UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended:	COMMISSION FILE NUMBER:
September 30, 2022	000-54627

FINANCIAL HOLDINGS, INC.

ATLAS FINANCIAL HOLDINGS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Cayman Islands	27-5466079
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
953 American Lane, 3rd Floor	60173
Schaumburg, IL	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: (847) 472-6700
Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☑
		Emerging growth company	☐

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

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

There were 17,652,839 shares of the registrant's common stock outstanding as of November 8, 2022, all of which are ordinary voting common shares. There are no restricted voting common shares outstanding. Of the registrant's ordinary voting common shares outstanding, 16,421,765 shares as of November 8, 2022 were held by non-affiliates of the registrant.

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

Atlas Financial Holdings, Inc.
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September 30, 2022

Part I. Financial Information

Item 1. Financial Statements

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

($ in '000s, except for share and per share data)	September 30, 2022	December 31, 2021
Assets	**(unaudited)**	
Cash and cash equivalents	$ 82	$ 2,274
Restricted cash	1,957	3,637
Premiums receivable (net of allowance of $225 and $225)	8,748	11,397
Intangible assets, net	893	983
Property and equipment, net	1,455	2,503
Right-of-use asset	18	237
Notes receivable	—	18,017
Credit facility fee, net	—	584
Other assets	797	1,053
Assets held for sale	7,500	7,500
Total assets	**$ 21,450**	**$ 48,185**
Liabilities		
Premiums payable	$ 10,177	$ 13,593
Lease liability	18	224
Due to deconsolidated affiliates	—	19,957
Notes payable, net	36,098	33,102
Other liabilities and accrued expenses	7,444	6,811
Total liabilities	**$ 53,737**	**$ 73,687**
Commitments and contingencies (see Note 7)		
Shareholders' Deficit		
Ordinary voting common shares, $0.003 par value, 800,000,001 shares authorized, shares issued: September 30, 2022 - 17,652,839 and December 31, 2021 - 15,052,839; shares outstanding: September 30, 2022 - 17,652,839 and December 31, 2021 - 14,797,334	$ 54	$ 45
Restricted voting common shares, $0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: September 30, 2022 and December 31, 2021 - 0	—	—
Additional paid-in capital	86,219	83,086
Treasury stock, at cost: 0 and 255,505 shares of ordinary voting common shares at September 30, 2022 and December 31, 2021, respectively	—	(3,000)
Retained deficit	(118,560)	(105,633)
Accumulated other comprehensive income, net of tax	—	—
Total shareholders' deficit	**$ (32,287)**	**$ (25,502)**
Total liabilities and shareholders' deficit	**$ 21,450**	**$ 48,185**

See accompanying Notes to Condensed Consolidated Financial Statements.

Atlas Financial Holdings, Inc.
Condensed Consolidated Statements of Operations

Condensed Consolidated Statements of Operations

($ in '000s, except for share and per share data)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
	(unaudited)		(unaudited)	
Commission income	$ 760	$ 2,046	$ 2,232	$ 5,530
Net realized gains (losses)	—	(1,475)	1	(2,940)
Other income	310	1,212	1,422	2,773
Total revenue	**1,070**	**1,783**	**3,655**	**5,363**
Acquisition costs	398	1,105	1,312	2,954
Other underwriting expenses	3,587	4,094	13,006	11,190
Amortization of intangible assets	30	98	90	293
Forgiveness of Paycheck Protection Program loan	—	—	—	(4,601)
Interest expense, net	801	556	2,174	1,639
Total expenses	**4,816**	**5,853**	**16,582**	**11,475**
Loss from operations before income taxes	**(3,746)**	**(4,070)**	**(12,927)**	**(6,112)**
Income tax benefit	—	—	—	—
Loss from continuing operations	(3,746)	(4,070)	(12,927)	(6,112)
Income from discontinued operations, net of tax	—	14	—	165
Net loss	**$ (3,746)**	**$ (4,056)**	**$ (12,927)**	**$ (5,947)**
Basic net (loss) income per share attributable to common shareholders				
Continuing operations	$ (0.21)	$ (0.31)	$ (0.77)	$ (0.45)
Discontinued operations	—	—	—	0.01
Net loss	$ (0.21)	$ (0.31)	$ (0.77)	$ (0.44)
Diluted net (loss) income per share attributable to common shareholders				
Continuing operations	$ (0.21)	$ (0.31)	$ (0.77)	$ (0.45)
Discontinued operations	—	—	—	0.01
Net loss	$ (0.21)	$ (0.31)	$ (0.77)	$ (0.44)
Basic weighted average common shares outstanding	17,652,839	12,973,964	16,781,195	13,665,609
Diluted weighted average common shares outstanding	17,652,839	12,973,964	16,781,195	13,665,609

Condensed Consolidated Statements of Comprehensive Loss

Net loss	$ (3,746)	$ (4,056)	$ (12,927)	$ (5,947)
Other comprehensive loss:				
Changes in net unrealized investment gains (losses)	—	1	—	(21)
Reclassification to net loss	—	(16)	—	(175)
Other comprehensive loss	**—**	**(15)**	**—**	**(196)**
Total comprehensive loss	**$ (3,746)**	**$ (4,071)**	**$ (12,927)**	**$ (6,143)**

See accompanying Notes to Condensed Consolidated Financial Statements.

Atlas Financial Holdings, Inc.
Condensed Consolidated Statements of Shareholders' Deficit

($ in '000s)	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-In Capital	Treasury Stock	Retained Deficit	Accumulated Other Comprehensive Income	Total Share-holders' Equity (Deficit)
Balance December 31, 2020	**$ 37**	**$ —**	**$ 81,840**	**$ (3,000)**	**$(100,199)**	**$ 430**	**$ (20,892)**
Net loss	—	—	—	—	(2,550)	—	(2,550)
Other comprehensive loss	—	—	—	—	—	(171)	(171)
Share-based compensation	—	—	10	—	—	—	10
Balance March 31, 2021 (unaudited)	**37**	**—**	**81,850**	**(3,000)**	**(102,749)**	**259**	**(23,603)**
Net income	—	—	—	—	659	—	659
Other comprehensive loss	—	—	—	—	—	(10)	(10)
Share-based compensation	—	—	156	—	—	—	156
Balance June 30, 2021 (unaudited)	**37**	**—**	**82,006**	**(3,000)**	**(102,090)**	**249**	**(22,798)**
Net loss	—	—	—	—	(4,056)	—	(4,056)
Other comprehensive loss	—	—	—	—	—	(15)	(15)
Shares issued on Credit Agreement	8	—	927	—	—	—	935
Share-based compensation	—	—	31	—	—	—	31
Balance September 30, 2021 (unaudited)	**$ 45**	**$ —**	**$ 82,964**	**$ (3,000)**	**$(106,146)**	**$ 234**	**$ (25,903)**
Balance December 31, 2021	**$ 45**	**$ —**	**$ 83,086**	**$ (3,000)**	**$(105,633)**	**$ —**	**$ (25,502)**
Net loss	—	—	—	—	(4,151)	—	(4,151)
Shares issued on Credit Agreement	8	—	1,067	—	—	—	1,075
Equity component of Credit Agreement	—	—	352	—	—	—	352
Share-based compensation	—	—	30	—	—	—	30
Balance March 31, 2022 (unaudited)	**53**	**—**	**84,535**	**(3,000)**	**(109,784)**	**—**	**(28,196)**
Net loss	—	—	—	—	(5,030)	—	(5,030)
Shares issued on Credit Agreement	—	—	18	—	—	—	18
Equity component of Credit Agreement	—	—	2,206	—	—	—	2,206
Issuance of treasury shares	—	—	(3,000)	3,000	—	—	—
Share-based compensation	—	—	124	—	—	—	124
Balance June 30, 2022 (unaudited)	**$ 53**	**$ —**	**$ 83,883**	**$ —**	**$(114,814)**	**$ —**	**$ (30,878)**
Net loss	—	—	—	—	(3,746)	—	(3,746)
Equity component of Credit Agreement	—	—	2,301	—	—	—	2,301
Share-based compensation	1	—	35	—	—	—	36
Balance September 30, 2022 (unaudited)	**$ 54**	**$ —**	**$ 86,219**	**$ —**	**$(118,560)**	**$ —**	**$ (32,287)**

See accompanying Notes to Condensed Consolidated Financial Statements.

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

($ in '000s)	Nine months ended September 30, 2022	2021
	(unaudited)	
Operating activities:		
Net loss	$ (12,927)	$ (5,947)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Income from discontinued operations, net of taxes	—	(165)
Depreciation and amortization	1,049	1,456
Share-based compensation expense	189	197
Amortization of intangible assets	90	293
Non-cash lease expense	219	485
Net realized (gains) losses	(1)	2,940
Amortization of financing costs	641	129
Forgiveness of Paycheck Protection Program loan	—	(4,601)
Net changes in operating assets and liabilities:		
Premiums receivable, net	2,649	(3,971)
Due from deconsolidated affiliates	18,017	—
Other assets	255	343
Premiums payable	(3,416)	1,296
Operating lease liabilities	(206)	(647)
Due to deconsolidated affiliates	(19,957)	(79)
Other liabilities and accrued expenses	633	705
Net cash flows used in operating activities - continuing operations	**(12,765)**	**(7,566)**
Net cash flows used in operating activities - discontinued operations	**—**	**(4,866)**
Net cash flows used in operating activities	**(12,765)**	**(12,432)**
Investing activities:		
Purchases of:		
Property, equipment and other	—	(4)
Proceeds from sale of:		
Property, equipment and other	1	12
Net cash flows provided by investing activities - continuing operations	**1**	**8**
Net cash flows provided by investing activities - discontinued operations	**—**	**3,342**
Net cash flows provided by investing activities	**1**	**3,350**
Financing activities:		
Principal increase of senior notes	2,192	—
Proceeds from notes payable	6,700	2,000
Repayment of notes payable	—	(326)
Net cash flows provided by financing activities - continuing operations	**8,892**	**1,674**
Net cash flows provided by financing activities - discontinued operations	**—**	**—**
Net cash flows provided by financing activities	**8,892**	**1,674**
Net change in cash and cash equivalents and restricted cash - continuing operations	**(3,872)**	**(5,884)**
Cash and cash equivalents and restricted cash, beginning of period	5,911	13,554
Less: cash and cash equivalents of discontinued operations - beginning of period	—	3,029
Cash and cash equivalents and restricted cash of continuing operations, beginning of period	5,911	10,525
Cash and cash equivalents and restricted cash of continuing operations, end of period	**$ 2,039**	**$ 4,641**
Supplemental disclosure of cash information:		
Cash paid for:		

($ in '000s)	Nine months ended September 30, 2022	2021
	(unaudited)	
Income taxes	$ —	$ —
Interest	—	969

See accompanying Notes to Condensed Consolidated Financial Statements.

Atlas Financial Holdings, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Nature of Operations and Basis of Presentation

Atlas Financial Holdings, Inc. ("Atlas", "We", "us", "our" or the "Company") commenced operations on December 31, 2010. The primary business of Atlas focuses on a managing general agency ("MGA") strategy, primarily through our wholly owned subsidiary, Anchor Group Management, Inc. ("AGMI"). AGMI focuses on a niche market orientation for the "light" commercial automobile sector. This sector includes taxi cabs, limousine, livery, full-time transportation network companies ("TNC") drivers/operators, and other specialty commercial auto operators. Automobile insurance products provide insurance coverage in three major areas: liability, accident benefits and physical damage.

Atlas' business is carried out through its subsidiaries: AGMI, UBI Holdings Inc. ("UBI Holdings") and UBI Holdings' wholly-owned subsidiaries, optOn Digital IP Inc. ("OOIP") and optOn Insurance Agency Inc. ("optOn" and together with OOIP and UBI Holdings, "UBI").

Prior to a strategic transition, our core business was the underwriting and risk bearing of commercial automobile insurance policies, focusing on the "light" commercial automobile sector, through American Country Insurance Company ("American Country"), American Service Insurance Company, Inc. ("American Service") and Gateway Insurance Company ("Gateway" and together with American Country and American Service, the "ASI Pool Companies") and Global Liberty Insurance Company of New York ("Global Liberty" and together with the ASI Pool Companies, the "Insurance Subsidiaries"), along with our wholly owned MGA, AGMI. The ASI Pool Companies were placed into rehabilitation under the statutory control of the Illinois Department of Insurance during the second half of 2019 and were subsequently placed into liquidation and have been deconsolidated from our consolidated financial statements as of October 1, 2019 as a result of these actions. Other regulatory actions were taken in certain states, including restriction, suspension, or revocation of certain state licenses and certificates of authority held by the ASI Pool Companies preceding and following the initiation of rehabilitation.

During the fourth quarter of 2019, the Company began actively pursuing the potential sale of Global Liberty, and as a result, Global Liberty was held for sale and thus classified as a discontinued operation from October 1, 2019 through September 30, 2021. Global Liberty was placed into liquidation by the New York Department of Financial Services in October 2021 and, as a result, it has been deconsolidated from our consolidated financial statements beginning October 2021.

Atlas' ordinary common shares are listed on the OTC Markets system under the symbol "AFHIF".

Basis of Presentation

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

The results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results expected for the full calendar year.

The accompanying unaudited condensed consolidated financial statements, in accordance with Securities and Exchange Commission ("SEC") rules for interim periods, do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with Atlas' Annual Report on Form 10-K for the year ended December 31, 2021, which provides a more complete understanding of the Company's accounting policies, financial position, operating results, business properties, and other matters. Atlas has consistently applied the same accounting policies throughout all periods presented.

Estimates and Assumptions

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. Significant estimates in the accompanying financial statements include revenue recognition, evaluation of assets for impairment, valuation of financing instruments, and deferred tax asset valuation.

Revenue Recognition

Revenues from contracts with customers include both commission and fee income. The recognition and measurement of revenue is based on the assessments of individual contract terms. As an MGA, AGMI has contracts with various insurance carrier partners to write premiums for specific programs which determines AGMI's commission income revenue. Each contract specifies what our performance obligations are as an MGA and what determines our commission income revenue, generally gross written premiums, net of cancellations and refunds, multiplied by an MGA commission percentage. Under these contracts there are a number of performance obligations; however, it is the bundle of these services and not a single obligation that results in the performance of the MGA under the contracts. The Company considers these performance obligations as a non-bifurcated bundle of services where the performance obligations are satisfied simultaneous to the point in time where AGMI issues a policy, or cancels a policy to an insured. The commission rate stated in the individual contract is the standalone selling price of these non-bifurcated services, which is allocated to the service bundle and not to any individual obligation under the various contracts.

Seasonality

Our insurance business is seasonal in nature. Our ability to generate commission income is also impacted by the timing of policy effective periods in the states in which we operate and products provided by our business partners. For example, January 1st, March 1st and July 1st are common taxi cab renewal dates in jurisdictions in which our companies have written business historically.

Operating Segments

The Company operates in one business segment, the Managing General Agency segment.

2. New Accounting Standards

There have been no recent pronouncements or changes in pronouncements during the nine months ended September 30, 2022, as compared to those described in our Annual Report on Form 10-K for the twelve months ended December 31, 2021, that are of significance or potential significance to Atlas. Pertinent Accounting Standard Updates ("ASUs") are issued from time to time by the Financial Accounting Standards Board ("FASB") and are adopted by the Company as they become effective. All recently issued accounting pronouncements with effective dates prior to October 1, 2022 have been adopted by the Company.

3. Intangible Assets

Intangible Assets by Major Asset Class

($ in '000s)	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment	Net
As of September 30, 2022					
Trade name and trademark	15 years	$ 1,800	$ 907	$ —	$ 893
As of December 31, 2021					
Trade name and trademark	15 years	$ 1,800	$ 817	$ —	$ 983
Customer relationship	10 years	2,700	1,770	930	—
		$ 4,500	$ 2,587	$ 930	$ 983

4. Loss From Continuing Operations per Share

Computations of Basic and Diluted Loss per Common Share from Continuing Operations

($ in '000s, except share and per share amounts)	Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Basic				
Loss from continuing operations before income taxes	$ (3,746)	$ (4,070)	$ (12,927)	$ (6,112)
Income tax expense	—	—	—	—
Net loss attributable to common shareholders from continuing operations	$ (3,746)	$ (4,070)	$ (12,927)	$ (6,112)
Basic weighted average common shares outstanding	17,652,839	12,973,964	16,781,195	13,665,609
Loss per common share basic from continuing operations	$ (0.21)	$ (0.31)	$ (0.77)	$ (0.45)
Diluted				
Basic weighted average common shares outstanding	17,652,839	12,973,964	16,781,195	13,665,609
Dilutive potential ordinary shares:				
Dilutive stock options outstanding	—	—	—	—
Diluted weighted average common shares outstanding	17,652,839	12,973,964	16,781,195	13,665,609
Loss per common share diluted from continuing operations	$ (0.21)	$ (0.31)	$ (0.77)	$ (0.45)

Common shares are defined as ordinary voting common shares, restricted voting common shares and participative restricted stock units ("RSUs"). Earnings per common share diluted is computed by dividing net loss by the weighted average number of common shares outstanding for each period plus the incremental number of shares added as a result of converting dilutive potential ordinary voting common shares, calculated using the treasury stock method. Atlas' potential dilutive ordinary voting common shares consists of outstanding stock options to purchase ordinary voting common shares and warrants to purchase 2,387,368 ordinary voting common shares of Atlas for $0.69 per share (as indicated in the Schedule 13G filing by American Financial Group, Inc. dated January 20, 2022).

The outstanding principal balance of the Term Loans (as defined herein) under the Credit Agreement (as defined herein) can be converted at any time into ordinary voting common shares, at the applicable Lender's (as defined herein) discretion, at a rate of $0.35 per share, except that paid-in-kind interest included in the amount presented by a Lender for conversion may, at the Borrowers' (as defined herein) discretion be paid in cash or converted into ordinary voting common shares at the same rate. As of November 8, 2022, no such conversion has taken place.

Atlas' dilutive potential ordinary voting common shares consist of outstanding stock options to purchase ordinary voting common shares. The effects of these convertible instruments are excluded from the computation of earnings per common share diluted from continuing operations in periods in which the effect would be anti-dilutive. For the three and nine months ended September 30, 2022 and 2021, all exercisable stock options, warrants and conversion rights under the Credit Agreement were deemed to be anti-dilutive.

5. Contracts with Customers

The revenue included as commission income was $760,000 and $2.0 million for the three months ended September 30, 2022 and 2021, respectively, and $2.2 million and $5.5 million for the nine months ended September 30, 2022 and 2021, respectively.

The balance of receivables related to contracts with customers, which is recorded as part of premiums receivable on the condensed consolidated statements of financial position, as of September 30, 2022 and December 31, 2021:

Components of Commission Receivables

($ in '000s)

	September 30, 2022	December 31, 2021
Commission receivable, beginning of period	$ 2,551	$ 2,577
Commission revenue	2,232	5,923
Net change in cash received	(2,864)	(5,949)
Commission receivable, end of period	$ 1,919	$ 2,551

6. Income Taxes

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

($ in '000s)

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	$ (787)	21.0 %	$ (855)	21.0 %	$ (2,715)	21.0 %	$ (1,284)	21.0
Provision for deferred tax assets deemed unrealizable (valuation allowance)	784	(20.9)	855	(21.0)	2,425	(18.8)	2,241	(36.7)
Nondeductible expenses	—	—	—	—	—	—	2	—
Stock compensation	3	(0.1)	—	—	290	(2.2)	7	(0.1)
Gain from debt extinguishment	—	—	—	—	—	—	(966)	15.8
Provision for income taxes for continuing operations	$ —	— %	$ —	— %	$ —	— %	$ —	— %

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

($ in '000s)

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	$ —	— %	$ 3	21.0 %	$ —	— %	$ 35	21.0 %
Provision for deferred tax assets deemed unrealizable (valuation allowance)	—	—	(3)	(21.0)	—	—	(35)	(21.0)
Provision for income taxes for discontinued operations	$ —	— %	$ —	— %	$ —	— %	$ —	— %

Components of Income Tax Benefit - Continuing Operations

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Current tax expense	$ —	$ —	$ —	$ —

Components of Income Tax Benefit - Discontinued Operations

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Current tax expense	$ —	$ —	$ —	$ —

During 2013 and 2019, due to shareholder activity, "triggering events" as determined under Internal Revenue Code ("IRC") Section 382 may have occurred. As a result, under IRC Section 382, the use of the Company's net operating loss ("NOL") and other carryforwards generated prior to the "triggering events" may be subject to a yearly limitation as a result of this "ownership change" for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders owning 5% or greater portions of the Company's shares. Due to the mechanics of the Section 382 calculation when there are multiple triggering events, the Company's losses will generally be limited based on the thresholds of the 2019 triggering event. The Company has established a valuation allowance against the NOLs that will expire unused as a result of the yearly limitation.

Components of Deferred Income Tax Assets and Liabilities

($ in '000s)	September 30, 2022	December 31, 2021
Gross deferred tax assets:		
Losses carried forward	$ 8,814	$ 6,657
Investment in affiliates	28,250	28,250
Bad debts	47	47
Fixed assets	608	437
Stock compensation	50	320
Other	1,126	670
Valuation allowance	(38,319)	(35,894)
Total gross deferred tax assets	576	487
Gross deferred tax liabilities:		
Intangible assets	188	206
Other	388	281
Total gross deferred tax liabilities	576	487
Net deferred tax assets	$ —	$ —

Net Operating Loss Carryforward as of September 30, 2022 by Expiry

($ in '000s)

Year of Occurrence	Year of Expiration	Amount
2011	2031	$ 1
2012	2032	70
2015	2035	1
2017	2037	12,085
2018	Indefinite	8,245
2019	Indefinite	5,241
2020	Indefinite	4,687
2021	Indefinite	1,372
2022	Indefinite	10,270
Total		$ 41,972

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. When considering the extent of the valuation allowance on Atlas' deferred tax assets, weight is given by management to both positive and negative evidence. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets. Based on Atlas' cumulative loss in recent years and certain deferred tax assets subject to a yearly limitation under Section 382 which will likely result in expiration before utilization, Atlas has recorded a valuation allowance of $38.3 million and $35.9 million for its gross future deferred tax assets as of September 30, 2022 and December 31, 2021, respectively.

Atlas accounts for uncertain tax positions in accordance with the income taxes accounting guidance. Atlas has analyzed filing positions in the federal and state jurisdictions where it is required to file tax returns, as well as the open tax years in these jurisdictions. Atlas believes that its federal and state income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain federal and state income tax positions have been recorded. Atlas would recognize interest expense and penalties related to unrecognized tax benefits as a component of the provision for federal income taxes. Atlas did not incur any federal income tax related interest income, interest expense or penalties for the three and nine months ended September 30, 2022 and 2021. Tax year 2018 and years thereafter are subject to examination by the Internal Revenue Service ("IRS").

7. Commitments and Contingencies

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

Atlas is exposed to credit risk on balances receivable from insureds and agents. Credit exposure to any one individual insured is not material. The policies placed with risk-taking partners are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. Atlas has procedures to monitor and minimize its exposure to delinquent agent balances, including, but not limited to, reviewing agent account statements, processing policy cancellations for non-payment and other collection efforts deemed appropriate. As a managing agent, our ability to generate commission revenue is pursuant to contractual agreements with risk-taking partners. Our objective is to maintain long-term relationships with these risk-taking partners. Such relationships are dependent upon market conditions, business results, and other factors which may be outside of our control.

8. Property and Equipment

Property and Equipment Held

($ in '000s)	September 30, 2022	December 31, 2021
Buildings[1]	$ —	$ —
Land[1]	—	—
Building improvements[1]	—	—
Leasehold improvements	5	39
Internal use software	12,795	12,795
Computer equipment	1,630	1,842
Furniture and other office equipment	1,059	1,086
Total	$ 15,489	$ 15,762
Accumulated depreciation and amortization	(14,034)	(13,259)
Total property and equipment, net	$ 1,455	$ 2,503

[1] Held for sale

Depreciation expense and amortization from continuing operations was $347,000 and $378,000 for the three months ended September 30, 2022 and 2021, respectively, and $1.0 million and $1.5 million for the nine months ended September 30, 2022 and 2021, respectively. For the year ended December 31, 2021, depreciation expense and amortization from continuing operations was $1.8 million.

During 2016, Atlas purchased a building and land to serve as its new corporate headquarters to replace its former leased office space. Atlas' Chicago area staff moved into this space in late October 2017 and occupies approximately 70,000 square feet in the building. An unrelated tenant occupies the remaining office space in the building, pursuant to a lease agreement with American Insurance Acquisition, Inc. ("American Acquisition"), a subsidiary of Atlas. Rental income related to this lease agreement was $123,000 and $119,000 for the three months ended September 30, 2022 and 2021, respectively, and $369,000 and $357,000 for the nine months ended September 30, 2022 and 2021, respectively. Depreciation expense related to the building and its improvements was $0 for each of the three months ended September 30, 2022 and 2021, and $0 and $284,000 for the nine months ended September 30, 2022 and 2021, respectively. The decrease in depreciation expense for the corporate headquarters is a result of the held for sale status of the corporate headquarters.

On April 1, 2021, the Company transitioned the assets related to its corporate headquarters from long-lived asset held and used to long-lived assets held for sale. The Company engaged an independent third party that is actively marketing the sale of the corporate headquarters including the land, building, building improvements and contents including furniture and fixtures. The Company engaged an independent third party that performed a valuation of the corporate headquarters and determined the fair market value as $7.5 million as of March 4, 2022. The valuation of the corporate headquarters resulted in a net realized loss totaling $7.0 million for the year ended December 31, 2021. On August 2, 2022, the Company and the regulators of Illinois and New York, in their capacity as liquidators of the estates of the Company's former insurance company subsidiaries as mortgagees (the "Insurance Regulators"), had agreed in principal to an auction sale process for the Company's HQ, furnishing and fixtures and land. Details related to this agreement were disclosed via Form 8-K on August 4, 2022. The Company ran an auction for the building, contents and property during the week of October 3, 2022 with a confidential reserve price agreed with the Insurance Regulators. There was significant interest leading up to the auction, however, the bids did not reach the reserve and the property did not sell. The Company is continuing to work towards a sale of the property. For more information regarding the sale of the Company's corporate headquarters, see Part I, Item 2, "Management's Discussion and Analysis of Results of Operations."

Amortization expense recorded to internal-use projects in the post-implementation/operation stage was $302,000 for each of the three months ended September 30, 2022 and 2021, and $906,000 for each of the nine months ended September 30, 2022 and 2021. For the three and nine months ended September 30, 2022 and 2021, the Company did not capitalize any projects in the application development stage.

Realized gains on disposals of fixed assets totaled $1,000 and $12,000 for the nine months ended September 30, 2022 and 2021, respectively. There were no gains or losses on disposals of fixed assets for each of the three months ended September 30, 2022 and 2021.

9. Share-Based Compensation

On January 6, 2011, Atlas adopted a stock option plan ("Stock Option Plan") in order to advance the interests of Atlas by providing incentives to certain eligible employees and service providers, as approved by the Compensation Committee. In the second quarter of 2013, a new equity incentive plan ("2013 Equity Incentive Plan") was approved by the Company's common shareholders at the Annual General Meeting, and Atlas ceased to grant new stock options under the Stock Option Plan. The 2013 Equity Incentive Plan provided for the grant of the restricted stock, restricted stock units, stock options and other forms of equity incentives to eligible persons as part of their compensation. The 2013 Equity Incentive Plan was considered a continuation, and an amendment and restatement of the Stock Option Plan, although outstanding stock options issued pursuant to the Stock Option Plan continued to be governed by the terms of the Stock Option Plan. As of September 30, 2022, all outstanding stock options were issued under the 2013 Equity Incentive Plan.

In the second quarter of 2022, a new equity incentive plan ("2022 Equity Incentive Plan") was approved by the Company's common shareholders at the Annual General Meeting, and Atlas ceased to grant new stock options under the 2013 Equity Incentive Plan. The 2022 Equity Incentive Plan is an equity-based compensation plan, pursuant to which Atlas may issue restricted stock, restricted stock units, stock options, stock appreciation rights, performance stock, performance units, and other forms of equity and equity-based incentives to eligible persons as part of their compensation. Outstanding stock options issued pursuant to the 2013 Equity Incentive Plan will continue to be governed by the terms of the 2013 Equity Incentive Plan.

Stock Options

Stock Option Activity

	Nine months ended September 30,			
	2022		2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,197,500	$ 2.63	181,500	$ 13.51
Granted	—	—	1,016,000	0.49
Exercised	—	—	—	—
Canceled	(520,500)	5.42	—	—
Outstanding, end of period	677,000	$ 0.49	1,197,500	$ 2.63

There are no stock options that are exercisable as of September 30, 2022. The stock option grants outstanding have a weighted average remaining life of 5.56 years and have a fair value of $0 as of September 30, 2022.

On March 12, 2015, the Board of Directors of Atlas granted equity awards of (i) 200,000 restricted stock grants for ordinary voting common shares of the Company and (ii) 200,000 options to acquire ordinary voting common shares to the executive officers of the Company as part of the Company's annual compensation process. The awards were made under the Company's 2013 Equity Incentive Plan. The awards vest in five equal annual installments of 20%, provided that an installment shall not vest unless an annual performance target based on specific book value growth rates linked to return on equity goals is met. In the event the performance target is not met in any year, the 20% installment for such year shall not vest, but such non-vested installment shall carry forward and can become vested in future years (up to the fifth year from the date of grant), subject to achievement in a future year of the applicable performance target for such year. For the three and nine months ended September 30, 2022 and 2021, no shares of either of the restricted stock grants for ordinary voting common shares or the options to acquire ordinary voting common shares vested due to not meeting annual performance targets. During 2020, 140,000 of the option awards were canceled as a result of not meeting the annual performance targets and an additional 53,500 options were canceled due to the departure of a former officer. During the first quarter of 2022, the remaining, 181,500 option awards were canceled as a result of not meeting the annual performance targets. The Monte-Carlo simulation model was used, for both the options and restricted stock grants for ordinary voting common shares, to estimate the fair value of compensation expense as a result of the performance based component of these grants. Utilizing the Monte-Carlo simulation model, the fair values were $1.5 million and $1.9 million for the options and restricted stock grants for ordinary voting common shares, respectively. This expense was amortized over the anticipated vesting period.

On April 22, 2021, the Company granted an aggregate of 1,016,000 options ("Options") with an exercise price of $0.49 per common share of the Company to directors, managers, and executives pursuant to the Company's 2013 Equity Incentive Plan. This exercise price is the average of the high bid and low asked prices on the date of the grant quoted on the OTC Bulletin

Board Service. The Options granted to management vest in three equal installments, with each installment vesting on the 1st, 2nd and 3rd anniversary of the date of the grant. The Options granted to independent directors vested immediately upon the date of the grant. The Options will expire on the seventh anniversary of the date of the grant. In the event of a change of control of the Company, or should a director's or employee's service with the Company be terminated other than for cause or voluntary resignation, any unvested Options will immediately vest. During the first nine months of 2022, 339,000 Options were canceled because the Options were not exercised after voluntary terminations. The estimated fair values of the Options are amortized to expense over the Options' vesting period. The Company estimated the fair value of the Options at the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Expected risk-free interest rate	1.6 %
Volatility	180.8 %
Expected life (in years)	7.0

On December 31, 2018, the Company awarded restricted stock unit grants for ordinary voting common shares of the Company to its external directors pursuant to a director equity award agreement dated December 31, 2018. The awards, which were approved by the Company's Board of Directors in March 2018, were valued at $40,000 per external director ("Aggregate Award") and were made under the Company's 2013 Equity Incentive Plan. The number of restricted stock units awarded was determined by dividing (A) the Aggregate Award by (B) the closing price of a Company ordinary voting common share at the close of market on April 4, 2018, which was $10.50 per share. For new directors, the Aggregate Award is proportionate to the director's start date and priced as of that same day. During 2018, the Company awarded 17,524 RSU grants having an aggregate grant date fair value of $179,000.

On September 12, 2022, the Company awarded 100,000 restricted stock unit grants for ordinary voting common shares of the Company to each of its external directors as part of their compensation. The awards were valued at $11,000 per external director and vest over a two-year period.

Restricted Shares

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

	Nine months ended September 30,			
	2022		2021	
	Number of Shares	Weighted Average Fair Value at Grant Date	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested, beginning of period	$ —	$ —	$ 3,301	$ 10.22
Granted	200,000	0.11	—	—
Vested	—	—	(3,301)	0.12
Canceled	—	—	—	—
Non-vested, end of period	$ 200,000	$ 0.11	$ —	$ —

In accordance with Accounting Standards Codification ("ASC") 718 (Stock-Based Compensation), Atlas has recognized share-based compensation expense on a straight-line basis over the requisite service period of the last separately vesting portion of the award. Share-based compensation expense is a component of other underwriting expenses on the condensed consolidated statements of operations. Atlas recognized $35,000 and $31,000 in share-based compensation expense, including income tax expense, for the three months ended September 30, 2022 and 2021, respectively, and $189,000 and $197,000 for the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022, there was $21,000 of unrecognized total compensation expense related to restricted stock and restricted stock units for ordinary voting common shares.

10. Other Employee Benefit Plans

Defined Contribution Plan

Atlas has a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Contributions to this plan are limited based on IRS guidelines. Atlas may match up to 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 2.5% of annual earnings, for a total maximum expense of 3.75% of annual earnings per participant. Atlas' matching contributions are discretionary. Employees are 100% vested in their own contributions and vest in Atlas contributions based on years of service equally over 5 years with 100% vested after 5 years. There were no Company contributions for either of the three and nine months ended September 30, 2022 and 2021. The matching portion of this plan was suspended until further notice during the third quarter of 2020.

Employee Stock Purchase Plan

The Atlas Employee Stock Purchase Plan ("ESPP") encourages employee interest in the operation, growth and development of Atlas and provides an additional investment opportunity to employees. Full time and permanent part time employees working more than 30 hours per week are allowed to invest up to 7.5% of adjusted salary in Atlas ordinary voting common shares. Atlas may match up to 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 5% of annual earnings, for a total maximum expense of 5% of annual earnings per participant. Atlas' matching contributions are discretionary. Atlas also pays all administrative costs related to this plan. Atlas incurred no costs related to the matching portion of the ESPP for either of the three and nine months ended September 30, 2022 and 2021. The matching portion of this plan was suspended until further notice during the third quarter of 2020.

11. Share Capital and Mezzanine Equity

Share Capital

Share Capital Activity

		September 30, 2022			December 31, 2021		
	Shares Authorized[1]	Shares Issued	Shares Outstanding	Amount ($ in '000s)	Shares Issued	Shares Outstanding	Amount ($ in '000s)
Ordinary voting common shares	800,000,001	17,652,839	17,652,839	$ 54	15,052,839	14,797,334	$ 45
Restricted voting common shares	33,333,334	—	—	—	—	—	—
Total common shares	833,333,335	17,652,839	17,652,839	$ 54	15,052,839	14,797,334	$ 45

During the nine months ended September 30, 2022, the Company issued (i) 2,600,000 ordinary voting common shares in connection with the Delayed Draws (as defined herein) pursuant to the Credit Agreement and (ii) 255,005 treasury shares to the officers as equity compensation. During the year ended December 31, 2021, the Company issued 2,804,041 ordinary voting common shares of which 2,750,000 ordinary voting common shares were issued upon execution of the Credit Agreement, as a set-up fee for the Term Loan facility, 50,740 ordinary voting common shares were issued under the near term incentive program, and 3,301 ordinary voting common shares were issued as a result of the vesting of RSUs.

Warrants

The Schedule 13G/A filed by American Financial Group, Inc. a parent holding company, on January 20, 2022 states that as of December 31, 2021, it has sole power to vote and sole power to dispose of 2,387,368 ordinary voting common shares. These shares are represented by warrants to purchase 2,387,368 ordinary voting common shares until June 10, 2024, under a Warrant Agreement dated June 10, 2019 (the "Warrant Agreement"), at an initial exercise price of $0.69 per share, with both the number of ordinary voting common shares subject to the Warrant Agreement and the exercise price subject to adjustment as set forth in the Warrant Agreement.

Convertible Senior Secured Delayed-Draw Credit Agreement

The outstanding principal balance of the Term Loans can be converted at any time into ordinary voting common shares, at the applicable Lender's discretion, at a rate of $0.35 per share, except that paid-in-kind interest included in the amount presented by a Lender for conversion may, at the Borrowers' discretion, be paid in cash or converted into ordinary voting common shares at the same rate. As of November 8, 2022, no such conversion has taken place.

Mezzanine Equity

There were no preferred shares outstanding as of September 30, 2022 and December 31, 2021.

12. Leases

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

Certain agreements include an option to extend or renew the lease term at our option. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. Lease payments are discounted using the implicit discount rate in the lease. If the implicit discount rate for the lease cannot be readily determined, the Company uses an estimate of its incremental borrowing rate. The Company did not have any contracts accounted for as finance leases as of September 30, 2022 or 2021.

Lease Expense

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Operating leases	$ 6	$ 169	$ 179	$ 507
Variable lease cost	—	12	9	195
Total	$ 6	$ 181	$ 188	$ 702

Other Operating Lease Information

($ in '000s)	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Cash paid for amounts included in the measurement of lease liabilities reported in operating cash flows	$ 6	$ 181	$ 195	$ 702
Right-of-use assets obtained in exchange for new lease liabilities	—	—	—	—
Total	$ 6	$ 181	$ 195	$ 702

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

Contractual Operating Lease Liabilities

($ in '000s)	As of September 30, 2022
Remainder of 2022	$ 4
2023	15
Total lease payments	$ 19
Impact of discounting	(1)
Operating lease liability	$ 18

Supplemental Balance Sheet Disclosures

($ in '000s)

Lease Component	Balance Sheet Classification	As of September 30, 2022
Lease right-of-use asset	Right-of-use asset	$ 18
Weighted-average remaining lease term		1.0 year
Weighted-average discount rate		6.6 %

13. Related Party Transactions

As of April 1, 2022, a member of the administrative agent for the Credit Agreement was a member of the Company's Board of Directors. However, as of April 22, 2022, such director resigned from the Board. For more information on the Credit Agreement, see Note 14.

14. Notes Payable

Senior Unsecured Notes

On April 26, 2017, Atlas issued $25 million of five-year 6.625% senior unsecured notes (the "Notes") and received net proceeds of approximately $23.9 million after deducting underwriting discounts and commissions and other estimated offering expenses. The Notes were issued under an indenture and supplemental indenture that contained covenants that, among other things, limited: (i) the ability of Atlas to merge or consolidate, or lease, sell, assign or transfer all or substantially all of its assets; (ii) the ability of Atlas to sell or otherwise dispose of the equity securities of certain of its subsidiaries; (iii) the ability of certain of Atlas' subsidiaries to issue equity securities; (iv) the ability of Atlas to permit certain of its subsidiaries to merge or consolidate, or lease, sell, assign or transfer all or substantially all of their respective assets; and (v) the ability of Atlas and its subsidiaries to incur debt secured by equity securities of certain of its subsidiaries.

Interest on the Notes was payable quarterly on each January 26, April 26, July 26 and October 26. Pursuant to the supplemental indenture, Atlas could have, at its option, beginning with the interest payment date of April 26, 2020, and on any scheduled interest payment date thereafter, redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. The Notes ranked senior in right of payment to any of Atlas' existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the senior unsecured notes. The Notes ranked equally in right of payment to all of Atlas' existing and future senior indebtedness, but were effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the Notes were structurally subordinated to the indebtedness and other obligations of Atlas' subsidiaries.

On August 31, 2021, the Company entered into a Restructuring Support Agreement (the "RSA") with holders of approximately 48% of the aggregate principal amount of the Notes, and subsequently holders of approximately an additional 9.0% of the aggregate principal amount of the Notes acceded to the RSA for a total of approximately 57% (collectively, the "Supporting Noteholders"). Effective as of February 22, 2022, the Company entered into an amendment of the RSA with the requisite majority of Supporting Noteholders to extend the date by which the Note Restructuring must be completed to April 15, 2022. The RSA memorialized the agreed-upon terms for a restructuring of the Notes (the "Note Restructuring"). The RSA contemplated that the Note Restructuring would be effectuated through (i) the Scheme and (ii) a recognition proceeding with respect to the Scheme pursuant to chapter 15 of title 11 of the United States Code (the Recognition Proceeding").

On January 4, 2022, the Company filed a petition and summons for direction (the "Cayman Proceeding") in the Grand Court of the Cayman Islands (the "Cayman Court") regarding a scheme of arrangement pursuant to section 86 of Part IV of the Companies Act (2021 Revision) of the Cayman Islands (the "Scheme") proposed by the Company related to the restructuring of the Company's indebtedness under the Notes (the "Note Restructuring"). Pursuant to the summons for directions, the Company sought an order (the "Convening Order") for the convening of a single meeting of a class of creditors affected by the Scheme (the "Scheme Meeting"). At the Scheme Meeting, the resolution was put forward that "*...the Scheme of Arrangement, a copy of which has been tabled at this Scheme Meeting, be approved subject to any modification, addition or condition which the Grand Court of the Cayman Islands may this to fit or impose which would not directly or indirectly have a material adverse effect on the rights of the Scheme Creditors."* The aforementioned resolution was passed with an overwhelming majority: holders of 91.83% of the Notes in number and 99.34% par amount of those voting voted in favor of the Scheme and, on February 25, 2022, the Cayman Court sanctioned and approved the Scheme by entry of a sanction order (the "Sanction Order"). The Sanction Order was filed with and accepted by the Registrar of Companies, as required by the Cayman Court.

On March 4, 2022, the Company filed a petition under chapter 15 of the United States Bankruptcy Code (the "Recognition Petition"), seeking that the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") enter an order recognizing the Cayman Proceeding as the foreign main or foreign nonmain proceeding and enforcing the Scheme within the territorial jurisdiction of the United States (the "Recognition and Enforcement Order"). On March 4, 2022, the Bankruptcy Court entered an order, which, among other things, scheduled a hearing before the Bankruptcy Court for March 30, 2022 (the "Recognition Hearing"), and, on the same day, the Bankruptcy Court entered the final and non-appealable Recognition and Enforcement Order, recognizing the Cayman Proceeding as the foreign main proceeding and enforcing the Scheme within the territorial jurisdiction of the United States, among other relief. Among other things, the Recognition and Enforcement Order provides that, pursuant to section 1145 of the Bankruptcy Code, once issued, the New Notes will be exempt from registration under Section 5 of the Securities Act of 1933, as amended (the "Securities Act"), and any applicable state and local securities laws and freely transferable, subject to certain limitations under section 1145(b) of the Bankruptcy Code with respect to any New Notes issued to "underwriters" as defined in section 2(a)(11) of the Securities Act. The procurement of the Recognition and Enforcement Order was the last in-court step in the Note Restructuring. The Recognition and Enforcement Order was effective immediately and enforceable upon entry, authorizing the Company to take any action to implement and effectuate the Note Restructuring, including finalization of ancillary documents, among other things, in an effort to proceed toward closing the Note Restructuring in accordance with the Scheme and the RSA. The notice of presentment to close the Recognition Proceeding was filed on June 13, 2022. On June 22, 2022, the Bankruptcy Court entered the order closing the Recognition Proceeding.

Pursuant to the terms of the Note Restructuring, on April 14, 2022, the Restructuring Effective Date (as defined in the RSA) occurred, and the Company canceled the Notes and exchanged the Notes for the Company's 6.625%/7.25% Senior Unsecured PIK Toggle Notes due 2027 (the "New Notes"). The New Notes have an interest rate of 6.625% per annum, if paid in cash, and 7.25% per annum, if paid in kind ("PIK"). As a result of the PIK feature, the New Notes were issued in denominations of $1, and each holder of a Note received, for each Note exchanged, New Notes in an aggregate principal amount equal to $25 plus the accrued but unpaid interest related to the exchanged Note. The terms of the New Notes are governed by an indenture, dated as of April 26, 2017 (the "Base Indenture"), between the Company and Wilmington Trust, National Association, as trustee, as supplemented by a First Supplemental Indenture thereto, dated as of April 26, 2017 (the "First Supplemental Indenture"), and a Second Supplemental Indenture thereto, dated as of April 14, 2022 (the "Second Supplemental Indenture"), between the Company and the Trustee. The Company intends to utilize the extended maturity of the New Notes to execute on its technology and analytics driven MGA strategy, with the objective of creating value for all stakeholders. The New Notes were issued in reliance on the exemption to registration provided by section 1145 of the Bankruptcy Code, except with respect to those New Notes issued to an "underwriter" as defined in section 2(a)(11) of the Securities Act under section 1145(b) of the Bankruptcy Code that will be subject to certain restrictions upon resale, and the authorization of the Bankruptcy Court pursuant to the Recognition and Enforcement Order; however, the Company intends to use its best efforts to seek registration of the New Notes following the Note Restructuring subject to any applicable rules or restrictions that may apply.

Interest on the New Notes is payable quarterly on each January 27, April 27, July 27 and October 27. Pursuant to the Base Indenture, the First Supplemental Indenture and the Second Supplemental Indenture, Atlas may, beginning on April 14, 2025, or at any time thereafter, redeem the New Notes, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued and unpaid interest thereon to, but excluding, the date of redemption. Additionally, pursuant to the Base Indenture, the First Supplemental Indenture and the Second Supplemental Indenture, Atlas may, on any interest payment date, redeem the New Notes, in whole or in part, at a redemption price equal to 100% of the principal amount to be redeemed in an amount not to exceed the excess of the outstanding principal amount of the New Notes as of such interest payment date (including, if applicable, any PIK interest accrued as of such interest payment date) over the original par amount of the New Notes outstanding on such interest payment date. For the avoidance of doubt, the amount which may be redeemed pursuant to the foregoing sentence shall not exceed the amount attributable to PIK Interest added to the principal amount of the then-outstanding New Notes. The New Notes will rank senior in right of payment to any of Atlas' existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the senior unsecured notes. The New Notes rank equally in right of payment to all of Atlas' existing and future senior indebtedness, but are effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the New Notes are structurally subordinated to the indebtedness and other obligations of Atlas' subsidiaries.

The Company assessed the modifications to the New Notes under ASC 470 (Debt) and determined that the guidance under troubled debt restructuring should apply. Per ASC 470-60-35-5, a debtor in a troubled debt restructuring involving only modification of terms of a payable that is not involving a transfer of assets or grant of an equity interest shall account for the effects of the restructuring prospectively from the time of restructuring, and shall not change the carrying amount of the payable at the time of the restructuring unless the carrying amount exceeds the total future cash payments specified by the new terms. As the future undiscounted cash flows were greater than or equal to the net carrying value of the original debt, the carrying amount of the New Notes at the time of the restructuring was not changed (that is, no gain recognized). Interest expense on the New Notes will be computed using a new effective rate that equates the present value of the future cash payments specified by the new terms with the carrying value of the debt.

Mortgage

On November 10, 2016, American Acquisition entered into a ten-year 5.0% fixed rate mortgage agreement with the Insurance Subsidiaries totaling $10.7 million with principal and interest payments due monthly. The mortgage is secured by the Company's headquarters and was previously eliminated in consolidation. The mortgage balances payable at each of September 30, 2022 and December 31, 2021 were $8.0 million. The Company is evaluating alternatives to expedite the sale of the Company's headquarters, which as disclosed in Note 8, as of the date of this report is currently held at the Company's best estimate of fair value of $7.5 million, which may include a disposition without any financial benefit or incremental liability to the Company other than the elimination of ongoing building related operational expenses and real estate taxes, some of which have been deferred. For more information regarding this mortgage, See Part I, Item 2, "Management's Discussion and Analysis of Results of Operations."

Paycheck Protection Program Loans

On May 1, 2020, American Acquisition entered into a Paycheck Protection Program Promissory Note (a "PPP Note") with respect to a loan of $4,600,500 (the "First PPP Loan") from Fifth Third Bank, National Association ("Fifth Third"). The First PPP Loan was obtained pursuant to the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration ("SBA"). The First PPP Loan had a maturity date of May 1, 2022 and interest at a rate of 1.0% per annum. On June 14, 2021, American Acquisition received notification from the SBA that the First PPP Loan principal and related interest has been forgiven.

On February 7, 2021, American Acquisition entered into a PPP Note with respect to a loan of $2,000,000 (the "Second PPP Loan") from Fifth Third. The Second PPP Loan was obtained pursuant to the SBA's Paycheck Protection Program Second Draw Loans under the Small Business Act ("SB Act") and is subject to the terms and conditions of the SB Act, the CARES Act and related legislation and regulations (collectively, the "PPP Rules"). The Company was eligible for the Second PPP Loan because our equity securities are not a National Markets System stock traded on a national securities exchange as defined by Section 6 of the Securities Exchange Act. The Second PPP Loan had a maturity date of February 7, 2026 and interest at a rate of 1.0% per annum. On December 10, 2021, American Acquisition received notification from the SBA that the Second PPP Loan Principal and related interest has been forgiven.

Credit Agreement

On September 1, 2021, the Company and certain of its subsidiaries, as borrowers (collectively, the “Borrowers”), entered into a Convertible Senior Secured Delayed-Draw Credit Agreement (as amended February 2, 2022, March 25, 2022 and from time to time as discussed below, the “Credit Agreement”), agented by Sheridan Road Partners, LLC (in such capacity, the “Agent”), with certain Supporting Noteholders named therein as lenders (the “Lenders”), pursuant to which the Lenders made available to the Borrowers an aggregate principal amount up to $3,000,000 (the “Term Loans”). The Credit Agreement provides for an initial advance of $2 million in Term Loans and up to $1 million of additional delayed draws (the “Delayed Draws”) within 18 months of closing, in each case, subject to the satisfaction or waiver of certain funding conditions and the other terms and conditions set forth in the Credit Agreement. The Borrowers may use the proceeds of the Term Loans for payments of certain agreed upon permitted expenditures, which include expenses expected to be incurred in connection with the Note Restructuring. Interest will accrue on the funded Term Loans at 12.0% per annum and may be paid, at the Borrowers’ option, in cash or in kind; provided, that upon the occurrence and during the continuance of an event of default, the interest rate will be increased to 14.0% per annum and will be payable only in cash. The term of the Term Loan facility is 24 months. In October 2021 and January 2022, the Lenders advanced an aggregate of $2 million of the Term Loans and, in March 2022, the Lenders advanced $1 million of Delayed Draws under the Term Loans, in each case despite the fact that not all of the funding conditions had been met.

As a set-up fee for the Term Loan facility, 2,750,000 ordinary voting common shares of the Company were issued to the Lenders upon execution of the agreement, and an additional 2,500,000 ordinary voting common shares were issued to the Lenders in March 2022, in connection with the Delayed Draws. The outstanding principal balance of the Term Loans can be converted at any time into ordinary voting common shares, at the applicable Lender’s discretion, at a rate of $0.35 per share, except that paid-in-kind interest included in the amount presented by a Lender for conversion may, at the Borrowers’ discretion, be paid in cash or converted into ordinary shares at the same rate.

On June 9, 2022, the Company entered into a third amendment of the Credit Agreement that increased the Term Loans to $6,200,000 and extended the maturity date to June 30, 2024.

On June 29, 2022, the Company and Borrowers, entered into a Term Loan Commitment (the “Commitment Letter”) with certain lenders party thereto (the “Commitment Lenders”), whereby the Commitment Lenders agreed to make an additional $1 million in principal amount of additional Term Loans (the “Committed Loans”) to the Borrowers related to the Credit Agreement. In connection with this Commitment Letter, the Company issued 100,000 ordinary voting common shares to the Commitment Lenders. Pursuant to the Commitment Letter, the Committed Loans would be loaned within ten days after the Effective Date (as defined below), and such Committed Loans would be made pursuant to the terms of the Credit Agreement. The Committed Loans are subject to certain conditions, including (i) the delivery of the closing documents required pursuant to the Credit Agreement, and (ii) that no material adverse changes with respect to the Borrowers shall have occurred following the date of the Commitment Letter, (iii) that the Settlement Agreement (as defined below) be fully executed within 21 days from the date of the Commitment Letter (the “Execution Condition”), and (iv) that the Effective Date occur within 45 days from the date of the Commitment Letter (the “Effective Date Condition” and, with the Execution Condition, the “Settlement Agreement Conditions”). On July 19, 2022, the Commitment Lenders agreed to extend the Settlement Agreement Conditions by fifteen (15) days, and the Settlement Agreement was fully executed on August 2, 2022.

On September 6, 2022, the Company entered into a fourth amendment of the Credit Agreement that increased the Term Loans to $7,200,000, as contemplated by the Commitment Letter.

On October 31, 2022, the Company entered into a fifth amendment of the Credit Agreement that increased the Term Loans to $7,950,000.

The Credit Agreement requires the satisfaction or waiver of certain funding conditions and that the Borrower comply with customary affirmative and negative covenants, including covenants governing and restricting indebtedness, liens, investments, sales of assets, distributions, and fundamental changes in the Borrowers’ organizational structure and line of business and maintaining certain levels of liquidity. The obligation of the Lenders to make any of the Term Loans is conditioned upon the grant to the Agent, on behalf of the Lenders, of a first priority perfected security interest in collateral consisting of substantially all of the assets of the Borrowers to secure the payment in full of the Term Loans and all other obligations under the Credit Agreement and related loan documentation. The collateral will include pledges of the equity of the Company’s direct and indirect subsidiaries American Acquisition, AGMI, Anchor Holdings Group, Inc., and UBI. Upon payment in full of the Term Loans, the Company will have no further obligations to the Agent and the Lenders under the Credit Agreement and other related loan documentation other than the obligation to register the ordinary shares issued pursuant to the Credit Agreement, and the security interests granted by the Borrowers in favor of the Agent, on behalf of the Lenders, will terminate.

After the Delayed Draws in March 2022, Management engaged an independent third-party valuation firm which determined the fair value of the Credit Agreement conversion option using Black-Scholes modeling. The fair value of the liability portion following the Delayed Draws in September 2022 was determined to be $1.2 million and was deducted from the $7.2 million draw amount. The equity component of the Credit Agreement will not be remeasured as long as it continues to meet the conditions for equity classification.

The Company recorded a fee related to the Credit Agreement which totaled $2.0 million, which was the fair value of the shares issued portion in connection with the Credit Agreement. This non-cash fee had been recorded as an asset in the Company's condensed consolidated statements of financial position until the full amount of the draws were received by the Company. The unamortized potion of the fee was transferred to a liability and is the unamortized debt discount. The amortization is being expensed on a straight-line basis over the contractual term of the Credit Agreement. During the three and nine months ended September 30, 2022, the Company recorded amortization totaling $145,000 and $530,000, respectively.

Liability and Equity Components of Credit Agreement

($ in '000s)

		September 30, 2022
Liability component:		
Principal amount	$	1,168
Unamortized debt discount		(212)
Net carrying amount	$	956
Carrying amount of equity component	$	4,939

The Company assessed the modifications to the Credit Agreement under ASC 470 and determined that the guidance under troubled debt restructuring should apply. Per ASC 470-60-35-5, a debtor in a troubled debt restructuring involving only modification of terms of a payable that is not involving a transfer of assets or grant of an equity interest shall account for the effects of the restructuring prospectively from the time of restructuring, and shall not change the carrying amount of the payable at the time of the restructuring unless the carrying amount exceeds the total future cash payments specified by the new terms. As the future undiscounted cash flows were greater than or equal to the net carrying value of the original debt, the carrying amount of the Credit Agreement at the time of the restructuring was not changed (that is, no gain recognized). Interest expense on the Credit Agreement will be computed using a new effective rate that equates the present value of the future cash payments specified by the new terms with the carrying value of the debt.

Interest expense on notes payable was $801,000 and $556,000 for the three months ended September 30, 2022 and 2021, respectively, and $2.2 million and $1.6 million for the nine months ended September 30, 2022 and 2021, respectively.

Notes Payable Outstanding

($ in '000s)		September 30, 2022		December 31, 2021
6.625%/7.25% Senior Unsecured PIK Toggle Notes due April 27, 2027	$	27,192	$	25,000
12.0% Credit Agreement, net of discount, due June 30, 2024		956		224
5.0% Mortgage due November 10, 2026		7,950		7,950
Total outstanding borrowings		36,098		33,174
Unamortized issuance costs		—		(72)
Total notes payable	$	36,098	$	33,102

15. Deconsolidation and Discontinued Operations

Deconsolidation

On May 1, 2015, American Acquisition entered into subordinated surplus debentures ("Surplus Notes") with the ASI Pool Companies that had a maturity date of April 30, 2020 carrying a variable interest equal to the corporate base rate as reported by the largest bank (measured in assets) with its head office located in Chicago, Illinois, in effect on the first business day of each month for the term of the Surplus Notes plus two percent per annum on the unpaid principal balance with a maximum variable interest rate for any month not to exceed the initial rate for the Surplus Notes by more than ten percent per annum. These Surplus Notes are subject to various terms and conditions as set forth by the Illinois Department of Insurance and require prior written approval for the payment of interest and/or the reduction in principal. These Surplus Notes could be used at some point to offset future amounts payable related to income tax settlements and various other intercompany settlements to the estates of the ASI Pool Companies.

Effective October 1, 2021, Atlas no longer has statutory responsibility or authority over the financial activities of Global Liberty while still maintaining their indirect ownership of Global Liberty. The financial results of Global Liberty are included in the condensed consolidated statements of operations as a discontinued operation through September 30, 2021. There was no re-measurement of any retained interest since no future value was assigned to Global Liberty as a result of the liquidation.

On August 2, 2022, American Acquisition entered into the Settlement Agreement with the Insurance Liquidators, with the Insurance Regulators serving as liquidators in connection with the previously announced liquidation of the Insurance Subsidiaries. For more information on the Settlement Agreement, see Part I, Item 2, "Management's Discussion and Analysis of Results of Operations."

Discontinued Operations

During the fourth quarter of 2019, the Company began actively pursuing the potential sale of Global Liberty, and as a result, Global Liberty was held for sale and thus classified as a discontinued operation through September 30, 2021 and the results of Global Liberty's operations are reported separately for all periods presented. Global Liberty was not sold within the one year guidance as set forth by ASC 205-20-45-1E(d) to continue classifying Global Liberty as a discontinued operation. However, due to the confluence of events and circumstances beyond the Company's control, ASC 205-20-45-1G(c) provides for an exception to the one year guidance which the Company believes fits its situation. As a result of the Company applying the exception guidance, Global Liberty remained as a discontinued operation through September 30, 2021. Global Liberty was placed into liquidation by the New York Department of Financial Services in October 2021 and, as a result, it has been deconsolidated from this reporting beginning October 1, 2021.

Summary financial information for Global Liberty included in income from discontinued operations, net of tax in the condensed consolidated statements of operations for the three and nine months ended September 30, 2021 is presented below:

Income from Discontinued Operations

($ in '000s)	Three months ended September 30, 2021	Nine months ended September 30, 2021
Net premiums earned	$ 2,464	$ 7,765
Net investment loss	(13)	(106)
Net realized gains	10	155
Other income	7	7
Total revenue	**2,468**	**7,821**
Net claims incurred	3,532	5,980
Acquisition costs	(1,685)	(280)
Other underwriting expenses	607	1,956
Total expenses	**2,454**	**7,656**
Income from operations before income taxes	**14**	**165**
Income tax benefit	—	—
Net income	**$ 14**	**$ 165**

Statement of Comprehensive Loss

($ in '000s)	Three months ended September 30, 2021	Nine months ended September 30, 2021
Net income	$ 14	$ 165
Other comprehensive loss:		
Changes in net unrealized investments losses	1	(21)
Reclassification to net (loss) income	(16)	(175)
Other comprehensive loss	**(15)**	**(196)**
Total comprehensive loss	**$ (1)**	**$ (31)**

16. Going Concern

Under ASC 205-40 Going Concern, we have the responsibility to evaluate whether conditions and/or events raise substantial doubt about our ability to meet our future financial obligations as they become due within one year after the date that the condensed consolidated financial statements are issued. As required by this standard, our evaluation shall initially not take into consideration the potential mitigating effects of our plans that have not been fully implemented as of the date the condensed consolidated financial statements are issued.

In complying with the requirements under ASC 205-40 to complete an evaluation without considering mitigating factors, the Company considered several conditions or events including (1) uncertainty around the continued impact of the COVID-19 pandemic on the Company's operations and consolidated financial results, (2) recurring operating losses for fiscal periods through September 30, 2022, (3) the Company's negative equity, and (4) the Company's working capital limitations. The above conditions raise substantial doubt about the Company's ability to continue as a going concern for the 12-month period following the date of the issuance of the September 30, 2022 interim financial statements.

In performing the second step of this assessment, we are required to evaluate whether our plans to mitigate the conditions above alleviate the substantial doubt about our ability to meet our obligations as they become due within one year after the date that the condensed consolidated financial statements are issued. The successful restructuring and exchange of the Notes in early 2022 extended their maturity by five years and added a payment in kind feature for interest during the first two of those five years. Our future plans to mitigate the conditions above may include, without limitation, one or more of the following: (1) securing incremental capital with the objective of potentially repurchasing some or all of the New Notes at a discount to par, in the open market or otherwise, (2) securing equity or debt capital in private or public transactions, or (3) offering to exchange some or all of the New Notes for debt, equity and/or other securities or other consideration, through privately negotiated transactions or otherwise. The constraints and requirements related to the New Notes coupled with market conditions could create limitations with respect to such alternatives.

Management believes that the Company's capital requirements will depend on many factors, including the success of the Company's business development efforts. Through September 30, 2022, cash flow from operations was negative as business continues to recover following the COVID-19 pandemic, and the Company expects that cash flow from operations, including holding company expenses, will be negative for the balance of the year. As a result, the Company will need to rely on cash on hand and incremental sources of capital to maintain its current infrastructure and headcount. The Company has been actively pursuing numerous additional sources of capital following the successful bond exchange. Subject to the availability of additional capital, the Company is considering alternatives, including a significant reduction in the size and scope of the organization or the sale of certain assets. Management believes the Company will most likely need to raise additional capital for working capital purposes based on the current business recovery trajectory. However, there is no assurance that such financing will be available. Should a significant reduction in the Company's operations be deemed necessary to reduce operating expenses, there can be no assurances that we will be able to benefit from a market recovery in addition to maintaining our obligations relative to existing business. The conditions described above raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements of the Company do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

There is no assurance that sufficient funds required during the next year or thereafter will be generated from operations or that funds will be available through external sources. The lack of additional capital resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material effect on the business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or will not have a significant dilutive effect on the Company's existing shareholders. In the absence of the successful execution of one or more of the alternatives discussed above, we have therefore concluded that there is substantial doubt about our ability to continue as a going concern for the 12 month period following of the date of the issuance of the September 30, 2022 interim financial statements.

The accompanying condensed consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from our failure to continue as a going concern.

17. Subsequent Events

On October 31, 2022, the Company entered into a fifth amendment of the Credit Agreement which increased the Term Loans to $7,950,000. For more information on the Credit Agreement, see Note 14.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear elsewhere in this report. In this discussion and analysis, the term "common share" refers to the summation of ordinary voting common shares, restricted voting common shares and participative restricted stock units when used to describe earnings (loss) or book value per common share.

Forward-Looking Statements

In addition to the historical consolidated financial information, this report contains "forward-looking statements," within the meaning of the Private Securities Litigation Reform Act of 1995, which may include, but are not limited to, statements with respect to estimates of future expenses, revenue and profitability; trends affecting financial condition, cash flows and results of operations; the availability and terms of additional capital; dependence on key suppliers and other strategic partners; industry trends; the competitive and regulatory environment; the successful integration of acquisitions; the impact of losing one or more senior executives or failing to attract additional key personnel; and other factors referenced in this report. Factors that could cause or contribute to these differences include those discussed below and elsewhere, particularly in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2021.

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

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

I. Company Overview

We are a technology and analytics driven financial services holding company incorporated under the laws of the Cayman Islands. Our primary business is generating, underwriting and servicing commercial automobile insurance policies in the United States, with a niche market orientation and focus on insurance for the "light" commercial automobile sector.

Our business currently focuses on a managing general agency strategy. Primarily through our wholly owned subsidiary, AGMI, we are focused on maintaining and recapturing business we have historically written in the taxi, livery/limo, and transportation network company ("TNC") sectors as well as generating new specialty business that fits our current underwriting parameters. We are also actively pursuing additional programs in the "light" commercial auto space where we believe our expertise, infrastructure and insurance technology will enable us to increase scale and profitability, but there can be no assurance that these programs will materialize. We believe that the specialized infrastructure and technology platforms we've developed over the years to support our traditional business will enable us to provide comparative advantages as a managing general agency in other commercial auto segments. In particular, we believe our ability to efficiently manage large numbers of small or highly transactional accounts through our technology platform and workflows is a differentiator. We are also evaluating opportunities to leverage our optOn™ insuretech platform, which was developed to provide micro-duration commercial automobile insurance for gig-economy drivers via a proprietary mobile app based ecosystem.

The sector on which we traditionally focused was comprised of taxi cabs, non-emergency para-transit, limousine, livery, including certain full-time TNC drivers/operators, and business auto. Our goal is to always be the preferred specialty insurance business in any geographic areas where our value proposition delivers benefit to all stakeholders. AGMI distributes our products through a network of independent retail agents and actively wrote insurance in 34 states and the District of Columbia during the first nine months of 2022. We embrace continuous improvement, analytics and technology as a means of building on the strong heritage our subsidiary companies cultivated in the niche markets we serve.

Factors Affecting Our Results of Operations

We generate commission revenue by selling policies in the commercial auto markets on behalf of our risk-taking insurance carrier partners, which compensate us through first year and renewal commissions. We use our proprietary technology and processes to generate and obtain consumer leads and allocate those leads to agents whom we believe are best suited for those consumers. As a result, one of the primary factors affecting our growth is our total number of agents, comprised of both existing core agents and the number of new agents that we contract to sell new policies. In our traditional target markets, we view agents as a valuable component of helping consumers through the purchasing process to enable them to identify the most appropriate coverage that suits their needs. We have also developed proprietary technologies and processes that enable us to expand our lead acquisition efforts to maintain agent productivity.

The amount of revenue we expect to recognize is based on multiple factors, including our commission rates with our risk-taking insurance carrier partners and the market demand for the types of products we offer. The higher our hit ratios on new policies and the higher our retention ratios, the more revenue we expect to generate. Additionally, we may earn certain volume-based compensation from some unrelated risk taking partners, which can include a renewal rights component. Our goal is to maximize policyholder lifetime value by optimizing efficiency and scale, which starts by providing consumers with a transparent, valuable and best-in-class consumer experience by endeavoring to support our distribution channel effectively and providing insurance solutions that meet the specific needs of our customers.

Recent Events

As previously disclosed and in connection with the cancellation of the Notes and issuance of the New Notes in exchange, on January 4, 2022, the Company commenced the Cayman Proceeding in the Cayman Court regarding the Scheme proposed by the Company related to the Note Restructuring. Pursuant to the summons for directions, the Company sought an order (the "Convening Order") for the convening of a single meeting of a class of creditors affected by the Scheme (the "Scheme Creditors") to consider and, if thought fit, approve, with or without modification, the Scheme (the "Scheme Meeting"). At the Scheme Meeting, the resolution was put forward that "*...the Scheme of Arrangement, a copy of which has been tabled at this Scheme Meeting, be approved subject to any modification, addition or condition which the Grand Court of the Cayman Islands may think to fit or impose which would not directly or indirectly have a material adverse effect on the rights of the Scheme Creditors.*" The aforementioned resolution was passed with an overwhelming majority: holders of 91.83% of the Notes in number and 99.34% par amount of those voting voted in favor of the Scheme and, on February 25, 2022, the Cayman Court sanctioned and approved the Scheme by entry of the Sanction Order. The Sanction Order was filed with and accepted by the Registrar of Companies, as required by the Cayman Court.

In furtherance of the Cayman Proceeding and in connection with the Note Restructuring, on March 4, 2022, the Company filed the Recognition Petition, seeking that the Bankruptcy Court enter the Recognition and Enforcement Order. On March 4, 2022, the Bankruptcy Court entered an order, which, among other things, scheduled the Recognition Hearing and, on the same day, the Bankruptcy Court entered the final and non-appealable Recognition and Enforcement Order, recognizing the Cayman Proceeding as the foreign main proceeding and enforcing the Scheme within the territorial jurisdiction of the United States, among other relief. Among other things, the Recognition and Enforcement Order provides that, pursuant to section 1145 of the Bankruptcy Code, once issued, the New Notes will be exempt from registration under Section 5 of the Securities Act, and any applicable state and local securities laws and freely transferable, subject to certain limitations under section 1145(b) of the Bankruptcy Code with respect to any New Notes issued to "underwriters" as defined in section 2(a)(11) of the Securities Act. The procurement of the Recognition and Enforcement Order was the last in-court step in the Note Restructuring. The Recognition and Enforcement Order was effective immediately and enforceable upon entry, authorizing the Company to take any action to implement and effectuate the Note Restructuring, including finalization of ancillary documents, among other things, in an effort to proceed toward closing the Note Restructuring in accordance with the RSA.

Pursuant to the terms of the Note Restructuring, on April 14, 2022, the Restructuring Effective Date occurred, and the Company canceled the Notes and exchanged the Notes for the New Notes. The New Notes have an interest rate of 6.625% per annum, if paid in cash, and 7.25% per annum, if paid in kind. As a result of the PIK feature, the New Notes were issued in denominations of $1 and each holder of a Note received, for each Note exchanged, New Notes in an aggregate principal amount equal to $25 plus the accrued but unpaid interest related to the exchanged Note. The Company intends to utilize the extended maturity of the New Notes to execute on its technology and analytics driven MGA strategy, with the objective of creating value for all stakeholders. The New Notes were issued in reliance on the exemption to registration provided by section 1145 of the Bankruptcy Code, except with respect to those New Notes issued to an "underwriter" as defined in section 2(a)(11) of the Securities Act under section 1145(b) of the Bankruptcy Code that will be subject to certain restrictions upon resale, and the authorization of the Bankruptcy Court pursuant to the Recognition and Enforcement Order; however, the Company intends to use its best efforts to seek registration of the New Notes following the Note Restructuring subject to any applicable rules or restrictions. The terms of the New Notes are governed by the Base Indenture, as supplemented by the First Supplemental

Indenture and the Second Supplemental Indenture. For more information on the Note Restructuring and the New Notes, see "Part I, Item 1, Note 14, Notes Payable," in the Notes to Condensed Consolidated Financial Statements.

On June 9, 2022, the Company entered into a third amendment of the Credit Agreement which increased the Term Loans to $6,200,000 and extended the maturity date to June 30, 2024.

On June 29, 2022, the Company and Borrowers, entered into the Commitment Letter with the Commitment Lenders, whereby the Commitment Lenders agreed to make the Committed Loans to the Borrowers related to the Credit Agreement. In connection with this Commitment Letter, the Company issued 100,000 ordinary voting common shares to the Commitment Lenders. Pursuant to the Commitment Letter, the Committed Loans would be loaned within ten days after the Effective Date, and such Committed Loans would be made pursuant to the terms of the Credit Agreement. The Committed Loans are subject to certain conditions, including (i) the delivery of the closing documents required pursuant to the Credit Agreement, (ii) that no material adverse changes with respect to the Borrowers shall have occurred following the date of the Commitment Letter, (iii) the Execution Condition, and (iv) the Effective Date Condition. On July 19, 2022, the Commitment Lenders agreed to extend the Settlement Agreement Conditions by fifteen (15) days.

On August 2, 2022, American Acquisition entered into the Settlement Agreement with the Insurance Regulators, with the Insurance Regulators serving as liquidators in connection with the previously announced liquidation of the Insurance Subsidiaries. The Settlement Agreement was subject to court approval in both Illinois and New York (each, a "Supervising Court Approval") and certain provisions became effective on August 25, 2022 (the "Effective Date"), upon receipt of both Supervising Court Approvals.

Pursuant to the Settlement Agreement, within thirty (30) days after the Effective Date, American Acquisition will initiate a sale of the Company's headquarters building via an auction process will be undertaken with a confidential reserve price agreed between American Acquisition and the Insurance Regulators (the "Sale"). American Acquisition and the Insurance Regulators believed that such an auction could expedite the sale of this property, which has been held for sale since April 1, 2021. The proceeds of the Sale will be allocated as follows: (i) to the payment of all normal and customary costs of selling the real estate, including, without limitation, any sales commission owed to the auctioneer; (ii) to the payment of all past due real estate taxes on account of the real estate; (iii) to the payment of all real estate taxes on account of the real estate due for the current year, prorated through the date of closing; (iv) to the payment of any mortgage liens held by the estates of the Insurance Subsidiaries, as described in the Settlement Agreement; (v) to the holders of any liens or claims on the real estate that are subordinate in priority to holders of the mortgage liens referenced in clause (v); and (vi) to American Acquisition.

Upon the entry of the Illinois Supervising Court Approval, American Acquisition will withdraw, in writing, its assertions of rights of setoff against the mortgage notes between American Acquisition and the consolidated estates of the Company's former Illinois domiciled insurance subsidiaries (the "Consolidated Estates").

Upon the later of (i) ten (10) business days after the Effective Date or (ii) the receipt by American Acquisition, or its affiliates, of sufficient funds, American Acquisition will pay the Liquidator $1,000,000 (the "$1 Million Payment") in consideration for the Liquidator's (A) contemporaneous release of all its interest in the stock of AGMI, (B) contemporaneous cancellation of the related stock power, and (C) simultaneous delivery to American Acquisition of the AGMI stock certificates held by the Liquidator pursuant to the previously disclosed pledge agreement between American Acquisition and the Liquidator, pursuant to which American Acquisition granted the Liquidator a security interest in and stock power with respect to 49% of American Acquisition's 100% share holding in AGMI. None of the proceeds of the Sale will be included in determining the $1 Million Payment, and regardless of any amount realized upon a subsequent sale of AGMI, the Consolidated Estates will not in any event be required by American Acquisition or any of American Acquisition's affiliates to refund or disgorge any portion of the $1 Million Payment. If American Acquisition sells all or substantially all of the shares or assets of AGMI within two years of the Consolidated Estates' receipt of the $1 Million Payment, the Consolidated Estates will receive an additional payment equal to the lesser of (i) $1,450,000 or (ii) the amount equal to (A) 49% of the proceeds of such sale (net of direct expenses incurred by American Acquisition in connection therewith, including reasonable fees and expenses of attorneys, financial advisors and other professionals) minus (B) $1,000,000.

Immediately after the Supervising Court Approval in Illinois was obtained, American Acquisition caused AGMI to pay to the Liquidator the sum of $151,000 representing a portion of the employee retention credit refund payment previously received by AGMI.

The Settlement Agreement also includes a mutual release between American Acquisition and the Liquidator, including, without limitation, with respect to the mortgage as described in the Settlement Agreement, and a confirmation that no admission of liability is being made by any party to the Settlement Agreement.

On September 6, 2022, the Company entered into a fourth amendment of the Credit Agreement which increased the Term Loans to $7,200,000. On September 7, 2022, the $1,000,000 of additional Term Loans were funded and the Company used the additional $1,000,000 of Term Loans to make the $1 Million Payment. Following the $1 Million Payment, on September 7, 2022, the Liquidator terminated and released its security interest in 49% of the equity interest in AGMI. On September 7, 2022, pursuant to the terms of the Credit Agreement, the Borrowers granted to the Agent for the benefit of the Lenders, a first-priority perfected security interest in the assets of, and the equity interests in, AGMI to secure the payment in full of the Term Loans and all other obligations under the Credit Agreement and related loan documentation. Such security included an equity pledge granted by American Acquisition in favor of the Agent, on behalf of the Lenders, in AGMI. As previously disclosed, upon payment in full of the Term Loans, the security interest granted by the Borrowers in favor of the Agent, on behalf of the Lenders, with respect to AGMI and certain other subsidiaries of the Company would be terminated and released.

On September 27, 2022, the Company, two of its executive officers and the plaintiffs reached an agreement in principle to settle an action brought by the plaintiffs for a settlement payment of $5 million to be paid by the Company's insurers. For more information on the Company's legal proceedings, see "Part II, Item 1, Legal Proceedings".

During the week of October 3, 2022, the Company ran an auction for the building, contents and property with a confidential reserve price agreed with the Insurance Regulators in their capacity as liquidators of the Company's former insurance company subsidiaries as mortgagees. There was significant interest leading up to the auction, however, the bids did not reach the reserve and the property did not sell. The Company continues to pursue a sale of the property.

On October 31, 2022, the Company entered into a fifth amendment of the Credit Agreement which increased the Term Loans to $7,950,000. The $750,000 of additional Term Loans was funded on November 1, 2022 and is expected to be used for general corporate purposes.

II. Operating Results

Highlights

- **Commission income was $760,000 for the three months ended September 30, 2022, a decrease of 62.9% from $2.0 million for the three months ended September 30, 2021. Commission income from go-forward taxi, livery and business auto production was $760,000, an increase of 27.7% from $595,000 for the three months ended September 30, 2021.**
- **Total revenue was $1.1 million for the three months ended September 30, 2022, a decrease of 40.0% from $1.8 million for the three months ended September 30, 2021.**
- **Loss from operating activities was $3.3 million in each of third quarter 2022 and third quarter 2021.**
- **Net loss from continuing operations was $3.7 million, or $0.21 per common share diluted, in third quarter 2022 compared to net loss from continuing operations of $4.1 million, or $0.31 per common share diluted, in third quarter 2021.**
- **Net income from discontinued operations was $0, or $0.00 earnings per common share diluted, in third quarter 2022 compared to net income from discontinued operations of $14,000, or $0.00 earnings per common share diluted, in third quarter 2021.**

Consolidated Performance

($ in '000s, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Commission income	$ 760	$ 2,046	$ 2,232	$ 5,530
Underwriting expense:				
Acquisition costs	398	1,105	1,312	2,954
Share-based compensation	35	31	189	197
Other underwriting expenses	3,582	4,161	12,907	11,286
Total underwriting expenses	**4,015**	**5,297**	**14,408**	**14,437**
Loss from operating activities, before income taxes	**(3,255)**	**(3,251)**	**(12,176)**	**(8,907)**
Interest expense, net	(801)	(556)	(2,174)	(1,639)
Forgiveness of PPP Loan	—	—	—	4,601
Realized gains (losses) and other income	310	(263)	1,423	(167)
Net loss before income taxes	**(3,746)**	**(4,070)**	**(12,927)**	**(6,112)**
Income tax expense	—	—	—	—
Income from discontinued operations, net of tax	—	14	—	165
Net loss	**$ (3,746)**	**$ (4,056)**	**$ (12,927)**	**$ (5,947)**

Key Financial Ratios

Continuing operations loss per common share diluted	$ (0.21)	$ (0.31)	$ (0.77)	$ (0.45)

Revenues

Our commission and fee income is derived from policies and premium produced by AGMI on behalf of unrelated strategic risk-taking insurance carrier partners. Our underwriting approach is to price our products with the objective of generating underwriting profit for the insurance companies with whom we partner. The Company's philosophy is to prioritize the improvement in profit margin over top line growth. As with all Property & Casualty insurance businesses, the impact of price changes, other underwriting activities and market conditions is reflected in our financial results over time. Underwriting changes on our in-force policies occur as they are renewed. This cycle generally takes twelve months for our entire book of business and up to an additional twelve months to earn a full year of premium and recognize commissions at the renewal rate.

Expenses

Acquisition costs consist principally of brokerage and agent commissions paid to our external producers.

Other underwriting expenses consist primarily of personnel related expenses (including salaries, benefits and certain costs associated with awards under our equity compensation plans, such as share-based compensation expense) and other general operating expenses incurred primarily in connection with our MGA and holding company operations. We believe that because a portion of our personnel and other expenses are relatively fixed in nature, changes in premium writings may impact our operating scale and operating expense ratios. Commissions and other fee related revenue were earned and recognized in connection with policies managed by AGMI. Since October 1, 2019, Global Liberty has been classified as a discontinued operation and its expenses are considered as such through September 30, 2021, however, due to the liquidation of Global Liberty, it was deconsolidated from our reports beginning October 1, 2021.

Commission Income

AGMI earns commission for the sale of first year and renewal policies from our insurance carrier partners, which are presented in our condensed consolidated statements of operations as commission income. Our contracts with our insurance carrier partners contain a commission percentage that is used to compute the total commission due per policy written. We also generate fee income in connection with individual policies as well as professional services provided to our business partners under contractual arrangements. Our commission income is recognized upon the sale or renewal of a policy. Certain of our contractual arrangements also include a profit related contingent commission component. After a policy is sold, we have policy management obligations to the policyholder and the insurance carrier partner, including, but not limited to, policy endorsements, policy cancellations and policy restatements. Therefore, we do incur additional expense related to our policy management requirements. Most costs associated with the sale of an individual policy are incurred prior to or at the time of the initial sale of an individual policy and are characterized in our condensed consolidated financial statements as other underwriting expenses.

Commission income for the three months ended September 30, 2022 totaled $760,000 compared to $2.0 million for the three months ended September 30, 2021. The decrease was mainly attributed to the following:

Commission Income

($ in '000s)	Three months ended September 30,			
	2022	2021	$ Change	% Change
Continuing programs	$ 760	$ 595	$ 165	27.7 %
Expiring programs	—	1,032	(1,032)	(100.0)
Global Liberty	—	419	(419)	(100.0)
Total	$ 760	$ 2,046	$ (1,286)	(62.9)%

- $165,000 increase in commission income relating to ongoing programs;
- $1.0 million decrease in commission income as a result of our no longer generating new paratransit business following the sale of renewal rights in November 2021; and
- $419,000 decrease in commission income related to the liquidation of Global Liberty.

Commission income for the nine months ended September 30, 2022 totaled $2.2 million compared to $5.5 million for the nine months ended September 30, 2021. The decrease was mainly attributed to the following:

Commission Income

($ in '000s)	Nine months ended September 30,			
	2022	2021	$ Change	% Change
Continuing programs	$ 2,482	$ 1,338	$ 1,144	85.5 %
Expiring programs	8	2,902	(2,894)	(99.7)
Global Liberty	—	1,290	(1,290)	(100.0)
Sliding-scale adjustments	(258)	—	(258)	—
Total	$ 2,232	$ 5,530	$ (3,298)	(59.6)%

- $1.1 million increase in commission income relating to ongoing programs;
- $2.9 million decrease in commission income as a result of our no longer generating new paratransit business following the sale of renewal rights in November 2021;
- $1.3 million decrease in commission income related to the liquidation of Global Liberty; and
- $258,000 decrease in commission income related to the return of commissions resulting from a preliminary sliding scale analysis.

Geographic Concentration

Gross Premiums Produced by State

($ in '000s)	Three months ended September 30,			
	2022		2021	
California	$ 3,655	90.0 %	$ 3,501	31.5 %
Missouri	106	2.6	48	0.4
Virginia	75	1.8	960	8.6
Other	225	5.6	6,603	59.4
Total	$ 4,061	100.0 %	$ 11,112	100.0 %

Gross Premiums Produced by State

($ in '000s)	Nine months ended September 30,			
	2022		2021	
California	$ 8,376	63.0 %	$ 7,399	20.5 %
Minnesota	1,665	12.5	1,810	8.3
Nevada	1,409	10.6	1,363	4.5
Other	1,838	13.9	19,587	64.9
Total	$ 13,288	100.0 %	$ 30,159	98.3 %

Acquisition Costs

Acquisition costs for the three months ended September 30, 2022 were $398,000 compared to $1.1 million for the three months ended September 30, 2021, respectively, and represent commissions paid to retail agents who sell insurance policies. The decrease in acquisition costs resulted from the decrease in production of $7.1 million for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. Acquisition costs for the nine months ended September 30, 2022 were $1.3 million compared to $3.0 million for the nine months ended September 30, 2021, respectively. The decrease in acquisition costs resulted from the decrease in production of $16.9 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Other Underwriting Expenses

Other underwriting expenses for the three months ended September 30, 2022 and 2021 were $3.6 million and $4.1 million, respectively. The significant variance for the three months ended September 30, 2022 compared to 2021 are attributable to the following:

Other Underwriting Expenses

($ in '000s)	Three months ended September 30,			
	2022	2021	$ Change	Description of Change
Shared services	$ —	$ (91)	$ 91	Reduction of shared services related to Global Liberty.
Salary and benefits	1,844	2,249	(405)	Decrease related to the reduction in force.
CARES Act	—	(450)	450	Benefit elimination related to the Employee Retention Credit of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted December 27, 2020, which amended and extended the employee retention credit (and the availability of certain advance payments of the tax credits) under section 2301 of the CARES Act.
Other expenses	813	1,018	(205)	Decrease mainly attributed to software and corporate insurance offset by purchases of computer equipment.
Building and occupancy costs	170	237	(67)	Increase in building costs related to real estate tax estimates offset by a reduction in rent expense related to the non-renewal of the Company's New York office lease.
Credit Agreement	184	39	145	Increase in amortization costs related to the timing of when the Company entered the Credit Agreement.
Professional fees	229	714	(485)	Decrease related to additional legal fees incurred in Q3 2021 in connection with the bond exchange but not in Q3 2022.
Depreciation and amortization	347	378	(31)	Decrease mainly attributed to a portion of the Company's software and EDP equipment becoming fully depreciated.
Total	$ 3,587	$ 4,094	$ (507)	

Other underwriting expenses for the nine months ended September 30, 2022 and 2021 were $13.0 million and $11.2 million, respectively. The variance for the nine months ended September 30, 2022 compared to 2021 are attributable to the following:

Other Underwriting Expenses

($ in '000s)	Nine months ended September 30,			
	2022	2021	$ Change	Description of Change
Shared services	$ —	$ (989)	$ 989	Reduction of shared services related to Global Liberty.
Salary and benefits	5,722	6,720	(998)	Decrease related to the reduction in force.
CARES Act	—	(1,801)	1,801	Benefit elimination related to the Employee Retention Credit of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted December 27, 2020, which amended and extended the employee retention credit (and the availability of certain advance payments of the tax credits) under section 2301 of the CARES Act.
Other expenses	2,338	3,043	(705)	Decrease mainly attributed to reduction of software expenses, subscriptions, and director fees, offset by increases in corporate insurance.
Building and occupancy costs	1,245	1,085	160	Increase in building costs related to real estate tax estimates offset by a reduction in rent expense related to the non-renewal of the Company's New York office lease.
Credit Agreement	569	39	530	Increase in amortization costs related to the timing of when the Company entered the Credit Agreement.
Professional fees	2,083	1,637	446	Increase related to additional legal and other professional fees associated with the Credit Agreement in 2022 compared with 2021.
Depreciation and amortization	1,049	1,456	(407)	Decrease mainly attributed to the held for sale status of the corporate headquarters.
Total	$ 13,006	$ 11,190	$ 1,816	

Interest Expense, net

Interest expense related to the Notes and the New Notes for the three and nine months ended September 30, 2022 was $501,000 and $1.5 million, respectively compared to $470,000 and $1.4 million during the three and nine months ended September 30, 2021, respectively. On November 10, 2016, American Acquisition entered into a ten-year 5.0% fixed rate mortgage agreement with the Insurance Subsidiaries totaling $10.7 million with principal and interest payments due monthly. Interest expense for the three and nine months ended September 30, 2022 was $100,000 and $298,000, respectively, compared to $81,000 and $248,000 during the three and nine months ended September 30, 2021, respectively. Prior to October 1, 2021, the interest expense payments to Global Liberty had been eliminated in consolidation. On May 1, 2020, American Acquisition entered into the First PPP Loan pursuant to the CARES Act that bears interest at a rate of 1.0% per annum. Interest income on the First PPP Loan for each of the three and nine months ended September 30, 2022 was $0 compared to $0 and $32,000 during the three and nine months ended September 30, 2021, respectively. On February 7, 2021, American Acquisition entered into the Second PPP Loan pursuant to the PPP Rules that bears interest at a rate of 1.0% per annum. Interest expense on the Second PPP Loan for each of the three and nine months ended September 30, 2022 was $0 compared to $5,000 and $13,000 during the three and nine months ended September 30, 2021, respectively. On September 1, 2021, the Company entered into the Credit Agreement that had an interest rate of 12% per annum. Interest expense related to the Credit Agreement for the three and nine months ended September 30, 2022 totaled $200,000 and $353,000, respectively. For more information on the senior unsecured notes and the Credit Agreement, see "Part 1, Item 1, Note 14, Notes Payable," in the Notes to Condensed Consolidated Financial Statements.

Other Income

Atlas recorded other income of $310,000 and $1.2 million for the three months ended September 30, 2022 and 2021, respectively, and $1.4 million and $2.8 million for the nine months ended September 30, 2022 and 2021, respectively. The decrease is related primarily to a decrease in professional services revenue.

Income Taxes

For both the three and nine months ended September 30, 2022 and 2021, Atlas recorded income tax benefit of $0. Atlas maintains a 100% valuation allowance on the Company's net deferred tax assets.

During 2013 and 2019, due to shareholder activity, "triggering events" as determined under IRC Section 382 occurred. As a result, under IRC Section 382, the use of the Company's net operating loss and other carryforwards generated prior to the "triggering events" will be subject to a yearly limitation as a result of this "ownership change" for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders owning 5% or greater portions of the Company's shares. Due to the mechanics of the Section 382 calculation, when there are multiple triggering events the Company's losses will generally be limited based on the thresholds of the 2019 triggering event. The Company has established a valuation allowance against the NOLs that will expire unused as a result of the yearly limitation.

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

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

- current year profit;
- management's expectations of future profit; and
- positive growth trends in gross premiums produced.

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

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

Net Loss and Loss per Common Share

Atlas had net loss of $3.7 million and $12.9 million during the three and nine months ended September 30, 2022, respectively, compared to net loss of $4.1 million and $5.9 million during the three and nine months ended September 30, 2021, respectively. Loss per common share diluted was $0.21 and $0.77 for the three and nine months ended September 30, 2022, respectively, compared to net loss per common share diluted of $0.31 and $0.45 for the three and nine months ended September 30, 2021, respectively.

III. Financial Condition

Deficit and Book Value per Common Share

Book Value per Common Share

($ in '000s, except for share and per share data)	September 30, 2022	December 31, 2021
Common deficit	$ (32,287)	$ (25,502)
Common shares:		
Common shares outstanding	17,652,839	14,797,334
Restricted stock units	200,000	—
Total common shares	17,852,839	14,797,334
Book value per common share outstanding	$ (1.81)	$ (1.72)

The change to book value per common share is attributed to the combined effects of the reasons cited in the 'Commission Income,' 'Acquisition Costs,' 'Other Underwriting Expenses,' 'Interest Expense, net,' and 'Other Income' subsections of the 'Operating Results' section.

Liquidity and Capital Resources

Liquidity Management

The purpose of liquidity management is to ensure there is sufficient cash to meet all financial commitments and obligations as they become due. The liquidity requirements of Atlas' business have been met primarily by the Credit Agreement, funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for payment of claims, commissions and general expenses. The sources and uses of cash have changed as a result of the Company's strategic shift from a traditional insurance carrier based operation to a managing general agency.

As a holding company, Atlas may derive cash from its subsidiaries generally in the form of dividends and in the future may charge management fees to the extent allowed by statute or other regulatory approval requirements to meet its obligations. AGMI funds its obligations primarily through commission income generated by the production of insurance premiums for third party entities.

On April 26, 2017, Atlas issued $25 million of five-year 6.625% senior unsecured notes and received net proceeds of approximately $23.9 million after deducting underwriting discounts and commissions and other estimated offering expenses.

On August 31, 2021, the Company entered into the RSA with certain holders of the Notes memorializing the agreed-upon term of the Note Restructuring. Pursuant to the Note Restructuring, on April 14, 2022, the Notes were canceled and the New Notes were issued in exchange on April 14, 2022, ahead of the Notes' scheduled maturity date of April 26, 2022. The accrued but unpaid interest on the Notes as of April 14, 2022 was capitalized and added onto the principal of the New Notes. The New Notes have a maturity date of April 27, 2027. The New Notes are unsecured, bearing an interest rate of 6.625% per annum, if paid in cash, and 7.25% per annum, if paid-in-kind, with a paid-in-kind option allowing the Company to pay interest in kind of up to two years from the date the New Notes are issued. Additionally, the Company has the option to redeem the New Notes after three years at the principal amount to be redeemed as well as the option to redeem New Notes in an amount related to capitalized PIK interest on the New Notes, plus any accrued but unpaid interest, in each case, with no penalty.

The Notes were issued under the Base Indenture, the First Supplemental Indenture and the Second Supplemental Indenture, which collectively contain covenants that, among other things, limit: (i) the ability of Atlas to merge or consolidate, or lease, sell, assign or transfer all or substantially all of its assets; (ii) the ability of Atlas to sell or otherwise dispose of the equity securities of certain of its subsidiaries; (iii) the ability of certain of Atlas' subsidiaries to issue equity securities; (iv) the ability of Atlas to permit certain of its subsidiaries to merge or consolidate, or lease, sell, assign or transfer all or substantially all of their respective assets; and (v) the ability of Atlas and its subsidiaries to incur debt secured by equity securities of certain of its subsidiaries.

From time to time the Company may seek to repurchase Company debt through cash repurchases in the open market or otherwise. Such repurchases, if any, will be on the terms and prices determined by the Company and will depend upon market conditions, liquidity needs and other factors. The amount of such repurchases may be material.

On September 1, 2021, the Company and the Borrowers, entered into the Credit Agreement with the Agent and the Lenders, pursuant to which the Lenders made available to the Borrowers an aggregate principal amount of up to $3,000,000 Term Loans. The Credit Agreement provides for an initial advance of $2 million in Term Loans and up to an additional $1 million of Delayed Draws within 18 months of closing, in each case, subject to the satisfaction or waiver of certain funding conditions and the other terms and conditions set forth in the Credit Agreement. The Borrowers may use the proceeds of the Term Loans for payments of certain agreed upon permitted expenditures, which include expenses expected to be incurred in connection with the Note Restructuring. Interest will accrue on the funded Term Loans at 12% per annum and may be paid, at the Borrowers' option, in cash or in kind; provided, that upon the occurrence and during the continuance of an event of default, the interest rate will be increased to 14% per annum and will be payable only in cash. The original term of the Term Loan facility was 24 months. In October 2021, and January 2022, the Lenders advanced an aggregate of $2 million of the Term Loans, in March 2022, the Lenders advanced $1 million, in June 2022, the Lenders advanced $3.2 million; and in September 2022 the Lenders advanced $1.0 million of additional Term Loans and extended the maturity date of the Term Loan to June 30, 2024, in each case despite the fact that not all of the funding conditions had been met. The Lenders also advanced $750,000 of additional Term Loans in November 2022, despite the fact that not all of the funding conditions had been met.

For more information on the Note Restructuring and the Credit Agreement, see "Part I, Item 1, Note 14, Notes Payable," in the Notes to Condensed Consolidated Financial Statements and "Part I, Item 2, Management's Discussion and Analysis".

Summary of Cash Flows

($ in '000s)	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net cash flows used in operating activities	$ (12,765)	$ (12,432)
Net cash flows provided by investing activities	1	3,350
Net cash flows provided by financing activities	8,892	1,674
Net decrease in cash	$ (3,872)	$ (7,408)

Cash used in operations during the nine months ended September 30, 2022 was $12.8 million, compared to $12.4 million during the nine months ended September 30, 2021. The change in cash used in the nine months ended September 30, 2022 resulted from the change in operating assets and liabilities used for managing general agency operations.

Cash provided by investing activities during the nine months ended September 30, 2022 was $1,000 and resulted from the net sales of fixed assets. Cash provided by investing activities during the nine months ended September 30, 2021 was $3.4 million and resulted from the net sales and maturities of fixed income securities that related to discontinued operations.

Cash provided in financing activities during the nine months ended September 30, 2022 was a result of the Company's draws under the Credit Agreement (see "Part I, Item 1, Note 14, Notes Payable") and increased principal of the New Notes. Cash provided by financing activities during the nine months ended September 30, 2021 was a result of the Company receiving a Second PPP Loan offset by mortgage payments made to the ASI Pool Companies.

Capital Resources

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

As a holding company, Atlas may derive cash from its subsidiaries generally in the form of dividends to meet its obligations, which will primarily consist of operating expense payments and debt payments. Atlas subsidiaries fund their obligations primarily through commission and fee income.

Atlas did not declare or pay any dividends to its common shareholders during the nine months ended September 30, 2022 or during the year ended December 31, 2021.

Ability to Meet Financial Obligations

As discussed in greater detail in "Part I, Item 1, Note 16", Going Concern, there is substantial doubt about whether the Company will have sufficient capital to operate through or beyond 12 months of the issue date of these interim financial statements unless the Company is successful in taking certain mitigating action (see Part I, Item 1, Note 16).

Application of Critical Accounting Policies and Estimates

There have been no material changes to the application of critical accounting estimates and policies that were discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. For a complete summary of our significant accounting policies, see the notes to the consolidated financial statements and our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of September 30, 2022, our president and chief executive officer and vice president and chief financial officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act and concluded as of the end of the period covered by this report that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and is accumulated and communicated to our management, including our president and chief executive officer and our vice president and chief financial officer to allow timely decisions regarding required disclosure.

Changes in Internal Control

There were no changes to our internal control over financial reporting during the fiscal quarter ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

On March 5, 2018, a complaint was filed in the U.S. District Court for the Northern District of Illinois asserting claims under the federal securities laws against the Company and two of its executive officers on behalf of a putative class of purchasers of the Company's securities, styled Fryman v. Atlas Financial Holdings, Inc., et al., No. 1:18-cv-01640 (N.D. Ill.). Plaintiffs filed amended complaints on July 30, 2018, April 9, 2019, and June 12, 2019. In the third amended complaint, the plaintiffs asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder on behalf of a putative class consisting of purchasers of the Company's securities between February 22, 2017 and April 30, 2019, alleging that the defendants made allegedly false and misleading statements regarding the adequacy of the Company's insurance reserves.

Defendants filed a motion to dismiss the third amended complaint, which the Court granted, with leave to amend, in an opinion and order entered on May 26, 2020. In its opinion, the Court held that plaintiffs had failed to adequately allege any false or misleading misstatement of material fact concerning the Company's insurance reserves and failed to allege facts that would support the required strong inference of scienter. Plaintiffs filed a fourth amended complaint on June 30, 2020, in which the claims asserted are substantially similar to those asserted in the third amended complaint. Defendants filed a motion to dismiss the fourth amended complaint on August 17, 2020. On September 28, 2020, the matter was administratively reassigned to a new district court judge. On April 18, 2022, the Court denied defendants' motion to dismiss the fourth amended complaint. Defendants filed their answer to the fourth amended complaint on March 9, 2022.

On September 27, 2022, the parties reached an agreement in principle to settle the action for a settlement payment of $5 million to be paid by the Company's insurers. The settlement is subject to the negotiation and execution of a definitive stipulation of settlement and approval by the court after providing notice to members of the putative class. The defendants deny that they committed any violation of law or engaged in any wrongdoing with respect to any of the matters alleged in the complaint.

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

As previously disclosed and in connection with the cancellation of the Notes and the issuance of the New Notes in exchange, on January 4, 2022, the Company initiated the Cayman Proceeding. Pursuant to the summons for directions, the Company sought the Convening Order for the convening of the Scheme Meeting. At the Scheme Meeting, holders of 91.83% of the Notes in number and 99.34% par amount of those voting voted in favor of the Scheme and, on February 25, 2022, the Cayman Court sanctioned and approved the Scheme by entry of the Sanction Order.

In furtherance of the Cayman Proceeding and in connection with the Note Restructuring, on March 4, 2022, the Company filed the Recognition Petition, seeking that the Bankruptcy Court enter the Recognition and Enforcement Order. On March 4, 2022, the Bankruptcy Court entered an order, which, among other things, scheduled the Recognition Hearing. The Recognition Hearing was held on March 30, 2022 and, on the same day, the Bankruptcy Court entered the final and non-appealable Recognition and Enforcement Order, recognizing the Cayman Proceeding as the foreign main proceeding and enforcing the Scheme within the territorial jurisdiction of the United States, among other relief. Among other things, the Recognition and Enforcement Order provides that, pursuant to section 1145 of the Bankruptcy Code, once issued, the New Notes will be exempt from registration under Section 5 of the Securities Act, and any applicable state and local securities laws and freely transferable, subject to certain limitations under section 1145(b) of the Bankruptcy Code with respect to any New Notes issued to "underwriters" as defined in section 2(a)(11) of the Securities Act. The procurement of the Recognition and Enforcement Order was the last in-court step in the Note Restructuring and any appeal period with respect to the Scheme in the Cayman Islands has expired. The Recognition and Enforcement Order was effective immediately and enforceable upon entry, authorizing the Company take any action to implement and effectuate the Note Restructuring, including finalization of ancillary documents, among other things, in an effort to proceed toward closing the Note Restructuring in accordance with the Scheme and the RSA. The notice of presentment to close the Recognition Proceeding was filed on June 13, 2022. On June 22, 2022, the Bankruptcy Court entered the order closing the Recognition Proceeding. For more information on the Note Restructuring and the RSA, see "Part I, Item 1, Note 14, Notes Payable," in the Notes to Condensed Consolidated Financial Statements.

Item 1A. Risk Factors

Not applicable.

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

On June 29, 2022, the Company and Borrowers, entered into the Commitment Letter with Commitment Lenders, whereby the Commitment Lenders agreed to make the Committed Loans to the Borrowers related to the Credit Agreement. In connection with this Commitment Letter, on June 30, 2022, the Company issued an aggregate of 100,000 ordinary voting common shares (the "Commitment Shares") to the Commitment Lenders, for no additional consideration. The Committed Loans were funded on September 7, 2022, pursuant to the terms of the Credit Agreement. The Commitment Shares were issued to the Commitment Lenders in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and/or Rule 506 promulgated under the Securities Act.

Except as set forth above and as previously reported on our Current Reports on Form 8-K and our Annual Report on Form 10-K for the year ended December 31, 2021, there were no unregistered sales of equity securities by the Company during the quarter ended September 30, 2022.

Item 3. Defaults Upon Senior Securities

Except as previously reported on our Current Reports on Form 8-K, there were no defaults upon senior securities by the Company during the quarter ended September 30, 2022.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

10.1	Settlement Agreement, by and among Dana Popish Severinghaus, Director of the Illinois Department of Insurance, acting solely in her capacity as the statutory and court affirmed liquidator of American Country Insurance Company, American Service Insurance Company, and Gateway Insurance Company, American Acquisition, Inc., and Adrienne A. Harris, Superintendent of the New York State Department of Financial Services, solely in her capacity as liquidator of Global Liberty Insurance Company, dated August 2, 2022 (incorporated by reference to the Company's Current Report on Form 8-K filed on August 4, 2022).
10.2	Amendment No. 4 to Convertible Senior Secured Delayed-Draw Credit Agreement, dated September 6, 2022, by and among Atlas Financial Holdings, Inc. and certain subsidiaries, Sheridan Road Partners, LLC, as agent, and the lenders named therein* (incorporated by reference to the Company's Current Report on Form 8-K filed on September 9, 2022).
10.3	Amendment No. 5 to Convertible Senior Secured Delayed-Draw Credit Agreement, dated October 31, 2022, by and among Atlas Financial Holdings, Inc. and certain subsidiaries, Sheridan Road Partners, LLC, as agent, and the lenders named therein* (incorporated by reference to the Company's Current Report on Form 8-K filed on November 3, 2022).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File formatted in Inline XBRL (included as Exhibit 101).

* Certain portions of this exhibit (indicated by "[*****]") have been omitted pursuant to Item 601(b)(10) of Regulations S-K

Signature

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

Date:	November 10, 2022		Atlas Financial Holdings, Inc.
			(Registrant)
		By:	/s/ Paul A. Romano
			Paul A. Romano
			Vice President and Chief Financial Officer