Atlas Financial Holdings, Inc.
2015 First Quarter Earnings
May-12-2015

Operator: Greetings, and welcome to Atlas Financial Holdings First Quarter 2015 Financial Results 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.

It's now my pleasure to introduce your host, Scott Wollney, President and CEO of Atlas Financial Holdings. Please go ahead, sir.

Mr. Scott Wollney: Thank you very much, Kevin, and good morning, everyone.

With me today is Paul Romano, our Vice President and CFO.

The first quarter was a strong but complicated one for Atlas. This was a great quarter and we're extremely happy with our results with record revenue and operating earnings despite non-recurring M&A related transaction costs. For the remainder of the year, we expect clean operating results, so much so that we are for the first time providing guidance with respect to return on equity. Based on our expectations from market conditions, our target is to manage to an after-tax return on equity goal in the high teens this year with a goal of 20 percent in subsequent years provided the environment remains favorable.

In today's call, we will detail the atypical charges in the quarter and their impact on financials, discuss certain financial measures established to manage our operating leverage as we grow, and lastly, expand upon our goals for the coming quarters ahead and how we intend to reach them.

I'll now turn it over to Paul to provide details about our quarterly materials and review our policy regarding forward-looking statements.

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

Yesterday after market close, Atlas issued its 2015 first quarter financial results. Copies of this press release are available at the Investor Relations section at the company's website at www.atlas-fin.com.

We will be utilizing a slide show presentation in conjunction with this call. This presentation is available on our website Investor Relations section and then under the earnings release info selection. 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 31st, 2014.

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.

For those of you following along with our presentation, we'll begin on Slide 4.

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

Mr. Scott Wollney: Thanks, Paul.

Atlas reported a solid underwriting performance for the period, which included 44 percent organic growth in gross commercial auto premiums written, continuing improvement in our combined ratio and record operating results of $5.3 million for the quarter. The most straight forward way to look at the first quarter, eliminating the effect of atypical items, is that gross written premiums including the full quarter for Global Liberty was 56.7 million, and earnings per share before tax was $.032. We are achieving these results due to stable expansion and a hyper focused team committed to generating higher than average return on equity by deploying Atlas's core competencies, which are operating specialty insurance businesses, finding and fixing challenge insurance businesses and always being a good steward of capital. In the first quarter, our deployment of each of these competencies was evident.

Accomplishments during the last several months have been important to position Atlas for success over the upcoming quarters and years. We closed our acquisition of Global Liberty and implemented a number of financial measures to ensure that we can manage our operating leverage in anticipation of continued expected growth. With 100 percent of our resources focused on organic growth and integrating our recent strategic acquisition, we plan to maximize the benefits to all stakeholders in what increasingly appears to be a hardening insurance market in our niche.

While rate activity in many larger segments within the P&C industry appear to be moderating, we continue to see favorable trends in our specialty markets. We'll talk more about our expectations later in the call.

As I mentioned earlier, this quarter did include a number of onetime atypical items that affected our bottom line, specifically related to M&A and our tax status. Each of these are positive things, but some did impact net income and EPS negatively for the period due to accounting treatment. This made for a somewhat noisy quarter, and I want to walk through the moving parts, which are highlighted on the next slide.

First, we issued 940,500 additional one dollar preferred shares to the former owner of Gateway Insurance Company, as a result of favorable reserve development. Atlas acquired Gateway in January 2013. Similar to the way that we structured the acquisition of our other operating subsidiaries, we implemented several measures as a protection against potential adverse development and also agreed to provide the sellers with additional consideration in the event of favorable reserve development.

Based on actuarial work completed in the first quarter, analyzing year end 2014 results, there was approximately 1.9 million of favorable development related to Gateway's pre-acquisition claims liabilities. For every one dollar of net favorable development, we issued $0.75 in preferred shares. Pursuant to accounting rules, the value of these preferred shares runs through the income statement as an expense and there’s no tax benefit related there, too. The impact of this expense was $0.07 per share in the quarter. The acquisition has been a great success and has been instrumental in Atlas’ growth. We are also pleased that under our management claims liabilities have come down for pre-acquisition exposures. We think this is a good demonstration of our unique capabilities and discipline in the claims area.

Second, we incurred M&A transaction costs as a result of our acquisition of Global Liberty. We closed and began consolidating Global Liberty into our operations on March 11th, 2015. While the effective date of the transaction as set out in the stock purchase agreement is January 1st, 2015, purchase accounting rules dictate that we begin consolidating results effective on the close date through the end of the quarter. The financial impact from January 1st, 2015 through the acquisition date is accounted for as goodwill. So, we incurred the full transaction related expense, but only 20 days of underwriting profit in the first quarter. These non-recurring expenses amounted to approximately $0.06 for the quarter at the low end of the six to $0.08 range we discussed in our call in March.

Of note, we structured the Global Liberty transaction with a similar purchase price protection agreement related to potential reserve development as we used with Gateway. And in future years if there is reserve development, we may have a similar discussion regarding outstanding preferred shares. Naturally as a management team, we'd be very pleased to see continued favorable development in connection with any of our acquisitions. In short, the impact to our net income and EPS was a total 1.7 million in costs related to these atypical M&A items or $0.13 per diluted share.

We also started recording federal tax liability on a GAAP basis. Based on the company's decision to write down the allowance against this DTA as year-end 2014 beginning with the three month period ended March 31st, 2015, we will be recording tax expense. In the first quarter 2015, the company's federal tax rate was 43.2 percent. This figure was higher than statutory rates due to the accounting for the issuance of preferred shares related to the Gateway stock purchase agreement. Typically, the company expects to report the statutory tax rate of 35 percent.

When comparing year-over-year results, it's also important to recognize that outstanding shares increased. Diluted weighted average common shares outstanding were 12,624,789, representing a 27.7 percent increase over the prior year period. Most of these shares were issued to raise capital that supported organic growth and ultimately provided cash used to acquire Global Liberty. The rest relates to management and director equity incentives. As disclosed this quarter the majority of the equity incentive shares were issued as part of five-year program where vesting is linked to an annual 15 percent minimum after-tax return on equity. Paul will walk through a more detailed bridge from operating earnings to net income later on the call.

With all that in mind, our net income for the period before tax was 3.8 million, representing a 71.5 percent increase over the same period last year. After tax it was 2.1 million, or $0.17 per common share diluted. While this net number may be lower than some expected, it is not reflective of Atlas' run rate earnings potential due to the issues affecting the quarter, which I just summarized. Although it's nice to have smooth earnings, we will always focus on making the right decisions to execute on strategic objectives with longer term shareholder value creation in mind as a priority.

As seen on Slide 6, our strategic execution continues to deliver strong premium growth, underwriting results, and accretion to book value. Eliminating the noise related to atypical items, normalized pro forma results were as follows; gross written premium would have been 56.7 million, an 81.5 percent increase over the same quarter prior year. Before tax income would have been 4.1 million, representing an increase of 87.4 percent over the same quarter prior year. After-tax income would have been 2.6 million. Before and after tax earnings would have been $0.32 and $0.21 respectively per common share diluted for the three month period ended March 31st, 2015, and normalized to exclude all atypical acquisition related costs and benefits and include the full quarter for Global Liberty pro forma annualized before and after tax return on common equity were 14.8 and 9.5 percent respectively.

We reported a combined ratio of 84.3 percent for the period, largely driven by significant improvement in our loss ratio. In this case the favorable development related to Gateway improved the results in the quarter. Backing out the favorable development, the combined ratio would have been 90.5 percent, still a result that continues to demonstrate strong margins as we grow.

As you can see on Slide 7, the trend in our operating margin has been positive and consistently below 95 percent for the past eight quarters. As was seen in the first quarter last year, there was a slight increase in the normalized combined ratio due to front loaded expenses. There was also some drag in terms of both expense and loss ratio related to the stub period for Global Liberty. We expect the combined ratio to once again continue moving in the right direction for the balance of the year as our loss ratio trends towards our underwriting margin targets, which are consistently at a 60 percent loss ratio or better.

As discussed before, for competitive reasons we will not be disclosing specific pricing targets by program or geography. However, we will confirm that the pricing environment this year is favorable and continues to trend in a positive direction.

Before moving on to an update on our operations in the market, we want to discuss some of the tools we've put in place to help us move towards a self-financing model. I'm referring specifically to our previously announced methods of managing our operating leverage in anticipation of expected growth. I'll further address how we view this impact in our financial results going forward at the end of this call. But it's important for investors to understand how to analyze our operating ratios going forward as we begin utilizing these tools.

We took important steps in the last six months to ensure that we can continue to capitalize on favorable market conditions. We signed a $35 million credit facility with Fifth Third Bank that allows us to increase surplus by as much as 30 million at a very attractive cost of capital. The remaining five million will support other potential non-statutory financing needs.

Additionally, and as previously discussed, we signed a two-year quota share reinsurance treaty with Swiss Re in second half of last year that provides us with additional flexibility to ensure that incremental capital can be raised at levels that we deem to be attractive should we elect to do so in the future.

As you examine the components of our combined ratio, the increase in other underwriting expense dollars is primarily related to the increase in hiring staff to help ensure that the company can take advantage of favorable markets conditions. Compared to our growth rate this increase is very modest. However, when looking at our other underwriting expense ratio the use of quota share reinsurance will have an impact.

The company's quota share agreement provides a ceding commission to offset underwriting expenses, both acquisition costs and other underwriting expenses. However, the ceding commission only reduces acquisition costs in our financial statements and does not offset other underwriting expense. With this in mind, our overall expense ratio, which is the combination of acquisition costs and other underwriting expenses, should be looked at collectively to understand operating efficiency.

We're addressing this here because we've always been clear that as we continue to increase scale, we expect our OUE to fall in the 10 to 12 percent range. We have also guided to an annual acquisition cost target of 14.5 percent. Both of these will be affected by our use of quota share reinsurance. Keeping our targets constant, a total expense ratio range of 24.5 to 26.5 percent should be utilized. So, the total won't change, but the individual components may vary depending on our use of quota share in a given quarter. Please note, cash incentive compensation is included in this range target, but the accounting for equity incentive compensation is not.

Moving on to our operations, in Slide 8, we outline our geographic footprint. The key takeaways here are that our premium base is becoming more geographically diverse as we grow. Atlas will always have a predominant portion of its business in large metro areas, but as you can see there's a great deal of growth potential in both large metro, as well as other geographies around the country.

As a result of the Global Liberty acquisition, in the second quarter New York will grow as a percentage. This is certainly our expectation as it's the largest territory for the taxi, limo, paratransit market on which we focus. And as discussed previously, we consciously avoided significant growth in New York until we had strong local infrastructure in place to support it.

Atlas is growing and diversifying at the same time. In addition to New York, we're seeing strong growth in each of our West Coast markets, with recent 100 percent plus expansion in 11 states. At this point, market share still remains relatively low in numerous high potential areas as well.

In the next three slides, you'll see that accounts continue to increase for new business submissions and vehicles. We monitor a number of key metrics to ensure that we are fully benefiting from the improving rate environment in our niche. Ratios trending over target levels give us the confidence to continue to move forward with positive rate activity. Our ongoing analysis in this regard is critical in both new markets, as well as those in which we are expanding. This is a key area where our expertise, data and hyper focus comes into play, giving us a competitive advantage.

When Atlas acquired Gateway two years ago, one of the benefits was that it expanded our data resources. Our existing two operating subsidiaries at the time had a deep repository of data that measured loss in multiple markets in both frequency and severity. Gateway had a similar history and we incorporated that into what we had. With the additional Global Liberty, we now have an incremental source of data to build on.

As you'll see on the next slide, we used this data to properly price our product to retain business at rates that we will feel will generate sustainable underwriting profit. We now also have a powerful machine learning based analytics tool, which will provide even greater opportunity to benefit from this data and experience.

Renewal retention has exceeded 90 percent in the fourth quarter, supporting incremental rate activity. Having taken advantage of this in a number of markets, retention in the first quarter moved back to target levels. We are acting as a thoughtful price leader in a sustainable way and will continue to use data driven decision making to create shareholder value.

On Slides 13 and 14, we provide data on current conditions in our marketplace. Last quarter, I went into considerable detail outlining how our specialized niche market tends to lag commercial auto by 12 to 24 months in terms of both hardening and softening. This lag is primarily the function of capacity provided by much bigger generalist insurers, who tend to temporarily enter the market via intermediaries like wholesalers and managing general agents. These programs tend not to be priced correctly, and because they don't have the specialized claims capability of Atlas, also generate worst loss results. Consequently, their overall performance is challenged and they tend not to stay in the market very long. At this point in the cycle, we are continuing to see tailwinds related to an exodus of capacity. As with other market conditions, we constantly monitor the competitive environment to ensure that we're aware of any early signs of new entrants. At this point we have not identified any.

We also have been open about the expected trends that were the basis for Atlas' strategy and our management team choosing the companies we did at our inception. We know that commercial auto has typically outperformed the P&C market at large, and specifically our first two operating subsidiaries; American country and American service, outperformed commercial auto due to their focus on smaller fleet sizes with a specialty niche coupled with operating efficiency built around a customer centric, high touch model. We built Atlas by continuing to identify and replicate the approach that worked with our first two acquisitions as we add more infrastructure and are seeing the expected trends materialize in the marketplace currently.

Our niche has historically experienced hyper elasticity to the market cycle with extremely attractive loss ratios persisting for multiple years. Specialization, data and experience, drive risk selection, and our focus is the foundation for the strong value promise we make to our customers. We're also able to charge a premium price in both hard and soft markets because our product and service creates real economic value for our customers.

Market conditions were favorable during 2014 and we expect those conditions to continue and improve in 2015. We grew market share to more than 5 percent on a nationwide basis during the year. Our goal remains capturing a proportionate 20 percent market share in the specialty niche commercial auto segment on which we focus during the current market cycle.

In Slide 15, we again show the benefit of scale on operating leverage and how pricing progression affects Atlas' bottom line through multiple cycles. We are currently pricing below 60 percent. As this loss ratio improves and we utilize appropriate operating leverage and scale, ROE levels will follow. We have increasing visibility among our agent network and trends are going in the right direction.

With that, I’ll once again turn the call over to Paul for a brief overview of our financial results.

Mr. Paul Romano: Thanks, Scott.

Our financial overview in the slide deck begins on Slide 17. On this slide, we indicate a number of financial highlights for the first quarter. We welcome each of you to review our press release and filings should you want more detailed information.

Gross written premium increased 44 percent to $45 million during the first quarter of 2015. Specific to our core accounts with one to ten vehicles, we saw a 48.1 percent increase. On a pro forma basis if we consolidated Global Liberty's premiums for the full period, gross written premium would have grown to $56.7 million, or an increase of 81.5 percent over the prior year period.

As Scott mentioned, effective July 1st, 2014, we entered into a quota share reinsurance contract with Swiss Re. Our initial session is 5 percent of subject written premium or two million dollars for the first quarter 2015. The effective cost under this reinsurance treaty is less than 500 basis points.

Including the impact of the quota share reinsurance, net premium earned increased 37.4 percent to $30.2 million for the quarter compared to $22 million in the prior year period. Our net premiums earned rateably over the term of their policies, which are generally 12 months in length. As we continue to utilize quota share reinsurance, we will provide guidance as to the amount to be seeded each quarter. For the second quarter 2015, we will be ceding 15 percent of the premiums generated by American Country, American Service and Gateway. At the time we acquired Global Liberty, they were ceding 20 percent of their subject written premium under a separate quota share reinsurance program. We do not anticipate making any changes to Global Liberty's session rate during 2015.

As a result of the growth in net premium earned, we are continuing to recognize benefits associated with our operating scale. As Scott discussed, the use of and accounting for quota share reinsurance has an impact on acquisition cost ratio, as well as the other underwriting ratio. Our target for these--a combination of these two ratios is in the range of 24.5 to 26.5 percent of net premiums earned. We will continue to provide disclosures regarding each ratio but encourage users of our financial information to consider the combination of these two ratios as the best measure of operating efficiency.

Operating income is an internal performance measure used in the management of the company's operations. It represents operational results excluding as applicable, net realized gains and losses, net impaired charges recognized in earnings, net tax adjustments and other items. In the first quarter operating income was $0.42 per diluted common share. On Slide 18, we provide a detailed view of the company's operating income, along with other key financial ratios. We also identify the impact of atypical items in the quarter. Please note, operating income is a non-GAAP metric and should not be viewed as a substitute for GAAP net income.

As indicated on this slide, we have provided an analysis that begins with our reported earnings for the three months ended March 31st, 2015 in the first column. This analysis reflects adjustments related to the inclusion of Global Liberty results for the full three months in the second column and the elimination of atypical adjustments of the acquisition related benefits and costs in the third column. We then develop a non-GAAP pro forma normalized view of Q1 2015 results in the fourth column.

As reflected in the first column, our income from operating activities before tax was $5.3 million as reported in first quarter 2015, and compares to the $2.2 million in the same quarter last year as reflected in the last column of this analysis. Although all of our acquisitions will be accretive in the first 12 months, the impact of M&A related expenses had a negative impact on our results in the quarter. Also, while the favorable development related to Gateway had a positive impact on our loss and combined ratios, the expense related to the issuance of preferred shares had a negative impact that was not tax affected.

Adjusting for all of these atypical items and as reflected in the fourth column, pro forma earnings per share on a normalized basis would have been $0.32 and $0.21 per common share diluted on a before and after tax basis respectively. As reported, net income before tax was $3.8 million, representing a 71.5 percent increase over the prior year quarter. As Scott mentioned, we began recording federal income tax expense on a GAAP basis in the first quarter of 2015. While we anticipate our effective tax rate to be approximately 35 percent, there may be circumstances where the tax treatment of certain financial activity causes deviations from this effective rate. This was the case in the three months ended March 31st, 2015 where the effective tax rate was 43.1 percent. This higher than normal tax rate was caused mainly from the non-deductibility of the expense related to the issuance of preferred shares. As a result, Atlas recognized tax expense of $1.7 million in the three month period ended March 31st, 2015. This compares to the zero dollars of expense in the three month period ended March 31st, 2014. The cause of this nil expense in 2014 is from the reversal of the valuation allowance during the periods prior to 2015. These reversals in the valuation allowance created an offset to the federal tax expense for these prior periods. Going forward on a cash basis, the first $2.6 million of our earnings will be tax free for each of the next 17 years.

After tax, Atlas generated $0.17 per common share diluted for the three month period ended March 31st, 2015. This compares to $0.22 per common share diluted as reported in the three month period ended March 31st, 2014. However, for comparison purposes, if tax affected the earnings per common share diluted would have been $0.15 in the three month period ended March 31st, 2014.

Annualized first quarter 2015 return on common equity was 7.7 percent. Excluding non-recurring acquisition related costs and benefits, and including the full quarter of Global Liberty, pro forma annualized before and after tax return on common equity were 14.8 and 9.5 percent respectively.

On Slide 19, we deal the--we detailed the recent highlights that impacted book value. We increased book value to $9.23 during Q1 from $9.08 at December 31st, 2014, and $6.79 at March 31st, 2014. Towards the bottom of the slide, we step through the key elements that impacted book value in the quarter.

On Slides 20 and 21, we include information on our balance sheet. Atlas' cash and invested assets at March 31st, 2015 increased to $211.8 million compared to 180 million at December 31st, 2014. A [unintelligible] the Global Liberty acquisition on cash and invested assets was approximately $30 million.

As we noted earlier, during the first quarter we established a credit facility with Fifth Third Bank, which allows us to draw up to $30 million at LIBOR, plus 450 basis points for use in connection with our statutory entities. Plus another five million dollars in LIBOR, plus 275 basis points for other general corporate purposes.

Our investment duration remain constant with expected liquidity needs in claim pay up patterns at 4.7 years. And the majority of our holdings are in fixed income securities rated AA or better by S&P. As an investment philosophy, we continue to place a priority on preservation of capital to support future premium growth.

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

Mr. Scott Wollney: Thanks, Paul.

Let me conclude by providing some additional insight as to our expectations. In the last quarter we've acquired valuable and strategically important infrastructure with Global Liberty, which we expect to help accelerate our growth towards 20 percent proportion of market share. We also continued our strong organic growth nationwide. However, with acquisitions and growth, we know that Atlas would need tools to manage operating leverage to avoid sole reliance on the equity markets for capital and to prevent unnecessary dilution. It is obviously also important that we do so in the most cost effective way possible.

The credit facility with Fifth Third and Quota Share Reinsurance Treaty we established during the past year will serve as effective tools to support growth and maintain operating leverage to drive return on equity. In the second quarter, we used two million of our line of credit in support of the premium finance business acquired along with Global Liberty and also borrowed 15.5 million up against the five-year credit facility to infuse additional surplus into American country, American Service, and Gateway insurance companies. We continue to have considerable flexibility, both in connection with the use of this facility, as well as our quota share treaties to support continued growth without external financing.

We're seeing greater visibility into our markets as we now had the opportunity to expand in areas such as the West Coast where only a few years ago Atlas had little exposure. There are many metrics that can be used to define goals, and in fact we analyze a large number internally to manage our business. However, the paramount metric that we feel should drive decision making is return on equity. We know that to create maximum sustainable long-term shareholder value in the insurance business, underwriting results have to be the primary operating focus. Disciplined capital management and margin can then be used to translate those results into ROE.

As we think about growth, we always start with these two guiding principles and forecast the levels of premium that we expect to result from optimal pricing coupled with the market's reaction to our value proposition. Based on our expectations for market conditions, our target is to manage to an after tax return on equity target in the high teens this year with a goal of 20 percent in subsequent years provided the environment remains favorable.

We believe this is achievable based on continued execution and underwriting performance. The addition of Global Liberty, an incredibly successful integration of Gateway, and ultimately sticking to the tenants upon which Atlas was initially built will be paramount. We will never grow simply for the sake of growth. In the insurance space that kind of behavior is a sure way to destroy capital. Generating above average margins which can then be amplified to operating leverage with minimal dilution is the key to creating long-term shareholder value.

Insurance is a business which requires capital in proportion to premiums written. We understand the value of capital and the need to manage it as a resource. So when we talk about 30 to 50 percent year-over-year growth rates, it's with this discipline in mind. I'm proud of the fact that we've increased book value by 41 percent since becoming a U.S. Company two years ago. We plan to continue this positive trend as a steward of capital.

Before I turn it over for questions, I wanted to take a moment to welcome the members of the Global Liberty team into the Atlas family. We are excited to expand our business in the important New York market and also bring in a strong group of people that built a successful enterprise into the fold. As always, the great work that every member of our team delivered in the past quarter is greatly appreciated.

With that Kevin, let's turn it over for any questions.

Operator: Thank you.

At this time, we will be conducting a question-and-answer session.

If you'd 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.

Once again, if you'd like to ask a question, please press star-one at this time.

One moment please while we poll for questions.

Our first question today is coming from Brian Hollenden from Sidoti & Company. Please proceed with your question.

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

Mr. Scott Wollney: Morning, Brian.

Mr. Paul Romano: Hey, Brian.

Mr. Brian Hollenden: Can you talk a little bit about the, you know, year-over-year price increases? Are we still looking at, mid-single digits and do you see that number accelerating or decelerating?

Mr. Scott Wollney: We are still seeing mid to high single digits depending on geography. The competitive landscape is improving. And so, we are optimistic that we may, actually be able to see better increases this year, but, you know, again, really need to focus on specific geographies as the competitive environment can vary. But, yeah, overall, we expect the same or better levels of price increase in 2015 as compared to 2014.

Mr. Brian Hollenden: And then, if I could just ask one more question, I'll jump back into the queue. The pro forma, with the full quarter of Global Liberty showed a 5.1 million in net premiums earned. Is this the run rate we should use to annualize the net premiums earned?

Mr. Scott Wollney: Well, actually, Brian, the premiums, we're expecting to be written through the Global Liberty companies is about $40 million. So, we should expect at least about $10 million worth of gross earned premiums. However, they do have a 20 percent, quota share reinsurance contract in place. So, on a net basis, we'll probably see about 7.5 to eight million dollars worth of earned premium--.

Mr. Paul Romano: --Per quarter.

Mr. Scott Wollney: --Per quarter.

Mr. Brian Hollenden: Thank you. That's helpful.

Operator: Thank you. Our next question today is coming from John Barnidge from Sandler O'Neill. Please proceed with your question.

Mr. John Barnidge: Good morning.

I have, just a few modeling questions. The net investment income, is much lower than we expected in the quarter. the press release sited some onetime items. We'd kind of like to get a better understanding of a new run rate, also after factoring in Global Liberty.

Mr. Paul Romano: Sure. So, the onetime items really affected, the quarter. You know, we actually had a bond that was generating about $125,000 worth of investment income in the quarters, for the last couple of years. That bond had been paid off at the end of 2014. So we're looking at probably a run rate in the 1.5 percent total annualized yield over the next two quarters, with a total annual, run rate of about 1.6 percent for the last half of the year.

Mr. John Barnidge: Okay. Global Liberty's loss ratio was significantly higher than Atlas' in 1Q '15. How much was this due to relatively bad weather in the region of New York State as opposed to just, core loss ratio?

Mr. Scott Wollney: So, I don't think it was attributable to weather significantly. There was a little more frequency because of the incremental snow etc., but, really a lot of that had to with the seasonality in their business. So, the New York market generally sees, its highest percentage of renewals in March. And so, you do have an influx and exposure. So you saw there that their loss ratio was probably about 8 or 9 percent higher than what we expected in our other companies. We believe that will come down over the next three quarters, where their annualized loss ratio would be, around, I would say, 63 to 64 percent. So some of that is the effect of seasonality more than just the, you know, sort of bad weather. And that's a trend that we've seen, looking back a number of years with their book of business.

So, for the full year we do expect to see their loss ratio lagging ours by about two to three percentage points, but as with our other companies it is trending in a positive direction. As I think we mentioned on our last call, the New York market remained more competitive for about a year longer than what we saw in most of the rest of the country. And so, you know, we do expect their loss ratio to continue moving in the right direction, but it will probably trail the loss ratio that we're carrying in our other subsidiaries by--again by about two to three percentage points. So hopefully that's helpful in terms of your modeling.

Mr. John Barnidge: Yes, it is. And my final question, the acquisition cost ratio of Global Liberty was, nicely lower than Atlas'. Is that related to that seasonality, you mentioned or should we continue--expect that to continue?

Mr. Paul Romano: Well, you know, I think when we look at both acquisition cost and the other underwriting expense ratio, I think we really ought to begin to look at it on a combination basis. both the first quarter results for when--AS--the ASI pool companies; American Country, American Service, and Gateway, the effect of the reinsurance contract is actually reducing the acquisition cost ratio for those companies, as well as the acquisition cost ratio for Global Liberty. You know, they do have a 20 percent, session rate on their contract, which the ceding commission is a direct offset to acquisition cost ratio.

So, even though it looks like the acquisition costs are lower in the Global Liberty model, they're actually about the same in terms of the gross acquisition costs, you know, the 3.5 percent taxes and the-- 10 to 12 percent commission ratio. But, when you net in the ceding commission associated with the quota share reinsurance agreements, it actually looks like the acquisition cost ratio is better. But, when you look at the combination of both of those items; acquisition cost and other underwriting expenses, they're running at, just under 26 percent, and we're running about 25--or 27 percent. So, I hope that helps.

Mr. Scott Wollney: Yeah, in terms of total real expenses, the companies are familiar similar. as Paul pointed out and as we tried to touched on in the formal presentation, the way that the ceding commission for the quota share is accounted for, the full benefit of the offset shows up in the acquisition cost column, but those ceding commission dollars are really intended to also subsidize or offset, other underwriting expenses as well.

So, that's why we're encouraging the use of the combination of those two ratios, to really think about operating efficiency. So, we'll continue to break them out, on our quarterly calls but-- so that people don't misinterpret an increase in OUE to be a sign of a limb--you know, less efficiency. It could simply be a function of the fact that ceding commission was going into acquisition costs but the full expense dollars continue to show up in OUE.

so we we’ll make sure it's clear what the real changes in operating efficiency are quarter-over-quarter, but because this is the first time we’re really beginning to use quota share reinsurance in a meaningful way, we felt it was important for modeling purposes for people outside the company to be able to understand how the accounting for quota share, will ultimately change the way those two ratios interact.

Mr. John Barnidge: Great. Thanks a lot.

Mr. Scott Wollney: Thanks for the questions.

Operator: Thank you. As a reminder, if you’d like to be placed in the question queue, please press star-one at this time.

Our next question today is coming from Ryan Byrnes from Janney Capital. Please proceed with your question.

Mr. Ryan Byrnes: thanks. Good morning, guys.

Mr. Scott Wollney: Morning, Ryan--.

Mr. Paul Romano: --Morning.

Mr. Ryan Byrnes: I just, with the-- pricing comments that you're pricing below a 60 percent loss ratio does that--is that, inclusive of Global Liberty or is that, just--or is that core Atlas? Just wanted to see what that meant.

Mr. Scott Wollney: So, that would be referring to core Atlas. The Global Liberty pricing targets have been a little higher. Again, you know, referring back to my earlier comment, you know, their pricing targets have been two to three percentage points higher than ours. Again, I think that's a function predominantly of the New York market having remained more competitive as the market started improving a couple of years ago. So they are moving in the right direction but lagging the other subsidiaries by a couple of percentage points.

Mr. Ryan Byrnes: Great. No, thanks for that. And then, also obviously noticed a real nice, you know, pick-up, in--on the West Coast in terms of premium growth, obviously California, Louisiana, Oregon, Nevada, some real solid growth there. Just wanted to see, again where that's coming from. Again, clearly, it seems like its all organic and, maybe just talk about how--what the strategy is out there.

Mr. Scott Wollney: Absolutely. So, it is all organic. You know, its vertical growth through existing agents. we are spending a lot of time focusing on, you know, building out that infrastructure and making sure that, you know, we're well-positioned to take advantage of continued growth in that large market. So from that perspective, you know, it is a priority area for us, especially now that we've brought the Global Liberty infrastructure into the fold, to give us a really a beach head in the New York market.

So it is a focus area for us. We think there's a lot of growth opportunity. It's obviously a large market. There is a large number of small accounts out there, which as you know is our target demographically. So the strategy there is really just continued vertical growth through the retail channel we have. There's a lot of interest out there, from retail agents.

There's been some market disruption in terms of some of the program business. A lot of the business that have been written on the West Coast was written through intermediaries, managing general agents and wholesalers. There aren't the large number of small companies focusing solely on our niche on the West Coast the way that there is on the East Coast. And so really a lot of the market share is being generated by large companies who have programs managed by external parties.

so we think it's a real sweet spot in terms of future growth potential and are going to make sure that we've got, you know, the resource and also, the infrastructure necessary to support growth out there, as we obviously want to continue to grow in another markets as well.

Mr. Ryan Byrnes: And then, great. And then, just quickly on the infrastructure itself, are you guys adding employees in the region there as the underwriting get done at the home office? Just want--and I guess from a staffing level perspective just want to figure out what we should expect, again as this opportunity, grows.

Mr. Scott Wollney: Sure. So, right now all the underwriting is being done from the home office. We are exploring potential opportunities in terms of infrastructure on the West Coast. You know as with the East Coast, you know, we want to make sure that we have clearly identified the specific opportunity before we invest directly, you know, into external infrastructure. So we do have staff here that work on Pacific Time making sure that we can support and take advantage of the opportunities in the near term.

you know, in terms of staffing, overall, you know, an interest and comparison, I think if you look at our organic growth rate in the first quarter year-over-year it was about 44 percent in terms of gross written premium If you look at the actual change in real expense dollars to support that 44 percent growth, the increase was less than 30 percent.

So, you know, on margin we are getting increasingly more efficient as we continue to build scale. And so, you know, while that direct comparison may not be exactly the same every quarter, as we do grow on the West Coast, whether it's by continuing to expand infrastructure here in Chicago or, by deploying local infrastructure out in the West Coast, we would not expect our dollars of expenses to grow as quickly as the increase in premium. So we would expect to continue to get the benefit from scale, irrespective of how we choose to expand infrastructure for West Coast business.

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

Mr. Scott Wollney: Thanks [unintelligible].

Operator: Thank you. As a reminder, if you'd like to be placed in the question queue, please press star-one at this time. Once again, that's star-one to be placed in the question queue.

Our next question today is coming from Paul Newsome from Sandler O'Neill. Please proceed with your question.

Mr. Paul Newsome: Good morning. Congratulations on the quarter's results.

Mr. Scott Wollney: Good morning, Paul.

Mr. Paul Newsome: --Could you give us a quick, update on the--your M&A situation at the moment?

Mr. Scott Wollney: Sure. In terms of potential incremental M&A?

Mr. Paul Newsome: Yeah. What you're seeing. What you're looking for. How's it going?

Mr. Scott Wollney: So, we are looking at alternatives for the West Coast, you know, building off of comments I just made. You know, again because you don't have a number of smaller companies focusing solely on our niche out there, I think it is less likely that we would be targeting an insurance company. As an acquisition it's more likely that--to supplement organic growth we would look at, for a lack of better description, an opportunity to potentially acquire parts, you know, potentially renewal rights, infrastructure to support claims, you know, a local underwriting team.

So I think it'll strategically be more of a combination of resources than our going out and buying a single large insurance company. So hopefully that's helpful. I know it's not specific guidance, but I think it'd be premature to articulate, a particular deal because, you know, we don't have one, sort of at the altar, but in terms of just thinking about our expectation, you know, for the West Coast, you know, we are more likely to build, but try to build in an efficient and timely way by potentially taking advantage of, you know, what I described as essentially experienced parts, that we're familiar with in the area.

So that's really our near-term perspective. You know, longer-term we are always open for and looking for opportunities to leverage our ability to find, buy and fix, challenged insurance companies, provided we're able to acquire them at very attractive valuations, and then ultimately, you know, build on them the way that we have all the other companies that we bought. But, in a hard market or a favorable market, like we're in now, we're less likely to want to spend time and energy finding and fixing challenged companies and more likely to want to focus on, you know, being able to leverage, good assets, like we are with Global Liberty, right, and really take advantage of the favorable market environment.

Mr. Paul Newsome: this other question, you--we've talked a little bit in the past about, broadening into different markets and different products. Are we still a fair ways away from need to think about that or wanting to think about that, or are we getting closer? And if so, where--any thoughts on, where you'd go?

Mr. Scott Wollney: Sure. So, you know, we do think about--horizontal expansion is something that we are going to pursue in earnest, down the road when we see the market cycle inevitably get softer. So we are continuing to see the market environment in our niche getting better not flattening out. So I think it's early for us to want spend a lot of time and energy on horizontal expansion because we still have an awful lot of runway left in our current market. So, you know, we are just over 5 percent market share. We still think 20 percent is proportional, which means we’ve got two to $300 million of incremental premium opportunity, in the niche that we are already, a market leader and an expert in.

And so, that is the best and highest use of our time and energy right now. It’s where we expect to deliver the high levels of return on equity that I referenced earlier in the call. And so we really want to take advantage of that as our highest priority. Of course, we are spending some time thinking about horizontal expansion so that we are well prepared, when we do start to see signs that the market may be transitioning. And in the meantime, you know, we will be opportunistic if we do see a perfect opportunity to deploy our competencies in a way that we think will, you know, really leverage our capabilities and also allow us to continue to deliver those higher than expected return on equity.

So, I think generally that’s where our view is. one caveat to that, you know, as we see the effect of transportation network companies, both third party companies, as well as now even some traditional operators in the taxi and limo space beginning to build our their own T&C like capabilities, we are going to see, people who drive light vehicles, who have traditionally been taxi, limo, paratransit type operators, probably beginning to take on other roles, like courier, delivery, you know, other types of deployment of those people in vehicles, using mobile based technologies. As that happens, you know, we will take advantage of that as a very close horizontal expansion opportunity, where we already have the data and expertise and distribution to take advantage of it.

so I think it's early in the evolution of those sorts of businesses, but that is one caveat where, you know, as the marketplace changes, we are going to make sure we're well-positioned to take advantage of it and for that to become an incremental addressable market for us.

Mr. Paul Newsome: Terrific. Thank you very much.

Mr. Scott Wollney: Thanks for the questions, Paul.

Mr. Paul Romano: Thanks, Paul.

Operator: Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to management for any further closing comments.

Mr. Scott Wollney: Thank you, Kevin.

We appreciate everyone joining us today. Before I go, I do want to comment that Atlas is hosting an Investor Day in New York City on Thursday, May 28th, 2015, following our Annual General Meeting. We've put together a strong panel of subject matter experts to take part in an open forum discussing in-depth topics pertaining to Atlas and our markets. We think it will be an informative and interesting event.

If any of you are interested in attending, you can contact Adam Prior of the Equity Group at A-P-R-I-O-R@equityny.com or by calling 212-836-9606.

Thanks again, and we look forward to speaking with each of you again in the future.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation today.