Atlas Financial Holdings, Inc.
Form 10-Q
November 06, 2018

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:
September 30, 2018	000-54627

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

CAYMAN ISLANDS	27-5466079
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
953 AMERICAN LANE, 3RD FLOOR	60173
Schaumburg, IL	(Zip Code)

(Address of principal executive offices)
Registrant’s telephone number, including area code: (847) 472-6700

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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 þ

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No ¨

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

Large Accelerated Filer ¨ Accelerated Filer þ

Non-Accelerated Filer ¨ Smaller Reporting Company ¨

Emerging Growth Company þ

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

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

There were 11,936,970 shares of the Registrant's common stock outstanding as of November 2, 2018, all of which are ordinary voting common shares. There are no outstanding restricted voting common shares. Of the Registrant's ordinary voting common shares outstanding, 10,369,827 shares as of November 2, 2018 were held by non-affiliates of the Registrant.

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

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September 30, 2018

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
ATLAS FINANCIAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
($ in ‘000s, except for share and per share data)

	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Investments		
Fixed income securities, available for sale, at fair value (amortized cost $132,181 and $158,411)	$ 127,937	$ 157,984
Equity securities, at fair value (cost $5,650 and $7,969)	6,030	8,446
Short-term investments, at cost	4,620	—
Other investments	29,665	31,438
Total investments	168,252	197,868
Cash and cash equivalents	49,251	45,615
Accrued investment income	1,105	1,248
Premiums receivable (net of allowance of $4,401 and $3,418)	101,361	79,664
Reinsurance recoverables on amounts paid	9,661	7,982
Reinsurance recoverables on amounts unpaid	55,085	53,402
Prepaid reinsurance premiums	34,798	12,878
Deferred policy acquisition costs	10,394	14,797
Deferred tax asset, net	13,042	16,985
Goodwill	2,726	2,726
Intangible assets, net	3,853	4,145
Property and equipment, net	30,328	24,439
Other assets	21,311	20,754
Total Assets	$ 501,167	$ 482,503
Liabilities		
Claims liabilities	$ 186,981	$ 211,648
Unearned premium reserves	149,363	128,043
Due to reinsurers	19,153	8,411
Notes payable, net	24,199	24,031
Other liabilities and accrued expenses	19,616	19,725
Total Liabilities	$ 399,312	$ 391,858
Commitments and contingencies (see Note 8)		
Shareholders' Equity		
Ordinary voting common shares, $0.003 par value, 266,666,667 shares authorized, shares issued: September 30, 2018 - 12,192,475 and December 31, 2017 - 12,164,041; shares outstanding: September 30, 2018 - 11,936,970 and December 31, 2017 - 12,164,041	$ 36	$ 36
Restricted voting common shares, $0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: September 30, 2018 and December 31, 2017 - 0	—	—
Additional paid-in capital	201,953	201,105
Treasury stock, at cost: September 30, 2018 - 255,505 and December 31, 2017 - 0 shares of ordinary voting common shares	(3,000)	—
Retained deficit	(93,781)	(110,535)
Accumulated other comprehensive (loss) income, net of tax	(3,353)	39
Total Shareholders' Equity	$ 101,855	$ 90,645
Total Liabilities and Shareholders' Equity	$ 501,167	$ 482,503

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, except for share and per share data)

Condensed Consolidated Statements of Income	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net premiums earned	$54,461	$ 55,865	$165,712	$158,340
Net investment income	1,070	902	3,201	3,311
Loss from change in fair value of equity securities	(2)	—	(97)	—
Net realized gains	54	582	501	1,000
Other income	186	115	366	332
Total revenue	55,769	57,464	169,683	162,983
Net claims incurred	33,542	33,258	102,397	95,027
Acquisition costs	5,701	7,820	18,357	19,586
Other underwriting expenses	8,841	7,937	26,762	22,870
Amortization of intangible assets	97	97	292	292
Interest expense	465	467	1,381	1,379
Expenses recovered pursuant to stock purchase agreements	—	—	(520)	—
Total expenses	48,646	49,579	148,669	139,154
Income from operations before income taxes	7,123	7,885	21,014	23,829
Income tax expense	1,518	2,760	4,304	8,342
Net income attributable to common shareholders	$5,605	$ 5,125	$16,710	$15,487
Basic weighted average common shares outstanding	11,936,970	12,045,519	12,014,817	12,045,519
Earnings per common share basic	$0.47	$ 0.43	$1.39	$1.29
Diluted weighted average common shares outstanding	11,951,217	12,207,537	12,031,738	12,197,365
Earnings per common share diluted	$0.47	$ 0.42	$1.39	$1.27

Condensed Consolidated Statements of Comprehensive Income				
Net income	$5,605	$ 5,125	$16,710	$15,487
Other comprehensive (loss) income:				
Changes in net unrealized investment (losses) gains	(307)	144	(4,008)	1,226
Reclassification to net income	(19)	56	191	(183)
Effect of income taxes	69	(70)	802	(365)
Other comprehensive (loss) income	(257)	130	(3,015)	678
Total comprehensive income	$5,348	$ 5,255	$13,695	$16,165

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
($ in '000s)

	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-In Capital	Treasury Stock	Retained Deficit	Accumulated Other Comprehensive (Loss)/Income	Total Share-holders' Equity
Balance December 31, 2016	$ 36	$ —	$ 199,244	$ —	$ (71,718)	$ (220)	$ 127,342
Net income	—	—	—	—	15,487	—	15,487
Other comprehensive income	—	—	—	—	—	678	678
Share-based compensation	—	—	890	—	—	—	890
Balance September 30, 2017 (unaudited)	$ 36	$ —	$ 200,134	$ —	$ (56,231)	$ 458	$ 144,397
Balance December 31, 2017	$ 36	$ —	$ 201,105	$ —	$ (110,535)	$ 39	$ 90,645
Cumulative effect of new accounting principle in period of adoption	—	—	—	—	377	(377)	—
Net income	—	—	—	—	16,710	—	16,710
Repurchase of common shares	—	—	—	(3,000)	—	—	(3,000)
Preferred dividends paid	—	—	—	—	(333)	—	(333)
Other comprehensive loss	—	—	—	—	—	(3,015)	(3,015)
Share-based compensation	—	—	856	—	—	—	856
Other	—	—	(8)	—	—	—	(8)
Balance September 30, 2018 (unaudited)	$ 36	$ —	$ 201,953	$ (3,000)	$ (93,781)	$ (3,353)	$ 101,855

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in ‘000s)

	Nine months ended September 30,	
	2018	2017
Operating activities:	(unaudited)	
Net income	$16,710	$15,487
Adjustments to reconcile net income to net cash flows (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	2,061	850
Share-based compensation expense	856	890
Amortization of deferred gain on sale of headquarters building	—	(17)
Amortization of intangible assets	292	292
Deferred income taxes	4,745	1,510
Loss from change in fair value of equity securities	97	—
Net realized gains	(501)	(1,000)
Gain in equity of investees	(838)	(342)
Amortization of bond premiums and discounts	518	701
Amortization of financing costs	168	309
Net changes in operating assets and liabilities:		
Accrued investment income	144	18
Premiums receivable, net	(21,697)	(14,577)
Due from reinsurers and prepaid reinsurance premiums	(25,282)	11,331
Deferred policy acquisition costs	4,403	(3,697)
Other assets	(559)	6,625
Claims liabilities	(24,667)	(24,501)
Unearned premium reserves	21,320	28,631
Due to reinsurers	10,742	(395)
Other liabilities and accrued expenses	(109)	1,307
Net cash flows (used in) provided by operating activities	(11,597)	23,422
Investing activities:		
Purchases of:		
Fixed income securities	(33,989)	(41,368)
Equity securities	(2,350)	(4,850)
Other investments	(1,161)	(2,133)
Short-term investments	(4,620)	—
Property and equipment	(7,950)	(6,674)
Proceeds from sale and maturity of:		
Fixed income securities	59,442	29,259
Equity securities	5,373	5,597
Other investments	3,829	2,493
Property and equipment	—	60
Net cash flows provided by (used in) investing activities	18,574	(17,616)
Financing activities:		
Repurchase of common shares	(3,000)	—
Proceeds from notes payable, net of issuance costs	—	23,879
Repayment of notes payable	—	(19,400)

Preferred dividends paid	(333)	—
Other	(8)	—
Net cash flows (used in) provided by financing activities	(3,341)	4,479
Increase in cash position	3,636	10,285
Cash position, beginning of period	45,615	29,888
Cash position, end of period	$49,251	$40,173
Supplemental disclosure of cash information:		
Cash (recovered) paid for:		
Income taxes	$(1,724)	$(238)
Interest	1,242	924

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 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”), Plainview Delaware’s wholly-owned subsidiary, Plainview Premium Finance Company of California, Inc. (“Plainview California” and together with Plainview Delaware, “Plainview”), UBI Holdings Inc. (“UBI Holdings”) and UBI Holdings’ wholly-owned subsidiaries, DriveOn Digital IP Inc. (“DOIP”) and optOn Insurance Agency Inc. (“optOn” and together with DOIP and UBI Holdings, “UBI”).

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 (“P&C”) insurance in 49 states and the District of Columbia in the United States. Atlas’ core products are actively distributed in 42 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 nine months ended September 30, 2018 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 U.S. GAAP for complete financial statements and should be read in conjunction with Atlas’ Annual Report on Form 10-K for the year ended December 31, 2017, 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 claims and claims adjustment expenses and related amounts recoverable from reinsurers represents the most significant estimate in the accompanying financial statements, and differences between such estimates and actual results could be material. Significant estimates in the accompanying financial statements also include the fair values of investments, deferred policy acquisition cost recoverability, deferred tax asset valuation and business combinations.

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Seasonality The 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.

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 nine months ended September 30, 2018, as compared to those described in our Annual Report on Form 10-K for the twelve months ended December 31, 2017, that are of significance or potential significance to Atlas. Pertinent Accounting Standard Updates ("ASUs") 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 October 1, 2018 have been adopted by the Company.

Recently Adopted

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. This update provides guidance on when an entity should apply modification accounting when changes are made to a share-based compensation award. For public entities, this guidance is effective for years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted. The Company adopted the update in the first quarter of 2018 using the prescribed prospective approach. The adoption of this ASU did not have an impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The provisions of this update modify the income tax consequences for intra-entity transactions not involving inventory. For public entities, this guidance is effective for years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted. The Company adopted the update in the first quarter of 2018 using the prescribed modified retrospective approach. Although Atlas has a number of fixed income securities that were transferred between companies owned by Atlas, this ASU did not affect the consolidated financial statements, because the transactions are between two U.S. entities that are part of the same consolidated group, the transactions were elected to be deferred for U.S. tax purposes until the items leave the group, which is consistent with the pre-tax GAAP treatment, and the Company already reports as part of its computational approach, the State tax results (which are zero) under the new ASU.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The provisions of this update address the diversity in practice of eight issues on the statement of cash flows. For public entities, this guidance is effective for years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted. The Company adopted the update in the first quarter of 2018 using the prescribed retrospective approach by restating all prior periods presented. Atlas' presentation of its Condensed Consolidated Statements of Cash Flows did not change as a result of this ASU. Atlas elected the cumulative earnings approach for distributions from equity method investees upon adoption, which was consistent under prior GAAP treatment.

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 adopted the update in the first quarter of 2018. The adoption of this ASU resulted in the recognition of $377,000 of net after-tax unrealized gains on equity investments as a cumulative-effect adjustment to increase retained earnings and decrease accumulated other comprehensive income. The investment section of the Condensed Consolidated Statements of Financial Position has been modified from year end to reflect that equity securities are no longer classified as available-for-sale. Changes in the fair value of equity securities are recorded as income (loss) in the Condensed Consolidated Statements of Income and Comprehensive Income and as an adjustment to net income in the Condensed Consolidated Statements of Cash Flows.

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The FASB issued ASU 2014-09, ASU 2015-14, ASU 2016-10, ASU 2016-12, ASU 2016-20 and ASU 2017-05, 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. The update is now effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted the update in the first quarter of 2018 with no impact on the consolidated financial statements. While these updates to Topic 606 are expected to have a significant impact on many companies, Atlas' revenue is derived from transactions that do not fall within the scope of Topic 606, namely insurance contracts, investment income, and lease income.

Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update eliminate, add and modify certain disclosure requirements for fair value measurements. 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. Atlas does not currently have any Level 3 fair value measurements, therefore the provisions of this update are not expected to have a material impact on the consolidated financial statements upon adoption. Atlas will continue to monitor the investment portfolio until adoption for any changes.

In July 2018 and February 2016, the FASB issued ASU 2018-11 Leases (Topic 842): Targeted Improvements and ASU 2018-10 Codification Improvements to Topic 842, Leases and ASU 2016-02, Leases (Topic 842), respectively. The provisions of these updates impact the classification criteria, disclosure requirements, and other specific transactions in lease accounting. The update requires either the use of a modified retrospective approach, which requires leases to be measured at the beginning of the earliest period presented or the transition method, which requires entities to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. 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 using the modified retrospective approach to restate beginning with the earliest period presented. See Note 8, 'Commitments and Contingencies' for further discussion of the future lease commitments. The adoption of this update is expected to increase both assets and liabilities, equally, on the Consolidated Statements of Financial Position by the present value of the leases at each reporting date. There is no expected impact to any of Atlas' current financial covenants as a result of the increase to reported liabilities.

In March 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This update shortens the amortization period for certain callable fixed income securities held at a premium to the earliest possible call date. 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 using the prescribed modified retrospective approach. Atlas currently has fixed income securities that are callable and held at a premium. The amount of the difference in amortization from current accounting treatment to the change prescribed in this ASU will be recorded upon adoption as an adjustment to retained earnings and treated as a change in accounting principle. Because the first call date for most of these fixed income securities is less than one year from its maturity date, Atlas does not expect the adjustment to retained earnings to be material. The impact of the ASU on these certain securities will change as securities mature or are sold. Atlas also will consider the impact of this ASU on future purchases of fixed income securities.

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. Atlas does not currently have any investments with credit losses recorded or other significant credit allowances, therefore the provisions of this update are not expected to have a material impact on the consolidated financial statements upon adoption. Atlas will continue to monitor the investment portfolio and other financial instruments until adoption for any changes.
All other recently issued pronouncements with effective dates after September 30, 2018 are not expected to have a material impact on the consolidated financial statements.

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3. INTANGIBLE ASSETS

The following table presents a summary of intangible assets by major asset class as of September 30, 2018 and December 31, 2017:

($ in ‘000s)

As of September 30, 2018	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade name and trademark	15 years	$ 1,800	$ 428	$1,372
Customer relationship	10 years	2,700	959	1,741
State insurance licenses	Indefinite	740	—	740
		$ 5,240	$ 1,387	$3,853

As of December 31, 2017	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade name and trademark	15 years	$ 1,800	$ 337	$1,463
Customer relationship	10 years	2,700	758	1,942
State insurance licenses	Indefinite	740	—	740
		$ 5,240	$ 1,095	$4,145

4. EARNINGS PER SHARE

Earnings per ordinary voting common share, restricted voting common share, and participative restricted stock unit (“RSU”) (collectively, the “common shares”) for the three and nine months ended September 30, 2018 and 2017 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
($ in ‘000s, except share and per share amounts)	2018	2017	2018	2017
Basic:				
Income from operations before income taxes	$7,123	$ 7,885	$21,014	$ 23,829
Income tax expense	1,518	2,760	4,304	8,342
Net income attributable to common shareholders	$5,605	$ 5,125	$16,710	$ 15,487
Basic weighted average common shares outstanding	11,936,920	12,045,519	12,014,817	12,045,519
Earnings per common share basic	$0.47	$ 0.43	$1.39	$ 1.29
Diluted:				
Basic weighted average common shares outstanding	11,936,920	12,045,519	12,014,817	12,045,519
Add:				
Dilutive stock options outstanding	14,247	162,018	16,921	151,846
Diluted weighted average common shares outstanding	11,951,167	12,207,537	12,031,738	12,197,365
Earnings per common share diluted	$0.47	$ 0.42	$1.39	$ 1.27

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.

Atlas’ dilutive potential ordinary voting common shares consist of outstanding stock options to purchase ordinary voting common shares. 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. For the three and nine months ended September 30, 2018 and 2017, all exercisable stock options were deemed to be dilutive.

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5. INVESTMENTS

Atlas adopted ASU 2016-01 as of January 1, 2018, which requires equity investments, except those accounted for under the equity method, to be measured at fair value and changes in fair value to be recognized in net income. Prior periods have not been restated for the current presentation, per the guidance in the ASU. See Note 2, ‘New Accounting Standards’, for a summary of the changes.

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

As of September 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. Treasury and other U.S. government obligations	$ 20,531	$ 1	$ (595)	$ 19,937
States, municipalities and political subdivisions	9,609	1	(318)	9,292
Corporate				
Banking/financial services	14,777	30	(424)	14,383
Consumer goods	10,135	—	(291)	9,844
Capital goods	4,161	33	(153)	4,041
Energy	7,196	1	(247)	6,950
Telecommunications/utilities	8,753	—	(389)	8,364
Health care	832	—	(64)	768
Total corporate	45,854	64	(1,568)	44,350
Mortgage backed				
Mortgage backed - agency	25,632	2	(1,039)	24,595
Mortgage backed - commercial	21,582	68	(807)	20,843
Total mortgage backed	47,214	70	(1,846)	45,438
Other asset backed	8,973	5	(58)	8,920
Total fixed income securities	$ 132,181	$ 141	$ (4,385)	$ 127,937

As of December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed income securities:				
U.S. Treasury and other U.S. government obligations	$ 21,488	$ —	$ (302)	$ 21,186
States, municipalities and political subdivisions	13,265	78	(100)	13,243
Corporate				
Banking/financial services	21,246	189	(53)	21,382
Consumer goods	9,674	70	(65)	9,679
Capital goods	7,822	181	(11)	7,992
Energy	7,460	81	(26)	7,515
Telecommunications/utilities	11,179	109	(73)	11,215
Health care	1,112	1	(54)	1,059
Total corporate	58,493	631	(282)	58,842
Mortgage backed				
Mortgage backed - agency	30,920	57	(364)	30,613
Mortgage backed - commercial	22,689	153	(255)	22,587
Total mortgage backed	53,609	210	(619)	53,200
Other asset backed	11,556	8	(51)	11,513
Total fixed income securities	$ 158,411	$ 927	$ (1,354)	$ 157,984
Equities	7,969	503	(26)	8,446
Totals	$ 166,380	$ 1,430	$ (1,380)	$ 166,430

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The following table summarizes 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.

As of September 30, 2018	Amortized Cost	Fair Value
One year or less	$ 5,937	$ 5,898
One to five years	30,062	29,288
Five to ten years	34,883	33,545
More than ten years	5,112	4,848
Total contractual maturity	75,994	73,579
Total mortgage and asset backed	56,187	54,358
Total	$ 132,181	$ 127,937

Management performs a quarterly analysis of Atlas’ investment holdings to determine if declines in fair value are other-than-temporary. 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 nine months ended September 30, 2018 and 2017 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 as of September 30, 2018 and fixed income securities and equities as of December 31, 2017 is presented as follows ($ in ‘000s):

As of September 30, 2018	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	More Than 12 Months Fair Value	More Than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
Fixed income securities:						
U.S. Treasury and other U.S. government obligations	$6,135	$(138)	$12,388	$(457)	$18,523	$(595)
States, municipalities and political subdivisions	5,461	(170)	3,755	(148)	9,216	(318)
Corporate						
Banking/financial services	10,649	(343)	2,270	(81)	12,919	(424)
Consumer goods	7,079	(174)	2,615	(117)	9,694	(291)
Capital goods	3,729	(153)	—	—	3,729	(153)
Energy	6,656	(247)	—	—	6,656	(247)
Telecommunications/utilities	6,740	(270)	1,526	(119)	8,266	(389)
Health care	128	(2)	641	(62)	769	(64)
Total corporate	34,981	(1,189)	7,052	(379)	42,033	(1,568)
Mortgage backed						
Mortgage backed - agency	13,108	(442)	11,790	(597)	24,898	(1,039)
Mortgage backed - commercial	9,722	(383)	8,631	(424)	18,353	(807)
Total mortgage backed	22,830	(825)	20,421	(1,021)	43,251	(1,846)
Other asset backed	7,424	(40)	1,226	(18)	8,650	(58)
Total fixed income securities	$76,831	$(2,362)	$44,842	$(2,023)	$121,673	$(4,385)

As of December 31, 2017	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	More Than 12 Months Fair Value	More Than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
Fixed income securities:						
U.S. Treasury and other U.S. government obligations	$11,179	$(110)	$10,007	$(192)	$21,186	$(302)
States, municipalities and political subdivisions	5,355	(36)	2,818	(64)	8,173	(100)
Corporate						
Banking/financial services	6,021	(26)	1,931	(27)	7,952	(53)
Consumer goods	5,835	(47)	710	(18)	6,545	(65)
Capital goods	2,611	(10)	101	(1)	2,712	(11)
Energy	3,368	(26)	—	—	3,368	(26)
Telecommunications/utilities	4,488	(23)	938	(50)	5,426	(73)
Health care	607	(7)	322	(47)	929	(54)
Total corporate	22,930	(139)	4,002	(143)	26,932	(282)
Mortgage backed						
Mortgage backed - agency	13,203	(136)	9,786	(228)	22,989	(364)
Mortgage backed - commercial	10,360	(53)	6,553	(202)	16,913	(255)
Total mortgage backed	23,563	(189)	16,339	(430)	39,902	(619)
Other asset backed	9,817	(44)	1,087	(7)	10,904	(51)
Total fixed income securities	$72,844	$(518)	$34,253	$(836)	$107,097	$(1,354)
Equities	1,007	(26)	—	—	1,007	(26)
Total	$73,851	$(544)	$34,253	$(836)	$108,104	$(1,380)

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As of September 30, 2018, we held 416 individual fixed income securities that were in an unrealized loss position, of which 139 individual fixed income securities were in a continuous loss position for longer than 12 months. As of December 31, 2017, we held 346 and 2 individual fixed income and equity securities, respectively, that were in an unrealized loss position, of which 103 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 nine months ended September 30, 2018 or for the year ended December 31, 2017, 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 nine months ended September 30, 2018 and 2017 ($ in ‘000s):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Total investment income:				
Interest income	$1,006	$1,008	$3,139	$2,813
Income from other investments	326	163	793	1,212
Investment expenses	(262)	(269)	(731)	(714)
Net investment income	$1,070	$902	$3,201	$3,311

The following table presents the aggregate proceeds and the components of net realized gains and losses from sales and calls of fixed income securities, equities and other investments for the three and nine months ended September 30, 2018 and 2017 ($ in ‘000s):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Fixed income securities:				
Proceeds from sales and calls	$7,905	$33	$44,262	$14,385
Gross realized investment gains	27	7	280	171
Gross realized investment losses	(82)	—	(539)	(32)
Equities:				
Proceeds from sales	$524	$1,015	$5,373	$5,597
Gross realized investment gains	94	55	730	343
Gross realized investment losses	—	—	(26)	(2)
Other investments:				
Proceeds from sales	$15	$520	$56	$520
Gross realized investment gains	15	520	56	520
Gross realized investment losses	—	—	—	—
Total:				
Proceeds from sales and calls	$8,444	$1,568	$49,691	$20,502
Gross realized investment gains	136	582	1,066	1,034
Gross realized investment losses	(82)	—	(565)	(34)

The following table summarizes the components of net realized gains (losses) for the three and nine months ended September 30, 2018 and 2017 ($ in ‘000s):

	Three months ended September 30,	Nine months ended September 30,

	2018	2017	2018	2017
Fixed income securities	$(55)	$7	$(259)	$139
Equities	94	55	704	341
Other investments	15	520	56	520
Net realized gains	$54	$582	$501	$1,000

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Other Investments

Atlas' other investments are comprised of collateral loans and various limited partnerships that invest in income-producing real estate, equities, or insurance linked securities. Atlas accounts for these limited partnership investments using the equity method of accounting. The carrying values of the equity method limited partnerships were $27.0 million and $25.3 million as of September 30, 2018 and December 31, 2017, respectively. The carrying value of these investments is Atlas' share of the net book value for each limited partnership. The carrying values of the collateral loans were $2.7 million and $6.2 million as of September 30, 2018 and December 31, 2017, 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 September 30, 2018 and December 31, 2017, the Company had no valuation allowances established for impaired equity method limited partnerships and loans.

Short-Term Investments

Atlas' short-term investments are comprised of fixed income securities. As of September 30, 2018, short-term investments totaled $4.6 million. Atlas had no short-term investments as of December 31, 2017.

Collateral Pledged

As of September 30, 2018 and December 31, 2017, bonds, cash and cash equivalents with a fair value of $14.8 million and $15.0 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 September 30, 2018 and December 31, 2017, the amounts of such pledged securities were $27.0 million and $12.2 million, respectively. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls. These assets and investment income related thereto remain the property of the Company while pledged. Neither the state and/or provincial regulatory authorities nor any other third party has the right to re-pledge or sell said securities held on deposit.

6. 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.

Summary of Significant Valuation Techniques for Assets Measured at Fair Value on a Recurring Basis

Level 1

- 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.

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

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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.

The following table summarizes Atlas' investments at fair value as of September 30, 2018 and December 31, 2017 ($ in '000s):

As of September 30, 2018	Level 1	Level 2	Level 3	Total
Fixed income securities:				
U.S. Treasury and other U.S. government obligations	$19,937	$—	$ —	$19,937
States, municipalities and political subdivisions	—	9,292	—	9,292
Corporate				
Banking/financial services	—	14,383	—	14,383
Consumer goods	—	9,844	—	9,844
Capital goods	—	4,041	—	4,041
Energy	—	6,950	—	6,950
Telecommunications/utilities	—	8,364	—	8,364
Health care	—	768	—	768
Total corporate	—	44,350	—	44,350
Mortgage backed				
Mortgage backed - agency	—	24,595	—	24,595
Mortgage backed - commercial	—	20,843	—	20,843
Total mortgage backed	—	45,438	—	45,438
Other asset backed	—	8,920	—	8,920
Total fixed income securities	$19,937	$108,000	$ —	$127,937
Equities	6,030	—	—	6,030
Total	$25,967	$108,000	$ —	$133,967

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As of December 31, 2017	Level 1	Level 2	Level 3	Total
Fixed income securities:				
U.S. Treasury and other U.S. government obligations	$21,186	$—	$ —	$21,186
States, municipalities and political subdivisions	—	13,243	—	13,243
Corporate				
Banking/financial services	—	21,382	—	21,382
Consumer goods	—	9,679	—	9,679
Capital goods	—	7,992	—	7,992
Energy	—	7,515	—	7,515
Telecommunications/utilities	—	11,215	—	11,215
Health care	—	1,059	—	1,059
Total corporate	—	58,842	—	58,842
Mortgage backed				
Mortgage backed - agency	—	30,613	—	30,613
Mortgage backed - commercial	—	22,587	—	22,587
Total mortgage backed	—	53,200	—	53,200
Other asset backed	—	11,513	—	11,513
Total fixed income securities	$21,186	$136,798	$ —	$157,984
Equities	8,446	—	—	8,446
Total	$29,632	$136,798	$ —	$166,430

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 September 30, 2018. 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.

The Company had no fair value investments classified as Level 3 as of September 30, 2018 or December 31, 2017. There were no transfers in or out of Level 2 or Level 3 during the three and nine months ended September 30, 2018 and 2017.

7. INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Tax Act”) was signed into law. Among other things, beginning with the 2018 tax year, the Tax Act reduced the Company’s corporate federal tax rate from a marginal rate of 35% to a flat 21%, eliminated the corporate Alternative Minimum Tax, changed reserving and other aspects of the computation of taxable income for insurance companies, and modified the net operating loss carryback and carryforward provisions for all entities in the group except for those subject to tax as P&C companies. The modified net operating loss provisions no longer allow a carryback to prior years to recover past taxes, but now allow an indefinite carryforward period subject to a yearly utilization limit. As discussed above, any net operating losses with respect to the insurance entities taxed as P&C companies retain the current net operating loss carryback and carryover provisions, which are two years carryback and 20 years carryforward. As of December 31, 2016, the Company measured its deferred tax items at the enacted rate in effect of 35%. Due to the Tax Act’s enactment, the Company’s deferred tax assets and liabilities as of December 31, 2017 have been re-measured at the new enacted tax rate of 21%. For the year ended December 31, 2017, the Company recognized income tax expense of $10.5 million related to reduction in the net deferred tax asset as a result of this re-measurement.

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Atlas' effective tax rate was 21.3% and 20.5% for the three and nine months ended September 30, 2018, respectively, and 35.0% for each of the three and nine months ended September 30, 2017. The table below reconciles the U.S. statutory marginal income tax rate to the effective tax rate ($ in '000s):

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	$1,496	21.0%	$2,759	35.0 %	$4,413	21.0 %	$8,340	35.0 %
Nondeductible expenses	25	0.3	6	0.1	53	0.2	33	0.2
Tax-exempt income	(3)	—	(5)	(0.1)	(9)	—	(15)	(0.1)
State tax (net of federal benefit)	—	—	—	—	(2)	—	(2)	—
Stock compensation	—	—	—	—	(42)	(0.2)	(14)	(0.1)
Nondeductible acquisition accounting adjustment	—	—	—	—	(109)	(0.5)	—	—
Other	—	—	—	—	—	—	—	—
Provision for income taxes for continuing operations	$1,518	21.3%	$2,760	35.0 %	$4,304	20.5 %	$8,342	35.0 %

Income tax expense consists of the following for the three and nine months ended September 30, 2018 and 2017 ($ in '000s):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Current tax (benefit) expense	$(145)	$2,125	$(441)	$6,832
Deferred tax expense	1,663	635	4,745	1,510
Total	$1,518	$2,760	$4,304	$8,342

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, due to 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 generated prior to the "triggering event" 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 ("NOLs") of approximately $9.7 million as of September 30, 2018.

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The components of net deferred income tax assets and liabilities as of September 30, 2018 and December 31, 2017 are as follows ($ in '000s):

	September 30, 2018	December 31, 2017
Gross deferred tax assets:		
Losses carried forward	$ 9,728	$ 13,313
Claims liabilities and unearned premium reserves	5,924	6,171
Tax credits	733	1,172
Investments	738	—
Commissions	1,320	623
Stock compensation	687	602
Other	1,005	1,094
Total gross deferred tax assets	20,135	22,975
Gross deferred tax liabilities:		
Deferred policy acquisition costs	2,182	3,107
Investments	—	213
Fixed assets	2,028	847
Intangible assets	654	715
Other	2,229	1,108
Total gross deferred tax liabilities	7,093	5,990
Net deferred tax assets	$ 13,042	$ 16,985

Amounts and expiration dates of the operating loss carryforwards as of September 30, 2018 are as follows ($ in '000s):

Year of Occurrence	Year of Expiration	Amount
2002	2022	3,965
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2012	2032	7,303
2017	2037	16,253
Total		$ 46,324

NOLs and other carryforwards generated in 2017 are not limited by IRC Section 382.

Atlas has not established a valuation allowance for its gross future deferred tax assets as of September 30, 2018 or December 31, 2017. 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. However, there can be no guarantee that a valuation allowance will not be required in the future.

Atlas accounts for uncertain tax positions in accordance with the income taxes accounting guidance. Atlas has analyzed filing positions in the federal and state jurisdictions 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 nine months ended September 30, 2018 and 2017. Tax year 2014 and years thereafter are subject to examination by the Internal Revenue Service ("IRS").

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8. COMMITMENTS AND CONTINGENCIES

On May 22, 2012, Atlas closed the sale and leaseback of its former 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 was deferred and recognized over the initial five year lease term, which ended in May 2017. The deferred gain was completely recognized at the end of the second quarter in 2017. There was no offset to rent expense recognized for the three months ended September 30, 2017 or for the three and nine months ended September 30, 2018. Atlas recognized $17,000 as an offset to rent expense for the nine months ended September 30, 2017. Total rental expense recognized on the former headquarters building was $216,000 and $614,000 for the three and nine months ended September 30, 2017, respectively. There was no rental expense recognized on the former headquarters building for the three and nine months ended September 30, 2018.

As of September 30, 2018, Atlas has the following future minimum rentals, related principally to office space, required under operating leases having initial or remaining non-cancelable lease terms in excess of one year ($ in '000s):

Year	2018	2019	2020	2021	2022	2023 & Beyond	Total
Amount	$277	$1,133	$1,087	$954	$173	$ 16	$3,640

The Company has entered into subscription agreements to allow for participation by the Company in limited liability investments, which invest in income-producing real estate, equities and insurance linked securities. As of September 30, 2018, the unfunded commitments are $5.9 million.

In the ordinary course of its business, Atlas is involved in legal proceedings, including lawsuits, regulatory examinations and inquiries.

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 claims handling expenses and the unfunded amount of "covered" claims and unearned premium obligations of impaired or insolvent insurance companies, either up to the policy's limit, the applicable guaranty fund covered claims 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 premiums written"), 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 claims based insurance-related assessments, including non-voluntary assigned risk pools, underwriting associations, workers' compensation second-injury funds, reinsurance funds and other state insurance facilities. Atlas' proportionate share of these various premium or claims based insurance-related assessments, including non-voluntary assigned risk pools, underwriting associations, workers' compensation second-injury funds, reinsurance funds and other state insurance facilities is not expected to be material.

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9. PROPERTY AND EQUIPMENT

Atlas held the following property and equipment, including internal use software, as of September 30, 2018 and December 31, 2017 (excluding assets held for sale) ($ in '000s):

	September 30, 2018	December 31, 2017
Buildings	$ 7,425	$ 7,425
Land	1,840	1,840
Building improvements	8,964	7,900
Leasehold improvements	190	140
Internal use software	15,784	9,567
Computer equipment	1,769	1,465
Furniture and other office equipment	2,897	2,582
Total	38,869	30,919
Accumulated depreciation	(8,541)	(6,480)
Total property and equipment, net	$ 30,328	$ 24,439

Depreciation expense and amortization was $696,000 and $297,000 for the three months ended September 30, 2018 and 2017, respectively, and $2.1 million and $850,000 for the nine months ended September 30, 2018 and 2017, respectively. For the year ended December 31, 2017, depreciation expense and amortization was $1.4 million.

During the year ended December 31, 2016, Atlas purchased a building and land to serve as its new corporate headquarters to replace its former leased office space. Atlas' Chicago area staff moved into this space in late October 2017 and occupies approximately 70,000 square feet of the building. An unrelated tenant occupies the remaining office space in the building. Rental income related to this lease agreement was $144,000 and $104,000 for the three months ended September 30, 2018 and 2017, respectively, and $323,000 and $311,000 for the nine months ended September 30, 2018 and 2017, respectively. Depreciation expense related to the building and its improvements was $277,000 and $819,000 for the three and nine months ended September 30, 2018, respectively. There was no depreciation expense related to the building and its improvements for three and nine months ended September 30, 2017. There was $171,000 of depreciation expense related to the building and its improvements recorded for the year ended December 31, 2017.

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 reserves, ceded claims and claims adjustment expense reserve balances and ceded paid claims. 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.

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Premiums written, premiums earned and amounts related to reinsurance as of and for the three and nine months ended September 30, 2018 and 2017 are as follows ($ in '000s):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Direct premiums written	$67,849	$62,705	$204,697	$210,179
Assumed premiums written	8,068	3,193	24,168	11,569
Ceded premiums written	(27,756)	(11,009)	(63,753)	(34,914)
Net premiums written	$48,161	$54,889	$165,112	$186,834
Direct premiums earned	$65,519	$64,731	$192,497	$186,570
Assumed premiums earned	6,113	2,635	15,048	6,546
Ceded premiums earned	(17,171)	(11,501)	(41,833)	(34,776)
Net premiums earned	$54,461	$55,865	$165,712	$158,340
Ceded claims and claims adjustment expenses	$16,420	$3,215	$28,449	$10,049
Ceding commissions	3,427	2,570	11,421	9,355

11. CLAIMS LIABILITIES

Unpaid Claims and Claims Adjustment Expenses

The changes in the provision for unpaid claims and claims adjustment expenses, net of amounts recoverable from reinsurers, for the three and nine months ended September 30, 2018 and 2017 were as follows ($ in '000s):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Unpaid claims and claims adjustment expenses, beginning of period	$187,170	$118,989	$211,648	$139,004
Less: reinsurance recoverable	46,614	27,938	53,402	35,370
Net unpaid claims and claims adjustment expenses, beginning of period	140,556	91,051	158,246	103,634
Change in retroactive reinsurance ceded	—	(92)	—	(47)
Incurred related to:				
Current year	33,621	33,120	101,109	94,448
Prior years	(79)	138	1,288	579
	33,542	33,258	102,397	95,027
Paid related to:				
Current year	15,639	15,736	36,439	31,287
Prior years	26,563	19,192	92,308	78,038
	42,202	34,928	128,747	109,325
Net unpaid claims and claims adjustment expenses, end of period	131,896	89,289	131,896	89,289
Add: reinsurance recoverable	55,085	25,214	55,085	25,214
Unpaid claims and claims adjustment expenses, end of period	$186,981	$114,503	$186,981	$114,503

The process of establishing the estimated provision for unpaid claims and claims adjustment expenses 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.

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The incurred related to prior years for the three and nine months ended September 30, 2018 and 2017 primarily resulted from favorable development on our core lines, partially offset by unfavorable development on voluntary assigned risk pools and run-off commercial auto. Assigned risk pools are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means.

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.

Stock options Stock option activity for the nine months ended September 30, 2018 and 2017 follows (prices in Canadian dollars designated with “C$” and United States dollars designated with “US$”):

	Nine months ended September 30,			
	2018		2017	
C$ Denominated:	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding, beginning of period	54,390	C$6.00	187,728	C$6.22
Granted	—	—	—	—
Exercised	(27,195)	C$6.00	—	—
Outstanding, end of period	27,195	C$6.00	187,728	C$6.22
US$ Denominated:				
Outstanding, beginning of period	375,000	US$17.01	375,000	US$17.01
Granted	—	—	—	—
Exercised	—	—	—	—
Outstanding, end of period	375,000	US$17.01	375,000	US$17.01

There are 27,195 stock options that are exercisable as of September 30, 2018. The stock option grants outstanding have a weighted average remaining life of 5.73 years and have an intrinsic value of $147,000 as of September 30, 2018.

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

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On March 12, 2015, the Board of Directors of Atlas granted equity awards of (i) 200,000 restricted stock grants for ordinary 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. For the three and nine months ended September 30, 2018, no shares of either of these restricted stock grants for ordinary voting common shares or these options to acquire ordinary voting common shares vested due to not meeting annual performance targets. For the nine months ended September 30, 2017, 40,000 shares vested.

The Monte-Carlo simulation model was used, for both the options and restricted stock grants for ordinary voting common shares, 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 stock grants for ordinary voting common shares, respectively. This expense will be amortized over the anticipated vesting period.

Restricted shares The activity for the restricted stock grants for ordinary voting common shares and restricted share units for the nine months ended September 30, 2018 and 2017 are as follows:

	Nine months ended September 30,			
	2018		2017	
	Number of Shares	Weighted Average Fair Value at Grant Date	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested, beginning of period	234,080	$ 16.15	311,120	$ 15.92
Granted	—	—	—	—
Vested	(44,448)	12.20	(77,040)	15.21
Non-vested, end of period	189,632	$ 17.08	234,080	$ 16.15

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 statements of income and comprehensive income. Atlas recognized $285,000 in share-based compensation expense, including income tax expense, in each of the three months ended September 30, 2018 and 2017, and $856,000 and $890,000 for the nine months ended September 30, 2018 and 2017, respectively. Total unearned share-based compensation expense was $431,000 related to all stock option grants and $734,000 related to restricted stock grants for ordinary voting common shares and restricted share units as of September 30, 2018. This unearned share-based compensation expense will be amortized over the next 17 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 five years with 100% vested after five years. Company contributions were $139,000 and $126,000 for the three months ended September 30, 2018 and 2017, respectively, and $419,000 and $368,000 for the nine months ended September 30, 2018 and 2017, 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' matching contributions are discretionary. Atlas also pays all administrative costs related to this plan. Atlas' costs incurred related to the matching portion of the ESPP were $64,000 and $56,000 for the three months ended September 30, 2018 and 2017, respectively, and $184,000 and $161,000 for the nine months ended September 30, 2018 and 2017, respectively. Share purchases pursuant to this plan are made in the open market.

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14. SHARE CAPITAL AND MEZZANINE EQUITY
Share Capital
The share capital is as follows:

		September 30, 2018			December 31, 2017		
	Shares Authorized	Shares Issued	Shares Outstanding	Amount ($ in '000s)	Shares Issued	Shares Outstanding	Amount ($ in '000s)
Ordinary voting common shares	266,666,667	12,192,475	11,936,970	$ 36	12,164,041	12,164,041	$ 36
Restricted voting common shares	33,333,334	—	—	—	—	—	—
Total common shares	300,000,001	12,192,475	11,936,970	$ 36	12,164,041	12,164,041	$ 36

During 2017, the 128,191 restricted voting common shares that were beneficially owned or controlled by Kingsway Financial Services, Inc. (including its subsidiaries and affiliated companies, "Kingsway") were sold to non-affiliates of 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 Kingsway-owned restricted voting common shares automatically converted to ordinary voting common shares upon their sale to non-affiliates of Kingsway. There are no restricted voting common shares outstanding as of September 30, 2018.
There were 7,408 and 14,816 non-vested RSUs as of September 30, 2018 and December 31, 2017, respectively. These RSUs are participative and are included in the computations of earnings per common share and book value per common share for these periods.
In each of the nine months ended September 30, 2018 and 2017, the Company issued 7,408 ordinary voting common shares as a result of the vesting of RSUs. During the nine months ended September 30, 2018, the Company issued 27,195 ordinary voting common shares and immediately canceled 6,169 shares as a result of a cashless exercise of options.
On March 21, 2017, the Company's Board of Directors approved a Share Repurchase Program of up to 650,000 shares of common stock. The repurchases could be made from time to time in open market transactions, privately-negotiated transactions, block purchases, or otherwise in accordance with securities laws at the discretion of the Company's management until March 21, 2018. The Share Repurchase Program was not extended. The Company's decisions around the timing, volume, and nature of share repurchases, and the ultimate amount of shares repurchased, was dependent on market conditions, applicable securities laws, and other factors. The share repurchase program and the Board's authorization of the program could have been modified, suspended, or discontinued at any time. During the nine months ended September 30, 2018, 255,505 shares were repurchased under this Share Repurchase Program.
Mezzanine Equity
There were no preferred shares outstanding as of September 30, 2018 and December 31, 2017.
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. Preferred shareholders are not entitled to vote.
As of December 31, 2017, Atlas accrued $333,000 in dividends on the preferred shares for the former owner of Anchor. During the nine months ended September 30, 2018, Atlas paid $333,000 in dividends earned on the preferred shares to the former owner of Anchor, the cumulative amount to which they were entitled through December 31, 2017, leaving no accrued or unpaid dividends.

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15. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs for the nine months ended September 30, 2018 and 2017 consisted of the following ($ in ‘000s):

	Nine months ended September 30,	
	2018	2017
Balance, beginning of period	$14,797	$13,222
Acquisition costs deferred	13,954	23,284
Amortization charged to income	(18,357)	(19,586)
Balance, end of period	$10,394	$16,920

16. RELATED PARTY TRANSACTIONS

During the periods presented, a portion of the Company’s investment portfolio, which is included in “Other investments” on the Condensed Consolidated Statements of Financial Position, included investment vehicles that are considered related-party transactions. As of September 30, 2018 and December 31, 2017, these related-party transactions comprised 8.0% and 8.4%, respectively, of our investment portfolio. In these transactions, one or more of the Company’s directors or entities affiliated with such directors invest in and/or manage these vehicles. These related-party transactions are consistent with the Company’s investment guidelines and have been reviewed and approved by the Investment Committee of the Company’s Board of Directors. The Company believes that these transactions leverage investment resources that would otherwise not be available to the Company.

17. NOTES PAYABLE

On April 26, 2017, Atlas issued $25 million of five-year 6.625% senior unsecured notes and received net proceeds of approximately $23.9 million after deducting underwriting discounts and commissions and other estimated offering expenses. Interest on the senior unsecured notes is payable quarterly on each January 26, April 26, July 26 and October 26. Atlas may, at its option, beginning with the interest payment date of April 26, 2020, and on any scheduled interest payment date thereafter, redeem the senior unsecured notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. The senior unsecured notes will rank senior in right of payment to any of Atlas’ existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the senior unsecured notes. The senior unsecured notes will rank equally in right of payment to all of Atlas’ existing and future senior indebtedness, but will be effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the senior unsecured notes will be structurally subordinated to the indebtedness and other obligations of Atlas’ subsidiaries.

The senior unsecured notes were issued under an indenture and supplemental indenture that contain covenants that, among other things, limit: (i) the ability of Atlas to merge or consolidate, or lease, sell, assign or transfer all or substantially all of its assets; (ii) the ability of Atlas to sell or otherwise dispose of the equity securities of certain of its subsidiaries; (iii) the ability of certain of Atlas’ subsidiaries to issue equity securities; (iv) the ability of Atlas to permit certain of its subsidiaries to merge or consolidate, or lease, sell, assign or transfer all or substantially all of their respective assets; and (v) the ability of Atlas and its subsidiaries to incur debt secured by equity securities of certain of its subsidiaries.

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On March 9, 2015, American Insurance Acquisition, Inc. (“American Acquisition”), a wholly-owned direct subsidiary of Atlas, 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, included a $30.0 million line of credit (“Draw Amount”), which could have been drawn in increments at any time until December 31, 2016. The $30.0 million line of credit had a five year term and bore interest at one-month LIBOR plus 4.5%. The Loan Agreement also included a $5.0 million revolving line of credit (“Revolver”), which could have been drawn upon until May 7, 2018, that bore interest at one-month LIBOR plus 2.75%.

The Loan Agreement was terminated in April 2017. Atlas used a portion of the net proceeds of the senior unsecured notes offering, together with cash on hand, for the repayment of all outstanding balances under the Draw Amount and Revolver, $15.5 million and $3.9 million, respectively.

At December 31, 2016, American Acquisition was in compliance with the covenants of the Loan Agreement. In February 2017, American Acquisition filed its statutorily required financial statements for the year ended December 31, 2016, which are used to determine on-going compliance with the covenants contained in the Loan Agreement. As a result of the reserve strengthening and its effect on American Acquisition’s December 31, 2016 financial statements, American Acquisition was not in compliance with the Loan Agreements’ EBITDA Ratio covenant as of March 13, 2017. American Acquisition had a thirty day period to cure this covenant non-compliance, and the Company and American Acquisition agreed with the lender to a modification to the loan covenants to more specifically address the effects of reserve modifications and/or obtaining a waiver with respect to the existing non-compliance.

Interest expense on notes payables was $465,000 and $467,000 for the three months ended September 30, 2018 and 2017, respectively, and $1.4 million for each of the nine months ended September 30, 2018 and 2017.

Notes payable outstanding as of September 30, 2018 and December 31, 2017 ($ in ‘000s):

	September 30, 2018	December 31, 2017
6.625% Senior Unsecured Notes due April 26, 2022	$ 25,000	$ 25,000
Unamortized issuance costs	(801)	(969)
Total notes payable	$ 24,199	$ 24,031

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 for the ASI Pool Subsidiaries is the greater of statutory net income or 10% of total statutory capital and surplus. The dividend restriction for Global Liberty is the lower of 10% of statutory surplus or 100% of adjusted net investment income for the preceding twelve months.

As of September 30, 2018, our Insurance Subsidiaries had a combined statutory surplus of $109.8 million and had combined net premiums written and combined statutory net income for the nine months ended September 30, 2018 of $165.1 million and $24.5 million, respectively.

As of December 31, 2017, our Insurance Subsidiaries had a combined statutory surplus of $87.8 million and had combined net premiums written and combined statutory net loss for the twelve months ended December 31, 2017 of $231.1 million and $35.3 million, respectively.

Atlas did not declare or pay any dividends to its common shareholders during the nine months ended September 30, 2018 or during the year ended December 31, 2017.

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Item 2. 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 report. In this discussion and analysis, the term "common share" refers to the summation of restricted voting common shares, ordinary voting common shares and participative restricted stock units when used to describe earnings (loss) or book value per common share.

Forward-looking statements

In addition to the historical consolidated financial information, 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. 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, 2017.

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 nega
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. Forward-looking statements contained herein are made as of the date of this report, and Atlas disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty in them.

I. OVERVIEW

We are a financial services holding company incorporated under the laws of the Cayman Islands. Our core business is the underwriting of commercial automobile insurance policies, focusing on the "light" commercial automobile sector, which is carried out through our "Insurance Subsidiaries": 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 (including certain transportation network companies ("TNC") drivers/operators) and business auto. Our goal is to always be the preferred specialty insurance business 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 42 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.

Since Atlas' formation in 2010, 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.

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Our primary target market is made up of small to mid-size taxi, limousine, other livery (including TNC drivers/operators) and non-emergency para-transit operators. The “light” commercial automobile policies we underwrite provide coverage for lightweight commercial vehicles typically with the minimum limits prescribed by statute, municipal or other regulatory requirements. The majority of our policyholders are individual owners or small fleet operators. In certain jurisdictions like Illinois, 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 broader commercial automobile insurance industry segment, which over the long term has been historically profitable. 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 S&P Global also indicates that for 2017 the total market for commercial automobile liability insurance was approximately $35.7 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. The significant expansion of TNC has resulted in a reduction in taxi vehicles available to insure; however, we believe that the aforementioned factor relating to medallion values has mitigated the overall decline.

II. OPERATING RESULTS

CONSOLIDATED PERFORMANCE

Third Quarter 2018 Financial Performance Summary (comparisons to Third Quarter 2017 unless otherwise noted):

- Gross premiums written was $75.9 million for the three months ended September 30, 2018 compared to $65.9 million
- In-force premium as of September 30, 2018 increased 7.7% to $286.7 million
- Total revenue for the three months ended September 30, 2018 decreased by 2.9% to $55.8 million
- Underwriting income for the third quarter 2018 was $6.3 million compared to $6.8 million
- The combined ratio for the third quarter 2018 was 88.5% compared to 87.9%
- Net income for the third quarter 2018 was $5.6 million, or $0.47 earnings per common share diluted, compared to $5.1 million, or $0.42 earnings per common share diluted, representing an increase of $0.05 or 11.9%
- Book value per common share as of September 30, 2018 was $8.53, compared to $7.42 as of December 31, 2017 and $11.96 as of September 30, 2017
- Annualized return on equity was 22.6% in the third quarter 2018 compared to 14.5%

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The following financial data is derived from Atlas' unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2018 and 2017. Ratios are calculated as a percentage of net premiums earned.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Gross premiums written	$75,917	$65,898	$228,865	$221,748
Net premiums earned	54,461	55,865	165,712	158,340
Net claims incurred	33,542	33,258	102,397	95,027
Underwriting expense:				
Acquisition costs	5,701	7,820	18,357	19,586
Share-based compensation	285	285	856	890
Expenses recovered related to stock purchase agreements	—	—	(520)	—
Deferred policy acquisition costs amortization	(61)	358	(261)	440
Other underwriting expenses	8,714	7,391	26,459	21,832
Total underwriting expenses	14,639	15,854	44,891	42,748
Underwriting income	6,280	6,753	18,424	20,565
Net investment income	1,070	902	3,201	3,311
Income from operating activities, before income taxes	7,350	7,655	21,625	23,876
Interest expense	(465)	(467)	(1,381)	(1,379)
Loss from change in fair value of equity securities	(2)	—	(97)	—
Realized gains and other income	240	697	867	1,332
Net income before income taxes	7,123	7,885	21,014	23,829
Income tax expense	1,518	2,760	4,304	8,342
Net income	$5,605	$5,125	$16,710	$15,487
Key Financial Ratios:				
Loss ratio	61.6 %	59.5 %	61.8 %	60.0 %
Underwriting expense ratio:				
Acquisition cost ratio	10.5	14.0	11.1	12.4
Share-based compensation ratio	0.5	0.5	0.5	0.6
Expenses recovered related to stock purchase agreements ratio	—	—	(0.3)	—
Deferred policy acquisition costs amortization ratio	(0.1)	0.6	(0.2)	0.3
Other underwriting expense ratio	16.0	13.3	16.0	13.7
Total underwriting expense ratio	26.9	28.4	27.1	27.0
Combined ratio	88.5 %	87.9 %	88.9 %	87.0 %
Earnings per common share diluted	$0.47	$0.42	$1.39	$1.27
Book value per common share	$8.53	$11.96	$8.53	$11.96
Return on equity (annualized)	22.6 %	14.5 %	23.1 %	15.2 %

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Three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017:
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. The Company's philosophy is to always prioritize underwriting margin over top line growth. As with all P&C insurance companies, the impact of price changes is reflected in our financial results over time. Price changes on our in-force policies occur as they are renewed. This cycle generally takes twelve months for our entire book of business and up to an additional twelve months to earn a full year of premium at the renewal rate.
We approach investment and capital management with the intention of supporting insurance operations by providing a stable source of 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 claims experience of the underlying risks. We record net claims incurred based on an actuarial analysis of the estimated claims 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 share-based 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 Premiums Written
Atlas' core business is providing insurance for specialty operators in the public automobile insurance space, specifically users of light vehicles moving passengers in exchange for compensation. This business traditionally included taxi, limousine and para-transit operators. Today, it includes other commercially licensed livery operators, including certain drivers under dispatch for TNCs, as well. Each of the specialty business lines on which Atlas' strategy is focused is a subset of the approximately $36.0 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.
Other lines of business are Gateway's truck and workers' compensation programs, Atlas' non-standard personal lines business, Global Liberty's homeowners program, American Country's taxi workers' compensation program and assigned risk business. The Gateway truck and workers' compensation programs were put into run-off during 2012. Prior to 2018, Gateway's workers' compensation program had been 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. American Country's taxi workers' compensation was non-renewed in 2018 due to limited demand. Assigned risk pools

are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means.

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

Gross premiums written by line of business ($ in ‘000s)

	Three months ended September 30,			Nine months ended September 30,		
	2018	2017	% Change	2018	2017	% Change
Commercial automobile	$75,168	$65,378	15.0 %	$226,699	$220,819	2.7 %
Other	749	520	44.0	2,166	929	133.2
Total	$75,917	$65,898	15.2 %	$228,865	$221,748	3.2 %

Gross premiums written increased 15.2% in the three months ended September 30, 2018 compared to the three months ended September 30, 2017, primarily due to growth in our Livery/TNC line. New business represented approximately 41.3% of the total gross premiums written on our core lines for the three months ended September 30, 2018, as compared to 31.0% for the three months ended September 30, 2017.

Gross premiums written increased 3.2% in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, primarily due to growth in our Livery/TNC and para-transit lines, partially offset by decreases in our taxi and limousine lines. New business represented approximately 33.1% of the total gross premiums written on our core lines for the nine months ended September 30, 2018, as compared to 42.2% for the nine months ended September 30, 2017. New business was higher in the prior year period primarily due to one large TNC fleet, which accounted for approximately 8.2% of total gross premiums written for the nine months ended September 30, 2017, and growth in our limousine and para-transit lines. The TNC account was renewed in the nine months ended September 30, 2018.

In-force premium was $286.7 million, $268.5 million and $266.3 million as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively. The Company’s gross unearned premium reserves were $149.4 million, $128.0 million and $141.8 million as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively. The increase in gross unearned premium reserves and in-force premium since December 31, 2017 primarily resulted from our January 1 and March 1 common public motor vehicle renewal business in Illinois and New York, respectively, our July 1 excess taxi program renewal and organic growth in other jurisdictions. The increase in gross unearned premium reserves and in-force premium since September 30, 2017 primarily resulted from growth in our Livery/TNC line, partially offset by decreases in our taxi and traditional limousine lines.

Geographic concentration The following table summarizes gross premiums written by state for the three months ended September 30, 2018 and 2017:

Gross premiums written by state ($ in ‘000s)

	Three months ended September 30,			
	2018		2017	
New York	$36,082	47.5 %	$23,136	35.1 %
California	10,805	14.2	9,446	14.3
New Jersey	2,572	3.4	2,327	3.5
Virginia	2,473	3.3	2,265	3.4
Missouri	1,933	2.5	2,296	3.5
Ohio	1,799	2.4	2,028	3.1
Georgia	1,567	2.1	1,360	2.1
Louisiana	1,483	2.0	1,211	1.8
Texas	1,448	1.9	2,271	3.4
Illinois	1,248	1.6	1,476	2.2
Other	14,507	19.1	18,082	27.6
Total	$75,917	100.0 %	$65,898	100.0 %

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The following table summarizes gross premiums written by state for the nine months ended September 30, 2018 and 2017:

Gross premiums written by state ($ in '000s)

	Nine months ended September 30,			
	2018		2017	
New York	$96,799	42.3 %	$85,112	38.4 %
California	36,439	15.9	33,064	14.9
Illinois	10,073	4.4	13,736	6.2
New Jersey	7,862	3.4	7,887	3.6
Virginia	7,404	3.2	6,514	2.9
Louisiana	5,673	2.5	4,844	2.2
Texas	5,134	2.2	5,975	2.7
Ohio	4,962	2.2	5,291	2.4
Georgia	4,429	1.9	3,675	1.7
Minnesota	4,374	1.9	4,683	2.1
Other	45,716	20.1	50,967	22.9
Total	$228,865	100.0 %	$221,748	100.0 %

Ceded Premiums Written

Ceded premiums written is equal to premiums ceded under the terms of Atlas' in-force reinsurance treaties. Atlas generally purchases reinsurance in an effort to limit net exposure on any one claim to a maximum amount of $500,000 with respect to commercial automobile liability claims. This Excess of Loss reinsurance is primarily secured through General Reinsurance Corporation ("Gen Re"), a subsidiary of Berkshire Hathaway, Inc. Atlas also purchases reinsurance in an effort to protect against awards in excess of its policy limits. Effective July 1, 2014, Atlas implemented a quota share reinsurance agreement with Swiss Reinsurance America Corporation ("Swiss Re") for its commercial auto and general liability lines of business ("Quota Share") written by American Country, American Service and Gateway, or collectively "ASI Pool Subsidiaries." This reinsurance agreement had an initial cession rate of 5%, which was increased to 15% effective April 1, 2015 and then was decreased to 5% effective July 1, 2016. Effective April 1, 2018, the cession rate was increased to 30%. The Quota Share provides the Company with financial flexibility to manage expected growth and the timing of potential future capital raising activities.

Global Liberty has a 25% quota share reinsurance agreement with Swiss Re for its commercial auto and general liability lines of business ("Global Quota Share"). The cession rate of the Global Quota Share remained at 25% for the twelve months ended December 31, 2017 and for the nine months ended September 30, 2018.

Ceded premiums written increased by 152.1% to $27.8 million and 82.6% to $63.8 million for the three and nine months ended September 30, 2018, respectively, compared to $11.0 million and $34.9 million for the three and nine months ended September 30, 2017, respectively, primarily due to the increase in the Quota Share cession rate.

Net Premiums Written

Net premiums written is equal to gross premiums written less the ceded premiums written under the terms of Atlas' in-force reinsurance treaties. Net premiums written decreased 12.3% to $48.2 million and 11.6% to $165.1 million for the three and nine months ended September 30, 2018, respectively, compared to $54.9 million and $186.8 million for the three and nine months ended September 30, 2017, respectively. These changes are attributed to the combined effects of the reasons cited in the 'Gross Premiums Written' and 'Ceded Premiums Written' sections above.

Net Premiums Earned

Premiums are earned ratably over the term of the underlying policy. Net premiums earned decreased 2.5% to $54.5 million in the three months ended September 30, 2018 and increased 4.7% to $165.7 million in the nine months ended September 30, 2018 compared to $55.9 million and $158.3 million for the three and nine months ended September 30, 2017, respectively. The changes in net premiums earned for both periods are attributed to the combined effects of the reasons cited in the 'Gross Premiums Written' and 'Ceded Premiums Written' sections above.

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Net Claims Incurred

The loss ratio relating to the net claims incurred was 61.6% and 61.8% for the three and nine months ended September 30, 2018, respectively, compared to 59.5% and 60.0% for the three and nine months ended September 30, 2017, respectively. The loss ratio increased over both prior year periods primarily as a result of the Company's continued review of underwriting profitability by product. Excluding the impacts of assigned risk business, the loss ratio relating to the net claims incurred was 61.2% and 61.3% for the three and nine months ended September 30, 2018, respectively, compared to 59.0% and 59.5% for the three and nine months ended September 30, 2017, respectively.

The following tables summarize the claims and claims adjustment expenses incurred, net of reinsurance by line of business and accident year for three and nine months ended September 30, 2018 and 2017:

Claims and Claims Adjustment Expenses Incurred, Net of Reinsurance ($ in '000s)

Three months ended September 30,

2018				2017			
Accident Year	Commercial Auto Liability	Other	Total	Accident Year	Commercial Auto Liability	Other	Total
Current Year	$ 29,716	$3,905	$33,621	Current Year	$ 29,219	$3,901	$33,120
Prior Years	(71)	(8)	(79)	Prior Years	158	(20)	138
Total	$ 29,645	$3,897	$33,542	Total	$ 29,377	$3,881	$33,258

Nine months ended September 30,

2018				2017			
Accident Year	Commercial Auto Liability	Other	Total	Accident Year	Commercial Auto Liability	Other	Total
Current Year	$ 89,089	$12,020	$101,109	Current Year	$ 83,311	$11,137	$94,448
Prior Years	1,156	132	1,288	Prior Years	598	(19)	579
Total	$ 90,245	$12,152	$102,397	Total	$ 83,909	$11,118	$95,027

Acquisition Costs and Other Underwriting Expenses

Acquisition costs represent commissions and taxes incurred on net premiums earned offset by ceding commission on business reinsured. As discussed further below, acquisition costs were $5.7 million for the three months ended September 30, 2018, or 10.5% of net premiums earned, as compared to $7.8 million, or 14.0% for the three months ended September 30, 2017. For the nine months ended September 30, 2018, acquisitions costs were $18.4 million, or 11.1% of net premiums earned, as compared to $19.6 million, or 12.4% for the nine months ended September 30, 2017.

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The table below indicates the impact of the various components of acquisition costs on the combined ratio for the three and nine months ended September 30, 2018 and 2017:

($ in ‘000s, percentages to net premiums earned)	Three months ended September 30,			
	2018	%	2017	%
Net premiums earned	$54,461	100.0 %	$55,865	100.0 %
Gross commissions incurred excluding contingent	6,935	12.7	7,300	13.1
Gross contingent commissions incurred	(33)	—	1,061	1.9
Premium and other taxes incurred	2,226	4.1	2,029	3.6
Total gross commissions and taxes incurred	9,128	16.8	10,390	18.6
Ceded commissions incurred excluding contingent	(4,253)	(7.8)	(2,291)	(4.1)
Ceded contingent commissions incurred	826	1.5	(279)	(0.5)
Total ceded commissions incurred	(3,427)	(6.3)	(2,570)	(4.6)
Total	$5,701	10.5 %	$7,820	14.0 %

	Nine months ended September 30,			
	2018	%	2017	%
Net premiums earned	$165,712	100.0 %	$158,340	100.0 %
Gross commissions incurred excluding contingent	22,103	13.3	20,883	13.2
Gross contingent commissions incurred	1,673	1.0	2,667	1.7
Premium and other taxes incurred	6,002	3.6	5,391	3.4
Total gross commissions and taxes incurred	29,778	17.9	28,941	18.3
Ceded commissions incurred excluding contingent	(9,629)	(5.8)	(7,136)	(4.5)
Ceded contingent commissions incurred	(1,792)	(1.0)	(2,219)	(1.4)
Total ceded commissions incurred	(11,421)	(6.8)	(9,355)	(5.9)
Total	$18,357	11.1 %	$19,586	12.4 %

Gross commissions incurred excluding contingent commissions decreased by $365,000 in the three months ended September 30, 2018 compared to the three months ended September 30, 2017. The ratio decreased mainly because some TNC business was underwritten at zero commissions. Gross contingent commissions incurred decreased by $1.1 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017, primarily as a result of fewer agents being eligible for contingent commissions. Gross contingent commissions are awarded based on the combination of developed loss experience and premium growth. Premium and other taxes incurred increased by $197,000 in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 as a result of premium growth in jurisdictions with higher premium tax rates offset by attrition in states with lower rates.

Ceded commissions incurred excluding contingent commissions decreased by $2.0 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017, primarily due to the increase in the Quota Share cession rate. Ceded contingent commissions incurred increased by $1.1 million in the three months ended September 30, 2018 compared to the three months ended September 30, 2017. Ceded contingent commissions are based on loss experience. The increase in ceded contingent commissions resulted from unfavorable loss ratios on Atlas’ excess of loss reinsurance agreements. As shown in the table in the ‘Combined Ratio’ section, on a pro-forma basis, without the effect of the Quota Share and Global Quota Share, the acquisition cost ratio would have been 13.6% and 16.1% for the three months ended September 30, 2018 and 2017, respectively.

The other underwriting expense ratio (including share-based compensation expenses and expenses incurred related to stock purchase agreements) was 16.4% and 14.4% for the three months ended September 30, 2018 and 2017, respectively. Total other underwriting expenses increased by $904,000 in the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to increases in bank charges, legal and professional fees, depreciation on new headquarters building and its furnishings and software costs offset by deferred policy acquisition costs amortization and public company related expenses.

Gross commissions incurred excluding contingent commissions increased by $1.2 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The ratio increased mainly because of higher than average acquisition costs on reinsurance business assumed. Gross contingent commissions incurred decreased by $994,000 in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, primarily as a result of fewer agents being eligible for contingent commissions. Premium and other taxes incurred increased by $611,000 in the nine months ended

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September 30, 2018 compared to the nine months ended September 30, 2017 as a result of premium growth in jurisdictions with higher premium tax rates offset by attrition in states with lower rates.

Ceded commissions incurred excluding contingent commissions decreased by $2.5 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, primarily due to the increase in the Quota Share cession rate. Ceded contingent commissions incurred increased by $427,000 in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The increase in ceded contingent commissions resulted from unfavorable loss ratios on Atlas' excess of loss reinsurance agreements. As shown in the table in the 'Combined Ratio' section, on a pro-forma basis, without the effect of the Quota Share and Global Quota Share, the acquisition cost ratio would have been 15.3% and 14.9% for the nine months ended September 30, 2018 and 2017, respectively.

The other underwriting expense ratio (including share-based compensation expenses and expenses incurred related to stock purchase agreements) was 16.0% and 14.6% in the nine months ended September 30, 2018 and 2017, respectively. Total other underwriting expenses increased by $3.4 million in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to increases in bank charges, legal and professional fees, boards, bureaus and underwriting association fees, salaries and benefits, depreciation on new headquarters building and its furnishings offset by expenses recovered pursuant to the terms of the Anchor stock purchase agreement and rent expenses.

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

Expenses related to stock purchase agreements - Atlas recovered $520,000 of expenses pursuant to the contingent adjustments of the Anchor stock purchase agreements related to the claim reserve contingency for the nine months ended September 30, 2018. Atlas did not incur or recover any expenses pursuant to stock purchase agreements for the three months ended September 30, 2018 or the three and nine months ended September 30, 2017.

Combined Ratio

Atlas' combined ratio was 88.5% and 88.9% for the three and nine months ended September 30, 2018, respectively, compared to 87.9% and 87.0% for the three and nine months ended September 30, 2017, respectively.

Underwriting profitability, as opposed to overall profitability or net earnings, is measured by the combined ratio. The combined ratio is the sum of the claims and claims adjustment expense ratio, the acquisition cost ratio, and the underwriting expense ratio. The changes in the combined ratio are attributable to the factors described in the 'Net Premiums Earned', 'Net Claims Incurred', and 'Acquisition Costs and Other Underwriting Expenses' sections above.

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The table below indicates the impact of the Quota Share and Global Quota Share on the various components of the combined ratio for the three and nine months ended September 30, 2018 and 2017:

($ in '000s, percentages to net premiums earned)	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
Gross of Quota Share and Global Quota Share:	Amount	%	Amount	%	Amount	%	Amount	%
Net premiums earned	$65,828	100.0 %	$61,583	100.0 %	$190,536	100.0 %	$177,443	100.0 %
Net claims incurred	43,267	65.7	36,512	59.3	118,592	62.2	104,903	59.1
Acquisition costs	8,947	13.6	9,892	16.1	29,142	15.3	26,510	14.9
Other insurance general and administrative expenses	8,715	13.2	7,391	11.9	26,460	13.9	21,832	12.4
Deferred policy acquisition costs amortization	(61)	(0.1)	358	0.6	(261)	(0.1)	440	0.2
Expenses recovered related to stock purchase agreements	—	—	—	—	(520)	(0.3)	—	—
Share-based compensation expense	285	0.4	285	0.5	856	0.4	890	0.5
Total underwriting profit and combined ratio	$4,675	92.8 %	$7,145	88.4 %	$16,267	91.4 %	$22,868	87.1 %
Net of Quota Share and Global Quota Share:								
Net premiums earned	$54,461	100.0 %	$55,865	100.0 %	$165,712	100.0 %	$158,340	100.0 %
Net claims incurred	33,542	61.6	33,258	59.5	102,397	61.8	95,027	60.0
Acquisition costs	5,701	10.5	7,820	14.0	18,357	11.1	19,586	12.4
Other insurance general and administrative expenses	8,715	16.0	7,391	13.3	26,460	16.0	21,832	13.7
Deferred policy acquisition costs amortization	(61)	(0.1)	358	0.6	(261)	(0.2)	440	0.3
Expenses recovered related to stock purchase agreements	—	—	—	—	(520)	(0.3)	—	—
Share-based compensation expense	285	0.5	285	0.5	856	0.5	890	0.6
Total underwriting profit and combined ratio	$6,279	88.5 %	$6,753	87.9 %	$18,423	88.9 %	$20,565	87.0 %

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, net of investment expenses, increased by 18.6% to $1.1 million for the three months ended September 30, 2018, compared to $902,000 for the three months ended September 30, 2017. The increase resulted from higher returns on equity method investments and lower investment expenses, partially offset by lower interest income on our fixed income securities and collateral loans. The gross annualized yield on our fixed income securities was 2.7% and 2.4% for the three months ended September 30, 2018 and 2017, respectively. The increase in the gross annualized yield was due to management's decision to use the proceeds from the maturity and sales of certain fixed income securities to purchase fixed income securities with higher yields. The gross annualized yield on our cash and cash equivalents was 0.7% and 0.4% for the three months ended September 30, 2018 and 2017, respectively. The increase in the gross annualized yield on our cash investments was due to higher interest rates on certain accounts and higher balances in accounts earning greater interest.

For the three months ended September 30, 2018, equity method investments and collateral loans generated investment income of $326,000, compared to investment income of $163,000 for the three months ended September 30, 2017. The increase was primarily due to positive changes in the net book value of certain partnerships, partially offset by lower interest income due to decreased holdings in collateral loans. Investment expenses were $262,000 and $269,000 for the three months ended September 30, 2018 and 2017, respectively. The decrease in investment expenses resulted from lower investment manager fees. Atlas’ investment manager fees are based on the fair market value of the underlying fixed income securities and equities.

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Net investment income, net of investment expenses, decreased by 3.3% to $3.2 million for the nine months ended September 30, 2018, compared to $3.3 million for the nine months ended September 30, 2017. The decrease resulted from lower interest income due to decreased holdings in collateral loans and higher investment expenses offset by higher interest income on our fixed income securities portfolio and positive changes in the net book value of certain equity method investments. This higher interest income on fixed income securities resulted from increased yields on the fixed income securities portfolio. The gross annualized yield on our fixed income securities was 2.7% and 2.2% for the nine months ended September 30, 2018 and 2017, respectively. The increase in the gross annualized yield was due to management's decision to use the proceeds from the maturity and sales of certain fixed income securities to purchase fixed income securities with higher yields. The gross annualized yield on our cash and cash equivalents was 0.7% and 0.3% for the nine months ended September 30, 2018 and 2017, respectively. The increase in the gross annualized yield on our cash investments was due to higher interest rates on certain accounts and higher balances in accounts earning greater interest.

For the nine months ended September 30, 2018, equity method investments and collateral loans generated investment income of $793,000, compared to investment income of $1.2 million for the nine months ended September 30, 2017. The decrease was primarily due to the decreased holdings in collateral loans. Investment expenses were $731,000 and $714,000 for the nine months ended September 30, 2018 and 2017, respectively. The increase in investment expenses resulted from an increase in custodial and general expenses offset by a decrease in investment manager fees.

Interest Expense

On April 26, 2017, Atlas issued $25 million of five-year 6.625% senior unsecured notes and received net proceeds of approximately $23.9 million after deducting underwriting discounts and commissions and other offering expenses. A portion of the net proceeds from this issuance, together with cash on hand, were used to repay all outstanding borrowings under the Loan Agreement, as defined below in the 'Liquidity and Capital Resources' section. Interest expense was $465,000 and $467,000 for the three months ended September 30, 2018 and 2017, respectively, and $1.4 million for each of the nine months ended September 30, 2018 and 2017.

Loss from Change in Fair Value of Equity Securities

Beginning January 1, 2018, Atlas adopted Accounting Standards Update 2016-01, which requires changes in the unrealized market value of equities held at fair value to be recorded through net income. Atlas recorded losses of $2,000 and $97,000 through net income for the three and nine months ended September 30, 2018, respectively, related to the changes in unrealized amounts on equities held at fair value.

Net Realized Investment Gains

Net realized investment gains is comprised of the gains and losses from sales of investments. Net realized investment gains on sales are the result of management's decision to sell certain securities. Net realized investment gains for the three months ended September 30, 2018 were $54,000 compared to $582,000 for the three months ended September 30, 2017. Net realized investment gains for the three months ended September 30, 2018 were comprised of gains from the sale of equity securities and one equity method investment, partially offset by losses from the sale of fixed income securities. Net realized investment gains for the three months ended September 30, 2017 were primarily comprised of gains from the sale of one equity method investment.

Net realized investment gains for the nine months ended September 30, 2018 were $501,000 compared to $1.0 million for the nine months ended September 30, 2017. Net realized investment gains for the nine months ended September 30, 2018 were comprised of gains from the sale of equity securities and one equity method investment, partially offset by losses from the sale of fixed income securities. Net realized investment gains for the nine months ended September 30, 2017 were comprised of gains from the sale of fixed income securities, one equity method investment and equity securities.

Other Income

Atlas recorded other income of $186,000 and $115,000 for the three months ended September 30, 2018 and 2017, respectively, and $366,000 and $332,000 for the nine months ended September 30, 2018 and 2017, respectively.

Income before Income Taxes

Atlas generated pre-tax income of $7.1 million for the three months ended September 30, 2018 compared to pre-tax income of $7.9 million for the three months ended September 30, 2017, or a 9.7% decrease over the prior year's third quarter. Atlas generated pre-tax income of $21.0 million for the nine months ended September 30, 2018 compared to pre-tax income of $23.8 million for the nine months ended September 30, 2017, or a 11.8% decrease over the prior year. These changes are attributed to the combined effects of the reasons cited in the ‘Net Premiums Earned’, ‘Net Claims Incurred’, ‘Acquisition Costs and Other Underwriting Expenses’, ‘Net Investment Income’, ‘Interest Expense’, ‘Loss from Change in Fair Value of Equity Securities’, ‘Net Realized Investment Gains’, and ‘Other Income’ sections above.

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Income Taxes

Due to the enactment of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”), the Company’s deferred tax assets and liabilities as of December 31, 2017 were re-measured at the new enacted tax rate of 21%. As of December 31, 2016, the Company measured its deferred tax assets and liabilities at the enacted rate in effect of 35%. For the year ended December 31, 2017, the Company recognized income tax expense of $10.5 million related to reduction in the net deferred tax asset as a result of this re-measurement. Refer to ‘Note 7, Income Taxes’ for further information regarding the Tax Act.

Upon the transaction forming Atlas on December 31, 2010, a yearly limitation as required by 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 that 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 have been permanently limited to the amount determined under IRC Section 382. The result is a maximum expected net deferred tax asset, which Atlas has available after the merger and believed more-likely-than-not to be utilized in the future, after consideration of a valuation allowance.

In assessing the need for a valuation allowance, Atlas considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets.

Positive evidence evaluated when considering the need for a valuation allowance includes:

- management’s expectations of future profit with vehicles in-force at their highest levels and steady new and renewal business;
- anticipated ability to increase prices in core lines as the commercial auto market is firming;
- predictive modeling in underwriting and claims are generating better priced risks that are expected to create overall profitability over time; and
- positive growth trends in gross premiums written in each year since formation.

Negative evidence evaluated when considering the need for a valuation allowance includes:

- net losses generated in the two most recent years; and
- yearly limitation as required by IRC Section 382 on net operating loss carryforwards generated prior to 2013.

Net Income and Earnings per Common Share

Atlas had net income of $5.6 million and $16.7 million during the three and nine months ended September 30, 2018, respectively, compared to $5.1 million and $15.5 million during the three and nine months ended September 30, 2017, respectively. Earnings per common share diluted was $0.47 and $1.39 for the three and nine months ended September 30, 2018, respectively, compared to $0.42 and $1.27 for the three and nine months ended September 30, 2017, primarily due to increased income, the repurchase of common shares and a decrease in potentially dilutive common shares.

The following chart illustrates Atlas’ potential dilutive common shares for the three and nine months ended September 30, 2018 and 2017:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Basic weighted average common shares outstanding	11,936,970	12,045,519	12,014,817	12,045,519
Dilutive potential ordinary shares:				
Dilutive stock options	14,247	162,018	16,921	151,846
Dilutive average common shares outstanding	11,951,217	12,207,537	12,031,738	12,197,365

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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, short-term investments and other investments with a carrying value of $168.3 million and $197.9 million as of September 30, 2018 and December 31, 2017, respectively, 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 Company's use of quota share reinsurance can impact the relationship between invested assets and premiums written over time as well as the desired duration of the portfolio.

The carrying value of Atlas' investments by type and sector, including cash and cash equivalents, are as follows:

Carrying value of investments, including cash and cash equivalents ($ in '000s)

	September 30, 2018	December 31, 2017
Fixed income securities:		
U.S. Treasury and other U.S. government obligations	$ 19,937	$ 21,186
States, municipalities and political subdivisions	9,292	13,243
Corporate		
Banking/financial services	14,383	21,382
Consumer goods	9,844	9,679
Capital goods	4,041	7,992
Energy	6,950	7,515
Telecommunications/utilities	8,364	11,215
Health care	768	1,059
Total corporate	44,350	58,842
Mortgage backed		
Mortgage backed - agency	24,595	30,613
Mortgage backed - commercial	20,843	22,587
Total mortgage backed	45,438	53,200
Other asset backed	8,920	11,513
Total fixed income securities	$ 127,937	$ 157,984
Equities	6,030	8,446
Short-term investments	4,620	—
Other investments	29,665	31,438
Total investments	$ 168,252	$ 197,868

Cash and cash equivalents	49,251	45,615
Total	$217,503	$243,483

As of September 30, 2018, total investment holdings decreased to $168.3 million from $197.9 million as of December 31, 2017 due to the net sales of fixed income securities and equities, the repayment of two collateral loans and negative changes in market values.

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Other investments - Atlas' other investments are comprised of collateral loans and various limited partnerships that invest in income-producing real estate, equities, or insurance linked securities. Atlas accounts for these limited partnership investments using the equity method of accounting. As of September 30, 2018, the carrying value of the limited partnerships was approximately $27.0 million versus approximately $25.3 million as of December 31, 2017. The increase in carrying value resulted from one additional investment and increases in the net book value for certain limited partnerships. 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 one of the limited partnerships that invest in income-producing real estate. As of September 30, 2018, the carrying values of the collateral loans were approximately $2.7 million versus approximately $6.2 million as of December 31, 2017. Two collateral loans were repaid during the nine months ended September 30, 2018.
The following table summarizes investments in equity method investments by investment type as of September 30, 2018 and December 31, 2017 ($ in '000s):

	Unfunded Commitments	Carrying Value	
	September 30, 2018	September 30, 2018	December 31, 2017
Real estate	$ 2,842	$11,090	$ 10,660
Insurance linked securities	—	9,203	9,073
Activist hedge funds	—	4,378	4,367
Venture capital	3,070	2,012	853
Other joint venture	—	326	325
Total equity method investments	$ 5,912	$27,009	$ 25,278

Short-term investments - Atlas' short-term investments are comprised of bonds and money market funds. As of September 30, 2018, short-term investments totaled $4.6 million. Atlas had no short-term investments as of December 31, 2017.
Liquidity and cash flow risk - As of September 30, 2018, 27.5% 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 28.4% as of December 31, 2017. 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 September 30, 2018, the fixed income securities had a weighted average life of 5.1 years and a duration of 3.8 years, compared to a weighted average life of 4.9 years and a duration of 3.9 years as of December 31, 2017. Changes in interest rates may 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.
The debt-to-equity ratio is the sum of the Company's long-term debt and interest payable divided by total shareholders' equity. The Company's debt-to-equity ratio as of September 30, 2018 and December 31, 2017 was 24.0% and 26.8%, respectively. The decrease is primarily the result of the increase in shareholders' equity. Refer to the 'Liquidity and Capital Resources' subsections of the 'Financial Condition' section for further information.
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 September 30, 2018, Atlas' allowance for bad debt was $4.4 million, compared to $3.4 million as of December 31, 2017. The increase in the allowance for bad debt resulted from an analysis of certain past due balances during the nine months ended September 30, 2018.

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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 99.4% rated 'BBB' or better as of September 30, 2018 compared to 99.3% as of December 31, 2017.

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

	September 30, 2018		December 31, 2017	
	Fair Value	% of Total	Fair Value	% of Total
AAA/Aaa	$35,286	27.6 %	$42,978	27.2 %
AA/Aa	49,278	38.5	58,173	36.8
A/A	21,994	17.2	27,384	17.3
BBB/Baa	20,591	16.1	28,348	18.0
BB	569	0.4	875	0.6
B	219	0.2	226	0.1
Total fixed income securities	$127,937	100.0%	$157,984	100.0%

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 three and nine months ended September 30, 2018 and 2017.

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 September 30, 2018 was $121.7 million compared to $108.1 million as of December 31, 2017. This increase was primarily driven by the negative changes in market values during the first nine months of 2018. 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

Atlas purchases reinsurance from third parties in order to reduce its liability on individual risks and its exposure to large claims. 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 claims 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 ASI Pool Subsidiaries and the Global Quota Share with Swiss Re for Global Liberty. Under the Quota Share, cessions can be increased at our election should we want to utilize it as a means of deleveraging. This gives us flexibility in terms of the timing and approach to potential future capital raising activities in light of anticipated increased operating leverage.

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 claims 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 $64.7 million recoverable from third party reinsurers (exclusive of amounts prepaid) as of September 30, 2018 as compared to $61.4 million as of December 31, 2017. The increase in the amount recoverable from third party reinsurers resulted from an increase in ceded case reserves and the timing of the collection of amounts recoverable on paid claims.

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Estimating amounts of reinsurance recoverables is also impacted by the uncertainties involved in the establishment of provisions for unpaid claims and claims adjustment expenses. As underlying reserves potentially develop, the amounts ultimately recoverable may vary from amounts currently recorded. Atlas' reinsurance recoverables are generally unsecured. 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., Gen Re, SCOR Re, a subsidiary of SCOR U.S. Corporation, and Swiss Re, a subsidiary of Swiss Reinsurance Company Ltd. Great American has a financial strength rating of A1 from Moody's, Gen Re has a financial strength rating of AA+ from Fitch, SCOR Re has a financial strength rating of AA- from Fitch, and Swiss Re has a financial strength rating of Aa3 from Moody's.

Claims Liabilities

The table below shows the amounts of total case reserves and IBNR reserves as of September 30, 2018 and December 31, 2017. The other line of business is comprised of our surety program (currently in run-off), Gateway's truck and workers' compensation programs (currently in run off), American Service's non-standard personal lines business (currently in run off), Atlas' workers' compensation related to taxi, other liability, Global Liberty's homeowners program (currently in run off) and assigned risk pool business.

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

	September 30, 2018	December 31, 2017	% Change
Case reserves	$ 74,155	$ 62,769	18.1 %
IBNR	112,826	148,879	(24.2)
Total	$ 186,981	$ 211,648	(11.7)%

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

	September 30, 2018	December 31, 2017	% Change
Commercial automobile liability	$ 182,899	$ 204,654	(10.6)%
Other	4,082	6,994	(41.6)
Total	$ 186,981	$ 211,648	(11.7)%

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

	September 30, 2018	December 31, 2017	% Change
Commercial automobile liability	$ 128,658	$ 153,319	(16.1)%
Other	3,238	4,927	(34.3)
Total	$ 131,896	$ 158,246	(16.7)%

During the nine months ended September 30, 2018, case reserves increased by 18.1% compared to December 31, 2017, and IBNR reserves decreased by 24.2%. The increase in case reserves was primarily due to an increase in new and re-opened claims reported on the three most recent accident years along with the utilization of the claims predictive model to set case reserves. The decrease in IBNR was primarily due to the settlement of claims reported on prior accident years for our commercial auto and non-voluntary assigned risk programs above established case reserves for the nine months ended September 30, 2018.

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The following tables summarize the provision for unpaid claims, gross of reinsurance by type and line of business and accident year:

Provision for Unpaid Claims, Gross of Reinsurance ($ in '000s)

As of September 30, 2018	Case Reserves			IBNR		
Accident Year	Commercial Auto Liability	Other	Total	Commercial Auto Liability	Other	Total
Current Year	$22,054	$(81)	$21,973	$49,899	$1,530	$51,429
Prior Years	51,370	812	52,182	59,576	1,821	61,397
Total	$73,424	$731	$74,155	$109,476	$3,350	$112,826

Provision for Unpaid Claims, Gross of Reinsurance ($ in '000s)

As of December 31, 2017	Case Reserves			IBNR		
Accident Year	Commercial Auto Liability	Other	Total	Commercial Auto Liability	Other	Total
Current Year	$30,619	$(462)	$30,157	$78,625	$1,180	$79,805
Prior Years	30,393	2,219	32,612	65,017	4,057	69,074
Total	$61,012	$1,757	$62,769	$143,642	$5,237	$148,879

The following tables summarize the provision for unpaid claims, net of reinsurance by type and line of business and accident year:

Provision for Unpaid Claims, Net of Reinsurance Recoverables ($ in '000s)

As of September 30, 2018	Case Reserves			IBNR		
Accident Year	Commercial Auto Liability	Other	Total	Commercial Auto Liability	Other	Total
Current Year	$19,824	$(41)	$19,783	$43,242	$1,814	$45,056
Prior Years	44,037	187	44,224	21,555	1,278	22,833
Total	$63,861	$146	$64,007	$64,797	$3,092	$67,889

Provision for Unpaid Claims, Net of Reinsurance Recoverables ($ in '000s)

As of December 31, 2017	Case Reserves			IBNR		
Accident Year	Commercial Auto Liability	Other	Total	Commercial Auto Liability	Other	Total
Current Year	$27,421	$(309)	$27,112	$49,888	$844	$50,732
Prior Years	25,701	1,303	27,004	50,309	3,089	53,398
Total	$53,122	$994	$54,116	$100,197	$3,933	$104,130

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The changes in the provision for unpaid claims and claims adjustment expenses, net of amounts recoverable from reinsurers, for the three and nine months ended September 30, 2018 and 2017 were as follows ($ in ‘000s):

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Unpaid claims and claims adjustment expenses, beginning of period	$187,170	$118,989	$211,648	$139,004
Less: reinsurance recoverable	46,614	27,938	53,402	35,370
Net unpaid claims and claims adjustment expenses, beginning of period	140,556	91,051	158,246	103,634
Change in retroactive reinsurance ceded	—	(92)	—	(47)
Incurred related to:				
Current year	33,621	33,120	101,109	94,448
Prior years	(79)	138	1,288	579
	33,542	33,258	102,397	95,027
Paid related to:				
Current year	15,639	15,736	36,439	31,287
Prior years	26,563	19,192	92,308	78,038
	42,202	34,928	128,747	109,325
Net unpaid claims and claims adjustment expenses, end of period	131,896	89,289	131,896	89,289
Add: reinsurance recoverable	55,085	25,214	55,085	25,214
Unpaid claims and claims adjustment expenses, end of period	$186,981	$114,503	$186,981	$114,503

The process of establishing the estimated provision for unpaid claims and claims adjustment expenses 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 may deviate, perhaps substantially, from the best estimates made. The change to the provision for unpaid claims and claims adjustment expenses is consistent with the changes 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 financial statements are presented on a calendar year basis for all data. Claims payments and changes in reserves, however, may be made on accidents that occurred in prior years, not solely on business that is currently insured. Calendar year claims consist of payments and reserve changes that have been recorded in the financial statements during the applicable reporting period, without regard to the period in which the accident occurred. Calendar year results do not change after the end of the applicable reporting period, even as new claim information develops. Accident year claims consist of payments and reserve changes that are assigned to the period in which the accident occurred. Accident year results will change over time as the estimates of claims change due to payments and reserve changes for all accidents that occurred during that period.

The incurred related to prior years for the three and nine months ended September 30, 2018 and 2017 primarily resulted from favorable development on our core lines, partially offset by unfavorable development on voluntary assigned risk pools and run-off commercial auto. The provision for unpaid claims and claims adjustment expenses decreased by 11.7% to $187.0 million as of September 30, 2018 compared to $211.6 million as of December 31, 2017 as a result of claim settlement activities on prior accident years. Open inventory for reported claims on accident years 2017 and prior as of September 30, 2018 is 6,779 compared to 13,872 as of December 31, 2017.

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, 2017.

Off-Balance Sheet Arrangements

As of September 30, 2018, we did not have any material off-balance sheet arrangements as defined by SEC rules.

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Book Value per Common Share

Book value per common share was as follows:

As of: ($ in '000s, except for share and per share data)	September 30, 2018	December 31, 2017
Shareholders' equity	$ 101,855	$ 90,645
Less: Accumulated dividends on preferred stock	—	333
Common equity	$ 101,855	$ 90,312
Common shares:		
Common shares outstanding	11,936,970	12,164,041
Restricted stock units	7,408	14,816
Total common shares	11,944,378	12,178,857
Book value per common share outstanding	$ 8.53	$ 7.42

Changes to Book Value per Common Share

$ 7.42

As of December 31, 2017	
Net income, after tax	1.37
Change in fair value of equity securities	(0.01)
Realized investment gains, after tax	0.03
Changes in unrealized gains and losses, after tax	(0.25)
Share repurchases	(0.09)
Share-based compensation	0.06
Year-to-date increase to book value per common share	1.11
As of September 30, 2018	$8.53

The changes to book value per common share are attributed to the combined effects of the reasons cited in the ‘Net Premiums Earned’, ‘Net Claims Incurred’, ‘Acquisition Costs and Other Underwriting Expenses’, ‘Net Investment Income’, ‘Interest Expense’, ‘Loss from Change in Fair Value of Equity Securities’, ‘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, commissions and general expenses. Atlas may also use cash provided from these sources to repurchase common shares in open market transactions under the new Share Repurchase Program.

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 premiums collected, investment income and proceeds from the sales and maturity of investments and capital contributions from their parents. Refer also to the discussion above in the 'Investments Overview and Strategy' section. 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 April 26, 2017, Atlas issued $25 million of five-year 6.625% senior unsecured notes and received net proceeds of approximately $23.9 million after deducting underwriting discounts and commissions and other estimated offering expenses. Interest on the senior unsecured notes is payable quarterly on each January 26, April 26, July 26 and October 26. Atlas may, at its option, beginning with the interest payment date of April 26, 2020, and on any scheduled interest payment date thereafter, redeem the senior unsecured notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. The senior unsecured notes will rank senior in right of payment to any of Atlas' existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the senior unsecured notes. The senior unsecured notes will rank equally in right of payment to all of Atlas' existing and future senior indebtedness, but will be effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the senior unsecured notes will be structurally subordinated to the indebtedness and other obligations of Atlas' subsidiaries.

The senior unsecured notes were issued under an indenture and supplemental indenture that contain covenants that, among other things, limit: (i) the ability of Atlas to merge or consolidate, or lease, sell, assign or transfer all or substantially all of its assets; (ii) the ability of Atlas to sell or otherwise dispose of the equity securities of certain of its subsidiaries; (iii) the ability of certain of Atlas' subsidiaries to issue equity securities; (iv) the ability of Atlas to permit certain of its subsidiaries to merge or consolidate, or lease, sell, assign or transfer all or substantially all of their respective assets; and (v) the ability of Atlas and its subsidiaries to incur debt secured by equity securities of certain of its subsidiaries.

On March 9, 2015, American Insurance Acquisition, Inc. ("American Acquisition"), a wholly-owned direct subsidiary of Atlas, 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, included a $30.0 million line of credit ("Draw Amount"), which could have been drawn in increments at any time until December 31, 2016. The $30.0 million line of credit had a five year term and bore interest at one-month LIBOR plus 4.5%. The Loan Agreement also included a $5.0 million revolving line of credit ("Revolver"), which could have been drawn upon until May 7, 2018, that bore interest at one-month LIBOR plus 2.75%.

The Loan Agreement was terminated in April 2017. Atlas used a portion of the net proceeds of the senior unsecured notes offering, together with cash on hand, for the repayment of all outstanding balances under the Draw Amount and Revolver, $15.5 million and $3.9 million, respectively.

At December 31, 2016, American Acquisition was in compliance with the covenants of the Loan Agreement. In February 2017, American Acquisition filed its statutorily required financial statements for the year ended December 31, 2016, which are used to determine on-going compliance with the covenants contained in the Loan Agreement. As a result of the reserve strengthening and its effect on American Acquisition's December 31, 2016 financial statements, American Acquisition was not in compliance with the Loan Agreements' EBITDA Ratio covenant as of March 13, 2017. American Acquisition had a thirty day period to cure this covenant non-compliance, and the Company and American Acquisition agreed with the lender to a modification to the loan covenants to more specifically address the effects of reserve modifications and/or obtaining a waiver with respect to the existing non-compliance.

The following table summarizes consolidated cash flow activities:

Summary of Cash Flows ($ in '000s)

	Nine months ended September 30, 2018	Twelve months ended December 31, 2017
Net cash flows (used in) provided by operating activities	$(11,597)	$26,472
Net cash flows provided by (used in) investing activities	18,574	(15,909)
Net cash flows (used in) provided by financing activities	(3,341)	5,164
Net increase in cash	$3,636	$15,727

Cash used in operations during the nine months ended September 30, 2018 was $11.6 million, compared to $23.4 million of cash provided by operations during the nine months ended September 30, 2017. We receive most premium in advance of the payment of claims. Our ability to generate positive cash flows depends on the frequency and severity of claims and the timing of collection of premiums receivable and reinsurance recoverables on paid claims.

Cash provided by investing activities during the nine months ended September 30, 2018 was $18.6 million and resulted from the net sales and maturities of fixed income securities, the net sales of equity securities and the repayment of two collateral loans, partially offset by property and equipment purchases. Sales of investments were needed to fund payments to policyholders and claimants. Cash used in investing activities during the nine months ended September 30, 2017 was $17.6 million and primarily resulted from the net purchases of fixed income securities and property and equipment offset by net sales of equity securities and equity method investments.

Cash used in financing activities during the nine months ended September 30, 2018 was primarily a result of shares repurchased under the Share Repurchase Program. On March 21, 2017, the Company's Board of Directors approved a

Share Repurchase Program of up to 650,000 shares of common stock. The repurchases could have been made from time to time in open market transactions, privately-negotiated transactions, block purchases, or otherwise in accordance with securities laws at the discretion of the Company's management until March 21, 2018. The Share Repurchase Program was not extended. The Company's decisions around the timing, volume, and nature of share repurchases, and the ultimate amount of shares repurchased, were dependent on market conditions, applicable securities laws, and other factors. The Share Repurchase Program and the Board's authorization of the program may be modified, suspended, or discontinued at any time. During the nine months ended September 30, 2018, 255,505 shares were repurchased under this Share Repurchase Program.

Cash provided by financing activities during the nine months ended September 30, 2017 was primarily a result of the issuance of the senior unsecured note offset by the repayment of the Loan Agreement. During the nine months ended September 30, 2017, no shares were repurchased under the Share Repurchase Program.

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 earnings (deficit) and accumulated other comprehensive income (loss).

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 for the ASI Pool Subsidiaries is the greater of statutory net income or 10% of total statutory capital and surplus. The dividend restriction for Global Liberty is the lower of 10% of statutory surplus or 100% of adjusted net investment income for the preceding twelve months.

As of September 30, 2018, our Insurance Subsidiaries had a combined statutory surplus of $109.8 million and had combined net premiums written and combined statutory net income for the nine months ended September 30, 2018 of $165.1 million and $24.5 million, respectively.

As of December 31, 2017, our Insurance Subsidiaries had a combined statutory surplus of $87.8 million and had combined net premiums written and combined statutory net loss for the twelve months ended December 31, 2017 of $231.1 million and $35.3 million, respectively.

Atlas did not declare or pay any dividends to its common shareholders during the nine months ended September 30, 2018 or during the year ended December 31, 2017.

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, 2017. 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, 2017.

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, 2017.

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 September 30, 2018 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 our operations, we 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 our company does not believe that it will incur any significant additional loss or expense in connection with such actions.

On March 5, 2018, a complaint was filed in the U.S. District Court for the Northern District of Illinois asserting claims under the federal securities laws against the Company and two of its executive officers on behalf of a putative class of purchasers of the Company's securities, styled Fryman v. Atlas Financial Holdings, Inc., et al., No. 1:18-cv-01640 (N.D. Ill.). Plaintiffs filed an amended complaint on July 30, 2018. In the amended complaint, the plaintiff asserts claims on behalf of a putative class consisting of purchasers of the Company's securities between February 22, 2017 and June 15, 2018. The complaint alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making allegedly false and misleading statements or failing to disclose certain information regarding the adequacy of the Company's reserves. The complaint seeks, among other remedies, unspecified damages, attorneys' fees and other costs, equitable and/or injunctive relief, and such other relief as the court may find just and proper. Defendant filed a motion to dismiss to the amended complaint on September 28, 2018. Plaintiffs' response to the motion to dismiss must be filed on or before November 12, 2018, and defendants may file a reply in further support of the motion on or before December 12, 2018. Under the federal securities laws, discovery and other proceedings automatically will be stayed during the pendency of the motion to dismiss.

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, 2017.

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

On July 10, 2018, the Company announced that it had appointed Ronald Konezny to the Board of Directors of the Company (the "Board") effective on such date. In connection with Mr. Konezny's appointment, the size of the board was increased from six (6) to seven (7). Mr. Konezny has not been appointed to any Board committees at this time. Mr. Konezny will receive the same compensation as other non-employee directors, which currently consists of a $55,000 annual cash retainer.

Item 6. Exhibits

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

101.LAB XBRL Taxonomy Extension Label Linkbase Document.
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURE

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

Date:	November 6, 2018	Atlas Financial Holdings, Inc. (Registrant)
		By: /s/ Paul A. Romano Paul A. Romano Vice President and Chief Financial Officer