment income	1,112	1,191	1,765	1,711	
Income from operating activities, before tax	7,489	6,171	14,636	9,771	
Interest expense	(266)	(172)	(499)	(181)	
Realized gains and other income	282	169	623	338	
Net income before tax	7,505	6,168	14,760	9,928	
Income tax expense	2,605	2,232	5,049	3,855	
Net income	\$4,900	\$3,936	\$9,711	\$6,073	
Key Financial Ratios ² :					
Loss ratio	58.8	%58.8	%59.3	%57.6	%
Underwriting expense ratio:					
Acquisition cost ratio	9.5	%13.3	%9.6	%13.1	%
Share based compensation (gross of income taxes) ratio ¹	1.0	%1.0	%0.9	%1.1	%
Expenses incurred (recovered) related to acquisitions and stock purchase agreements ratio	0.0	%0.6	%(0.5)	%2.8	%
Other underwriting expense ratio	15.5	%13.3	%15.3	%13.5	%
Total underwriting expense ratio	26.0	%28.2	%25.3	%30.5	%
Combined ratio	84.8	%87.0	%84.6	%88.1	%
Earnings per common share diluted	\$0.38	\$0.31	\$0.76	\$0.48	
Book value per common share	\$11.27	\$9.48	\$11.27	\$9.48	
Return on equity (annualized)	14.0	%13.2	%14.2	%10.5	%

¹ - Excludes income tax expense of \$60,000 for each of the six month periods ended June 30, 2016 and 2015

² - Ratios are calculated as a percentage of net premium earned

Three and six month periods ended June 30, 2016 compared to the three and six month periods ended June 30, 2015:

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.

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We approach investment and capital management with the intention of supporting insurance operations by providing a stable source of income to supplement underwriting income. The goals of our investment policy are to protect capital while optimizing investment income and capital appreciation and to maintain 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.

Acquisition costs 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.

Other underwriting expenses consist primarily of personnel related 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. We believe that because a portion of our personnel expenses are relatively fixed in nature, increased writings may improve our operating scale and may lead to reduced operating expense ratios.

Gross Premium Written

Atlas' core business is providing insurance for specialty operators in the public automobile insurance space, specifically users of light vehicles moving passengers for a fare. This business traditionally included taxi, limousine and paratransit operators. Today, it includes other commercially licensed livery operators as well. Each of the specialty business lines on which Atlas' strategy is focused is a subset of the approximately \$33 billion U.S. Commercial Auto industry segment.

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

Our surety program primarily consisted of U.S. Customs bonds. We engage a former affiliate, Avalon Risk Management, to help coordinate customer service and claim handling for the surety bonds written as this program runs off. This non-core program is 100% reinsured to an unrelated third party and has been transitioned to another carrier. No new premiums are being written, however, a small amount of renewal business was recorded for the six month period ended June 30, 2016. These policies will be non-renewed upon their next anniversary.

The other lines of business in this category are comprised of Gateway's truck and workers' compensation programs, Atlas' non-standard personal lines business, Global Liberty's homeowners program and assigned risk business. The Gateway truck and workers' compensation programs were put into run-off during 2012. The workers' compensation program is 100% reinsured retrospectively and prospectively to an unrelated third party. The non-renewal process related to the Global Liberty homeowners program began prior to Atlas' acquisition and remains underway. This is a relatively small book of business, which is substantially reinsured.

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

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

	Three Month Periods Ended			Six Month Periods Ended		
	June 30, 2016	June 30, 2015	Change	June 30, 2016	June 30, 2015	Change
Commercial automobile	\$47,817	\$46,208	3.5 %	\$111,632	\$90,860	22.9 %
Surety	—	7	(100.0)%	(4)	207	(101.9)%

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Other	536	360	48.9	%	750	481	55.9	%
	\$48,353	\$46,575	3.8	%	\$112,378	\$91,548	22.8	%

For the three month period ended June 30, 2016, gross premium written was \$48.4 million compared to \$46.6 million for the three month period ended June 30, 2015, representing a 3.8% increase. The increase was primarily due to growth in the company's limo, livery and paratransit lines of business, partially offset by a reduction in taxi related business. For the three month period ended June 30, 2016, gross premium written from commercial automobile was \$47.8 million, representing an increase of 3.5% relative to the three month period ended June 30, 2015.

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For the six month period ended June 30, 2016, gross premium written was \$112.4 million compared to \$91.5 million for the six month period ended June 30, 2015, representing a 22.8% increase. Gross premium written from commercial automobile for the six month period ended June 30, 2016 was \$111.6 million, representing an increase of 22.9% relative to the six month period ended June 30, 2015. Our gross written premium from our target accounts increased 23.9% for the six month period ended June 30, 2016 as compared to the six month period ended June 30, 2015. The Global Liberty acquisition accounted for 58.0% of the increase in gross written premium. The remaining increase in gross written premium for the six month period ended June 30, 2016 is attributable to Atlas' continued geographic penetration as a result of the positive response from both new and existing agents and insureds to Atlas' value proposition.

In-force premium was \$219.8 million and \$210.6 million, as of June 30, 2016 and December 31, 2015, respectively. The Company's gross unearned premium reserve was \$112.4 million and \$108.2 million, as of June 30, 2016 and December 31, 2015, respectively. The increase in gross unearned premium reserves and in-force premium primarily resulted from the renewal of our Illinois and New York taxi business effective January 1 and March 1, respectively.

Geographic Concentration

The following table summarizes gross premium written by state:

Gross premium written by state (in '000s)

	Three Month Periods Ended				Six Month Periods Ended			
	June 30, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
New York	\$12,649	26.2 %	\$13,054	28.0 %	\$32,340	28.8 %	\$20,966	22.9 %
California	6,808	14.1 %	5,022	10.8 %	13,303	11.8 %	7,797	8.5 %
Minnesota	3,543	7.3 %	2,860	6.1 %	6,144	5.5 %	4,549	5.0 %
Louisiana	2,579	5.3 %	1,806	3.9 %	4,009	3.6 %	5,128	5.6 %
Texas	2,449	5.1 %	2,785	6.0 %	4,153	3.7 %	5,133	5.6 %
Michigan	2,273	4.7 %	3,580	7.7 %	5,942	5.3 %	7,112	7.8 %
Virginia	2,013	4.2 %	1,773	3.8 %	3,667	3.3 %	2,659	2.9 %
Washington	1,886	3.9 %	1,289	2.8 %	2,452	2.2 %	1,895	2.1 %
Ohio	1,362	2.8 %	1,402	3.0 %	2,621	2.3 %	2,676	2.9 %
Illinois	1,108	2.3 %	1,701	3.7 %	10,430	9.3 %	11,080	12.1 %
Other	11,683	24.1 %	11,303	24.2 %	27,317	24.2 %	22,553	24.6 %
Total	\$48,353	100.0 %	\$46,575	100.0 %	\$112,378	100.0 %	\$91,548	100.0 %

This illustrates the geographically balanced growth of our gross premium written this year. Compared to the three month period ended June 30, 2015, we experienced growth in gross premium written in our core business in 26 states in the three month period ended June 30, 2016. We experienced quarter over quarter growth of greater than 100% in 4 of those 26 states, due to a continuing positive response from both new and existing agents to Atlas' value proposition and the current market environment.

Atlas saw similar geographic diversification for the six month period ended June 30, 2016 during which 15 states experienced growth of 50% or more as compared to the six month period ended June 30, 2015. Deploying our hyper-focused model and strong value proposition, organic growth was achieved in mature states like Minnesota, developing states like California and Nevada and through acquisition in the largest geographic market in our niche, New York.

Ceded Premium Written

Ceded premium written is equal to premium ceded under the terms of Atlas' in force reinsurance treaties. Ceded premium written increased by 28.1% to \$13.1 million for the three month period ended June 30, 2016 compared to \$10.2 million for the three month period ended June 30, 2015. The increase in ceded premium written is primarily due to an increase in limousine, paratransit and other higher limit business for which reinsurance costs are more expensive. Furthermore, for 2015, Global Liberty had a 20% quota share reinsurance with SCOR Reinsurance Company ("SCOR Re"). In 2016, this contract was replaced by a 25% quota share reinsurance agreement with Swiss Reinsurance America Corporation ("Swiss Re") for its commercial auto and general liability lines of business ("Quota Share").

For the six month period ended June 30, 2016, ceded written premium increased by 85.0% to \$27.1 million compared to \$14.6 million for the six month period ended June 30, 2015, primarily due to Atlas' participation in the Quota Share, which was implemented as of July 1, 2014. This reinsurance agreement had an initial cession rate of 5%, which was increased to 15% effective April 1, 2015. The Quota Share provides the Company with financial flexibility to manage expected growth and the timing of potential future capital raising activities.

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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 decreased 3.0% to \$35.3 million for the three month period ended June 30, 2016 compared to \$36.4 million for the three month period ended June 30, 2015. Net premium written increased 10.9% to \$85.3 million for the six month period ended June 30, 2016 compared to \$76.9 million for the six month period ended June 30, 2015. These changes are attributed to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above.

Net Premium Earned

Premiums are earned ratably over the term of the underlying policy. Net premium earned was \$41.8 million for the three month period ended June 30, 2016, a 9.1% increase compared to \$38.3 million for the three month period ended June 30, 2015. These increases are attributed to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above. Global Liberty accounted for \$1.7 million or 47.9% of this increase. The remaining increase in net earned premiums resulted from organic growth primarily in the states of California, Minnesota and Virginia. Excluding the impact of Global Liberty's incremental premium, organic growth for the second quarter of 2016 was 5.9% on a year-over-year basis.

For the six month period ended June 30, 2016, net premium earned increased 22.0% to \$83.6 million compared to \$68.5 million for the six month period ended June 30, 2015, primarily due to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above. Global Liberty accounted for \$9.1 million or 60.4% of this increase. The remaining increase in net earned premiums resulted from organic growth primarily in the states of California, Colorado, New York and Nevada. Excluding the impact of Global Liberty's incremental premium, organic growth for the six month period ended June 30, 2016 was 10.1% on a year-over-year basis.

Based on a recent analysis of the niche markets on which we focus, we believe that the total vehicle count in these niche markets has increased approximately 19% in the past two years. Growth in vehicle count is predominately related to the limo, livery and paratransit segments. At our current rate levels, we believe the size of the addressable market in terms of available premium has increased approximately 30% over this same two year period. We believe that our insurance companies can continue to grow within these specialty segments to a market share of 20% without having a disproportionate share of the market. Atlas' focus has been, and continues to be, utilizing our expertise, experience and strong value proposition to maximize underwriting profit. It is important to note that we continue to see favorable market trends within our niche and believe that increased opportunity to expand underwriting margin will exist. These projections are subject to change should the competitive environment reverse from current trends.

Claims Incurred

The loss ratio relating to the claims incurred for the three month periods ended June 30, 2016 and 2015 was 58.8%. The loss ratio was flat relative to the prior year period primarily due to expected loss ratios on our core line of business.

The loss ratio relating to the claims incurred for the six month period ended June 30, 2016 was 59.3% compared to 57.6% for the six month period ended June 30, 2015. The loss ratio increase relative to the prior year period was primarily due to unfavorable development on mandatory assigned risk pool programs offset by favorable development on the run-off surety program. Also, the loss ratio relating to claims incurred for the six month period ended June 30, 2015 was unusually low due to favorable development on Gateway's commercial auto program.

Acquisition Costs and Other Underwriting Expenses

Acquisition costs represent commissions and taxes incurred on net premium earned offset by ceding commission on business reinsured by the Quota Share. Acquisition costs were \$4.0 million for the three month period ended June 30, 2016, or 9.5% of net premium earned, as compared to 13.3% for the three month period ended June 30, 2015. The decrease in the ratio is the result of the increased utilization of the Quota Share. On a pro-forma basis, without the effect of the Quota Share, the acquisition cost ratio would have been 14.1% and 15.8% for the three month periods ended June 30, 2016 and 2015, respectively.

The other underwriting expense ratio (including share based compensation expenses and expenses incurred related to acquisitions and stock purchase agreements) was 16.5% for the three month period ended June 30, 2016 compared to 14.9% for the three month period ended June 30, 2015. The increase in the other underwriting expense ratio resulted

from an increase in professional service expenses related to predictive analytics and interactive website applications, bank charges and insurance department and other bureau assessments.

For the six month period ended June 30, 2016, acquisition costs were \$8.0 million, or 9.6% of net premium earned, as compared to 13.1% for the six month period ended June 30, 2015. The decrease in the ratio is related to the Quota Share's ceding commissions. On a pro-forma basis, without the effect of the Quota Share, the acquisition cost ratio would have been 13.9% and 15.0% for the six month periods ended June 30, 2016 and 2015, respectively.

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For the six month period ended June 30, 2016, the other underwriting expense ratio was 15.7% compared to 17.4% for the six month period ended June 30, 2015. The decrease in the other underwriting expense ratio was primarily driven by an increase in net premiums earned and a decrease in expenses incurred related to acquisitions and stock purchase agreements.

Also, while the Quota Share provides a ceding commission to offset underwriting expense, this commission reduces acquisition costs rather than other underwriting expenses on the income statement. With this in mind, acquisition costs and other underwriting expenses should be examined collectively as total underwriting expenses to understand operating efficiency.

Combined Ratio

Atlas' combined ratio for the three month period ended June 30, 2016 was 84.8%, compared to 87.0% for the three month period ended June 30, 2015. Atlas' combined ratio for the six month period ended June 30, 2016 was 84.6%, compared to 88.1% for the six month period ended June 30, 2015.

Underwriting profitability, as opposed to overall profitability or net earnings, is measured by the combined ratio. The combined ratio is the sum of the loss and loss adjustment expense (LAE) ratios, the acquisition cost ratio, and the underwriting expense ratio. The change in the combined ratio is attributable to the factors described in the 'Net Premium Earned', 'Claims Incurred', and 'Acquisition Costs and Other Underwriting Expenses' sections above.

The table below indicates the impact of the Quota Share on the various components of the combined ratio for the three and six month periods ended June 30, 2016 and 2015:

(in '000s, percentages to net earned premiums)	Three Month Periods Ended				Six Month Periods Ended			
	June 30, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Gross of Quota Share:								
Net premiums earned	\$50,748	100.0%	\$42,047	100.0%	\$100,443	100.0%	\$73,787	100.0%
Net claims incurred	29,204	57.5%	23,540	56.0%	58,243	58.0%	41,235	55.9%
Acquisition costs	7,155	14.1%	6,624	15.8%	14,009	13.9%	11,096	15.0%
Other insurance general and administrative expenses ¹	6,493	12.8%	5,098	12.2%	12,773	12.7%	9,270	12.6%
Expenses incurred (recovered) related to acquisitions and stock purchase agreements	—	—%	228	0.5%	(402)	(0.4)%	1,920	2.6%
Share based compensation expense (gross of income taxes) ²	388	0.8%	392	0.9%	776	0.8%	765	1.0%
Total underwriting profit and combined ratio	\$7,508	85.2%	\$6,165	85.4%	\$15,044	85.0%	\$9,501	87.1%
Net of Quota Share:								
Net premiums earned	\$41,802	100.0%	\$38,304	100.0%	\$83,555	100.0%	\$68,471	100.0%
Net claims incurred	24,574	58.8%	22,529	58.8%	49,514	59.3%	39,461	57.6%
Acquisition costs	3,970	9.5%	5,077	13.3%	8,023	9.6%	8,995	13.1%
Other insurance general and administrative expenses ¹	6,493	15.5%	5,098	13.3%	12,773	15.3%	9,270	13.5%
Expenses incurred (recovered) related to acquisitions and stock purchase agreements	—	—%	228	0.6%	(402)	(0.5)%	1,920	2.8%
Share based compensation expense (gross of income taxes) ²	388	1.0%	392	1.0%	776	0.9%	765	1.1%
Total underwriting profit and combined ratio	\$6,377	84.8%	\$4,980	87.0%	\$12,871	84.6%	\$8,060	88.1%

¹ - Includes amortization of intangible assets

² - Excludes income tax expense of \$60,000 for each of the six month periods ended June 30, 2016 and 2015

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Net Investment Income

Net investment income is primarily comprised of interest income, dividend income, and income from other invested assets, net of investment expenses, which are comprised of investment management fees, custodial fees, and allocated salaries. Net investment income was \$1.1 million for the three months ended June 30, 2016 compared to \$1.2 million during the three months ended June 30, 2015. The gross annualized yield on our fixed income securities was 2.0% for each of the three month periods ended June 30, 2016 and 2015. The gross annualized yield on our cash and cash equivalents was 0.1% for each of the three month periods ended June 30, 2016 and 2015. The decrease in net investment income from the prior year period is the result of lower returns on equity method securities and higher investment expenses, partially offset by higher interest income. For the three month period ended June 30, 2016, equity method investments generated investment income of \$399,000, compared to investment income of \$449,000 for the three month period ended June 30, 2015. The decrease in investment income related to these investments was primarily the result of lower returns on income-producing real estate limited partnerships.

Net investment income increased by 3.2% to \$1.8 million for the six month period ended June 30, 2016, compared to \$1.7 million for the six month period ended June 30, 2015. These amounts are primarily comprised of interest income. The gross annualized yield on our fixed income securities was 2.1% and 2.0% for the six month periods ended June 30, 2016 and 2015, respectively. The gross annualized yield on our cash and cash equivalents was 0.1% for each of the six month periods ended June 30, 2016 and 2015. The increase in net investment income and gross investment yield from the prior year period is the result of the Anchor acquisition and favorable returns on certain securities. For the six month period ended June 30, 2016, equity method investments generated investment income of \$296,000, compared to investment income of \$502,000 for the six month period ended June 30, 2015. The decrease in investment income related to these investments was primarily the result of lower returns on equities and income-producing real estate limited partnerships.

Net Realized Investment Gains

Net realized investment gains for the three month period ended June 30, 2016 were \$155,000 compared to net realized investment gains of \$44,000 for the three month period ended June 30, 2015. Net realized investment gains for the six month period ended June 30, 2016 were \$394,000 compared to net realized investment gains of \$181,000 for the six month period ended June 30, 2015. The increases in net realized investment gains for both the three and six month periods ended June 30, 2016 are the result of management's decision to sell certain securities to take advantage of favorable market conditions.

Other Income

Atlas recorded other income of \$127,000 for the three month period ended June 30, 2016 and other income of \$125,000 for the three month period ended June 30, 2015. Atlas recorded other income of \$229,000 for the six month period ended June 30, 2016 and other income of \$157,000 for the six month period ended June 30, 2015. The increases for both the three and six month periods ended June 30, 2016 are primarily the result of fee income from Plainview.

Expenses Related to Acquisitions and Stock Purchase Agreements

Atlas incurred no expenses related to acquisitions during the second quarter of 2016. For the three month period ended June 30, 2015, Atlas recognized total expenses of \$228,000 related to the acquisition of Anchor. The Anchor costs were for internal general and administrative costs.

Atlas recovered \$402,000 of expenses related to the terms of the Gateway stock purchase agreement and retirement of preferred shares for the six month period ended June 30, 2016. For the six month period ended June 30, 2015, Atlas recognized total expenses of \$1.9 million related to the acquisition of Anchor and pursuant to the contingent adjustments relative to the Gateway stock purchase agreement. The Anchor costs of \$978,000 were incurred to effect the business combination, including legal fees, advisory services, accounting fees, and internal general and administrative costs. The Gateway expense of \$942,000 related to the terms of the Gateway stock purchase agreement and the issuance of preferred shares pursuant to the terms of such agreement.

Income before Income Taxes

Atlas generated pre-tax income of \$7.5 million for the three month period ended June 30, 2016, compared to pre-tax income of \$6.2 million for the three month period ended June 30, 2015, or a 21.7% increase over the prior year's

second quarter. Atlas generated pre-tax income of \$14.8 million for the six month period ended June 30, 2016, compared to pre-tax income of \$9.9 million for the six month period ended June 30, 2015, or a 48.7% increase over the prior year period's pre-tax income. The causes of these changes are attributed to the combined effects of the issues cited in the 'Net Premium Earned', 'Claims Incurred', 'Acquisition Costs and Other Underwriting Expenses', 'Net Investment Income', 'Net Realized Investment Gains', and 'Other Income' sections above.

Net Income and Earnings per Common Share

Atlas had net income of \$4.9 million during the three month period ended June 30, 2016 compared to \$3.9 million during the three month period ended June 30, 2015. After taking the impact of the liquidation preference of the preferred shares into consideration,

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earnings per common share diluted for the three month period ended June 30, 2016 was \$0.38 compared to \$0.31 for the three month period ended June 30, 2015 primarily due to premium growth and expanding margins from pricing activities.

Atlas had net income of \$9.7 million during the six month period ended June 30, 2016 compared to \$6.1 million during the six month period ended June 30, 2015. After taking the impact of the liquidation preference of the preferred shares into consideration, earnings per common share diluted for the six month period ended June 30, 2016 was \$0.76 compared to \$0.48 for the six month period ended June 30, 2015 primarily due to premium growth, improvement of underwriting expenses as a percentage of earned premiums, and investment income growth. The improvement in underwriting expenses as a percentage of earned premiums were primarily due to legal and professional services expenses incurred related to the Anchor acquisition and expenses incurred pursuant to the Gateway stock purchase agreement incurred for the six month period ended June 30, 2015 compared to recovery of some of the expenses related to the Gateway stock purchase agreement for the six month period ended June 30, 2016.

The following chart illustrates Atlas' potential dilutive common shares for the three and six month periods ended June 30, 2016 and 2015:

	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Basic weighted average common shares outstanding	12,045,519	12,008,624	12,045,519	11,930,172
Dilutive potential ordinary shares:				
Dilutive stock options	179,835	218,852	181,167	210,834
Dilutive shares upon preferred share conversion	522,397	573,444	522,397	573,444
Diluted weighted average common shares outstanding	12,747,751	12,800,920	12,749,083	12,714,450

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III. FINANCIAL CONDITION

Investments

Overview and Strategy

Atlas aligns its securities portfolio to support the liabilities and operating cash needs of the Insurance Subsidiaries, to preserve capital and to generate investment returns. Atlas invests predominantly in corporate and government bonds with a portion of the portfolio in relatively short durations that correlate with the payout patterns of Atlas' claims liabilities. Atlas also invests opportunistically in selective direct investments with favorable return attributes. A third-party investment management firm manages Atlas' investment portfolio pursuant to the Company's investment policies and guidelines as approved by its Board of Directors. Atlas monitors the third-party investment manager's performance and its compliance with both its mandate and Atlas' investment policies and guidelines.

Atlas' investment guidelines stress the preservation of capital, market liquidity to support payment of liabilities and the diversification of risk. With respect to fixed income securities, Atlas generally purchases securities with the expectation of holding them to their maturities; however, the securities are available for sale if liquidity needs arise. To the extent that interest rates increase or decrease, unrealized gains or losses may result. We believe that our investment philosophy and approach significantly mitigate the likelihood of such gains or losses being realized.

Portfolio Composition

Atlas held securities with a fair value of \$190.9 million as of June 30, 2016, 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 fair value for Atlas' investments in fixed income securities and equities by type and sector are as follows:

Fair value of securities portfolio (in '000s)

As of:	June 30, 2016	December 31, 2015
Fixed Income Securities:		
U.S. Treasury and other U.S. government obligations	\$24,616	\$23,483
States, municipalities and political subdivisions	14,504	22,154
Corporate		
Banking/financial services	21,286	21,914
Consumer goods	9,455	7,735
Capital goods	11,879	15,095
Energy	3,944	4,406
Telecommunications/utilities	10,690	11,875
Health care	3,736	3,021
Total Corporate	60,990	64,046
Mortgage backed - agency	41,419	34,673
Mortgage backed - commercial	18,880	19,875
Total Mortgage Backed	60,299	54,548
Other asset backed	24,163	19,542
Total Fixed Income Securities	184,572	183,773
Equities	6,287	4,240
Totals	\$190,859	\$188,013

For the six month period ended June 30, 2016, total investment holdings grew to \$217.9 million due to purchases of equity method investments and favorable mark-to-market conditions of our fixed income and equity securities. As a result of the United Kingdom European Union membership referendum (the "Brexit vote"), U.S. Treasury yields fell dramatically. At the same time, our credit spreads widened slightly. The net effect, however, was a drop in market yields with a corresponding rise in prices.

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Other Investments

The following table summarizes investments in equity method investments by investment type at June 30, 2016 and December 31, 2015 (\$ in '000s):

	Unfunded Commitments	Carrying Value	
	June 30, 2016	June 30, 2016	December 31, 2015
Real estate	\$ 3,359	\$ 11,462	\$ 10,202
Insurance linked securities	—	8,886	8,747
Activist hedge funds	—	3,698	3,685
Venture capital	450	746	205
Total Equity Method Investments	\$ 3,809	\$ 24,792	\$ 22,839

Atlas' other investments are comprised of collateral loans and various limited partnerships that invest in income-producing real estate, equities, or catastrophe bonds. Atlas' interest is not deemed minor, and the investments are accounted for under the equity method of accounting. At June 30, 2016, the carrying value of the collateral loans was approximately \$2.2 million versus approximately \$98,000 at December 31, 2015. The increase in the carrying value of the collateral loans was due to the investment in two additional loans in 2016. At June 30, 2016, the carrying value of the limited partnerships was approximately \$24.8 million versus approximately \$22.8 million at December 31, 2015. The increase in the carrying value of the limited partnerships was due to the purchase of investments and equity income offset by the return of capital. The carrying value of these investments is Atlas' share of the net book value for each limited partnership, an amount that approximates fair value.

Liquidity and Cash Flow Risk

As of June 30, 2016, 34.9% of the fixed income securities, including treasury bills, bankers' acceptances, government bonds and corporate bonds, had contractual maturities of five years or less, compared to 36.1% as of December 31, 2015. 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 a high quality securities portfolio provides us with sufficient liquidity. As of June 30, 2016, the fixed income securities had a weighted average life of 3.9 years and a duration of 3.2 years, compared to a weighted average life of 4.1 years and a duration of 3.3 years, as of December 31, 2015. 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.

Credit Risk

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

As of June 30, 2016, Atlas' allowance for bad debt was \$923,000. Atlas' allowance for bad debt increased by \$77,000 compared to \$846,000 as of December 31, 2015. The increase in the allowance for bad debts was related to the re-estimation of the allowance during the six month period ended June 30, 2016.

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The following table summarizes the composition of the fair value of the fixed income securities portfolio, 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 investment grade securities in corporate and government bonds with 99.6% rated 'BBB' or better as of June 30, 2016 compared to 99.3% as of December 31, 2015. Credit ratings of fixed income securities portfolio (in '000s)

As of:	June 30, 2016		December 31, 2015	
	Amount	% of Total	Amount ¹	% of Total
AAA/Aaa ¹	\$54,137	29.3	%\$44,110	24.0 %
AA/Aa ¹	76,517	41.5	%83,116	45.2 %
A/A	27,128	14.7	%28,765	15.7 %
BBB/Baa	25,991	14.1	%26,512	14.4 %
BB	715	0.4	%1,270	0.7 %
B	84	—	%—	— %
Total Fixed Income Securities	\$184,572	100.0%	%\$183,773	100.0%

¹ - During the six month period ended June 30, 2016, our external investment portfolio manager switched rating agencies for U.S. treasury, agency and agency mortgage backed securities from Fitch or Moody's 'AAA' to S&P 'AA.' As a result, we have restated fair values of these fixed income securities as of December 31, 2015 using the S&P rating for comparative purposes.

In terms of creditworthiness of the fixed income securities in our portfolio, Atlas has no concerns about repayment of any of the securities as a result of the Brexit vote.

Other-than-temporary impairment

Atlas recognizes 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 any charges for securities impairments that were considered other-than-temporary for the six month periods ended June 30, 2016 and 2015.

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 in an unrealized loss position as of June 30, 2016 was \$28.7 million compared to \$123.6 million as of December 31, 2015. This decrease was primarily driven by the positive changes in market values during the first six months of 2016. Atlas has the ability and intent to hold these securities until their fair value is recovered. Therefore, Atlas does not expect the market value loss position of these investments to be realized in the near term.

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 numbers or in larger amounts than it would otherwise insure independently, based on its statutory capital, risk tolerance and other factors.

Atlas generally purchases reinsurance to limit net exposure to a maximum amount on any one loss of \$500,000 with respect to commercial automobile liability claims. Atlas also purchases reinsurance to protect against awards in excess of its policy limits. Atlas continually evaluates and adjusts its reinsurance needs based on business volume, mix, and supply levels. As a result, the Company has entered into the Quota Share with Swiss Re for American Country, American Service and Gateway, or collectively "ASI Pool Subsidiaries." Our initial cession was 5% of subject written premiums, which was increased to 15% effective April 1, 2015. Under this contract, cessions can be increased at our election should we want to utilize it as a means of deleveraging. This facility gives us flexibility in terms of the timing and approach to potential future capital raising activities in light of anticipated increased operating leverage. Global Liberty historically maintained lower reinsurance retention limits. For the prior year, Global Liberty had a 20% quota share reinsurance with SCOR Re. In 2016, this contract was replaced by the Quota Share.

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Reinsurance ceded does not relieve Atlas of its ultimate liability to its insureds 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 \$33.3 million recoverable from third party reinsurers (exclusive of amounts prepaid) and other insurers as of June 30, 2016 as compared to \$32.7 million as of December 31, 2015. The increase in the recoverable from third party reinsurers resulted from the increase in amounts recoverable on paid claims offset by a decrease in ceded case and incurred but not reported ("IBNR") reserves.

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

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

Claims Liabilities

The table below shows the amounts of total case reserves and IBNR claims provision at June 30, 2016 and at December 31, 2015. The provision for unpaid claims decreased by 11.5% to \$112.5 million as of June 30, 2016 compared to \$127.0 million as of December 31, 2015. During the six month period ended June 30, 2016, case reserves decreased by 1.9% compared to December 31, 2015, and IBNR reserves decreased by 17.5%. The decreases in case reserves and IBNR were related primarily due to claim settlements on reported claims from current and prior accident years for our commercial auto and mandatory assigned risk programs.

Provision for unpaid claims by type -

gross of reinsurance (\$ in '000s)

As of:	June 30, 2016	December 31, 2015	YTD Change
Case reserves	\$48,492	\$49,441	(1.9)%
IBNR	63,965	77,570	(17.5)%
Total	\$112,457	\$127,011	(11.5)%

Provision for unpaid claims by line of business –

gross of reinsurance (\$ in '000s)

As of:	June 30, 2016	December 31, 2015	YTD Change
Commercial automobile	\$107,266	\$116,377	(7.8)%
Other	5,191	10,634	(51.2)%
Total	\$112,457	\$127,011	(11.5)%

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

As of:	June 30, 2016	December 31, 2015	YTD % Change
Commercial automobile	\$84,083	\$95,043	(11.5)%
Other	2,683	2,569	4.4 %
Total	\$86,766	\$97,612	(11.1)%

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The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the three and six month periods ended June 30, 2016 and 2015 were as follows (\$ in '000s):

	Three Month Periods Ended		Six Month Periods Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Unpaid claims, beginning of period	\$121,379	\$130,440	\$127,011	\$102,430
Less: reinsurance recoverable	28,272	29,156	29,399	18,421
Net unpaid claims, beginning of period	93,107	101,284	97,612	84,009
Net reserves acquired	—	—	—	19,396
Change in retroactive reinsurance ceded	271	901	274	887
Incurred related to:				
Current year	24,513	22,178	49,150	40,739
Prior years	61	351	364	(1,278)
	24,574	22,529	49,514	39,461
Paid related to:				
Current year	8,453	7,313	13,740	10,457
Prior years	22,733	17,787	46,894	33,682
	31,186	25,100	60,634	44,139
Net unpaid claims, end of period	86,766	99,614	86,766	99,614
Add: reinsurance recoverable	25,691	26,844	25,691	26,844
Unpaid claims, end of period	\$112,457	\$126,458	\$112,457	\$126,458

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

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

The unfavorable development for the three month period ended June 30, 2016 primarily resulted from Atlas' participation in non-voluntary assigned risk pools offset by favorable development on the run-off surety program. Assigned risk pools are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means. For the three month period ended June 30, 2015, the unfavorable development resulted from development on non-voluntary assigned risk pools.

The unfavorable development for the six month period ended June 30, 2016 primarily resulted from development of mandatory assigned risk pool reserves. For the six month period ended June 30, 2015, the favorable development was primarily due to a redundancy in Gateway's commercial auto reserves offset by Atlas' participation in non-voluntary assigned risk pools.

Contractual Obligations

There have been no material changes to the contractual obligations that were discussed in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Off-balance sheet arrangements

At June 30, 2016, we did not have any material off-balance sheet arrangements as defined by SEC rules.

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Book Value per Ordinary Share

Book value per ordinary share was as follows:

As

of:

(in

'000s,

June 30, December 31,

~~2016~~ 2015

and

per

share

data)

Shareholders'

\$ 142,958 \$ 129,622

equity

Less:

Preferred

~~6,530~~ 6,941

in

equity

Less:

Accumulated

dividends 460

on

preferred

stock

Common

\$ 135,797 \$ 122,221

equity

Participative

shares:

Common

~~12,003,295~~ 12,015,888

outstanding

Restricted

stock 29,631

units

(RSUs)

Total

~~12,045,519~~ 12,045,519

shares

Book

value

per \$ 11.27 \$ 10.15

participative

share

outstanding

Year-to-date in 2016, book value per common share increased by \$1.12 relative to December 31, 2015 as follows: an increase of \$0.75 related to net income after tax (excluding expenses recovered pursuant to stock purchase agreements), an increase of \$0.02 related to realized investment gains after tax, an increase of \$0.26 related to the change in unrealized gains/losses after tax, a net increase of \$0.07 related to share based compensation impacts, a

\$0.01 decrease related to preferred dividends and an increase of \$0.03 related to expenses recovered pursuant to stock purchase agreements. The causes of these changes are attributed to the combined effects of the issues cited in the 'Net Premium Earned', 'Claims Incurred', 'Acquisition Costs and Other Underwriting Expenses', 'Net Investment Income', 'Net Realized Investment Gains', and 'Other Income' subsections of the 'Operating Results' section.

Liquidity and Capital Resources

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

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

On March 9, 2015, American Acquisition entered into a loan and security agreement ("Loan Agreement") for a \$35.0 million loan facility with Fifth Third Bank. On May 7, 2016, American Acquisition entered into a Modification of Loan Documents with Fifth Third Bank to amend its Loan Agreement. The Loan Agreement, as modified, includes a \$30.0 million line of credit ("Draw Amount"), which can be drawn in increments at any time until December 31, 2016. The \$30.0 million line of credit has a five year term and bears interest at one-month LIBOR plus 4.5%, effectively 4.97% at June 30, 2016. The Loan Agreement also includes a \$5.0 million revolving line of credit ("Revolver") that bears interest at one-month LIBOR plus 2.75%, effectively 3.22% at June 30, 2016.

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

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

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Amortization ratio. The Loan Agreement is secured by substantially all of the property of American Acquisition, including all of the outstanding shares of American Country, American Service, and Gateway, which are wholly-owned direct subsidiaries of American Acquisition. As of June 30, 2016, American Acquisition was in compliance with the covenants of the Loan Agreement.

As of June 30, 2016, \$2.4 million in funds were accessed from the Revolver and used to support Anchor's operations. \$15.5 million in funds were accessed against the Draw Amount as of June 30, 2016. The draw was contributed to the ASI Pool Subsidiaries in exchange for surplus notes that carry a variable interest rate of prime plus 2% with a maturity date of April 30, 2020. No letters of credit were issued under the terms of this Loan Agreement as of June 30, 2016. As of June 30, 2016, the unused funds for the Revolver and the Draw Amount were \$2.6 million and \$14.5 million, respectively.

For the three month period ended June 30, 2016, American Acquisition incurred interest expense, including amortized loan costs, of \$266,000 in connection with the Loan Agreement. For the three month period ended June 30, 2015, interest expense, including amortized loan costs, was \$172,000. For the six month period ended June 30, 2016, American Acquisition incurred interest expense, including amortized loan costs, of \$499,000 in connection with the Loan Agreement. For the six month period ended June 30, 2015, interest expense, including amortized loan costs, was \$181,000. As of June 30, 2016, unamortized bank fees associated with the Loan Agreement were \$247,000. These bank fees will be amortized over the next 44 months.

The following table summarizes consolidated cash flow activities:

Summary of Cash Flows (in '000s)

	Six Month Period Ended June 30, 2016	Twelve Month Period Ended December 31, 2015
Net cash flows provided by operating activities	\$2,051	\$ 8,477
Net cash flows provided by financing activities	400	17,645
Net cash flows used in investing activities	(2,367)	(40,354)
Net increase (decrease) in cash	\$84	\$ (14,232)

Cash provided by operations during the six month period ended June 30, 2016 was primarily due to an increase in net income offset by increases in operating assets and liabilities. Cash provided by financing activities during the six month period ended June 30, 2016 was the result of the net amount borrowed from the revolver loan under the Loan Agreement. Cash used in investing activities during the six month period ended June 30, 2016 was primarily a result of the acquisition of fixed income securities, equity securities and other investments offset by sales of fixed income securities.

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

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

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

or 10% of total statutory capital and surplus.

At June 30, 2016, our Insurance Subsidiaries had a combined statutory surplus of \$128.6 million and had combined net written premiums and combined statutory net income for the six month period ended June 30, 2016 of \$85.3 million and \$9.5 million, respectively.

At December 31, 2015, our Insurance Subsidiaries had a combined statutory surplus of \$118.5 million and had combined net written premiums and combined statutory net income for the twelve months ended December 31, 2015 of \$177.8 million and \$12.7 million, respectively.

Atlas did not declare or pay any dividends to its common shareholders during the six month period ended June 30, 2016 or during the year ended December 31, 2015.

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Application of Critical Accounting Policies and Estimates

There have been no material changes to the application of critical accounting estimates and policies that were discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. For a complete summary of our significant accounting policies, see the notes to the consolidated financial statements and our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes to the quantitative and qualitative disclosures about market risk that were discussed in Part II, Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control

There were no changes to our internal control over financial reporting during the fiscal quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes to the risk factors that were discussed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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.

Item 6. Exhibits.

- 10.1 Modification of Loan Documents, dated May 7, 2016, by and between American Insurance Acquisition, Inc. and Fifth Third Bank (incorporated by reference from our current report on Form 8-K filed May 10, 2016)
- 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: August 1, 2016 Atlas Financial Holdings, Inc.
(Registrant)

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