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, 2019	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 Schaumburg, IL (Address of principal executive offices)	60173 (Zip Code)

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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common, $0.003 par value per share	AFH	Nasdaq Capital Market
6.625% Senior Unsecured Notes due 2022	AFHBL	OTC Markets - Pink Sheets

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☑
Non-Accelerated Filer ☐	Smaller Reporting Company ☑
	Emerging Growth Company ☐

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. ☐

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

There were 11,942,812 shares of the Registrant’s common stock outstanding as of December 31, 2019, all of which are ordinary voting common shares. There are no restricted voting common shares. Of the Registrant’s ordinary voting common shares outstanding, 10,296,823 shares as of December 31, 2019 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.

Explanatory Note:

This Quarterly Report on Form 10-Q for Atlas Financial Holdings, Inc. (the "Company") relates to the fiscal quarter ended September 30, 2019. As previously disclosed, the Company has been unable to previously file this quarterly report due to delays in the 2018 year end audit process. Unless otherwise noted, disclosures in this quarterly report, including disclosures regarding the Company's financial and operating condition, are as of September 30, 2019. An overview of certain developments that occurred since September 30, 2019 is included in 'Item 1, 2019 Developments' and "Risk Factors - Risks Related to 2019 Developments" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018. We expect to file our our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 as soon as practicable.

Atlas Financial Holdings, Inc.
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September 30, 2019

Part I. Financial Information

Part II. Other Information

Part I. Financial Information

Item 1. Financial Statements and Supplemental Schedules

Atlas Financial Holdings, Inc.
Condensed Consolidated Statements of Financial Position

($ in ‘000s, except for share and per share data)	September 30, 2019	December 31, 2018
Assets	**(unaudited)**	
Investments		
Fixed income securities, available for sale, at fair value (amortized cost $77,424 and $133,213)	$ 78,363	$ 129,991
Equity securities, at fair value (cost $0 and $5,650)	1	5,929
Short-term investments, at cost	8,562	4,745
Other investments	19,461	25,043
Total investments	106,387	165,708
Cash and cash equivalents	54,008	34,902
Accrued investment income	455	749
Premiums receivable (net of allowance of $6,454 and $5,115)	68,609	88,596
Reinsurance recoverables on amounts paid	9,383	12,388
Reinsurance recoverables on amounts unpaid	79,105	68,771
Prepaid reinsurance premiums	42,615	36,898
Deferred policy acquisition costs	4,815	7,309
Intangible assets, net	3,462	3,755
Property and equipment, net	30,730	31,363
Other assets	11,099	19,899
Total assets	**$ 410,668**	**$ 470,338**
Liabilities		
Claims liabilities	$ 243,966	$ 273,496
Unearned premium reserves	111,936	134,040
Due to reinsurers	9,183	15,849
Notes payable, net	24,423	24,255
Other liabilities and accrued expenses	16,810	16,999
Total liabilities	**$ 406,318**	**$ 464,639**
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, 2019 - 12,198,319 and December 31, 2018 - 12,192,475; shares outstanding: September 30, 2019 - 11,942,812 and December 31, 2018 - 11,936,970	$ 36	$ 36
Restricted voting common shares, $0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: September 30, 2019 and December 31, 2018 - 0	—	—
Additional paid-in capital	202,983	202,298
Treasury stock, at cost: 255,505 shares of ordinary common voting shares at September 30, 2019 and December 31, 2018, respectively	(3,000)	(3,000)
Retained deficit	(196,697)	(190,503)
Accumulated other comprehensive income (loss), net of tax	1,028	(3,132)
Total shareholders' equity	**$ 4,350**	**$ 5,699**
Total liabilities and shareholders' equity	**$ 410,668**	**$ 470,338**

See accompanying Notes to Condensed Consolidated Financial Statements.

Atlas Financial Holdings, Inc.
Condensed Consolidated Statements of (Loss) Income and Comprehensive Income (Loss)

Condensed Consolidated Statements of (Loss) Income

($ in '000s, except for share and per share data)	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	(unaudited)		(unaudited)	
Net premiums earned	$ 40,582	$ 54,461	$ 131,872	$ 165,712
Net investment income	428	1,070	2,280	3,201
Loss from change in fair value of equity securities	(3)	(2)	(277)	(97)
Net realized gains	411	54	1,091	501
Other income	128	186	721	366
Total revenue	**41,546**	**55,769**	**135,687**	**169,683**
Net claims incurred	28,841	33,542	96,467	102,397
Acquisition costs	3,248	5,701	9,960	18,357
Other underwriting expenses	11,099	8,841	33,719	26,762
Amortization of intangible assets	98	97	293	292
Interest expense	476	465	1,416	1,381
Expenses recovered pursuant to stock purchase agreements	—	—	—	(520)
Total expenses	**43,762**	**48,646**	**141,855**	**148,669**
(Loss) income from operations before income taxes	**(2,216)**	**7,123**	**(6,168)**	**21,014**
Income tax expense	26	1,518	26	4,304
Net (loss) income attributable to common shareholders	**$ (2,242)**	**$ 5,605**	**$ (6,194)**	**$ 16,710**
Basic weighted average common shares outstanding	11,954,494	11,936,970	11,954,494	12,014,817
Earnings per common share basic	$ (0.19)	$ 0.47	$ (0.52)	$ 1.39
Diluted weighted average common shares outstanding	11,954,494	11,951,217	11,954,494	12,031,738
Earnings per common share diluted	$ (0.19)	$ 0.47	$ (0.52)	$ 1.39

Condensed Consolidated Statements of Comprehensive Income (Loss)

Net (loss) income	$ (2,242)	$ 5,605	$ (6,194)	$ 16,710
Other comprehensive income (loss:)				
Changes in net unrealized investment (losses) gains	(195)	(307)	2,243	(4,008)
Reclassification to net income	541	(19)	1,917	191
Effect of income taxes	—	69	—	802
Other comprehensive income (loss)	**346**	**(257)**	**4,160**	**(3,015)**
Total comprehensive (loss) income	**$ (1,896)**	**$ 5,348**	**$ (2,034)**	**$ 13,695**

See accompanying Notes to Condensed Consolidated Financial Statements.

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 Income/(Loss)	Total Share-holders' Equity
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**
Balance December 31, 2018	**$ 36**	**$ —**	**$ 202,298**	**$ (3,000)**	**$ (190,503)**	**$ (3,132)**	**$ 5,699**
Net loss	—	—	—	—	(6,194)	—	(6,194)
Other comprehensive income	—	—	—	—	—	4,160	4,160
Share-based compensation	—	—	685	—	—	—	685
Balance September 30, 2019 (unaudited)	**$ 36**	**$ —**	**$ 202,983**	**$ (3,000)**	**$ (196,697)**	**$ 1,028**	**$ 4,350**

See accompanying Notes to Condensed Consolidated Financial Statements.

Atlas Financial Holdings, Inc.
Condensed Consolidated Statements of Cash Flows

($ in '000s)	Nine months ended September 30,	
	2019	2018
Operating activities:	(unaudited)	
Net (loss) income	$ (6,194)	$ 16,710
Adjustments to reconcile net income to net cash flows used in operating activities:		
Depreciation and amortization	3,387	2,061
Share-based compensation expense	685	856
Amortization of intangible assets	293	292
Deferred income taxes	—	4,745
Loss from change in fair value of equity securities	277	97
Net realized gains	(1,091)	(501)
Gain in equity of investees	(552)	(838)
Amortization of bond premiums and discounts	303	518
Amortization of financing costs	168	168
Net changes in operating assets and liabilities:		
Accrued investment income	294	144
Premiums receivable, net	19,987	(21,697)
Due from reinsurers and prepaid reinsurance premiums	(13,045)	(25,282)
Deferred policy acquisition costs	2,494	4,403
Other assets	8,800	(559)
Claims liabilities	(29,530)	(24,667)
Unearned premium reserves	(22,104)	21,320
Due to reinsurers	(6,666)	10,742
Other liabilities and accrued expenses	(190)	(109)
Net cash flows used in operating activities	**(42,684)**	**(11,597)**
Investing activities:		
Purchases of:		
Fixed income securities	(11,506)	(33,989)
Equity securities	—	(2,350)
Other investments	(680)	(1,161)
Short-term investments	(12,937)	(4,620)
Property and equipment	(2,783)	(7,950)
Proceeds from sale and maturity of:		
Fixed income securities	67,189	59,442
Equity securities	5,997	5,373
Other investments	7,390	3,829
Short-term investments	9,120	—
Net cash flows provided by investing activities	**61,790**	**18,574**
Financing activities:		
Purchase of treasury stock	—	(3,000)
Preferred dividends paid	—	(333)
Other	—	(8)
Net cash flows provided by (used in) financing activities	**—**	**(3,341)**
Increase in cash position	19,106	3,636
Cash position, beginning of period	34,902	45,615
Cash position, end of period	**$ 54,008**	**$ 49,251**
Supplemental disclosure of cash information:		
Cash (recovered) paid for:		
Income taxes	$ (14,349)	$ (1,724)
Interest	1,242	1,242

See accompanying Notes to Condensed Consolidated Financial Statements.

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 ("U.S."), 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, including certain transportation network companies ("TNC") drivers/operators, 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. ("AGMI"), Plainview Premium Finance Company, Inc. ("Plainview Delaware"), UBI Holdings Inc. ("UBI Holdings") and UBI Holdings' wholly-owned subsidiaries, optOn Digital IP Inc. ("OOIP") and optOn Insurance Agency Inc. ("optOn" and together with OOIP and UBI Holdings, "UBI").

The Insurance Subsidiaries distribute their insurance products through AGMI, which has contracted 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 U.S. Atlas' core products are actively distributed in 42 of those states plus the District of Columbia. The Insurance Subsidiaries and the Company's other non-insurance subsidiaries share common management and operating infrastructure. During the third quarter of 2019, new business writings were restricted or stopped in connection with certain of the Insurance Subsidiaries. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

Atlas' ordinary voting common shares are listed on the NASDAQ 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. All significant intercompany accounts and transactions have been eliminated.

The results for the three and nine months ended September 30, 2019 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, 2018, 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 represent the most significant estimates in the accompanying condensed consolidated 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, and deferred tax asset valuation.

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. Our New York "excess taxi program" has an annual renewal date in the third quarter. Net underwriting results are driven mainly by the timing and nature of claims, which can vary widely.

Operating Segments

The Company operates in one business segment, the P&C insurance business.

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, 2019, as compared to those described in our Annual Report on Form 10-K for the twelve months ended December 31, 2018, 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, 2019 have been adopted by the Company.

Recently Adopted

Leases

In March 2019, December 2018, July 2018 and February 2016, the FASB issued ASU 2019-01 Leases (Topic 842) Codification Improvements, ASU 2018-20 Leases (Topis 842) Narrow-Scope Improvements for Lessors, 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 updates require 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. The Company adopted the updates on January 1, 2019 using the transition method with no change to comparative periods. See 'Part I, Item 1, Note 16, Leases, for further discussion of the future lease commitments. The adoption of these updates resulted in the recognition of both a right-of-use asset and lease liability in the amounts of approximately $2.6 million and $3.2 million, respectively. There was no impact to any of Atlas' current financial covenants as a result of the increase to reported liabilities.

Premium Amortization on Purchased Callable Debt Securities

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 guidance shortens the amortization period to the earliest call date for certain purchased callable debt securities held at a premium that have explicit, noncontingent call features and are callable at a fixed price and preset date. For public entities, this guidance is effective for years beginning after December 15, 2018, including interim periods within those years. The Company adopted the update on January 1, 2019 with no impact on the Company's consolidated financial statements because Atlas' callable debt securities, that are held at a premium, are amortized to the earliest call date, which is consistent with current accounting treatment.

3. Intangible Assets

Intangible Assets by Major Asset Class

($ in '000s)	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
As of September 30, 2019				
Trade name and trademark	15 years	$ 1,800	$ 551	$ 1,249
Customer relationship	10 years	2,700	1,227	1,473
State insurance licenses	Indefinite	740	—	740
		$ 5,240	$ 1,778	$ 3,462
As of December 31, 2018				
Trade name and trademark	15 years	$ 1,800	$ 459	$ 1,341
Customer relationship	10 years	2,700	1,026	1,674
State insurance licenses	Indefinite	740	—	740
		$ 5,240	$ 1,485	$ 3,755

4. Earnings per Share

Computations of Basic and Diluted Earnings per Common Share

($ in '000s, except share and per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Basic				
(Loss) income from operations before income taxes	$ (2,216)	$ 7,123	$ (6,168)	$ 21,014
Income tax expense	26	1,518	26	4,304
Net (loss) income attributable to common shareholders	$ (2,242)	$ 5,605	$ (6,194)	$ 16,710
Basic weighted average common shares outstanding	11,954,494	11,936,970	11,954,494	12,014,817
Earnings per common share basic	$ (0.19)	$ 0.47	$ (0.52)	$ 1.39
Diluted				
Basic weighted average common shares outstanding	11,954,494	11,936,970	11,954,494	12,014,817
Dilutive potential ordinary shares:				
Dilutive stock options outstanding	—	14,247	—	16,921
Diluted weighted average common shares outstanding	11,954,494	11,951,217	11,954,494	12,031,738
Earnings per common share diluted	$ (0.19)	$ 0.47	$ (0.52)	$ 1.39

Common shares are defined as ordinary voting common shares, restricted voting common shares and participative restricted stock units ("RSUs"). Earnings per common share diluted is computed by dividing net income by the weighted average number of common shares outstanding for each period plus the incremental number of shares added as a result of converting dilutive potential ordinary voting common shares, calculated using the treasury stock method (or, in the case of the convertible preferred shares, using the "if-converted" method).

Atlas' dilutive potential ordinary voting common shares consist of 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, 2019, all exercisable stock options were deemed to be anti-dilutive. For the three and nine months ended September 30, 2018, all exercisable stock options were deemed to be dilutive.

5. Investments

Cost or Amortized Cost, Gross Unrealized Gains and Losses, and Fair Value of Investments

($ in '000s)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2019				
Fixed income securities:				
U.S. Treasury and other U.S. government obligations	$ 22,438	$ 203	$ (41)	$ 22,600
States, municipalities and political subdivisions	3,904	98	(3)	3,999
Corporate				
Banking/financial services	5,059	124	—	5,183
Consumer goods	2,397	34	(1)	2,430
Capital goods	1,152	57	—	1,209
Energy	1,987	76	—	2,063
Telecommunications/utilities	4,215	91	(4)	4,302
Health care	499	3	(70)	432
Total corporate	15,309	385	(75)	15,619
Mortgage-backed				
Agency	11,136	116	(49)	11,203
Commercial	12,642	279	(42)	12,879
Total mortgage-backed	23,778	395	(91)	24,082
Other asset-backed	11,995	69	(1)	12,063
Total fixed income securities	$ 77,424	$ 1,150	$ (211)	$ 78,363
December 31, 2018				
Fixed income securities:				
U.S. Treasury and other U.S. government obligations	$ 20,522	$ 30	$ (356)	$ 20,196
States, municipalities and political subdivisions	8,970	19	(146)	8,843
Corporate				
Banking/financial services	13,482	9	(367)	13,124
Consumer goods	10,108	1	(319)	9,790
Capital goods	3,711	36	(200)	3,547
Energy	7,191	—	(379)	6,812
Telecommunications/utilities	8,647	1	(325)	8,323
Health care	832	—	(77)	755
Total corporate	43,971	47	(1,667)	42,351
Mortgage-backed				
Agency	25,778	6	(656)	25,128
Commercial	20,091	105	(574)	19,622
Total mortgage-backed	45,869	111	(1,230)	44,750
Other asset-backed	13,881	13	(43)	13,851
Total fixed income securities	$ 133,213	$ 220	$ (3,442)	$ 129,991

Amortized Cost and Fair Value of Fixed Income Securities by Contractual Maturity

($ in ‘000s)

As of September 30, 2019	Amortized Cost	Fair Value
One year or less	$ 5,396	$ 5,390
One to five years	25,814	26,038
Five to ten years	9,509	9,816
More than ten years	932	974
Total contractual maturity	41,651	42,218
Total mortgage and asset backed	35,773	36,145
Total	$ 77,424	$ 78,363

As certain securities and debentures have the right to call or prepay obligations, the actual settlement dates may differ from contractual maturity.

Atlas assesses, on a quarterly basis, whether there is evidence that a financial asset or group of financial assets is impaired. An investment is considered impaired when the fair value of the investment is less than its cost or amortized cost. When an investment is impaired, the Company must make a determination as to whether the impairment is other-than-temporary.

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.

Under U.S. GAAP, with respect to an investment in an impaired debt security, other-than-temporary impairment (“OTTI”) occurs if (a) there is intent to sell the debt security, (b) it is more likely than not it will be required to sell the debt security before its anticipated recovery, or (c) it is probable that all amounts due will be unable to be collected such that the entire cost basis of the security will not be recovered. If Atlas intends to sell the debt security, or will more likely than not be required to sell the debt security before the anticipated recovery, a loss in the entire amount of the impairment is reflected in net investment gains (losses) on investments in the condensed consolidated statements of (loss) income. If Atlas determines that it is probable it will be unable to collect all amounts and Atlas has no intent to sell the debt security, a credit loss is recognized in net investment gains (losses) on investments in the condensed consolidated statements of (loss) income to the extent that the present value of expected cash flows is less than the amortized cost basis; any difference between fair value and the new amortized cost basis (net of the credit loss) is reflected in other comprehensive income (loss), net of applicable income taxes.

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

There were no other-than-temporary impairments recorded for the three and nine months ended September 30, 2019 and 2018 as a result of the OTTI analysis performed by management.

Aging of Unrealized Losses in Fixed Income Securities

($ in '000s)	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2019						
Fixed income securities:						
U.S. Treasury and other U.S. government obligations	$ 3,283	$ (18)	$ 5,303	$ (23)	$ 8,586	$ (41)
States, municipalities and political subdivisions	—	—	507	(3)	507	(3)
Corporate						
Banking/financial services	220	—	—	—	220	—
Consumer goods	119	—	263	(1)	382	(1)
Telecommunications/utilities	303	—	184	(4)	487	(4)
Health care	—	—	299	(70)	299	(70)
Total corporate	642	—	746	(75)	1,388	(75)
Mortgage-backed						
Agency	1,165	(7)	3,538	(42)	4,703	(49)
Commercial	1,152	(6)	2,754	(36)	3,906	(42)
Total mortgage-backed	2,317	(13)	6,292	(78)	8,609	(91)
Other asset-backed	223	—	204	(1)	427	(1)
Total fixed income securities	$ 6,465	$ (31)	$ 13,052	$ (180)	$ 19,517	$ (211)
December 31, 2018						
Fixed income securities:						
U.S. Treasury and other U.S. government obligations	$ 507	$ —	$ 15,857	$ (356)	$ 16,364	$ (356)
States, municipalities and political subdivisions	1,687	(27)	4,875	(119)	6,562	(146)
Corporate						
Banking/financial services	8,376	(235)	3,861	(132)	12,237	(367)
Consumer goods	5,442	(176)	4,132	(143)	9,574	(319)
Capital goods	1,727	(135)	1,430	(65)	3,157	(200)
Energy	4,516	(295)	2,296	(84)	6,812	(379)
Telecommunications/utilities	3,806	(99)	4,259	(226)	8,065	(325)
Health care	127	(2)	628	(75)	755	(77)
Total corporate	23,994	(942)	16,606	(725)	40,600	(1,667)
Mortgage-backed						
Agency	5,035	(72)	19,210	(584)	24,245	(656)
Commercial	5,256	(149)	11,062	(425)	16,318	(574)
Total mortgage-backed	10,291	(221)	30,272	(1,009)	40,563	(1,230)
Other asset-backed	9,568	(22)	1,748	(21)	11,316	(43)
Total fixed income securities	$ 46,047	$ (1,212)	$ 69,358	$ (2,230)	$ 115,405	$ (3,442)

As of September 30, 2019, we held 75 individual fixed income securities that were in an unrealized loss position, of which 50 individual fixed income securities were in a continuous loss position for longer than 12 months. As of December 31, 2018, we held 391 individual fixed income and equity securities that were in an unrealized loss position, of which 246 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, 2019 or for the year ended December 31, 2018. The Company expects to monitor liquidity needs and assess the sale of fixed income assets, if required, on a regular basis.

Components of Net Investment Income

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Total investment income:				
Interest income	$ 686	$ 1,006	$ 2,448	$ 3,139
Income from other investments	32	326	782	793
Investment expenses	(290)	(262)	(950)	(731)
Net investment income	$ 428	$ 1,070	$ 2,280	$ 3,201

Aggregate Proceeds and Gross Realized Investment Gains and Losses

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Fixed income securities:				
Proceeds from sales and calls	$ 13,520	$ 7,905	$ 53,174	$ 44,262
Gross realized investment gains	169	27	548	280
Gross realized investment losses	(54)	(82)	(352)	(539)
Equities:				
Proceeds from sales	$ —	$ 524	$ 5,997	$ 5,373
Gross realized investment gains	—	94	443	730
Gross realized investment losses	—	—	(96)	(26)
Other investments:				
Proceeds from sales	$ 1,700	$ 15	$ 3,997	$ 56
Gross realized investment gains	298	15	576	56
Total:				
Proceeds from sales and calls	$ 15,220	$ 8,444	$ 63,168	$ 49,691
Gross realized investment gains	467	136	1,567	1,066
Gross realized investment losses	(54)	(82)	(448)	(565)

Components of Net Realized Gains (Losses)

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Fixed income securities	$ 115	$ (55)	$ 196	$ (259)
Equities	—	94	347	704
Other investments	296	15	548	56
Net realized gains	$ 411	$ 54	$ 1,091	$ 501

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 $19.4 million and $24.0 million as of September 30, 2019 and December 31, 2018, 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 $93,000 and $1.0 million as of September 30, 2019 and December 31, 2018, respectively.

Equity Method Investments by Type

($ in '000s)	Unfunded Commitments	Carrying Value	
	September 30, 2019	September 30, 2019	December 31, 2018
Real estate	$ 2,887	$ 11,063	$ 11,085
Insurance linked securities	—	1,378	6,694
Activist hedge funds	—	3,920	3,911
Venture capital	2,390	2,682	2,015
Other joint venture	—	325	325
Total equity method investments	$ 5,277	$ 19,368	$ 24,030

Due to the timing of financial information of the Company's equity method investments, certain investments are recorded on a financial reporting lag of one to three months.

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, 2019 and December 31, 2018, 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, 2019 and December 31, 2018, short-term investments totaled $8.6 million and $4.7 million, respectively.

Collateral Pledged

As of September 30, 2019 and December 31, 2018, bonds, cash and cash equivalents with a fair value of $16.9 million and $14.9 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, 2019 and December 31, 2018, the amounts of such pledged securities were $49.4 million and $31.3 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.

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

Level 1	*U.S. treasury and other U.S. government obligations*	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.
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.

Investments at Fair Value

($ in '000s)	Level 1	Level 2	Level 3	Total
As of September 30, 2019				
Fixed income securities:				
U.S. Treasury and other U.S. government obligations	$ 22,600	$ —	$ —	$ 22,600
States, municipalities and political subdivisions	—	3,999	—	3,999
Corporate				
Banking/financial services	—	5,183	—	5,183
Consumer goods	—	2,430	—	2,430
Capital goods	—	1,209	—	1,209
Energy	—	2,063	—	2,063
Telecommunications/utilities	—	4,302	—	4,302
Health care	—	432	—	432
Total corporate	—	15,619	—	15,619
Mortgage-backed				
Agency	—	11,203	—	11,203
Commercial	—	12,879	—	12,879
Total mortgage-backed	—	24,082	—	24,082
Other asset-backed	—	12,063	—	12,063
Total fixed income securities	$ 22,600	$ 55,763	$ —	$ 78,363
Equities	1	—	—	1
Total	$ 22,601	$ 55,763	$ —	$ 78,364
As of December 31, 2018				
Fixed income securities:				
U.S. Treasury and other U.S. government obligations	$ 20,196	$ —	$ —	$ 20,196
States, municipalities and political subdivisions	—	8,843	—	8,843
Corporate				
Banking/financial services	—	13,124	—	13,124
Consumer goods	—	9,790	—	9,790
Capital goods	—	3,547	—	3,547
Energy	—	6,812	—	6,812
Telecommunications/utilities	—	8,323	—	8,323
Health care	—	755	—	755
Total corporate	—	42,351	—	42,351
Mortgage-backed				
Agency	—	25,128	—	25,128
Commercial	—	19,622	—	19,622
Total mortgage-backed	—	44,750	—	44,750
Other asset-backed	—	13,851	—	13,851
Total fixed income securities	$ 20,196	$ 109,795	$ —	$ 129,991
Equities	5,929	—	—	5,929
Total	$ 26,125	$ 109,795	$ —	$ 135,920

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, 2019. 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, 2019 or December 31, 2018. There were no transfers in or out of Level 2 or Level 3 during the three and nine months ended September 30, 2019 and 2018.

7. Income Taxes

Atlas' effective tax rate was (1.2)% and 21.3% for the three months ended September 30, 2019 and 2018, respectively, and (0.4)% and 20.5% for the nine months ended September 30, 2019 and 2018, respectively.

Reconciliation of U.S. Statutory Marginal Income Tax Rate to the Effective Tax Rate

($ in '000s)	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	$ (465)	21.0 %	$ 1,496	21.0%	$ (1,295)	21.0 %	$ 4,413	21.0%
Provision for deferred tax assets deemed unrealizable (valuation allowance)	469	(21.2)	—	—	1,246	(20.2)	—	—
Nondeductible expenses	2	(0.1)	25	0.3	27	(0.5)	53	0.2
Tax-exempt income	(1)	—	(3)	—	(4)	0.1	(9)	—
State tax (net of federal benefit)	21	(0.9)	—	—	21	(0.3)	(2)	—
Stock compensation	—	—	—	—	31	(0.5)	(42)	(0.2)
Nondeductible acquisition accounting adjustment	—	—	—	—	—	—	(109)	(0.5)
Provision for income taxes for continuing operations	$ 26	(1.2)%	$ 1,518	21.3%	$ 26	(0.4)%	$ 4,304	20.5%

Components of Income Tax Expense (Benefit)

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Current tax expense (benefit)	$ 26	$ (145)	$ 26	$ (441)
Deferred tax (benefit) expense	(469)	1,663	(1,246)	4,745
Change in deferred tax valuation allowance	469	—	1,246	—
Total	$ 26	$ 1,518	$ 26	$ 4,304

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 $27.3 million as of September 30, 2019.

Components of Deferred Income Tax Assets and Liabilities

($ in '000s)	September 30, 2019	December 31, 2018
Gross deferred tax assets:		
Losses carried forward	$ 27,321	$ 25,326
Claims liabilities and unearned premium reserves	4,352	5,949
Bad debts	1,195	1,009
Stock compensation	834	760
Other	228	418
Valuation allowance	(29,788)	(29,416)
Total gross deferred tax assets	4,142	4,046
Gross deferred tax liabilities:		
Deferred policy acquisition costs	1,011	1,535
Investments	1,088	189
Fixed assets	1,258	1,371
Intangible assets	572	633
Other	213	318
Total gross deferred tax liabilities	4,142	4,046
Net deferred tax assets	$ —	$ —

Net Operating Loss Carryforward as of September 30, 2019 by Expiry

($ in '000s)

Year of Occurrence	Year of Expiration	Amount
2001	2021	$ 5,007
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	4,166
2012	2032	9,236
2015	2035	1
2017	2037	27,313
2018	2038	47,653
2018	Indefinite	4,106
2019	2039	4,957
2019	Indefinite	4,543
Total		$ 130,102

NOLs and other carryforwards generated in 2018 and 2019 are not limited by IRC Section 382.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. When considering the extent of the valuation allowance on Atlas' deferred tax assets, weight is given by management to both positive and negative evidence. U.S. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets. Based on Atlas' cumulative loss in recent years, Atlas has recorded a valuation allowance of $29.8 million and $29.4 million for its gross future deferred tax assets as of September 30, 2019 and December 31, 2018, respectively.

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, 2019 and 2018. Tax year 2015 and years thereafter are subject to examination by the Internal Revenue Service ("IRS").

8. Commitments and Contingencies

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, 2019, the unfunded commitments are $5.3 million.

In the ordinary course of its business, Atlas is involved in legal proceedings, including lawsuits, regulatory examinations and inquiries. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019 and see also "Part II, Item 1, Legal Proceedings".

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.

9. Property and Equipment

Property and Equipment Held[1]

($ in '000s)	September 30, 2019	December 31, 2018
Buildings	$ 7,425	$ 7,425
Land	1,840	1,840
Building improvements	9,023	9,006
Leasehold improvements	193	190
Internal use software	20,207	17,575
Computer equipment	1,923	1,821
Furniture and other office equipment	2,897	2,897
Total	$ 43,508	$ 40,754
Accumulated depreciation	(12,778)	(9,391)
Total property and equipment, net	$ 30,730	$ 31,363

1 Excluding assets held for sale.

Depreciation expense and amortization was $1.2 million and $696,000 for the three months ended September 30, 2019 and 2018, respectively, and $3.4 million and $2.1 million for the nine months ended September 30, 2019 and 2018, respectively. For the year ended December 31, 2018, depreciation expense and amortization was $2.9 million.

For the nine months ended September 30, 2019, the Company capitalized $2.7 million of costs incurred, consisting primarily of external consultants and internal labor costs incurred during the application development stage for internal-use software. Substantially all of the costs incurred during the period were part of the application development stage. Amortization expense recorded for projects in the post-implementation/operation stage was $645,000 and $140,000 for the three months ended September 30, 2019 and 2018, respectively, and $1.7 million and $420,000 for the nine months ended September 30, 2019 and 2018, respectively.

During 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 in the building. An unrelated tenant occupies the remaining office space in the building. Rental income related to this lease agreement was $111,000 and $144,000 for the three months ended September 30, 2019 and 2018, respectively, and $334,000 and $323,000 for the nine months ended September 30, 2019 and 2018, respectively. Depreciation expense related to the building and its improvements was $283,000 and $277,000 for the three months ended September 30, 2019 and 2018, respectively, and $850,000 and $819,000 for the nine months ended September 30, 2019 and 2018, respectively.

Loss on disposals of fixed assets was $2,000 and $28,000 for the three and nine months ended September 30, 2019, respectively. There were no losses on disposals of fixed assets for the three and nine months ended September 30, 2018.

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.

Premiums Written, Premiums Earned and Amounts Related to Reinsurance

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Direct premiums written	$ 30,728	$ 67,849	$ 160,529	$ 204,697
Assumed premiums written	4,478	8,068	27,319	24,168
Ceded premiums written	(13,521)	(27,756)	(83,796)	(63,753)
Net premiums written	$ 21,685	$ 48,161	$ 104,052	$ 165,112
Direct premiums earned	$ 57,357	$ 65,519	$ 182,581	$ 192,497
Assumed premiums earned	9,692	6,113	27,371	15,048
Ceded premiums earned	(26,467)	(17,171)	(78,080)	(41,833)
Net premiums earned	$ 40,582	$ 54,461	$ 131,872	$ 165,712
Ceded claims and claims adjustment expenses	$ 16,140	$ 16,420	$ 45,229	$ 28,449
Ceding commissions	5,308	3,427	19,557	11,421

During 2019, the Company received notice from General Reinsurance Corporation ("Gen Re") that effective July 31, 2019, the XOL reinsurance coverage for American Country, American Service and Gateway (collectively, the "ASI Pool Companies") would terminate on a cut-off basis. Additionally, effective September 30, 2019, the ASI Pool Companies' Quota Share contract with Swiss Reinsurance America Corporation ("Swiss Re") was terminated on a run-off basis. During 2020, the Company received notice from Gen Re that effective January 1, 2020, the XOL reinsurance coverage for Global Liberty would terminate on a run-off basis. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

11. Claims Liabilities

Changes in the Provision for Unpaid Claims and Claims Adjustment Expenses, Net of Reinsurance Recoverables

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Unpaid claims and claims adjustment expenses, beginning of period	$ 252,670	$ 187,170	$ 273,496	$ 211,648
Less: reinsurance recoverable	72,229	46,614	68,771	53,402
Net unpaid claims and claims adjustment expenses, beginning of period	180,441	140,556	204,725	158,246
Incurred related to:				
Current year	27,601	33,621	93,935	101,109
Prior years	1,240	(79)	2,532	1,288
	28,841	33,542	96,467	102,397
Paid related to:				
Current year	12,739	15,639	29,002	36,439
Prior years	31,682	26,563	107,329	92,308
	44,421	42,202	136,331	128,747
Net unpaid claims and claims adjustment expenses, end of period	164,861	131,896	164,861	131,896
Add: reinsurance recoverable	79,105	55,085	79,105	55,085
Unpaid claims and claims adjustment expenses, end of period	$ 243,966	$ 186,981	$ 243,966	$ 186,981

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 incurred related to prior years for the three and nine months ended September 30, 2019 and 2018 primarily resulted from unfavorable development on involuntary 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. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

12. Share-Based Compensation

On January 6, 2011, Atlas adopted a stock option plan ("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 ("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 stock, 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

(prices in Canadian dollars designated with "C$" and U.S. dollars designated with "US$"	Nine months ended September 30,			
	2019		2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
C$ Denominated:				
Outstanding, beginning of period	27,195	C$6.00	54,390	C$6.00
Granted	—	—	—	—
Exercised	—	—	(27,195)	C$6.00
Outstanding, end of period	27,195	C$6.00	27,195	C$6.00
US$ 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 no stock options that are exercisable as of September 30, 2019. The stock option grants outstanding have a weighted average remaining life of 4.73 years and have an intrinsic value of $0 as of September 30, 2019.

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 6 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 ("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 ("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 grant agreement. The matching grant will be subject to all of the terms and conditions of the Equity Incentive Plan and applicable grant agreements. The matching grant award was discontinued during 2018 with no additional grants under the program since those discussed above.

On December 31, 2018, the Company awarded restricted stock unit grants for ordinary voting common shares of the Company to its external directors pursuant to a director equity award agreement dated December 31, 2018. The awards, which were approved by the Company's Board of Directors in March 2018, were valued at $40,000 per external director ("Aggregate Award") and were made under the Company's Equity Incentive Plan. The number of restricted stock units awarded was determined by dividing (A) the Aggregate Award by (B) the closing price of one share of Company ordinary voting common share at the close of market on April 4, 2018, which was $10.50 per share. For new directors, the Aggregate Award is proportionate to the director's start date and priced as of that same day. During 2018, the Company awarded 17,524 RSU grants having an aggregate grant date fair value of $179,000. The RSUs will vest 33.3% on January 1 of each year for the next three years.

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, 2019 and 2018, no shares of either of the restricted stock grants for ordinary voting common shares or the options to acquire ordinary voting common shares vested due to not meeting annual performance targets. 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

Restricted Stock Grants for Ordinary Voting Common Shares and Restricted Share Unit Activity

	Nine months ended September 30,			
	2019		2018	
	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	207,156	$ 16.50	234,080	$ 16.15
Granted	—	—	—	—
Vested	(28,066)	11.79	(44,448)	12.20
Canceled	(7,408)	12.20	—	—
Non-vested, end of period	171,682	$ 17.46	189,632	$ 17.08

On February 21, 2019, an independent director of the Company notified Company management that they wished to cancel shares related to a February 2014 grant.

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 $188,000 and $285,000 in share-based compensation expense, including income tax expense, for the three months ended September 30, 2019 and 2018, respectively, and $685,000 and $856,000 for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, there was $235,000 of unrecognized total compensation expense related to restricted stock and restricted stock units for ordinary voting common shares. The expense will be amortized over a weighted average period of 8 months.

13. Other Employee Benefit Plans

Defined Contribution Plan

Atlas has a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Contributions to this plan are limited based on IRS guidelines. Atlas matches 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 2.5% of annual earnings, for a total maximum expense of 3.75% of annual earnings per participant. Atlas' matching contributions are discretionary. Employees are 100% vested in their own contributions and vest in Atlas contributions based on years of service equally over 5 years with 100% vested after 5 years. Company contributions were $159,000 and $139,000 for the three months ended September 30, 2019 and 2018, respectively, and $493,000 and $419,000 for the nine months ended September 30, 2019 and 2018, respectively.

Employee Stock Purchase Plan

The Atlas Employee Stock Purchase Plan ("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 are 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 $25,000 and $64,000 for the three months ended September 30, 2019 and 2018, respectively, and $129,000 and $184,000 for the nine months ended September 30, 2019 and 2018, respectively. Share purchases pursuant to this plan are made in the open market.

14. Share Capital and Mezzanine Equity

Share Capital

Share Capital Activity

		September 30, 2019			December 31, 2018		
	Shares Authorized	Shares Issued	Shares Outstanding	Amount ($ in '000s)	Shares Issued	Shares Outstanding	Amount ($ in '000s)
Ordinary voting common shares	266,666,667	12,198,319	11,942,812	$ 36	12,192,475	11,936,970	$ 36
Restricted voting common shares	33,333,334	—	—	—	—	—	—
Total common shares	300,000,001	12,198,319	11,942,812	$ 36	12,192,475	11,936,970	$ 36

There were 11,682 and 24,932 non-vested RSUs as of September 30, 2019 and December 31, 2018, 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.

During the nine months ended September 30, 2019, the Company issued 5,842 ordinary voting common shares as a result of the vesting of RSUs. During the year ended December 31, 2018, the Company issued 7,408 ordinary voting common shares as a result of the vesting of RSUs in addition to 27,195 ordinary voting common shares and immediately canceled 6,169 shares as a result of a cashless exercise of options. There were no options exercised during the nine months ended September 30, 2019.

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 2018, 255,505 shares were repurchased under the Share Repurchase Program.

Mezzanine Equity

There were no preferred shares outstanding as of September 30, 2019 and December 31, 2018.

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.

During 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.

15. Deferred Policy Acquisition Costs

Components of Deferred Policy Acquisition Costs

($ in '000s)	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Balance, beginning of period	$ 7,309	$ 14,797
Acquisition costs deferred	7,466	13,954
Amortization charged to income	(9,960)	(18,357)
Balance, end of period	$ 4,815	$ 10,394

16. Leases

The Company adopted ASC 842 - Leases as of January 1, 2019, using the transition method wherein entities were allowed to initially apply the new lease standard at adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Accordingly, all periods prior to January 1, 2019 were presented in accordance with the previous ASC 840 - Leases, and no retrospective adjustments were made to the comparative periods presented. Adoption of ASC 842 resulted in an increase of operating lease right-of-use assets ("ROU") totaling approximately $2.6 million in other assets on the condensed consolidated statements of financial positions and operating lease liabilities of approximately $3.2 million and a decrease of net deferred rent liabilities of approximately $600,000 in other liabilities and accrued expenses on the condensed consolidated statements of financial position as of January 1, 2019.

We currently lease real estate space, automobiles, and certain equipment under non-cancelable operating lease agreements. Leases with an initial term of 12 months or less, which are immaterial to the Company, are not recorded in the condensed consolidated statement of financial position. The Company has elected the practical expedient to account for each separate lease component of a contract and its associated non-lease components as a single lease component, thus causing all fixed payments to be capitalized. The Company also elected the package of practical expedients permitted within the new standard, which among other things, allows the Company to carry forward historical lease classification. Variable lease payment amounts that cannot be determined at the commencement of the lease, such as increases to lease payments based on changes in index rates or usage, are not recorded in the condensed consolidated statement of financial position.

Certain agreements include an option to extend or renew the lease term at our option. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. Lease payments are discounted using the implicit discount rate in the lease. If the implicit discount rate for the lease cannot be readily determined, the Company uses an estimate of its incremental borrowing rate. AFH did not have any contracts accounted for as finance leases as of September 30, 2019 or January 1, 2019.

Lease Expense

($ in '000s)	Three months ended September 30, 2019	Nine months ended September 30, 2019
Operating leases	$ 242	$ 720
Variable lease cost	90	256
Total	$ 332	$ 976

Other Operating Lease Information

($ in '000s)	Three months ended September 30, 2019	Nine months ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities reported in operating cash flows	$ 333	$ 977
Right-of-use assets obtained in exchange for new lease liabilities	54	54
Total	$ 387	$ 1,031
Weighted-average remaining lease term		2.3 years
Weighted-average discount rate		3.7%

The following table presents the undiscounted contractual maturities of the Company's operating lease liability:

Contractual Operating Lease Liabilities

($ in '000s)	As of September 30, 2019
Remainder of 2019	$ 289
2020	1,103
2021	966
2022	181
2023	15
Total lease payments	$ 2,554
Impact of discounting	(80)
Operating lease liability	$ 2,474

17. 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, 2019 and December 31, 2018, these related-party transactions comprised 5.7% and 5.1%, 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.

18. 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.

Interest expense on notes payable was $470,000 and $465,000 for the three months ended September 30, 2019 and 2018, respectively, and $1.4 million and $1.4 million for each of the nine months ended September 30, 2019 and 2018.

Notes Payable Outstanding

($ in '000s)	September 30, 2019	December 31, 2018
6.625% Senior Unsecured Notes due April 26, 2022	$ 25,000	$ 25,000
Unamortized issuance costs	(577)	(745)
Total notes payable	$ 24,423	$ 24,255

19. 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, loans or advances, 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 Companies 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. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

Statutory Net Loss and Surplus of Atlas' Insurance Subsidiaries

($ in '000s)	September 30, 2019	December 31, 2018
Net income (loss) computed under statutory-basis accounting	$ 8,097	$ (49,648)
Combined statutory capital and surplus	$ 5,496	$ 14,377

Atlas did not declare or pay any dividends to its common shareholders during the nine months ended September 30, 2019 or during the year ended December 31, 2018.

During 2019, the Illinois Department of Insurance (the “Department”) placed all three of the ASI Pool Companies (after Gateway was redomesticated in Illinois) into rehabilitation with the Director of the Department as the statutory rehabilitator. While in rehabilitation, the operations of such insurance subsidiaries will be overseen by the statutory rehabilitator although Atlas continues to maintain its legal ownership of the stock of the ASI Pool Companies. Management’s overriding strategic plan continues to include a transition of business from these insurance companies to alternative markets within a reasonable period of time utilizing the existing platform of the MGA to work with strategic external insurance and reinsurance partners.

Effective August 15, 2019, no new business was written by the ASI Pool Companies, and only New York area new business was written by Global Liberty, which is focusing its resources on New York area business to leverage the subsidiary’s heritage in this large and specific market. The ASI Pool Companies and Global Liberty continued to write renewal business that met their underwriting standards during 2019. Non-renewals related to ASI Pool Companies’ insurance policies began during the fourth quarter of 2019.

20. Subsequent Events

Throughout 2019, the Company has been exploring strategic alternatives, including, but not limited to, further strengthening its processes, reviewing its capital allocation and opportunities, a potential sale of the Company or certain assets, and balance sheet strengthening options with the goal of facilitating shareholder value generation. Atlas concluded that the utilization of its wholly owned managing general agency (“MGA”) operation to work with strategic external insurance and reinsurance partners will enable the Company to leverage its focus, experience and infrastructure to create value for stakeholders. The Company is working on additional arrangements with the objective of establishing MGA relationships in connection with the Company’s other lines of business as well. The Company agreed that should it choose to sell its MGA operations, 49% of the proceeds from any future sale of AGMI would be provided to the ASI Pool Companies to facilitate the rehabilitation process. There can be no assurance that any portion of the proceeds allocated to the ASI Pool Companies would be available for distribution to the Company.

On January 22, 2020, the Company announced a non-binding letter of intent with Buckle, a technology-driven financial services company, to purchase the stock of Atlas’ indirect subsidiary Gateway and its corporate charter and forty-seven (47) state insurance licenses as well as state statutory deposits, subject to regulatory and other necessary approvals, for $4.7 million plus the value of all purchased deposits, such amount to be paid to the statutory rehabilitator for the benefit of the rehabilitation estate of Gateway, with a tentative closing date in April of 2020. The Company anticipates that Buckle will engage the MGA and certain other subsidiaries of the Company to provide services to Buckle and that Buckle will lease space at the Company’s headquarters and its Melville, NY office.

The transaction will be subject to court approval and a bid process established by the statutory rehabilitator and approved by the court, and there can be no assurance that the transaction will be consummated on the terms described herein or at all.

Item 2. Management's Discussion and Analysis ("MD&A") of Results of Operations and Financial Condition

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. All amounts are in U.S. dollars, except for amounts preceded by "C" as Canadian dollars, share and per share amounts.

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, 2018.

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," "believes" or variations (including negative variations) of such words and phrases, or state that certain actions, events or results "may," "could," "would," "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Atlas to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political, regulatory and social uncertainties.

Although Atlas has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. 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") in conjunction with our wholly owned managing general agency, Anchor Group Management Inc. ("AGMI"). This sector includes taxi cabs, non-emergency para-transit, limousine, livery, including certain transportation network companies ("TNCs") 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 ("U.S."). 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 our Insurance Subsidiaries. Our core business is the underwriting of commercial automobile insurance policies, focusing on the "light" commercial automobile sector, which is carried out through American Country, American Service and Gateway, and Global Liberty, along with our wholly owned managing general agency, AGMI. As previously announced, certain Insurance Subsidiaries have been in rehabilitation since July 8, 2019. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

Commercial Automobile

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.

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. Data compiled by S&P Global also indicates that in 2018 the total market for commercial automobile liability insurance was approximately $40.4 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 underwriting capacity and higher premium rates.

We believe that 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. Our target market has changed in recent years as a result of TNC and other trends related to mobility. The significant expansion of TNC has resulted in a reduction in taxi vehicles available to insure; however, it has increased the number of livery operators. Market research also suggests that the combined addressable markets between traditional taxi, livery and TNC companies expanded during 2018.

Other Lines of Business

Other lines of business is comprised of our surety program, Gateway’s truck and workers’ compensation programs, American Service’s non-standard personal lines business, Atlas’ workers’ compensation related to taxi, other liability, Global Liberty’s homeowners program and assigned risk pool business. All of the other lines of business are in run-off except for other liability and assigned risk pool business.

Our surety program primarily consisted of U.S. Customs bonds. We engage a former affiliate, Avalon Risk Management, to help coordinate customer service and claims 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.

The Gateway truck and workers’ compensation programs were put into run-off during 2012. The workers’ compensation program was 100% reinsured retrospectively and prospectively to an unrelated third party. The workers’ compensation reinsurance agreement was terminated during 2017.

Non-standard automobile insurance is principally provided to individuals who do not qualify for standard automobile insurance coverage because of their payment history, driving record, place of residence, age, vehicle type or other factors. Such drivers typically represent higher than normal risks and pay higher insurance rates for comparable coverage. Consistent with Atlas’ focus on commercial automobile insurance, Atlas has transitioned away from the non-standard auto line. Our Insurance Subsidiaries ceased writing new and renewal policies of this type in 2011, and earned premium discontinued in 2012, allowing surplus and resources to be devoted to the expected growth of the commercial automobile business.

Global Liberty’s homeowners program, which is substantially reinsured, was placed into run-off prior to Atlas’ acquisition.There is a relatively small book of business, which is substantially reinsured, that is still in run-off.

Atlas’ workers’ compensation related to taxi and other liability are ancillary products that are offered only to insureds who purchase our commercial automobile insurance products. The workers’ compensation program 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.

Coronavirus Impact

We continue to monitor the recent outbreak of the novel coronavirus (COVID-19) on our operations. Due to the recent outbreak of the coronavirus reported in many countries worldwide, local and federal governments have issued travel advisories, canceled large scale public events and closed schools. In addition, companies have begun to cancel conferences and travel plans and require employees to work from home. Global financial markets have also experienced extreme volatility and disruptions to capital and credit markets.

Adverse events such as health-related concerns about working in our offices, the inability to travel, potential impact on our business partners and customers, and other matters affecting the general work and business environment could harm our business and delay the implementation of our business strategy. We cannot anticipate all the ways in which the current global health crisis and financial market conditions could adversely impact our business in the future.

2019 Developments

As previously disclosed, since December 31, 2018, the Company was unable to timely file its Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and its Quarterly Reports on Form 10-Q for the periods ended March 31, June 30, and September 30, 2019 due to delays in the year end audit process. As a result, the Company received a number of delinquency notices from Nasdaq related to these filings as well as other matters. Nasdaq granted the Company's request to move from the Nasdaq Global Market to the Nasdaq Capital Market and granted the Company an extension to regain compliance with its listing obligations. The Company's ordinary shares continue to trade on the Nasdaq Capital Market, while the Company's 6.625% Senior Unsecured Notes due 2022 moved to the OTC Pink Sheets on October 17, 2019. There can be no assurance that the Company will be able to regain compliance with Nasdaq listing requirements.

On April 29, 2019, RSM US, LLP ("RSM") was dismissed as the Corporation's independent registered public accounting firm. At the time RSM was dismissed, the Corporation had not yet engaged a successor independent registered public accounting firm. On October 31, 2019, Baker Tilly Virchow Krause, LLP ("Baker Tilly") was engaged as the Company's independent registered public accounting firm to audit the Company's financial statements commencing with the fiscal year ended December 31, 2018.

Throughout 2019, the Company has been exploring strategic alternatives, including, but not limited to, further strengthening its processes, reviewing its capital allocation and opportunities, a potential sale of the Company or certain assets, and balance sheet strengthening options with the goal of facilitating shareholder value generation. Atlas concluded that the utilization of its wholly owned MGA operation to work with strategic external insurance and reinsurance partners will enable the Company to leverage its focus, experience and infrastructure to create value for stakeholders. A definitive agreement was executed effective June 10, 2019 between Atlas and American Financial Group, Inc. (NYSE: AFG), under which Atlas will act as an underwriting manager for AFG's National Interstate ("NATL") subsidiary and transition new and renewal paratransit business to NATL paper for this book of business. The Company is working on additional arrangements with the objective of establishing MGA relationships in connection with the Company's other lines of business as well. The Company agreed that should it choose to sell its MGA operations, 49% of the proceeds from any future sale of AGMI would be provided to the ASI Pool Companies to facilitate the rehabilitation process. There can be no assurance that any portion of the proceeds allocated to the ASI Pool Companies would be available for distribution to the Company.

During 2019, the Illinois Department of Insurance (the "Department") placed all three of the ASI Pool Companies (after Gateway was redomesticated in Illinois) into rehabilitation with the Director of the Department as the statutory rehabilitator. While in rehabilitation, the operations of such insurance subsidiaries will be overseen by the statutory rehabilitator although Atlas continues to maintain its legal ownership of the stock of the ASI Pool Companies. Management's overriding strategic plan continues to include a transition of business from these insurance companies to alternative markets within a reasonable period of time utilizing the existing platform of the MGA to work with strategic external insurance and reinsurance partners.

Effective August 15, 2019, no new business was written by the ASI Pool Companies, and only New York area new business was written by Global Liberty, which is focusing its resources on New York area business to leverage the subsidiary's heritage in this large and specific market. The ASI Pool Companies and Global Liberty continued to write renewal business that met their underwriting standards during 2019. Non-renewals related to ASI Pool Companies' insurance policies began towards the end of 2019.

On January 22, 2020, the Company announced a non-binding letter of intent with Buckle, a technology-driven financial services company, to purchase the stock of Atlas' indirect subsidiary Gateway and its corporate charter and forty-seven (47) state insurance licenses as well as state statutory deposits, subject to regulatory and other necessary approvals, for $4.7 million plus the value of all purchased deposits, such amount to be paid to the Rehabilitator for the benefit of the rehabilitation estate of Gateway, with a tentative closing date in April of 2020. The Company anticipates that Buckle will engage the MGA and certain other subsidiaries of the Company to provide services to Buckle and that Buckle will lease space at the Company's headquarters and its Melville, NY office.

The transaction will be subject to court approval and a bid process established by the statutory rehabilitator and approved by the court, and there can be no assurance that the transaction will be consummated on the terms described herein or at all.

The Company's numerous Current Reports on Form 8-K and press releases since December 31, 2018 provide more detailed disclosures regarding the above events.

II. Operating Results

Highlights

- **Gross premiums written were $35.2 million for the three months ended September 30, 2019 compared to $75.9 million for the three months ended September 30, 2018.**
- **In-force premium was $239.9 million as of September 30, 2019, a decrease of 16.3% from $286.7 million as of September 30, 2018.**
- **Total revenue was $41.5 million for the three months ended September 30, 2019, a decrease of 25.5% from $55.8 million for the three months ended September 30, 2018.**
- **Underwriting loss was $2.7 million in third quarter 2019 compared to underwriting income of $6.3 million in third quarter 2018.**
- **The combined ratio was 106.7% in third quarter 2019 compared to 88.5% in third quarter 2018.**
- **Net loss was $2.2 million, or $0.19 loss per common share diluted, in third quarter 2019 compared to net income totaling $5.6 million, or $0.47 earnings per common share diluted, in third quarter 2018, representing a decrease of $0.66 or 140.0%.**
- **Book value per common share was $0.36 as of September 30, 2019, compared to $0.48 and $8.53 as of December 31, 2018 and September 30, 2018, respectively.**

Consolidated Performance

($ in ‘000s, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Gross premiums written	$ 35,206	$ 75,917	$ 187,848	$ 228,865
Net premiums earned	40,582	54,461	131,872	165,712
Net claims incurred	28,841	33,542	96,467	102,397
Underwriting expense:				
Acquisition costs	3,248	5,701	9,960	18,357
Share-based compensation	188	285	685	856
Expenses recovered related to stock purchase agreements	—	—	—	(520)
Deferred policy acquisition costs amortization	332	(61)	343	(261)
Other underwriting expenses	10,677	8,714	32,984	26,459
Total underwriting expenses	**14,445**	**14,639**	**43,972**	**44,891**
Underwriting (loss) income	**(2,704)**	**6,280**	**(8,567)**	**18,424**
Net investment income	428	1,070	2,280	3,201
(Loss) income from operating activities, before income taxes	**(2,276)**	**7,350**	**(6,287)**	**21,625**
Interest expense	(476)	(465)	(1,416)	(1,381)
Loss from change in fair value of equity securities	(3)	(2)	(277)	(97)
Realized gains and other income	539	240	1,812	867
Net (loss) income before income taxes	**(2,216)**	**7,123**	**(6,168)**	**21,014**
Income tax expense	26	1,518	26	4,304
Net (loss) income	**$ (2,242)**	**$ 5,605**	**$ (6,194)**	**$ 16,710**

Key Financial Ratios[1]

Loss ratio	71.1 %	61.6 %	73.2 %	61.8 %
Underwriting expense ratio:				
Acquisition cost ratio	8.0	10.5	7.6	11.1
Share-based compensation ratio	0.5	0.5	0.5	0.5
Expenses recovered related to stock purchase agreements ratio	—	—	—	(0.3)
Deferred policy acquisition costs amortization ratio	0.8	(0.1)	0.3	(0.2)
Other underwriting expense ratio	26.3	16.0	25.0	16.0
Total underwriting expense ratio	**35.6**	**26.9**	**33.4**	**27.1**
Combined ratio	**106.7%**	**88.5%**	**106.6 %**	**88.9%**
Earnings per common share diluted	$ (0.19)	$ 0.47	$ (0.52)	$ 1.39
Book value per common share	$ 0.36	$ 8.53	$ 0.36	$ 8.53

[1] Ratios are calculated as a percentage of net premiums earned.

Revenues

We derive our revenues primarily from premiums from our insurance policies, MGA compensation related thereto, and income from our investment portfolio. Our underwriting approach is to price our products with the objective of generating underwriting profit for the insurance companies we own. The Company's philosophy is to prioritize improvement in underwriting margin over top line growth. As with all P&C insurance companies, the impact of price changes and other underwriting activities is reflected in our financial results over time. Underwriting 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. As a result of activities in 2019, liquidity needs related to the investment portfolio are expected to change. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

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 probable exposure, based on our historical claims experience, and beginning in 2016, the use of claim related analytics. Our ability to estimate net claims incurred accurately at the time of pricing our contracts is a critical factor in determining our profitability. The amount reported under net claims incurred in any period includes payments in the period net of the change in the value of the reserves for net claims incurred between the beginning and the end of the period, as well as estimation of potential future trends or changes. While the Company has always relied on independent actuarial professionals and internal controls in this regard, the estimation of reserves is inherently uncertain. We are committed to continuous improvement in this area of our business. See "Explanatory Note" and "Part 1, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

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, changes in premium writings may impact our operating scale and operating expense ratios.

Gross Premiums Written

Gross Premiums Written by Line of Business

($ in '000s)	Three months ended September 30,			Nine months ended September 30,		
	2019	2018	% Change	2019	2018	% Change
Commercial automobile	$ 34,243	$ 75,168	(54.4)%	$ 164,679	$ 226,699	(27.4)%
Other	963	749	28.6	23,169	2,166	969.7
Total	$ 35,206	$ 75,917	(53.6)%	**$ 187,848**	**$ 228,865**	**(17.9)%**

Gross premiums written decreased 53.6% in the three months ended September 30, 2019 compared to the three months ended September 30, 2018, due to the rehabilitation of American County, American Service and Gateway (collectively, the "ASI Pool Companies"), which did not allow for new business to be written after August 15, 2019. Gross premiums written decreased 17.9% in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. The decrease is related to the rehabilitation of the ASI Pool Companies offset by a fronting program which started in May 2019. See "Explanatory Note" and "Part 1, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

In-force premium was $239.9 million, $286.1 million and $286.7 million as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively. The Company's gross unearned premium reserves were $111.9 million, $134.0 million and $149.4 million as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively. The decrease of in-force premium and gross unearned premium reserves since December 31, 2018 and September 30, 2018 is a result of the rehabilitation of the ASI Pool Companies, which did not allow for new business to be written after August 15, 2019.

Geographic Concentration

Gross Premiums Written by State

($ in '000s)	Three months ended September 30,					
	2019			2018		
New York	$	12,241	34.8%	$	36,082	47.5%
California		6,883	19.6		10,805	14.2
Minnesota		3,115	8.8		1,113	1.5
Virginia		1,897	5.4		2,473	3.3
New Jersey		1,508	4.3		2,572	3.4
Nevada		1,020	2.9		1,060	1.4
Illinois		802	2.3		1,248	1.6
Georgia		772	2.2		1,567	2.1
Maryland		720	2.0		1,169	1.5
Florida		567	1.6		921	1.2
Other		5,681	16.1		16,907	22.3
Total	$	35,206	100.0%	$	75,917	100.0%

Gross Premiums Written by State

($ in '000s)	Nine months ended September 30,					
	2019			2018		
New York	$	77,907	41.5%	$	96,799	42.3%
California		33,770	18.0		36,439	15.9
Virginia		8,248	4.4		7,404	3.2
New Jersey		7,826	4.2		7,862	3.4
Illinois		6,439	3.4		10,073	4.4
Minnesota		4,203	2.2		4,374	1.9
Louisiana		4,190	2.2		5,673	2.5
Texas		3,753	2.0		5,134	2.2
Georgia		3,710	2.0		4,429	1.9
Ohio		3,282	1.7		4,962	2.2
Other		34,520	18.4		45,716	20.1
Total	**$**	**187,848**	**100.0%**	**$**	**228,865**	**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 Gen Re. Atlas also purchases reinsurance from Gen Re 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 Re for its commercial auto and general liability lines of business ("Quota Share") written by the ASI Pool Companies. The Quota Share 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 Quota Share cession rate was increased to 30%.

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, 2018 and for the nine months ended September 30, 2019.

Ceded premiums written decreased by 51.3% to $13.5 million and increased by 31.4% to $83.8 million for the three and nine months ended September 30, 2019, respectively, compared to $27.8 million and $63.8 million for the three and nine months ended September 30, 2018, respectively, primarily due to the rehabilitation of the ASI Pool Companies, the increase in the Quota Share cession rate for the ASI Pool Companies, and a fronting program which started in May 2019.

During 2019, the Company received notice from Gen Re that effective July 31, 2019, the XOL reinsurance coverage for the ASI Pool Companies would terminate on a cut-off basis. Additionally, effective September 30, 2019, the ASI Pool Companies' Quota Share contract with Swiss Re was terminated on a run-off basis. During 2020, the Company received notice from Gen Re that effective January 1, 2020, the XOL reinsurance coverage for Global Liberty would terminate on a run-off basis. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

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 55.0% to $21.7 million and 37.0% to $104.1 million for the three and nine months ended September 30, 2019, respectively, compared to $48.2 million and $165.1 million for the three and nine months ended September 30, 2018, respectively. The change is 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 25.5% to $40.6 million in the three months ended September 30, 2019 and decreased 20.4% to $131.9 million in the nine months ended September 30, 2019 compared to $54.5 million and $165.7 million for the three and nine months ended September 30, 2018, respectively. The change in net premiums earned is attributed to the combined effects of the reasons cited in the 'Gross Premiums Written' and 'Ceded Premiums Written' sections above.

Net Claims Incurred

The loss ratio relating to the net claims incurred was 71.1% and 73.2% for the three and nine months ended September 30, 2019, respectively, compared to 61.6% and 61.8% for the three and nine months ended September 30, 2018, respectively. The loss ratio increased over both prior year periods primarily as a result of increases in year-to-date loss ratio estimates for IBNR in 2019.

Claims and Claims Adjustment Expenses Incurred, Net of Reinsurance

($ in '000s) Accident Year	Commercial Auto Liability	Other	Total	Commercial Auto Liability	Other	Total
	Three months ended September 30,					
	2019			2018		
Current Year	$ 23,713	$ 3,888	$ 27,601	$ 29,716	$ 3,905	$ 33,621
Prior Years	1,448	(208)	1,240	(71)	(8)	(79)
Total	$ 25,161	$ 3,680	$ 28,841	$ 29,645	$ 3,897	$ 33,542
	Nine months ended September 30,					
	2019			2018		
Current Year	$ 81,492	$ 12,443	$ 93,935	$ 89,089	$ 12,020	$ 101,109
Prior Years	490	2,042	2,532	1,156	132	1,288
Total	$ 81,982	$ 14,485	$ 96,467	$ 90,245	$ 12,152	$ 102,397

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 $3.2 million for the three months ended September 30, 2019, or 8.0% of net premiums earned, as compared to $5.7 million, or 10.5%, for the three months ended September 30, 2018. For the nine months ended September 30, 2019, acquisitions costs were $10.0 million, or 7.6% of net premiums earned, as compared to $18.4 million, or 11.1%, for the nine months ended September 30, 2018.

Acquisition Cost Impact on the Combined Ratio

($ in '000s, percentages to net premiums earned)	Three months ended September 30,			
	2019	%	2018	%
Net premiums earned	$ 40,582	100.0 %	$ 54,461	100.0 %
Gross commissions incurred excluding contingent	6,185	15.2	6,935	12.7
Gross contingent commissions incurred	308	0.8	(33)	—
Premium and other taxes incurred	2,063	5.1	2,226	4.1
Total gross commissions and taxes incurred	8,556	21.1	9,128	16.8
Ceded commissions incurred excluding contingent	(5,468)	(13.5)	(4,253)	(7.8)
Ceded contingent commissions incurred	160	0.4	826	1.5
Total ceded commissions incurred	(5,308)	(13.1)	(3,427)	(6.3)
Total	$ 3,248	8.0 %	$ 5,701	10.5 %

($ in '000s, percentages to net premiums earned)	Nine months ended September 30,			
	2019	%	2018	%
Net premiums earned	$ 131,872	100.0 %	$ 165,712	100.0 %
Gross commissions incurred excluding profit sharing	21,808	16.5	22,103	13.3
Gross profit sharing commissions incurred	1,230	0.9	1,673	1.0
Premium and other taxes incurred	6,479	4.9	6,002	3.6
Total gross commissions and taxes incurred	29,517	22.3	29,778	17.9
Ceded commissions incurred excluding contingent	(18,951)	(14.4)	(9,629)	(5.8)
Ceded contingent commissions incurred	(606)	(0.5)	(1,792)	(1.0)
Total ceded commissions incurred	(19,557)	(14.9)	(11,421)	(6.8)
Total	$ 9,960	7.4 %	$ 18,357	11.1 %

Total gross commissions and taxes incurred decreased $572,000 and $261,000 for the three and nine months ended September 30, 2019, respectively. The decreases resulted from lower premium written as a result of the rehabilitation of the ASI Pool Companies.

Ceded commissions incurred excluding contingent commissions decreased by $1.2 million in the three months ended September 30, 2019 compared to the three months ended September 30, 2018 and decreased by $9.3 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018, primarily due to the increase in the Quota Share cession rate. Ceded contingent commissions incurred decreased by $666,000 in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. Ceded contingent commissions incurred increased by $1.2 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. Ceded contingent commissions are based on loss experience. The change in ceded contingent commissions resulted from unfavorable loss ratios on Atlas' reinsurance agreements.

The other underwriting expense ratio (including share-based compensation expenses and expenses incurred related to stock purchase agreements) was 27.6% and 16.4% for the three months ended September 30, 2019 and 2018, respectively. Total other underwriting expenses increased by $2.3 million in the three months ended September 30, 2019 compared to the three months ended September 30, 2018. The other underwriting expense ratio (including share-based compensation expenses and expenses incurred related to stock purchase agreements) was 25.8% and 16.0% in the nine months ended September 30, 2019 and 2018, respectively. Total other underwriting expenses increased by $7.5 million in the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018. Increases in the allowance for doubtful accounts, depreciation and amortization expense, facility expenses, and professional fees related to the corrective actions and strategic evaluation undertaken contributed to the increase in total dollars while a decrease in net premium earned contributed to the percentage increase for the three and nine months ended September 30, 2019.

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 did not incur or recover any expenses pursuant to the contingent adjustments of the Anchor stock purchase agreements related to the claim reserve contingency for the three and nine months ended September 30, 2019. For the three and nine months ended September 30, 2018, Atlas recovered $0 and $520,000, respectively of expenses pursuant to the stock purchase agreements.

Combined Ratio

Atlas' combined ratio was 106.7% and 106.6% for the three and nine months ended September 30, 2019, respectively, compared to 88.5% and 88.9% for the three and nine months ended September 30, 2018, 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 change in the combined ratio is attributable to the factors described in the 'Net Premiums Earned,' 'Net Claims Incurred,' and 'Acquisition Costs and Other Underwriting Expenses' sections above.

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, decreased by 60.0% to $428,000 for the three months ended September 30, 2019, compared to $1.1 million for the three months ended September 30, 2018. The decrease resulted from sales of fixed income securities which reduced interest income in addition to repayment of collateral loans. Investment expenses increased by 10.7% to $290,000 for the three months ended September 30, 2019 compared to $262,000 for the three months ended September 30, 2018. The increase was a result of higher allocated general expenses and increased custodial fees offset by lower investment manager fees. Atlas' investment manager fees are based on the fair market value of the underlying fixed income securities and equities. The gross annualized yield on our fixed income securities was 2.6% and 2.7% for the three months ended September 30, 2019 and 2018, respectively. The gross annualized yield on our cash and cash equivalents was 1.0% and 0.7% for the three months ended September 30, 2019 and 2018, respectively.

Net investment income, net of investment expenses, decreased by 28.8% to $2.3 million for the nine months ended September 30, 2019, compared to $3.2 million for the nine months ended September 30, 2018. The decrease resulted from sales of fixed income securities which reduced interest income in addition to repayment of collateral loans. Investment expenses were $950,000 and $731,000 for the nine months ended September 30, 2019 and 2018, respectively. The increase was a result of higher allocated general expenses and increased custodial fees offset by lower investment manager fees. Atlas' investment manager fees are based on the fair market value of the underlying fixed income securities and equities. The gross annualized yield on our fixed income securities was 2.7% and 2.6% for the nine months ended September 30, 2019 and 2018, respectively. The gross annualized yield on our cash and cash equivalents was 0.8% and 0.6% for the nine months ended September 30, 2019 and 2018, respectively.

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. Interest expense related the senior unsecured notes was $470,000 and $465,000 for the three months ended September 30, 2019 and 2018, respectively, and $1.4 million for each of the nine months ended September 30, 2019 and 2018, respectively. Other interest expense was $6,000 for the three and nine months ended September 30, 2019, respectively. There was no other interest expense for the three and nine months ended September 30, 2018.

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 $3,000 and $2,000 through net income for the three months ended September 30, 2019 and 2018, respectively, related to the changes in the unrealized amounts on equities held at fair value. Atlas recorded losses of $277,000 and $97,000 through net income for the nine months ended September 30, 2019 and 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 were $411,000 and $54,000 for the three months ended September 30, 2019 and 2018, respectively, and $1.1 million and $501,000 for the nine months ended September 30, 2019 and 2018, respectively. The increases were results of the timing of sales of fixed income and equity securities.

Other Income

Atlas recorded other income of $128,000 and $186,000 for the three months ended September 30, 2019 and 2018, respectively, and $721,000 and $366,000 for the nine months ended September 30, 2019 and 2018, respectively. The increase resulted from interest received on federal income tax refunds in the first quarter of 2019.

(Loss) Income before Income Taxes

Atlas had a pre-tax loss of $2.2 million for the three months ended September 30, 2019 compared to pre-tax income of $7.1 million for the three months ended September 30, 2018, or a 131.1% decrease over the prior year's third quarter. Atlas had a pre-tax loss of $6.2 million for the nine months ended September 30, 2019 compared to pre-tax income of $21.0 million for the nine months ended September 30, 2018, or a 129.4% decrease over the prior year. The change is 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.

Income Taxes

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;
- our belief that predictive modeling in underwriting and claims should generate 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 three most recent years; and
- yearly limitation as required by IRC Section 382 on net operating loss carryforwards generated prior to 2013.

Net (Loss) Income and Earnings per Common Share

Atlas had a net loss of $2.2 million and $6.2 million during the three and nine months ended September 30, 2019, respectively, compared to net income of $5.6 million and $16.7 million during the three and nine months ended September 30, 2018, respectively. Loss per common share diluted was $0.19 and $0.52 for the three and nine months ended September 30, 2019, respectively, compared to earnings per common share diluted of $0.47 and $1.39 for the three and nine months ended September 30, 2018, respectively.

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.

Carrying Value of Securities Portfolio, including Cash and Cash Equivalents

($ in '000s)	September 30, 2019	December 31, 2018
Fixed income securities:		
U.S. Treasury and other U.S. government obligations	$ 22,600	$ 20,196
States, municipalities and political subdivisions	3,999	8,843
Corporate		
Banking/financial services	5,183	13,124
Consumer goods	2,430	9,790
Capital goods	1,209	3,547
Energy	2,063	6,812
Telecommunications/utilities	4,302	8,323
Health care	432	755
Total corporate	15,619	42,351
Mortgage backed		
Mortgage backed - agency	11,203	25,128
Mortgage backed - commercial	12,879	19,622
Total mortgage backed	24,082	44,750
Other asset backed	12,063	13,851
Total fixed income securities	$ 78,363	$ 129,991
Equities	1	5,929
Short-term investments	8,562	4,745
Other investments	19,461	25,043
Total investments	$ 106,387	$ 165,708
Cash and cash equivalents	54,008	34,902
Total	$ 160,395	$ 200,610

Portfolio Composition

Atlas held securities, short-term investments and other investments with a carrying value of $106.4 million and $165.7 million as of September 30, 2019 and December 31, 2018, respectively, which were primarily comprised of fixed income securities. The decrease resulted from the net sales of fixed income securities and equities, the repayment of two collateral loans, return of capital of certain equity method investments and changes in market values.

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.

See "Explanatory Note" and "Part 1, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

Short-Term Investments

Atlas' short-term investments are comprised of bonds and money market funds. As of September 30, 2019 and December 31, 2018, short-term investments totaled $8.6 million and $4.7 million, respectively.

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 these other investments were $19.5 million and $25.0 million as of September 30, 2019 and December 31, 2018, respectively. The decrease in carrying value is related to redemptions of equity method investments and changes in carrying value during the nine months ended September 30, 2019. The carrying values of the equity method limited partnerships were $19.4 million and $24.0 million as of September 30, 2019 and December 31, 2018, respectively. The decrease in the carrying value of the limited partnerships was primarily due to the return of capital of certain equity method investments. 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 invests in income-producing real estate. As of September 30, 2019, the carrying values of the collateral loans were approximately $93,000 versus approximately $1.0 million as of December 31, 2018.

Equity Method Investments by Type

($ in '000s)	Unfunded Commitments	Carrying Value	
	September 30, 2019	September 30, 2019	December 31, 2018
Real estate	$ 2,887	$ 11,063	$ 11,085
Insurance linked securities	—	1,378	6,694
Activist hedge funds	—	3,920	3,911
Venture capital	2,390	2,682	2,015
Other joint venture	—	325	325
Total equity method investments	$ 5,277	$ 19,368	$ 24,030

Liquidity and Cash Flow Risk

As of September 30, 2019, 40.2% 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 26.1% as of December 31, 2018. 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, 2019, the fixed income securities had a weighted average life of 3.1 years and a duration of 2.1 years, compared to a weighted average life of 4.8 years and a duration of 3.8 years as of December 31, 2018. 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, 2019 and December 31, 2018 was 567.9% and 430.5%, respectively. See 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, 2019, Atlas' allowance for bad debt was $6.5 million, compared to $5.1 million as of December 31, 2018. The increase in the allowance for bad debt resulted from an analysis of certain past due balances during the nine months ended September 30, 2019. The fixed income securities portfolio consists of predominantly investment grade securities in corporate and government bonds with 99.6% rated 'BBB' or better as of September 30, 2019 compared to 99.5% as of December 31, 2018.

Credit Ratings[1] of Fixed Income Securities Portfolio

($ in '000s)	September 30, 2019		December 31, 2018	
	Fair Value	% of Total	Fair Value	% of Total
AAA/Aaa	$ 23,840	30.4%	$ 38,478	29.6%
AA/Aa	39,370	50.2	50,273	38.7
A/A	9,989	12.8	20,729	16.0
BBB/Baa	4,865	6.2	19,808	15.2
BB	299	0.4	557	0.4
CCC	—	—	146	0.1
Total fixed income securities	$ 78,363	100.0%	$ 129,991	100.0%

1 Ratings assigned by Fitch, S&P or Moody's Investors Service.

See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

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, 2019 and 2018.

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, 2019 was $19.5 million compared to $115.4 million as of December 31, 2018. This decrease was primarily driven by a reduction in the total fixed income securities and changes in market values during the first nine months of 2019. The Company expects to monitor liquidity needs and assess the sale of fixed income assets, if required, on a regular basis.

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 Companies and the Global Quota Share with Swiss Re for Global Liberty.

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 $88.5 million recoverable from third party reinsurers (exclusive of amounts prepaid) as of September 30, 2019 as compared to $81.2 million as of December 31, 2018. The increase in the amount recoverable from third party reinsurers resulted from an increase in ceded case and IBNR reserves and the timing of the collection of amounts recoverable on paid claims.

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.

During 2019, the Company received notice from Gen Re that effective July 31, 2019, the XOL reinsurance coverage for the ASI Pool Companies would terminate on a cut-off basis. Additionally, effective September 30, 2019, the ASI Pool Companies' Quota Share contract with Swiss Re was terminated on a run-off basis. During 2020, the Company received notice from Gen Re that effective January 1, 2020, the XOL reinsurance coverage for Global Liberty would terminate on a run-off basis. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

Claims Liabilities

Provision for Unpaid Claims by Type, Gross of Reinsurance

($ in '000s)	September 30, 2019	December 31, 2018	% Change
Case reserves	$ 80,824	$ 78,191	3.4 %
Incurred but Not Reported ("IBNR")	163,142	195,305	(16.5)
Total	$ 243,966	$ 273,496	(10.8)%

Provision for Unpaid Claims by Line of Business, Gross of Reinsurance

($ in '000s)	September 30, 2019	December 31, 2018	% Change
Commercial automobile liability	$ 234,324	$ 268,728	(12.8)%
Other[1]	9,642	4,768	102.2
Total	$ 243,966	$ 273,496	(10.8)%

Provision for Unpaid Claims by Line of Business, Net of Reinsurance Recoverables

($ in '000s)	September 30, 2019	December 31, 2018	% Change
Commercial automobile liability	$ 157,841	$ 200,984	(21.5)%
Other[1]	7,020	3,741	87.7
Total	$ 164,861	$ 204,725	(19.5)%

[1] 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.

During the nine months ended September 30, 2019, case reserves increased by 3.4% compared to December 31, 2018, and IBNR reserves decreased by 16.5%. The increase in case reserves was primarily due to an increase in claim features related to 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, 2019.

Provision for Unpaid Claims, Gross of Reinsurance

($ in '000s)

Accident Year	Case Reserves: Commercial Auto Liability	Case Reserves: Other	Case Reserves: Total	IBNR: Commercial Auto Liability	IBNR: Other	IBNR: Total
	As of September 30, 2019					
Current Year	$ 18,211	$ 80	$ 18,291	$ 74,732	$ 4,011	$ 78,743
Prior Years	60,773	1,760	62,533	80,608	3,791	84,399
Total	$ 78,984	$ 1,840	$ 80,824	$ 155,340	$ 7,802	$ 163,142
	As of December 31, 2018					
Current Year	$ 47,109	$ 1,210	$ 48,319	$ 107,944	$ 2,782	$ 110,726
Prior Years	30,039	(167)	29,872	83,636	943	84,579
Total	$ 77,148	$ 1,043	$ 78,191	$ 191,580	$ 3,725	$ 195,305

Provision for Unpaid Claims, Net of Reinsurance Recoverables

($ in '000s)

Accident Year	Case Reserves: Commercial Auto Liability	Case Reserves: Other	Case Reserves: Total	IBNR: Commercial Auto Liability	IBNR: Other	IBNR: Total
	As of September 30, 2019					
Current Year	$ 13,876	$ 41	$ 13,917	$ 48,205	$ 2,811	$ 51,016
Prior Years	51,562	618	52,180	44,198	3,550	47,748
Total	$ 65,438	$ 659	$ 66,097	$ 92,403	$ 6,361	$ 98,764
	As of December 31, 2018					
Current Year	$ 40,073	$ 481	$ 40,554	$ 76,337	$ 2,556	$ 78,893
Prior Years	26,502	(105)	26,397	58,072	809	58,881
Total	$ 66,575	$ 376	$ 66,951	$ 134,409	$ 3,365	$ 137,774

Changes in the Provision for Unpaid Claims and Claims Adjustment Expenses, Net of Reinsurance Recoverables

($ in '000s)	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Unpaid claims and claims adjustment expenses, beginning of period	$ 252,670	$ 187,170	$ 273,496	$ 211,648
Less: reinsurance recoverable	72,229	46,614	68,771	53,402
Net unpaid claims and claims adjustment expenses, beginning of period	180,441	140,556	204,725	158,246
Incurred related to:				
Current year	27,601	33,621	93,935	101,109
Prior years	1,240	(79)	2,532	1,288
	28,841	33,542	96,467	102,397
Paid related to:				
Current year	12,739	15,639	29,002	36,439
Prior years	31,682	26,563	107,329	92,308
	44,421	42,202	136,331	128,747
Net unpaid claims and claims adjustment expenses, end of period	164,861	131,896	164,861	131,896
Add: reinsurance recoverable	79,105	55,085	79,105	55,085
Unpaid claims and claims adjustment expenses, end of period	$ 243,966	$ 186,981	$ 243,966	$ 186,981

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 change in incurred related to prior years for the three and nine months ended September 30, 2019 and 2018 primarily resulted from unfavorable development on involuntary assigned risk pools and run-off commercial auto. The provision for unpaid claims and claims adjustment expenses decreased by 10.8% to $244.0 million as of September 30, 2019 compared to $273.5 million as of December 31, 2018 as a result of claim settlement activities on prior accident years.

Equity and Book Value per Common Share

Book Value per Common Share

($ in '000s, except for share and per share data)	September 30, 2019	December 31, 2018
Common equity	$ 4,350	$ 5,699
Common shares:		
Common shares outstanding	11,942,812	11,936,970
Restricted stock units	11,682	24,932
Total common shares	11,954,494	11,961,902
Book value per common share outstanding	$ 0.36	$ 0.48

Changes to Book Value per Common Share

As of December 31, 2018		**$ 0.48**
Net loss, after tax	(0.30)	
Loss reserve estimate change	(0.17)	
Change in deferred tax valuation allowance	(0.10)	
Loss from change in fair value of equity securities	(0.02)	
Realized investment gains, after tax	0.06	
Changes in unrealized gains and losses, after tax	0.35	
Share-based compensation	0.06	
Year-to-date decrease to book value per common share		**(0.12)**
As of September 30, 2019		**$ 0.36**

The change to book value per common share is 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) Income 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.

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. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

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.

Summary of Cash Flows

($ in '000s)	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Net cash flows used in operating activities	$ (42,684)	$ (11,597)
Net cash flows provided by investing activities	61,790	18,574
Net cash flows used in financing activities	—	(3,341)
Net increase in cash	$ 19,106	$ 3,636

Cash used in operations during the nine months ended September 30, 2019 was $42.7 million, compared to $11.6 million during the nine months ended September 30, 2018. We receive most premiums 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, 2019 was $61.8 million and resulted from the net sales and maturities of fixed income securities, the net sales of equity securities and other investments partially offset by the purchase of short-term investments and property and equipment purchases. Sales of investments were needed to fund payments to policyholders and claimants. 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.

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. During 2018, 255,505 shares were repurchased under this 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.

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 Companies 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. See "Explanatory Note" and "Part I, Item 2, 2019 Developments" for certain developments with respect to the Company and the Insurance Subsidiaries during the third quarter and subsequent to September 30, 2019.

Statutory Net Loss and Surplus of Atlas' Insurance Subsidiaries

($ in '000s)	September 30, 2019	December 31, 2018
Net income (loss) computed under statutory-basis accounting	$ 8,097	$ (49,648)
Combined statutory capital and surplus	$ 5,496	$ 14,377

Atlas did not declare or pay any dividends to its common shareholders during the nine months ended September 30, 2019 or during the year ended December 31, 2018.

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, 2018. 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, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2019 our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) under the Exchange Act, and concluded as of the end of the period covered by this report that our disclosure controls and procedures were not effective due to failure to timely file certain periodic reports during 2019 as discussed below in connection with our internal control over financial reporting.

> *Timely identification of financial closing delays*: As previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, through a confluence of events involving the Company's former auditor which we do not believe could have reasonably been anticipated, the Company did not timely file its Annual Report on Form 10-K containing its audited financial statements for the year ending December 31, 2018 and, consequently, its Quarterly Reports on Form 10-Q for the quarters ending March 31, June 30, and September 30, 2019 and therefore did not have an effective internal control in place to monitor the progress of all aspects of its financial reporting close process to timely identify delays, resulting in the Company being unable to timely meet its financial reporting requirements with the SEC and Nasdaq.
>
> The delay in the completion of the audit of the Company's financial statements for the fiscal year ended December 31, 2018 was due to the previously disclosed disagreement with the Company's former independent registered public accounting firm with respect to insurance reserves in certain of the Company's insurance subsidiaries for the fiscal year ended December 31, 2018. The Company dismissed its former independent registered public accounting firm on April 29, 2019. As a result of this disagreement and termination, the audit of the Company's financial statements for the fiscal year ended December 31, 2018 could not be completed in such time as to remain compliant with SEC and Nasdaq reporting requirements.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

With respect to the material weakness related to *timely identification of financial closing delays* and the resulting failure to timely file, the Company engaged another independent registered public accounting firm to complete the audit of its December 31, 2018 financial statements. The Company has also taken steps to monitor the progress of all aspects of its financial closing process including more detailed discussions as needed with its independent registered public accounting firm regarding insurance reserve calculations.

Changes in Internal Control

There were no changes to our internal control over financial reporting during the fiscal quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Further, there have been no such changes since December 31, 2018 other than the action described in *Remediation Plan for Material Weakness in Internal Control over Financial Reporting*.

Part II. Other Information

Item 1. Legal Proceedings

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. Defendants filed a motion to dismiss, which was fully briefed as of December 12, 2018. On April 1, 2019, before the Court had addressed defendants' pending motion to dismiss, the plaintiffs filed a motion for leave to amend their complaint to include allegations relating to the Company's press release dated March 4, 2019 disclosing a further increase in its loss reserves. The Court subsequently granted plaintiffs leave to file a second amended complaint, which plaintiffs filed on April 9, 2019. On June 5, 2019, before the defendants had responded to the second amended complaint, plaintiffs filed a motion for leave to file a third amended complaint to add allegations relating to developments occurring after the Company's March 4, 2019 press release. The Court subsequently granted the motion for leave, and plaintiffs filed the third amended complaint on June 12, 2019. In the third amended complaint, the plaintiffs assert claims on behalf of a putative class consisting of purchasers of the Company's securities between February 22, 2017 and April 30, 2019. 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. Defendants filed a motion to dismiss the amended complaint on July 17, 2019, and briefing on that motion was completed on October 31, 2019. The motion remains pending before the Court. Under the federal securities laws, discovery and other proceedings automatically will be stayed during the pendency of the motion to dismiss.

In addition, in connection with our operations, we are, from time to time, named as defendants in actions for damages and costs allegedly sustained by plaintiffs in connection with claims against the insurance policies we underwrite. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided, and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

Item 1A. Risk Factors

Not applicable.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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.

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:	March 30, 2020	Atlas Financial Holdings, Inc.
		(Registrant)
	By:	/s/ Paul A. Romano
		Paul A. Romano Vice President and Chief Financial Officer