Atlas Financial Holdings Second Quarter 2014

and Year-End Financial Results

Speakers: Scott Wollney, Paul Romano

Operator: Greetings and welcome to the Atlas Financial Holdings 2014 Second Quarter Earnings Conference Call.

At this time, all participants are in a listen-only mode.

A question-and-answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to Mr. Scott Wollney of Atlas Financial.

Thank you, Mr. Wollney. You may now begin.

Mr. Scott Wollney: Thank you very much, Manny [sp], and good morning, everyone.

With me today is Paul Romano, our Vice President and CFO. In this morning's call, I'll provide an update on our business operations in the market, Paul will review our second quarter results in detail, and then I'll return for closing remarks and provide some metrics that we use internally here at Atlas, which we wanted to share to help give a sense for our expectations for the future.

Before I begin, I'll turn it over to Paul.

Mr. Paul Romano: Thank you, Scott, and good morning, everyone.

Yesterday after market close, Atlas issued its 2014 second quarter financial results. Copies of this press release are available at the Company's website at www.atlas-fin.com.

We will be utilizing a slide show presentation with this call. This presentation can be found at the top of the press releases section of our website's Investor Relations page. We welcome each of you to review this presentation and follow along.

On this call, Atlas may make forward-looking statements regarding the Company, its subsidiaries, and businesses. Such statements are based on the current expectations of the management of each entity. The words anticipate, expect, believe, may, should, estimate, project, outlook, forecast or similar words are used to identify such forward-looking information.

The forward-looking events and circumstances discussed on this call may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting the companies, including risks regarding the insurance industry, economic factors and the equity markets generally, and the risk factors discussed in the Risk Factors section of its Form 10-K for the year ended December 31, 2013.

No forward-looking statement can be guaranteed. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made, and the Company and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

When discussing our business operations, we may use certain terms of art, which are not defined under U.S. GAAP. In the event of any unintentional difference between the presentation materials and our GAAP results, investors should rely on the financial information in our public filings. All amounts discussed on this call are in U.S. dollars, unless otherwise indicated.

With that, I'd now like to turn the call back over to Scott.

Mr. Scott Wollney: Thanks, Paul.

For those of you following along with our presentation, we'll begin on slide four.

In summary, we were pleased to report a solid quarter of improving operating performance. We achieved significant year-over-year growth across all metrics of our business, continue to see positive trends within the niche light commercial vehicle insurance sectors in which we operate, and feel that we're properly positioned from an operating and financial standpoint to continue this above average profitable growth into the future, potentially at an accelerating rate.

At the onset of this call, I want to confirm three important factors. One, in our recent capital raise and infrastructure expansion planning, we were motivated by our increasingly positive view of market conditions. Two, our expected ratio ranges remain consistent with prior targets, and three, increasing shareholder value through higher than industry ROE levels, which requires market leadership in both hard and soft markets, remains our consistent goal.

Our better than average results in recent quarters is largely due to our difficult to replicate expertise and market positioning in the taxi cab, limousine and paratransit insurance lines. Although we've seen larger and often more generalist competitors delivering less predictable outcomes when it comes commercial auto recently, we continue to see positive trends in our niche, which we attribute to the specialized nature of our business and the insurance segments in which we write.

Since the inception of Atlas, our strategy has always been and continues to be leveraging our hyper focused business model and the many years of experience in data our company has maintained to properly underwrite and deliver value added service to a customer base that is truly unique. By understanding the underlying risks related to our clients' business, we are able to confidently price the insurance policies we write appropriately while continuing to grow towards a position of proportionate market share.

In the second quarter, we achieved a combined ratio improvement of 3.1 percentage points to 91.9 percent, marking the fifth straight quarter of margin improvement as compared to the prior year same quarter.

We're pleased with the operating performance of the Atlas team and our independent agent distribution channel. In addition to improving our margins in the quarter, we also made progress with respect to the expansion of our team, which we feel will help best position us to take advantage of favorable market conditions.

We grew 42.2 percent in our core segment during the quarter year-over-year and are seeing signs that a harder market may be coming.

As we've communicated previously, our primary focus has been on smaller to medium sized operators. That's our target market, and we continue to generate business for those size accounts at a marginally higher rate than larger ones. In that market segment, our growth rate was 57.1 percent. We understand that these growth rates are higher than the broader P&C industry as well as the commercial auto sector overall.

Much of our growth continues to be the recapture business written by our companies in the past, and we expect that to continue throughout 2015. However, as market conditions continue to firm in our specialty segments, we're also seeing the highest level of new business opportunities available since Atlas was created. And despite increasing underwriting profit targets, we're also experiencing the highest level of retention for renewal business our insurance companies have seen since the last hard market, as well.

As seen on slide five, we actively distribute our products in 40 states plus the District of Columbia. We regularly monitor both states in which we currently write business as well as those where we intentionally do not. At this time, we're actively writing business in all states that made our underwriting profit based criteria.

Our efforts have been to progress towards proportional market share in every state in which we operate, which will also have the effect of adding geographic diversity to our book of business.

We were pleased that, during the quarter, we achieved over 100 percent growth in a number of states. Some of this is recapture as our agents wrote nearly a $150 million of premium in our three subsidiaries prior the formation of Atlas. This business was generated primarily in five states, which are only some of the larger markets in the niche.

We continue to leverage brand strength in markets where our companies were traditionally strong and are also establishing a position of market leadership in states where we entered over the past few years.

As seen on slide six, Illinois, which has traditionally being one of our largest and most mature states, is representing a smaller percentage of our book of business while larger markets like California and New York are growing at a relatively faster rate. This is a testament to both our organic marketing strategies and effective M&A integration plans.

At the same time, the overall addressable market in which we focus is expanding, and within the market, we believe the percentage of owner operators and small fleets is growing faster than larger operators, as well. We routinely evaluate the size and make up of our specialty niche markets. Based on information collected with an outside data analytics firm, we believe that the number of vehicles in our niche market increased 19 percent over the past two years. I'll talk more about this later in the call.

On slide seven we highlight our combined ratio performance, which we've improved in the past 18 months through pricing activity and increased operating efficiency. Our Q2 2014 combined ratio of 91.9 percent compared favorably to 95.0 percent in the prior year. Our loss ratio during this period improved to 61.9 percent compared to 64.6 percent.

There are a couple of components of our operating ratios that should be noted. The first - our expenses related to our ROE driven management incentive plan where this year we began accruing throughout the year compared to no such expense in the prior year. Some of you may remember last year's plan was expense in its entirety during Q1 of 2014, and we also began accruing for projected expenses related to 2014 to mitigate lumpiness quarter-to-quarter going forward.

Excluding this expense item, our pro forma expense ratio was 12.9 percent as compared to 17.3 percent in Q2 of 2013 on an apples to apples basis.

The next item is hiring. We don't want to be penny wise and pound foolish given the great market opportunity we feel exists, so we have been reinvesting in our business primarily through entry level hiring of new high potential individuals who we are thoroughly training to become members of the Atlas team. However, our best practices and efficient operating environment allow us to continue to reduce expenses as a percentage of premium at the same time.

The impact of our hiring in the first half of this year represents approximately 1 percent of our overall Q2 OUE ratio.

We believe that this investment in strong people coupled with our commitment to train them and also promote existing great talent from within the organization will allow us to continue to the growth trends seen on slide eight and support increased operating leverage to positively impact ROE.

Before I provide more detail regarding the market environment, I thought it would be helpful to show what we're seeing in our distribution channel.

In slides nine and ten, we outline key metrics including new business submissions, total vehicle reinsure and renewal retention. As you can see, each of these important metrics is moving in the right direction and are at the highest levels we've seen in this cycle.

These are some of the trends we use to evaluate the market and also help to show the granularity and how we contemplate pricing opportunities. We've been steadily holding and renewing business above our target rate of 85 percent in the past few quarters and are now seeing retention in the 90s. For the past 18 months, we've been pricing to a 60 percent or better loss ratio.

While we don’t want to share more detail regarding exact price changes for competitive reasons, at this point, it's accurate to say that we’re pricing to a better than 60 percent loss ratio in every market where we’re operating. And our renewal retention is at the highest point seen in years, suggesting that the market will support further increases in rate levels.

Our putting incremental rate into the market may have slowed growth in the near term, but we expect market conditions to catch up as they did when we showed price leadership earlier in this market cycle. We expect that leading the cycle will ultimately result in maximum accretion to book value and ROE over time.

We listen to what our agents are telling us and have a number of data points to focus as we price. We’re a relatively high occurrence lower severity insurer, uh, writing business in a very defined market segment. Our clients crash. They can crash a lot, but we expect this and are able to differentiate ourselves both from a value add and expense control standpoint based on our claims process.

It's not an easily replicable model, and it's one of the reasons we’re confident in our results. Our claim process mandates that we reserve to ultimate as early in the life of the claim as possible. Development of severity can be an issue in commercial auto lines generally. We’re diligent about making sure that claims are reported timely and have a number of business rules to manage this.

And because the light vehicle segments in which we focus have relatively lower limit profile than most heavy commercial auto segments, our exposure to severity surprises is also inherently less than other higher limit lines of business.

While there's always risk due to the nature of our business, we believe that our organization's core competencies and best practices position us to succeed in managing it.

Slides 12 through 14 provides some statistics on the market, which I'll now discuss, and then Paul will provide more detail regarding our financial results.

The pricing in commercial auto has been rising in the steady single digits for some time now. While it's always difficult to predict market activity, we think that recent industry results coupled with the direct competitive information we gather suggests that we may begin seeing more meaningful rate hardening in commercial auto overall.

The effect of this would both create rate buoyancy in our niche and likely extend the period of time where competition remains relatively limited.

As seen on slide 13, rate increases have predictably been the highest for small to medium size operators. Should the market begin to truly harden, which is traditionally defined as year-over-year rate increases in the teens, we would expect this rate relativity to continue.

As I noted earlier, we believe that the number of vehicles in the specialty segments on which we focus increased 19 percent over the past two years. This expansion is above the level we anticipated two years ago. There are number of factors, including the economy, the emergence of mobile dispatch applications and other market dynamics which we believe explain this growth.

At current rate levels, we believe that our addressable market has grown approximately 30 percent from 1.5 billion to closer to nearly 2 billion. Our goal continues to be to progress towards proportionate market share of 20 percent, always putting a priority on underwriting results over top line growth.

We intend to deploy the additional capital raised in our recent secondary offering to facilitate expected growth in the next 12 to 18 months. Using this larger market size as a basis, our current market share is just over 5 percent. Drilling down into larger territories, we believe our share in Illinois continues to be our highest at approximately 10 percent with much lower share of approximately 2 percent in California and 3.5 percent in New York.

Significant growth opportunities exist nationwide with market share of less than 5 percent in the majority of states, and we believe that our strategy of organic growth with potential incremental M&A in large markets will continue to deliver profitable growth.

Return on equity remains our priority, and our objective will always be to deliver better than industry results based on our specialized focus.

We haven't seen any larger competitors begin to enter the segment and know that the value proposition we offer distinguishes our product.

There are also a number of barriers to entry that limit the ease with which a new competitor could enter our niche successfully. These are some of the key reasons we created Atlas in the first place.

We focus on steadily growing markets that are big enough for a company of our size to achieve significant growth without exceeding proportionate market share but small enough to prevent commoditization from larger generalists.

I'll now turn the call over to Paul for a further review of our financial results.

Mr. Paul Romano: Thanks, Scott.

I'll briefly go through quarterly highlights but welcome each of you to review our press release and filings should you have any further questions.

As shown on slide 16 of the presentation, and as Scott mentioned, Atlas's gross premium written increased 37.7 percent to $22.8 million in the second quarter of 2014 with a 42.2 percent increase from our core commercial auto lines as compared to the same quarter of 2013.

Net premium written increased 42.6 percent to 21.4 percent--to 21.4 million in the second quarter compared to 15 million for the third month period--for the three month period ended June 30th, 2013 and decreased 26.9 percent compared to the three month period ended March 31st, 2014.

As discussed in the past, while we expect seasonality to have a lesser impact on our quarter-to-quarter written premiums, it does still have an impact on our business and was the reason written premiums in Q2 were less than in Q1.

In the small to medium markets that we target, our net premiums written improved 57.1 percent as compared to Q2 last year. Net premiums earned were $23.3

million in the second quarter, a 37.4 percent increase compared to the 17 million reported in the prior year period. Our net premiums earn [unintelligible] be over the term of our policies, which are generally 12 months in length.

Our combined ratio for the quarter improved to 91.9 percent compared to 95 percent. Scott went through the combined ratio in greater detail this quarter, and we added notations in our press release to provide transparency for users of our financial information.

Now let me take a moment now to summarize key elements of our operating ratios.

For the second quarter of 2014, Atlas's loss ratio was 61.9 percent compared to 64.6 percent in the prior year period. As Scott mentioned earlier, we have had pricing to a 60 percent loss ratio or better and have been pleased with the loss ratio trending across our growing base of policies.

We believe market conditions support further price improvement, as well. As discussed on prior calls, as a rule, we have been waiting to observe actual loss reporting in comparison to our expectations before giving credit for rate increases. We continue to employ this philosophy and feel it is the most prudent approach.

Acquisition costs were $3.5 million in the three month period ended June 30th, 2014, or 14.9 percent of net premium earned as compared to 13.1 percent in the three month period ended June 30th, 2013.

The increase in the ratio from the prior period is primarily attributable to the seed [sp] commissions received in 2013 related to the reinsurance on the run-off workers' compensation program. This decreased the 2013 loss--or acquisition ratio by 1.4 percentage points. The balance of the difference from 2013 and the variance to the three month period ended March 31st, 2014 is the result of geographic and business mix of our gross premiums written as commissions and tax rates vary. At an annualized basis, 14 to 15 percent remains a reasonable target for this ratio.

The other underwriting expense or OUE was $3.5 million or 15.1 percent of earned premium in the second quarter compared to $3 million or 17.3 percent in the prior year period. We achieved this 2.2 percent decrease in our OUE ratio despite increasing our full time employees by 14 percent since the beginning of this year.

One of the key elements to our business strategy has been to maintain senior level expertise in the organization and also train people who are coming into the business to facilitate knowledge transfer and assure that our operations always maintain the integrity of Atlas' best practices.

We had indicated in the past releases and conference calls that our targeted OUE ratio is in the 10 to 12 percent range and that we expect to be closer to 12 percent as we continue to grow. That continues to remain the case.

We expect to be in that range by the end of this year and are prepared to react to market conditions should more significant hardening occur.

We do not want to leave opportunities on the table in the face of favorable market conditions. As was communicated last quarter, our OUE also now includes the accruals related to director and management incentives that Scott mentioned earlier. The accounting for this represented approximately 2.2 percent of the OUE ratio in the quarter.

Net income for the quarter was $2.6 million, representing a 53 percent increase over the $1.7 million reported in the second quarter of 2013. We reported earnings of 23 cents per diluted common share during the second quarter of 2014 compared to earnings of 15 cents per diluted common share for the same period in the prior year.

On slide 17 we detail the recent highlights that impacted book value, which includes the impact of the recent common stock offering that we completed during the period as well as net income improvement.

As a result, we increased the book value by a $1.42 from December 31st, 2013 to $7.96 per share as at June 30th, 2014.

We continue to maintain an allowance against deferred tax assets, which was 66 cents per share as at June 30th, 2014. The company has been reducing its valuation allowance against deferred tax assets by an amount equal to the amount of income tax expense generated for the period. We expect to continue this process in the third quarter of 2014.

A full comprehensive analysis of this policy will take place during the 2014 year-end financial close process, which could result in future reductions or the elimination of the valuation allowance.

This reassessment will include but will not be limited to continued underwriting profitability, the lack of significant prior year loss reserve development, continuing favorable market conditions, continued positive trend in taxable earnings and other such indications deemed positive.

In the next two slides, we include information on our balance sheet. Primarily as a result of the capital raise, Atlas' cash and invested assets at June 30th, 2014 increased to 177.7 million as compared to 140 million at December 31st, 2013.

Our investment duration remained consistent at 3.7 years, which is in line with our expected liquidity requirements for claim payments. The majority of our holdings are in fixed income securities rated AA or better by S&P.

With that, let me turn the call back to Scott for his concluding remarks.

Mr. Scott Wollney: Thank you, Paul.

Many of you may have noted that we added information to yesterday's press release concerning our outlook for 2015. Coming out of our stock offering this spring, we felt it was appropriate to outline how we see the proceeds being utilized.

As I noted earlier, we intend to deploy the additional capital raised in our recent secondary offering to facilitate expected growth over the next 12 to 18 months.

As illustrated on slide 21, in the near term, we feel the best and highest use of time, capital and other resources as our committed focus on vertical growth within our current niche markets. Longer term, we also anticipate horizontal expansion as we reach proportionate share in the taxi, limousine and paratransit space.

We feel very confident in our market segment and the position Atlas has within it. With our current view of addressable market size of nearly $2 billion in our niche at 20 percent, we see a revised proportionate market share in the range of 300 to 400 million in premiums written.

That said, it's critical to remember that we use ROE not premium growth as a measure of success. However, it is important to have visibility into expected scale for planning purposes.

Maintaining our commitment to prioritize underwriting profit ahead of top line growth, we currently forecast 2015 gross premiums written approaching 200 million with our target acquisition cost, OUE and loss ratios in mind. Obviously, changing market conditions as well as potential M&A activity could impact this forecast.

As discussed in the past, we're looking at acquisitions to potentially accelerate our market position in key geographies. We will only pursue such transactions if they're truly strategic, additive in terms of experienced and expert infrastructure and where they'll be accretive in the near term.

Finally, in some respects, the insurance industry can operate as though they're in a vacuum. We recognize that this isn't the case. It's critical to be able to grow effectively in favorable market environments and also be ready to react to market changes. We believe that our hyper focus allows us to stay ahead of the curve and are currently planning for continued accelerated growth.

In our view, long term value creation for shareholders will be driven by achieving our goal to exceed industry ROE levels by 5 to 10 percentage points irrespective of market cycles, and we believe that our targets are appropriate.

On slide 22, we took a number of insurance and financial services companies with higher than average growth rates and incorporated ROE and price to book to illustrate the market's perceived value of the combination of growth and ROE.

Our job as a management team is to continue to adjust to the market and provide above average returns by not losing track of any of the core tenets upon which we created this enterprise in the first place - in short, to always know more than our competition and leverage that knowledge through operational execution to deliver optimal results.

As always, I want to thank the whole Atlas team for delivering another strong quarter of results, and more importantly, for supporting our organization's plans to prepare for continued growth and long term success.

With that, let’s open it up for questions.

Operator: Thank you.

We will now be conducting a question and answer session.

If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue.

You may press star, two if you'd like to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Dan Farrell of Sterne Agee. Please go ahead.

Mr. Dan Farrell: Uh, hi, and good morning.

Mr. Scott Wollney: Hi, Dan.

Mr. Paul Romano: Hi, Dan.

Mr. Dan Farrell: I, uh--just a question around, um, your, uh, your 2015 goal of, uh, of 200 million of, uh, of premium. Um, do you put any provision for potential

M&A activity in there, or is that a goal that could be driven strictly by some of the organic drivers that you've been having?

Mr. Scott Wollney: Right.

So, it's focused on organic growth. Uh, the thing I guess I'd want to be really clear about is, you know, the goal is to hit the underwriting OUE and acquisition cost ratios. What we expect is that, at our pricing levels, that 200 million number is a good forecast for the resulting premium.

Um, so, you know, as in the past, we've always been hesitant to talk about top line goals specifically, but we did feel like it would helpful to provide a sense of our forecast for where the premium might be. So, with that clarification, um, I'd reiterate that is based on our expected organic growth. Um, any M&A activity could obviously accelerate, uh, the speed with which we might get to that premium level.

Mr. Dan Farrell: That's, uh, that's helpful.

And then, I'd be curious on the organic side - um, you know, how--you've talked about recapturing business from sort of, uh, existing agents, um, and there's still run-way for that. Um, if you could sort of breakdown, um, how much more can come from that versus would you look to add new agent relationships? I'm just trying to get a sense of how the organic could be driven. Thank you.

Mr. Scott Wollney: Sure.

So, you know, I think we've always referred to the recapture process as being about a three year process, um, and we really in 2012 started asking for those agents to commit to rolling business back to us and really began to see the business coming back, um, in late 2012, early 2013. Um, so we do expect to continue to see recaptured business coming back, um, through the end of 2015. Um, and in addition, we are looking for those agents to continue to grow in terms building on the book of business they already have, as well.

Um, so a lot of the growth we expect is still gonna come from existing agents, you know, both the recapture as well as incremental business that they're having opportunities to write. And it's I think important to keep in mind that the agents we work with benefit as much from a hardening market environment as we do because many of their competitors were only able to source products for the specialty markets on which we focus through managing general agents who are the same MGAs that we've mentioned in the past have lost their markets and are now non-renewing business.

So, um, not only are we seeing our growth rate accelerating, our agents are also seeing the opportunities to write new business accelerating, as well.

Um, so we are on a very limited basis signing up new agents. Um, as a practical matter, we have already, um, gotten commitments from a number of new agents in the first half of this year equal to what we had targeted essentially as a full year, uh, level of expectation for 2014.

So, you know, again, I think just another indicator of where we see the market going, um, and also, you know, I think a very positive sign that the value proposition and the brand strength we have is really resonating in the marketplace.

Mr. Dan Farrell: That was very helpful. Thank you.

Mr. Scott Wollney: Great. Thanks, Dan.

Operator: Thank you.

The next question is from Paul Newsome with Sandler O'Neill. Please go ahead.

Mr. Paul Newsome: Um, good morning.

Mr. Scott Wollney: Morning, Paul.

Mr. Paul Romano: Morning, Paul.

Mr. Paul Newsome: Uh, there's a little comment in there about, uh, possible--in the press--uh, in the slides about possible expansion into other lines of insurance. Could you talk a little bit about what that might mean for you and perhaps timing of that kind of activity?

Mr. Scott Wollney: Sure.

So, we look that as essentially a next step. Um, our goal would be to begin pursuing those kind of opportunities when we're closer to having the 20 percent proportionate share in our current niche markets, you know, again, with the idea that we think the best and highest use of our resources is the vertical growth in the space that we know better than anybody, um, but also recognizing it takes time to do an effective analysis and really understand the best way to enter a new market.

We are beginning to spend time at the senior level evaluating other potential expansion lines, um, and in general, what we're looking at is addressable markets of 1 to 3 billion, uh, nationwide, uh, specialized business segments that are not commoditized, um, and a segment where the users of the insurance product will benefit from and pay more for, uh, value added attributes similar to the things that make the niche markets we're in attractive.

Um, so using those things as basic criteria, you know, we are evaluating potential areas for expansion, um, but we see that as, you know, again, a longer term step, you know, probably one where we would want to be moving into those areas after we feel the current sort of firm to hard market, um, is starting to move in the other direction, you know, whenever that maybe - hopefully, you know, a number of years from now.

So, um, we did not want to suggest that we are planning horizontal expansion in the very near term, but we do think it's important, um, to communicate the fact that, you know, in addition to getting to the 20 percent proportionate share in the current niche markets, we do see, you know, future expansion beyond that down the road.

Um, and the final thing I'd say is, you know, we are focusing our energy in commercial auto areas in terms of those potential horizontal expansion activities. You know, we’re not looking at getting into lines of businesses that are, you know, meaningfully different than what we already do well.

Mr. Paul Newsome: Um, could you give us an update as to how you view the M&A pipeline?

Mr. Scott Wollney: We are in active discussion with a number of companies in the space. You know, I think I’ve mentioned before that we had proactively reached out, um, to a large number of competitors, uh, some more proactively, you know, or, uh, you know, aggressively than others in terms of our interest in their particular business, um, and have maintained those discussions.

Um, I think I mentioned on the last call, someone had asked about the potential size. You know, we are looking at potential transactions that range from 5 million to as much as 20 or 25 million. Um, and again, we'll only proceed if we feel the valuation's appropriate. Um, we believe that the business is truly strategic and additive to us, um, so the idea isn't to sort of buy market share. It's to actually, you know, buy a business that we think will be very additive, um, and one that we can assimilate and will be accretive in the near term the way the Gateway acquisition was.

Um, so obviously, we will press release, uh, any transaction, uh, where we get into a definitive agreement, but right now do feel very good about the discussions we've had. And, you know, then the majority of these are companies that were not "for sale." They're businesses that we've actually reached out to because we believe they would meet the criteria I just described. Um, and those kind of discussions obviously take some time, um, because, you know, we're not starting with a seller who's already made a decision to sell their business. And again, that's much, much like what happened with the Gateway transaction.

Mr. Paul Newsome: Thank you. I'll, uh, I'll re-queue and let somebody else, uh, ask some questions. Appreciate it.

Mr. Scott Wollney: Thanks, Paul.

Mr. Paul Romano: Thanks, Paul.

Operator: Thank you.

The next question is from Ryan Burns of Janney Capital. Please go ahead.

Mr. Ryan Burns: Great. Uh, good morning, guys.

Mr. Scott Wollney: Hey, good morning, Ryan. How are ya?

Mr. Paul Romano: Hi, Ryan.

Mr. Ryan Burns: Good, thanks.

Um, hey, just quickly wanted to talk about, uh, the growth in the addressable market - uh, again, uh, it was a pretty big move from 1.5 billion to 2 billion. Um, where is that coming from? Is that coming from the growth of I guess, you know, the Ubers and Lyfts of the world?

Mr. Scott Wollney: Uh, not so much Lyft because we don't view the ride sharing vehicles as part of our addressable market, so we are solely looking at commercially plated vehicles that are being driven by commercially licensed drivers. Um, now, the effect of mobile dispatch, which includes, uh, you know, things like Uber Black as well as the mobile dispatch applications that traditional taxi and limo and black car operators have also been developing, um, we think are causing the market to expand. It is also a big driver of why we expect to see a larger percentage of owner operators and small fleets in those addressable markets.

Um, so that's one part of the shift. Uh, I think another is the fact that from an economic standpoint, we are seeing more people using that mode of transportation, you know, some choosing to do it instead of owning a car in major metro areas, and I think just in general, you know, there is more disposable income or more flexible income than there was two years ago, um, which is the last time we sort of cast a view on the market size.

Um, so, you know, I think those things are probably some of the key drivers, um, you know, and in general, too, you know, we see the population growing, we see an aging population, um, which utilizes especially the paratransit segment of our business, uh, but also the taxi segment. Um, so I think that’s a factor in terms of, you know, sort of the makeup of the users of our customer services.

Um, and then, finally, the rate environment has also improved. But, to kind of allocate the percentages of growth, you know, of the 30 percent overall growth in the addressable market, 19 percent is driven by the underlying vehicles themselves, and the remaining 11 percent or so is the effect of increased rates that we've seen over the last two years.

Mr. Ryan Burns: Got it. Great. Thank you.

Mr. Scott Wollney: Thanks for the question.

Mr. Ryan Burns: Uh, and, uh, to shift a little bit, um, the loss ratio improvement obviously improved, uh, little under three points year-over-year and improved sequentially, as well. Is that purely, you know, effective of rate increases in excess of loss cost, um, or is there some business mix, uh, you know, in there, as well? Just want to see how, uh, you know, sustainable that, uh, underlying loss ratio improvement is?

Mr. Scott Wollney: Sure.

It's the first, um, so it is the combination of rate relative to lost cost, um, and it's the result both of positive pricing activity, uh, you know, and as I mentioned, you know, we had in prior quarters communicated that we've been pricing to a 60 percent or better, you know, are now moving beyond that in terms of expanded margin.

Um, and that’s on all lines of business. Um, so that is the minimum level of profitability, you know, to which we'll price at this point. Um, and so the business mix shouldn’t really be affecting it. Um, the final thing is, you know, we are continuing to do a number of things that, you know, we feel will continue to drive particularly severity out of the business. A good example - uh, we actually yesterday just wrapped up a two day council with 31 different law firms that came here, uh, as our business partners at their own expense to focus on trends and loss mitigation, uh, within our paratransit line of business. Um, that's something that we do regularly, uh, and have similar councils for other areas, uh, particularly those where we feel, you know, relative to our business there could be more potential severity.

Um, and so doing those sort of things and then adopting or modifying our best practices based on what we learn and what we're able to uncover, um, are helping us to in fact drive some level of severity out of the business. Um, and as I pointed out, uh, in the formal, uh, portion of the call, uh, you know, we have a relatively low severity business in relation to commercial auto more broadly to begin with, but obviously, we're always looking for ways to make sure that we're managing severity and eliminating the potential for leakage and fraud.

Mr. Ryan Burns: Gotcha.

And then, uh, and then moving over to, uh, obviously the new hires ramp-up, um, how much more do you--or, you know, how many more people do you think you would need to support, um, that 200, uh, million, uh, target of gross premium in 2015?

Mr. Scott Wollney: So, from a--as a percentage, you know, I think the run-rate that we're on is fairly consistent with what we'd expect based on the market environment, um, that exists today, which is essentially what we use as a basis for establishing that forecast of approaching 200 million. Um, so in terms of headcount, I think you could expect a fairly similar percentage.

Um, obviously, the 14 percent in headcount doesn’t directly equate to a 14 percent increase in underlying expense dollars, um, because we are hiring generally at the entry level, um, to make the process of training efficient. We are focusing on hiring in small groups, and we have been recruiting actively particularly from Midwest colleges with insurance programs.

Um, and so we’re bringing people in who have good fundamental insurance knowledge but where we are training them, uh, to understand and facilitate business the way that we operate here at Atlas. Um, and so, you know, that has always been the goal really is retain the significant institutional knowledge that we have based on the really, uh, great experience that our senior team have and then transfer that knowledge, um, to young high potential people--not so young, but high potential people who are, you know, new to what we do, um, and develop them into future leaders of the organization.

So, um, you know, I think we can--you should expect that we will have a modest continued increase in terms of expense dollars. Um, and, you know, while we have to hire people slightly ahead of the expected work volume because there is a training period, um, and we are doing it and anticipating, you know, the increased levels of activity that we've talked about, um, you know, we are also going to be very fluid in that. So, if we see the market improving more in terms of opportunities to write new business, um, we are going to hire more, and if we see it, you know, flattening out, obviously, we’re gonna mitigate that hiring. So, you know, it is definitely a variable cost.

Mr. Ryan Burns: Okay, great. Thanks for the answers, guys.

Mr. Paul Romano: You're welcome. Thanks for the questions.

Operator: Thank you.

The next question is from Matthew Berry of Lane Five Capital. Please go ahead.

Mr. Scott Wollney: Hi, Matthew.

Mr. Paul Romano: Hi, Matthew.

Operator: Mr. Berry, your line is live.

Mr. Matthew Berry: Hello.

Mr. Scott Wollney: Hey, Matthew.

Mr. Matthew Berry: Hi, sorry about that. I, uh, I forgot to unmute myself, um, which is the first time ever, so--um, all right.

So, the--my first question is, uh, about the, uh, the small fleet owner operator segment--.

Mr. Scott Wollney: --Uh-huh--.

Mr. Matthew Berry: --57 percent growth, uh, in that, uh, which is faster than the overall growth. Could you, um, just tell us what proportion, um, of your net written premiums, um, you include in that small fleet owner operator sub-segment?

Mr. Scott Wollney: Uh, we don’t have the perfect number in front of us, but it--I would say generally about 90 percent of our written premiums are the small to mid-sized operators. So, it's the majority of what we’re doing. Um, the exception would be particularly in Q3 where we have the Excess Taxi Program that we’ve talked about in the past, which is designed for, uh, owners of large amounts of medallions in New York.

But, setting that aside, you know, 90 percent, and as we continue to grow, that percentage of smaller operators we expect to continue to get bigger because we are really targeting that class of business, um, for the reasons that we've talked about in the past.

Mr. Matthew Berry: Okay.

Um, you mentioned that, uh, there are no large competitors entering the market. Uh, where you're seeing--where you are seeing people enter, are you seeing, uh, people enter as, um, through MGAs generally? I mean, I know there are a lot of them got burned but, you know, where you see competition increasing anywhere, is it generally through MGAs?

Mr. Scott Wollney: Um, so, first, we have not seen any new MGA based programs enter in the past year. Um, there are still a few that exist and, you know, have been price aggressive in the past. Even those we're seeing starting to raise rate, um, which is a good factor in that respect--.

Mr. Matthew Berry: --Yeah--.

Mr. Scott Wollney: --And really where we're seeing our competition coming from are local oftentimes non-standard auto writers, um, who have always kind of been in the space or dabbled in the space and are taking advantage of these incremental opportunities to write business.

Um, but as we've talked about, we are finding that that type of competitor is generally following price leadership up. Um, they are generally heavily user--using quota share reinsurance, and so, um, they benefit more from expanded margins than they do increased market share.

Um, and so, again, by showing price leadership, we feel that we are ultimately gonna help create more buoyancy overall. Um, and so, while there's always an immediate impact if prices goes up and momentum slows down, to the extent that the market buoyancy continues, you know, we would expect to regain that momentum at those higher margins.

Mr. Matthew Berry: Okay.

Um, on the, uh, on the loss ratio, um, there's a small amount of favorable development this quarter and last quarter, uh, and obviously, your loss ratio is still above, um, where you’ve been pricing it at now for several quarters in a row. Um, where we see favorable developments, uh, coming through, does that tend to be, um, because the re are settlements on the longer tail elements of the risk are coming out more favorable than you, you know, than you priced for, or is it because, you know, severity and frequency of crashes and fender benders is, uh, is not as bad as you, uh, you included? What has been driving that favorable development and, uh, how do you expect that, um, you know, to evolve going forward?

Mr. Paul Romano: Well, specifically in the favorable development that we've been seeing this year, it's really specific to a run-off program that we inherited when we had, uh, spun the companies off, American Country, American Service. So, that’s been in run-off since 2009--.

Mr. Matthew Berry: --Okay--.

Mr. Paul Romano: --Um, and we’re just seeing that. It wasn’t developing as we expected. You know, it was actually developing favorably. Um, and again, it was such a small program and it's in run-off, and we decided just to go ahead and take the favorable.

But, in other programs, I think that, um, you know, as we continue to manage and review, um, the loss ratios that are actually being reported, which is the incurred side as well as the paid side--.

Mr. Matthew Berry: --Uh-huh--.

Mr. Paul Romano: --Um, we'll continue to monitor that as we go forward. And, you know, the expectation is that we've set our loss reserves at the point that we expect, um, the payments to actually, um, materialize. So, we don't expect at this point that we're gonna see any favorable development on those loss ratios, but, you know, we don't know at this point.

Mr. Scott Wollney: Yeah, I think the key element, and we've talked about this before, is that, you know, while we were pricing to a 60, we didn't immediately give ourselves credit for that pricing activity with the view that we wanted to see actual development, um, actual claims paid in case reserves, um, sat--come in as expected. And as we see that happening, we are then comfortable taking more credit for the rate activity that we've put into the market, especially in the most recent and current accident years.

And so, you know, while I wouldn't characterize that as favorable development so much as, um, we are able to see the benefit of the pricing activity that was put in place primarily a year ago because we have not been negatively surprised. Um, so, you know, we're trying to have an air of conservatism there, um, rather than taking full credit for rate activity immediately at the time that we put the rates into the market.

And as we touched on in the formal remarks, you know, we do feel like that is the appropriate policy to continue going forward, as well.

Mr. Matthew Berry: Okay.

Um, so as an owner, I would just sort of concur that, I know we've discussed this before, and I do think that is the appropriate policy. I would rather see, um, a slightly higher loss ratio and some favorable developments, um, you know, in out years than, um, than trying to sort of hit the number exactly on the mark and then falling short, uh, you know, as things develop.

Um, could we see--uh, could you just give us a quick update on the technology platform, the submission portal, how that technology is coming along and when you expect that to go live and start having an impact on, uh, on costs?

Mr. Scott Wollney: Sure.

We are in the process now of beginning the implementation of the system, um, which I think we've touched on before, was the system that came to us with Gateway, um, that we’ve made some modifications to be based on other needs that we have. Um, and so, the transition plan really begins, um, in the third quarter.

So now, um, in terms of the internal aspects of quality control testing, making sure we’re comfortable, uh, particularly with the portal, um, we want to be very comfortable before we expose our agents to it. Um, but we do expect that process to begin in the fourth quarter and--of this year and to be complete by the end of 2015.

Um, so we are transitioning business across at renewal. Um, we are not going to do a cut over, um, which we feel will be, you know, the least disruptive approach in terms of the distribution channel, um, and also, you know, not be a distraction from what we really want to be doing in the short run, which is taking advantage of the high volume of applications that we’re seeing to evaluate and write business.

Mr. Matthew Berry: Absolutely.

Mr. Scott Wollney: But, it's on track with our expectations.

Mr. Matthew Berry: Okay, good.

And then, I have one last accounting question, which was could you just remind me what the value--if at the end of this year you decide to eliminate the valuation allowance, uh, against the deferred tax assets, what would be the, uh, the add back to equity and, uh, and would that count as surplus or not?

Mr. Paul Romano: Um, well, from a statutory perspective, the calculations to compute the deferred tax assets are a little bit different, a little bit more complex than they are from the GAAP side. Uh, but at June 30th, we had 66 cents per common share as an allowance against the deferred tax assets.

Mr. Matthew Berry: Okay.

Mr. Paul Romano: You know, and, you know, based on the comments that we made in the presentation, we'll continue the process that we've been, uh, going through where we’re offsetting tax expense with the comparable reduction in the valuation allowance at least for Q3, and then we'll go ahead and do a complete reevaluation and comprehensive study on, you know, um, whether or not, you know, we need that valuation allowance at the end of the year.

Mr. Matthew Berry: Okay. All right. Thank you, Paul, and thank you, Scott.

Mr. Scott Wollney: Thanks, Matt.

Operator: Thank you.

And as a reminder, ladies and gentlemen, it is star, one if you would like to ask a question.

And the next question is from Brian Hollenden of Sidoti. Please go ahead.

Mr. Brian Hollenden: Morning, guys, and thanks for taking my call.

Mr. Scott Wollney: Morning, Brian.

Mr. Paul Romano: Good morning.

Mr. Brian Hollenden: Are your customers being negatively affected by Uber, and how could this impact your business long term?

Mr. Scott Wollney: So, I think the way I would describe it is they're being challenged in the sense that, um, I think there is a consumer expectation for convenience that maybe didn't exist or wasn't as strong. Um, and so, we are seeing many of the traditional taxi operators in particular, um, launching their own mobile apps. Some of them had them before but I think it weren't as effective at marketing them as Uber has been.

Um, so that's definitely creating a shift. Um, at this point, I think most of our clients would say that, um, particularly in the taxi space, there are some pressures in terms of, you know, when the ride sharing aspect of Uber and some of the other companies, um, come into play. It's challenging, because at least for the time being in a lot of jurisdictions, um, those guys are charging less than the taxi fares, um, which is the main complain that the taxi operators have, which is if you're gonna have rules in a particular municipality, they should apply to everybody.

Um, and in fact, we're seeing a lot of municipalities there is now legislation being in put in place that is in fact enforcing those rule.

So, um, in the short run, there's definitely a disruption there, but none of our clients are telling us that they're parking vehicles. Um, we have not seen vehicles being taken off the street. You know, the medallion values remain very high.

Um, and the bottom line is the value of those medallions as they are issued, uh, directly benefit the municipalities that will ultimately decide, um, how to regulate, um, the ride sharing aspect of the industry.

So, I think, um, in the short run, it's creating, you know, pressures and challenges. Um, the other it's doing, though, in terms of the Uber Black process, which is where commercially plated and licensed operators are being dispatched using the mobile app, um, we are definitely seeing it cause an increased number of owner operators, um, because it's simply easier for a driver who perhaps was driving for a car service in the past or limousine service, um, to kind of branch out and become an owner operator, um, much more quickly than they might have in the past where they would have had to have built up, you know, their own book of business and arrange for dispatch and those sorts of things.

So, that is part of what we think is causing the owner operator and small fleet operators to become a bigger percentage of the overall addressable market.

Um, and so, you know, I think that's another--that is a short term trend, um, that is having shift, but again, in a way that I think is, you know, causing our target market to actually grow.

Um, so there's pros and cons, clearly, um, and there's no question that it's, uh, that it is causing an effect on the market. Um, longer term, I think what we'd anticipate is the ride sharing will get regulated to the point that it either becomes impractical and that it won't be cost effective for the provider or the user or it will become a more regulated segment of public transportation if in fact there is a sort of supply demand intersection where they can meet a need that the other existing providers can't.

Um, but to the extent it gets regulated and there are rules that everybody's following, um, that does then potentially become another addressable market, uh, for us, as well. Um, so it's something we watch very closely and is obviously a series of developments.

Mr. Brian Hollenden: Thanks. I appreciate your comments on that.

Mr. Paul Romano: Thanks for the question.

Operator: Thank you.

The next question is from John Deysher of Pinnacle. Please go ahead.

Mr. John Deysher: Uh, good morning.

Mr. Scott Wollney: Morning, John.

Mr. Paul Romano: Morning, John.

Mr. John Deysher: Quick question on, uh slide nine - you have the metrics there. Uh, the vehicles in force, uh, are shown, but I was curious, uh, what the policies in force were at the end of the quarter versus the start of the quarter?

Mr. Scott Wollney: Um, basically, the ratio between vehicle in force and policies in force is approximately 2.5 vehicles on each one of our policies that we write. So, if you take the vehicles in force and divide those by 2.5, you'll get our--a reasonable, uh, view of the policies in force.

Mr. John Deysher: Okay.

Do you have actually have the hard number of policies in force?

Mr. Scott Wollney: Yeah, it's, uh, 9,560.

Mr. John Deysher: 560--at the end of June?

Mr. Scott Wollney: Yeah.

Mr. John Deysher: And what was it at the, uh, end of March?

Mr. Scott Wollney: Uh, that number I don't have right in front of me. Uh, but again, if you go back and look at the vehicles in force and kind of use that same approach, it's--the number of vehicles per policy has been consistent, um, over the last 12 months.

Mr. John Deysher: Okay.

Um--okay, I'll follow up with you offline.

Mr. Scott Wollney: Okay. Thanks, John.

Operator: Thank you.

We have no further questions in queue at this time. I would like to turn the floor back over to management for any closing remarks.

Mr. Scott Wollney: Thank you, Manny, and thanks to everyone for joining us. We look forward to speaking with each of you again in the future.

Operator: Thank you.

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time, and thank you for your participation.