Atlas Financial Holdings, Inc.
Form 10-Q
May 07, 2018
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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:
March 31, 2018	000-54627

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes þ No ¨

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

Large Accelerated Filer ¨ Accelerated Filer þ

Non-Accelerated Filer ¨ Smaller Reporting Company ¨
(do not check if a smaller reporting company)
Emerging Growth Company þ

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

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

There were 11,936,970 shares of the Registrant’s common stock outstanding as of May 4, 2018, all of which are ordinary voting common shares. There are no outstanding restricted voting common shares. Of the Registrant’s ordinary voting common shares outstanding, 10,366,953 shares as of May 4, 2018 were held by non-affiliates of the Registrant.

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

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March 31, 2018

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

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Investments		
Fixed income securities, available for sale, at fair value (amortized cost $152,288 and $158,411)	$ 149,251	$ 157,984
Equity securities, at fair value (cost $6,966 and $7,969)	7,315	8,446
Other investments	30,071	31,438
Total Investments	186,637	197,868
Cash and cash equivalents	52,688	45,615
Accrued investment income	1,362	1,248
Premiums receivable (net of allowance of $3,656 and $3,418)	101,412	79,664
Reinsurance recoverables on amounts paid	9,700	7,982
Reinsurance recoverables on amounts unpaid	52,316	53,402
Prepaid reinsurance premiums	14,993	12,878
Deferred policy acquisition costs	19,753	14,797
Deferred tax asset, net	16,101	16,985
Goodwill	2,726	2,726
Intangible assets, net	4,048	4,145
Property and equipment, net	27,000	24,439
Other assets	18,718	20,754
Total Assets	$ 507,454	$ 482,503
Liabilities		
Claims liabilities	$ 204,742	$ 211,648
Unearned premium reserves	156,453	128,043
Due to reinsurers	10,135	8,411
Notes payable, net	24,087	24,031
Other liabilities and accrued expenses	20,647	19,725
Total Liabilities	$ 416,064	$ 391,858
Commitments and contingencies (see Note 8)		
Shareholders' Equity		
Ordinary voting common shares, $0.003 par value, 266,666,667 shares authorized, shares issued: March 31, 2018 - 12,192,475 and December 31, 2017 - 12,164,041; shares outstanding: March 31, 2018 - 11,936,970 and December 31, 2017 - 12,164,041	$ 36	$ 36
Restricted voting common shares, $0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: March 31, 2018 and December 31, 2017 - 0	—	—
Additional paid-in capital	201,382	201,105
Treasury stock, at cost: March 31, 2018 - 255,505 and December 31, 2017 - 0 shares of ordinary voting common shares	(3,000)	—
Retained deficit	(104,629)	(110,535)
Accumulated other comprehensive (loss) income, net of tax	(2,399)	39
Total Shareholders' Equity	$ 91,390	$ 90,645
Total Liabilities and Shareholders' Equity	$ 507,454	$ 482,503

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
($ in ‘000s, except for share and per share data)

Condensed Consolidated Statements of Income	Three Month Periods Ended March 31, 2018 (unaudited)	March 31, 2017 (unaudited)
Net premiums earned	$55,892	$ 48,426
Net investment income	964	1,143
(Loss) income from change in fair value of equity securities	(128)	—
Net realized gains	293	134
Other income	164	114
Total revenue	57,185	49,817
Net claims incurred	35,046	29,300
Acquisition costs	5,976	5,096
Other underwriting expenses	9,319	7,591
Amortization of intangible assets	97	97
Interest expense	455	268
Expenses recovered pursuant to stock purchase agreements	(520)	—
Total expenses	50,373	42,352
Income from operations before income taxes	6,812	7,465
Income tax expense	1,283	2,613
Net income	5,529	4,852
Less: Preferred share dividends	—	—
Net income attributable to common shareholders	$5,529	$ 4,852
Basic weighted average common shares outstanding	12,140,587	12,045,519
Earnings per common share basic	$0.46	$ 0.40
Diluted weighted average common shares outstanding	12,198,061	12,200,568
Earnings per common share diluted	$0.45	$ 0.40
Condensed Consolidated Statements of Comprehensive Income		
Net income	$5,529	$ 4,852
Other comprehensive (loss) income:		
Changes in net unrealized investment (losses) gains	(2,768)	349
Reclassification to net income	158	(89)
Effect of income taxes	549	(91)
Other comprehensive (loss) income	(2,061)	169
Total comprehensive income	$3,468	$ 5,021

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-In Capital	Treasury Stock	Retained Deficit	Accumulated Other Comprehensive (Loss)/Income	Total Share-holders' Equity
Balance December 31, 2016	$ 36	$ —	$ 199,244	$ —	$ (71,718)	$ (220)	$ 127,342
Net income	—	—	—	—	4,852	—	4,852
Other comprehensive income	—	—	—	—	—	169	169
Share-based compensation	—	—	320	—	—	—	320
Balance March 31, 2017 (unaudited)	$ 36	$ —	$ 199,564	$ —	$ (66,866)	$ (51)	$ 132,683
Balance December 31, 2017	$ 36	$ —	$ 201,105	$ —	$ (110,535)	$ 39	$ 90,645
Cumulative effect of new accounting principle in period of adoption	—	—	—	—	377	(377)	—
Net income	—	—	—	—	5,529	—	5,529
Repurchase of common shares	—	—	—	(3,000)	—	—	(3,000)
Other comprehensive loss	—	—	—	—	—	(2,061)	(2,061)
Share-based compensation	—	—	285	—	—	—	285
Other	—	—	(8)	—	—	—	(8)
Balance March 31, 2018 (unaudited)	$ 36	$ —	$ 201,382	$ (3,000)	$ (104,629)	$ (2,399)	$ 91,390

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Month Periods Ended	
	March 31, 2018 (unaudited)	March 31, 2017 (unaudited)
Operating activities:		
Net income	$5,529	$ 4,852
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization of property and equipment	678	273
Share-based compensation expense	285	320
Amortization of deferred gain on sale of headquarters building	—	(11)
Amortization of intangible assets	97	97
Deferred income taxes	1,432	210
Loss from change in fair value of equity securities	128	—
Net realized gains	(293)	(134)
Gain in equity of investees	(64)	(206)
Amortization of bond premiums and discounts	192	244
Amortization of financing costs	56	17
Net changes in operating assets and liabilities:		
Accrued investment income	(114)	(211)
Premiums receivable, net	(21,748)	(30,459)
Due from reinsurers and prepaid reinsurance premiums	(2,747)	1,238
Deferred policy acquisition costs	(4,956)	(5,536)
Other assets	2,035	1,437
Claims liabilities	(6,906)	(11,033)
Unearned premium reserves	28,410	38,474
Due to reinsurers	1,725	1,117
Other liabilities and accrued expenses	922	868
Net cash flows provided by operating activities	4,661	1,557
Investing activities:		
Purchases of:		
Fixed income securities	(21,452)	(7,707)
Equity securities	(500)	—
Other investments	(953)	—
Property, equipment and other	(3,239)	(113)
Proceeds from sale and maturity of:		
Fixed income securities	27,330	10,180
Equity securities	1,849	1,454
Other investments	2,385	119
Net cash flows provided by investing activities	5,420	3,933
Financing activities:		
Repurchase of common shares	(3,000)	—
Other	(8)	—
Net cash flows used in financing activities	(3,008)	—
Increase in cash position	7,073	5,490
Cash position, Beginning of Period	45,615	29,888

Cash position, End of Period	$52,688	$ 35,378
Supplemental disclosure of cash information:		
Cash (recovered) paid for:		
Income taxes	$(1,746)	$ (196)
Interest	414	241

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Atlas Financial Holdings, Inc. ("Atlas" or "We" or the "Company") commenced operations on December 31, 2010. The primary business of Atlas is underwriting commercial automobile insurance in the United States, with a niche market orientation and focus on insurance for the "light" commercial automobile sector. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business autos. Automobile insurance products provide insurance coverage in three major areas: liability, accident benefits and physical damage. Liability insurance provides coverage, subject to policy terms and conditions where the insured is determined to be responsible and/or liable for an automobile accident, for the payment for injuries and property damage to third parties. Accident benefit policies or personal injury protection policies provide coverage for loss of income, medical and rehabilitation expenses for insured persons who are injured in an automobile accident, regardless of fault. Physical damage coverage subject to policy terms and conditions provides for the payment of damages to an insured automobile arising from a collision with another object or from other risks such as fire or theft. In the short run, automobile physical damage and liability coverage generally provides more predictable results than automobile accident benefit or personal injury insurance.

Atlas' business is carried out through its "Insurance Subsidiaries": American Country Insurance Company ("American Country"), American Service Insurance Company, Inc. ("American Service"), Gateway Insurance Company ("Gateway"), and Global Liberty Insurance Company of New York ("Global Liberty"); and other non-insurance company subsidiaries: Anchor Group Management Inc. ("Anchor Management"), Plainview Premium Finance Company, Inc. ("Plainview Delaware"), Plainview Delaware's wholly-owned subsidiary, Plainview Premium Finance Company of California, Inc. ("Plainview California" and together with Plainview Delaware, "Plainview"), UBI Holdings Inc. ("UBI Holdings") and UBI Holdings' wholly-owned subsidiary, DriveOn Digital IP Inc. ("DOIP" and together with UBI Holdings, "UBI").

The Insurance Subsidiaries distribute their insurance products through a network of retail independent agents. Together, the Insurance Subsidiaries are licensed to write property and casualty insurance in 49 states and the District of Columbia in the United States. Atlas' core products are actively distributed in 42 of those states plus the District of Columbia. The Insurance Subsidiaries share common management and operating infrastructure.

Atlas' ordinary voting common shares are listed on the NASDAQ stock exchange under the symbol "AFH."

Basis of presentation - These statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of Atlas and the entities it controls. Equity investments in entities that we do not consolidate, including corporate entities in which we have significant influence and partnership and partnership-like entities in which we have more than minor influence over operating and financial policies, are accounted for under the equity method unless we have elected the fair value option. All significant intercompany accounts and transactions have been eliminated. It is the opinion of management that these financial statements reflect all adjustments necessary for a fair statement of the interim results. The results for the three month period ended March 31, 2018 are not necessarily indicative of the results expected for the full calendar year.

The accompanying unaudited condensed consolidated financial statements, in accordance with Securities and Exchange Commission ("SEC") rules for interim periods, do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements and should be read in conjunction with Atlas' Annual Report on Form 10-K for the year ended December 31, 2017, which provides a more complete understanding of the Company's accounting policies, financial position, operating results, business properties, and other matters. Atlas has consistently applied the same accounting policies throughout all periods presented.

Estimates and assumptions - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The liability for unpaid claims and claims adjustment expenses and related amounts recoverable from reinsurers represents the most significant estimate in the accompanying financial statements, and differences between such estimates and actual results could be material. Significant estimates in the accompanying financial statements also include the fair values of investments, deferred policy acquisition cost recoverability, deferred tax asset valuation and business combinations.

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Seasonality - The property and casualty ("P&C") insurance business is seasonal in nature. While Atlas' net premiums earned are generally stable from quarter to quarter, Atlas' gross premiums written follow the common renewal dates for the "light" commercial risks that represent its core lines of business. For example, January 1 and March 1 are common taxi cab renewal dates in Illinois and New York, respectively. Additionally, our New York "excess taxi program" has an annual renewal date in the third quarter. Net underwriting income is driven mainly by the timing and nature of claims, which can vary widely.

Segmentation - The Company has one reportable business segment. Resources are allocated and management assesses financial performance based on this reportable segment.

2. NEW ACCOUNTING STANDARDS

With the exception of the accounting and disclosure pronouncements discussed below, there have been no recent pronouncements or changes in pronouncements during the three month period ended March 31, 2018, as compared to those described in our Annual Report on Form 10-K for the twelve month period ended December 31, 2017, that are of significance or potential significance to Atlas. Pertinent Accounting Standard Updates ("ASUs") are issued from time to time by the Financial Accounting Standards Board ("FASB") and are adopted by the Company as they become effective. All recently issued accounting pronouncements with effective dates prior to April 1, 2018 have been adopted by the Company.

Recently Adopted

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

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

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

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. One provision of this update requires that equity investments, except those accounted for under the equity method, be measured at fair value and changes in fair value recognized in net income. The provisions of this update are recognized as a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. For public entities, this guidance is effective for years beginning after December 15, 2017, including interim periods within those years. Early adoption is not permitted, except for certain provisions. The Company adopted the update in the first quarter of 2018. The adoption of this ASU resulted in the recognition of $377,000 of net after-tax unrealized gains on equity investments as a cumulative-effect adjustment to increase retained earnings and decrease accumulated other comprehensive income ("AOCI"). The investment section of the Condensed Consolidated Statements of Financial Position has been modified from year end to reflect that equity securities are no longer classified as available-for-sale.

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The FASB issued ASU 2014-09, ASU 2015-14, ASU 2016-10, ASU 2016-12, ASU 2016-20 and ASU 2017-05, Revenue from Contracts with Customers (Topic 606). This update is a comprehensive revenue recognition standard that applies to all entities that have contracts with customers, except for those that fall within the scope of other standards, such as insurance contracts. Updates may be applied retrospectively to each period presented or retrospectively with the cumulative effect recognized at the date of initial application. The update is now effective for interim and annual reporting periods beginning after December 15, 2017. The Company adopted the update in the first quarter of 2018 with no impact on the consolidated financial statements. While these updates to Topic 606 are expected to have a significant impact on many companies, Atlas' revenue is derived from transactions that do not fall within the scope of Topic 606, namely insurance contracts, investment income, and lease income.

Not Yet Adopted

In March 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This update shortens the amortization period for certain callable fixed income securities held at a premium to the earliest possible call date. For public entities, this guidance is effective for years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted. The Company plans on adopting the update on the required effective date using the prescribed modified retrospective approach. Atlas has a number of fixed income securities that are callable and held at a premium. The amount of the difference in amortization from current accounting treatment to the change prescribed in this ASU will be recorded upon adoption as an adjustment to retained earnings and treated as a change in accounting principle. Atlas is currently evaluating the potential impact of the ASU on these certain securities, which will change as securities mature, are sold, or are purchased.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The provisions of this update require an entity to broaden the information that it considers in developing its allowance for credit losses for assets. For public entities, this guidance is effective for years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. The Company plans on adopting the update on the required effective date. Atlas does not currently have any investments with credit losses recorded or other significant credit allowances, therefore the provisions of this update are not expected to have a material impact on the consolidated financial statements upon adoption. Atlas will continue to monitor the investment portfolio and other financial instruments until adoption for any changes.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The provisions of this update impact the classification criteria, disclosure requirements, and other specific transactions in lease accounting. The update requires the use of a modified retrospective approach, which requires leases to be measured at the beginning of the earliest period presented. For public entities, this guidance is effective for years beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted. The Company plans on adopting the update on the required effective date using the modified retrospective approach to restate beginning with the earliest period presented. See Note 8, 'Commitments and Contingencies' for further discussion of the future lease commitments. The adoption of this update is expected to increase both assets and liabilities, equally, on the Consolidated Statements of Financial Position by the present value of the leases at each reporting date. There is no expected impact to any of Atlas' current financial covenants as a result of the increase to reported liabilities.

All other recently issued pronouncements with effective dates after March 31, 2018 are not expected to have a material impact on the consolidated financial statements.

3. INTANGIBLE ASSETS

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

($ in '000s)

As of March 31, 2018	Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Net
Trade name and trademark	15 years	$ 1,800	$ 367	$1,433
Customer relationship	10 years	2,700	825	1,875

State insurance licenses	Indefinite	740	—	740
		$ 5,240	$ 1,192	$4,048

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

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4. EARNINGS PER SHARE

Earnings per ordinary voting common share, restricted voting common share, and participative restricted stock unit ("RSU") (collectively, the "common shares") for the three month periods ended March 31, 2018 and 2017 are as follows:

($ in '000s, except share and per share amounts)	Three Month Periods Ended March 31, 2018	March 31, 2017
Basic:		
Income from operations before income taxes	$6,812	$ 7,465
Income tax expense	1,283	2,613
Net income	$5,529	$ 4,852
Less: Preferred share dividends	—	—
Net income attributable to common shareholders	$5,529	$ 4,852
Basic weighted average common shares outstanding	12,140,587	12,045,519
Earnings per common share basic	$0.46	$ 0.40
Diluted:		
Basic weighted average common shares outstanding	12,140,587	12,045,519
Add:		
Dilutive stock options outstanding	57,474	155,049
Diluted weighted average common shares outstanding	12,198,061	12,200,568
Earnings per common share diluted	$0.45	$ 0.40

Earnings per common share diluted is computed by dividing net income by the weighted average number of common shares outstanding for each period plus the incremental number of shares added as a result of converting dilutive potential ordinary voting common shares, calculated using the treasury stock method.

Atlas' dilutive potential ordinary voting common shares consist of outstanding stock options to purchase ordinary voting common shares. The effects of these convertible instruments are excluded from the computation of earnings per common share diluted in periods in which the effect would be anti-dilutive. For the three month periods ended March 31, 2018 and 2017, all exercisable stock options were deemed to be dilutive.

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5. INVESTMENTS

Atlas adopted ASU 2016-01 as of January 1, 2018, which requires equity investments, except those accounted for under the equity method, to be measured at fair value and changes in fair value to be recognized in net income. Prior periods have not been restated for the current presentation, per the guidance in the ASU. See Note 19, ‘Change in Accounting Principle’, for a summary of the changes.

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

As of March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed Income Securities:				
U.S. Treasury and other U.S. government obligations	$ 20,952	$ —	$ (483)	$ 20,469
States, municipalities and political subdivisions	12,069	14	(237)	11,846
Corporate				
Banking/financial services	17,408	47	(324)	17,131
Consumer goods	12,262	18	(206)	12,074
Capital goods	6,073	50	(107)	6,016
Energy	8,565	34	(214)	8,385
Telecommunications/utilities	10,998	16	(262)	10,752
Health care	832	—	(78)	754
Total Corporate	56,138	165	(1,191)	55,112
Mortgage Backed				
Mortgage backed - agency	27,229	9	(761)	26,477
Mortgage backed - commercial	23,415	79	(564)	22,930
Total Mortgage Backed	50,644	88	(1,325)	49,407
Other asset backed	12,485	10	(78)	12,417
Total Fixed Income Securities	$ 152,288	$ 277	$ (3,314)	$ 149,251

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

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The following table summarizes the amortized cost and fair value of fixed income securities by contractual maturity ($ in ‘000s). As certain securities and debentures have the right to call or prepay obligations, the actual settlement dates may differ from contractual maturity.

As of March 31, 2018	Amortized Cost	Fair Value
One year or less	$9,088	$9,061
One to five years	30,210	29,701
Five to ten years	42,211	41,140
More than ten years	7,650	7,525
Total contractual maturity	89,159	87,427
Total mortgage and asset backed	63,129	61,824
Total	$152,288	$149,251

Management performs a quarterly analysis of Atlas’ investment holdings to determine if declines in fair value are other than temporary. The analysis includes some or all of the following procedures as deemed appropriate by management:

- identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the security;
- obtaining a valuation analysis from third party investment managers regarding these holdings based on their knowledge, experience and other market-based valuation techniques;
- reviewing the trading range of certain securities over the preceding calendar period;
- assessing whether declines in market value are other than temporary for debt security holdings based on credit ratings from third party security rating agencies; and
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

The risks and uncertainties inherent in the assessment methodology utilized to determine declines in market value that are other than temporary include, but may not be limited to, the following:

- the opinion of professional investment managers could prove to be incorrect;
- the past trading patterns of individual securities may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may prove to be incorrect due to unforeseen or unknown facts related to a company’s financial situation; and
- the debt service pattern of non-investment grade securities may not reflect future debt service capabilities and may not reflect a company’s unknown underlying financial problems.

There were no other-than-temporary impairments recorded for the three month periods ended March 31, 2018 and 2017 as a result of the above analysis performed by management.

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The aging of unrealized losses on the Company's investments in fixed income securities as of March 31, 2018 and fixed income securities and equities as of December 31, 2017 is presented as follows ($ in '000s):

As of March 31, 2018	Less Than 12 Months Fair Value	Less Than 12 Months Unrealized Losses	More Than 12 Months Fair Value	More Than 12 Months Unrealized Losses	Total Fair Value	Total Unrealized Losses
Fixed Income Securities:						
U.S. Treasury and other U.S. government obligations	$10,535	$(228)	$9,424	$(255)	$19,959	$(483)
States, municipalities and political subdivisions	6,004	(113)	2,743	(124)	8,747	(237)
Corporate						
Banking/financial services	13,034	(261)	1,894	(63)	14,928	(324)
Consumer goods	8,464	(182)	955	(24)	9,419	(206)
Capital goods	3,736	(107)	—	—	3,736	(107)
Energy	7,174	(214)	—	—	7,174	(214)
Telecommunications/utilities	8,995	(210)	897	(52)	9,892	(262)
Health care	441	(22)	313	(56)	754	(78)
Total Corporate	41,844	(996)	4,059	(195)	45,903	(1,191)
Mortgage Backed						
Mortgage backed - agency	16,311	(397)	9,691	(364)	26,002	(761)
Mortgage backed - commercial	13,402	(274)	5,835	(290)	19,237	(564)
Total Mortgage Backed	29,713	(671)	15,526	(654)	45,239	(1,325)
Other asset backed	9,459	(67)	1,243	(11)	10,702	(78)
Total Fixed Income Securities	$97,555	$(2,075)	$32,995	$(1,239)	$130,550	$(3,314)

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

As of March 31, 2018, we held 449 individual fixed income securities that were in an unrealized loss position, of which 105 individual fixed income securities were in a continuous loss position for longer than 12 months. As of December 31, 2017, we held 346 and 2 individual fixed income and equity securities, respectively, that were in an unrealized loss position, of which 103 individual fixed income securities were in a continuous loss position for longer than 12 months. We did not recognize the unrealized losses in earnings on these fixed income securities for the three month period ended March 31, 2018 or for the year ended December 31, 2017, because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized costs.

The following table summarizes the components of net investment income for the three month periods ended March 31, 2018 and 2017 ($ in '000s):

	Three Month Periods Ended March 31, 2018	Three Month Periods Ended March 31, 2017
Total investment income		
Interest income	$1,064	$ 888
Income from other investments	183	476
Investment expenses	(283)	(221)
Net investment income	$964	$ 1,143

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The following table presents the aggregate proceeds, gross realized investment gains and gross realized investment losses from sales and calls of fixed income securities and equities for the three month periods ended March 31, 2018 and 2017 ($ in ‘000s):

	Three Month Periods Ended	
	March 31, 2018	March 31, 2017
Fixed income securities[1]:		
Proceeds from sales and calls	$20,955	$5,221
Gross realized investment gains	168	54
Gross realized investment losses	(221)	(10)
Equities:		
Proceeds from sales	$1,849	$1,454
Gross realized investment gains	346	90
Gross realized investment losses	—	—
Total:		
Proceeds from sales and calls	$22,804	$6,675
Gross realized investment gains	514	144
Gross realized investment losses	(221)	(10)

[1] - The proceeds from sales and calls, gross realized investment gains and gross realized investment losses on fixed income securities for the three month period ended March 31, 2017 were restated to include both voluntary and involuntary calls.

The following table summarizes the components of net realized gains (losses) for the three month periods ended March 31, 2018 and 2017 ($ in ‘000s):

	Three Month Periods Ended	
	March 31, 2018	March 31, 2017
Fixed income securities	$(53)	$ 44
Equities	346	90
Net realized gains	$293	$ 134

Other Investments:

Atlas’ other investments are comprised of collateral loans and various limited partnerships that invest in income-producing real estate, equities, or insurance linked securities. Atlas accounts for these limited partnership investments using the equity method of accounting. The carrying values of the equity method limited partnerships were $26.2 million and $25.3 million as of March 31, 2018 and December 31, 2017, respectively. The carrying value of these investments is Atlas’ share of the net book value for each limited partnership. The carrying values of the collateral loans were $3.9 million and $6.2 million as of March 31, 2018 and December 31, 2017, respectively.

The Company recognizes an impairment loss for equity method limited partnerships when evidence demonstrates that the loss is other than temporary. To determine if an other-than-temporary impairment has occurred, the Company evaluates whether or not the investee could sustain a level of earnings that would justify the carrying amount of the investment. Collateral loans are considered impaired when it is probable that the Company will not collect the contractual principal and interest. Valuation allowances are established for impaired loans equal to the fair value of the collateral less costs to sell or the present value of the loan’s expected future repayment cash flows discounted at the loan’s original effective interest rate. Valuation allowances are adjusted for subsequent changes in the fair value of the collateral less costs to sell or the present value of the loan’s expected future repayment cash flows. As of March 31, 2018 and as of December 31, 2017, the Company had no valuation allowances established for impaired loans.

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Collateral pledged:
As of March 31, 2018 and as of December 31, 2017, bonds, cash and cash equivalents with a fair value of $14.8 million and $15.0 million, respectively, were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges securities to and deposits cash with third parties to collateralize liabilities incurred under its policies of reinsurance assumed and other commitments made by the Company. As of March 31, 2018 and as of December 31, 2017, the amounts of such pledged securities were $15.2 million and $12.2 million, respectively. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company’s standard risk management controls. These assets and investment income related thereto remain the property of the Company while pledged. Neither the state and/or provincial regulatory authorities nor any other third party has the right to re-pledge or sell said securities held on deposit.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. GAAP requires certain assets and liabilities to be reported at fair value in the financial statements and provides a framework for establishing that fair value. Level 1 inputs are given the highest priority in the hierarchy, while Level 3 inputs are given the lowest priority. Assets and liabilities carried at fair value are classified in one of the following three categories based on the nature of the inputs to the valuation technique used:

Level 1 - Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data. These inputs reflect management’s best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Atlas’ assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the placement of the asset or liability within the fair value hierarchy levels.

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

Level 1

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

Fixed Income: Comprised of certain U.S. Treasury fixed income securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that Atlas can access.

Level 2

States, Municipalities and Political Subdivisions: Comprised of U.S. States, Territories and Possessions, U.S. Political Subdivisions of States, Territories and Possessions, U.S. Special Revenue and Special Assessment Obligations. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Corporate Bonds: Comprised of investment-grade fixed income securities. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields and credit spreads.

Mortgage-backed and Other asset-backed: Comprised of securities that are collateralized by mortgage obligations and other assets. The primary inputs to the valuation include quoted prices for identical assets in inactive markets or similar assets in active or inactive markets, contractual cash flows, benchmark yields, collateral performance and credit spreads.

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

As of March 31, 2018	Level 1	Level 2	Level 3	Total
Fixed Income Securities:				
U.S. Treasury and other U.S. government obligations	$20,469	$—	$ —	$20,469
States, municipalities and political subdivisions	—	11,846	—	11,846
Corporate				
Banking/financial services	—	17,131	—	17,131
Consumer goods	—	12,074	—	12,074
Capital goods	—	6,016	—	6,016
Energy	—	8,385	—	8,385
Telecommunications/utilities	—	10,752	—	10,752
Health care	—	754	—	754
Total Corporate	—	55,112	—	55,112
Mortgage Backed				
Mortgage backed - agency	—	26,477	—	26,477
Mortgage backed - commercial	—	22,930	—	22,930
Total Mortgage Backed	—	49,407	—	49,407
Other asset backed	—	12,417	—	12,417
Total Fixed Income Securities	$20,469	$128,782	$ —	$149,251
Equities	7,315	—	—	7,315
Totals	$27,784	$128,782	$ —	$156,566

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

Atlas primarily uses the services of external securities pricing vendors to obtain these values. Atlas then reviews these valuations to ensure that the values are accurately recorded and that the data inputs and valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value.

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Though Atlas believes the valuation methods used in determining fair value are appropriate, different methodologies or assumptions could result in a different fair value as of March 31, 2018. Management does not believe that reasonable changes to the inputs to its valuation methodology would result in a significantly higher or lower fair value measurement.

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

7. INCOME TAXES

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

Atlas' effective tax rate was 18.8% for the three month period ended March 31, 2018 and 35.0% for the three month period ended March 31, 2017. The table below reconciles the U.S. statutory marginal income tax rate to the effective tax rate ($ in '000s):

	Three Month Periods Ended			
	March 31, 2018		March 31, 2017	
	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	$1,430	21.0 %	$2,613	35.0 %
Nondeductible expenses	9	0.1 %	21	0.3 %
Tax-exempt income	(3)	(0.1)%	(5)	(0.1)%
State tax (net of federal benefit)	(2)	— %	(2)	— %
Stock compensation	(42)	(0.6)%	—	— %
Nondeductible acquisition accounting adjustment	(109)	(1.6)%	—	— %
Other	—	— %	(14)	(0.2)%
Provision for income taxes for continuing operations	$1,283	18.8 %	$2,613	35.0 %

Income tax expense consists of the following for the three month periods ended March 31, 2018 and 2017 ($ in '000s):

	Three Month Periods Ended	
	March 31, 2018	March 31, 2017
Current tax (benefit) expense	$(149)	$ 2,403
Deferred tax expense	1,432	210
Total	$1,283	$ 2,613

Upon the transaction forming Atlas on December 31, 2010, a yearly limitation as required by U.S. Internal Revenue Code of 1986 (as amended, "IRC") Section 382 that applies to changes in ownership on the future utilization of Atlas' net operating loss carryforwards was calculated. The Insurance Subsidiaries' prior parent retained those tax assets previously attributed to the Insurance Subsidiaries, which could not be utilized by Atlas as a result of this limitation. As a result, Atlas' ability to recognize future tax benefits associated with a portion of its deferred tax assets generated during prior years has been permanently limited to the amount determined under IRC Section 382. The result is a

maximum expected net deferred tax asset that Atlas has available after the merger, which is believed more likely than not to be utilized in the future, after consideration of the valuation allowance.
On July 22, 2013, due to shareholder activity, a “triggering event” as determined under IRC Section 382 occurred. As a result, under IRC Section 382, the use of the Company’s net operating loss and other carryforwards generated prior to the “triggering event” will be limited as a result of this “ownership change” for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders owning 5% or greater portions of the Company’s shares. Due to this triggering event, the Company estimates that it will retain total tax effected federal net operating loss carryforwards of approximately $12.7 million as of March 31, 2018.

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

	March 31, 2018	December 31, 2017
Gross deferred tax assets:		
Losses carried forward	$ 12,714	$ 13,313
Claims liabilities and unearned premium reserves	7,226	6,171
Tax credits	1,025	1,172
Investments	458	—
Commissions	809	623
Stock compensation	567	602
Other	866	1,094
Total gross deferred tax assets	23,665	22,975
Gross deferred tax liabilities:		
Deferred policy acquisition costs	4,148	3,107
Investments	—	213
Fixed assets	1,445	847
Intangible assets	695	715
Other	1,276	1,108
Total gross deferred tax liabilities	7,564	5,990
Net deferred tax assets	$ 16,101	$ 16,985

Amounts and expiration dates of the operating loss carryforwards as of March 31, 2018 are as follows ($ in '000s):

Year of Occurrence	Year of Expiration	Amount
2001	2021	$ 2,155
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	4,166
2012	2032	9,236
2015	2035	1
2017	2037	21,865
Total		$ 60,543

NOLs and other carryforwards generated in 2015 and 2017 are not limited by IRC Section 382.

Atlas has not established a valuation allowance for its gross future deferred tax assets as of March 31, 2018 or as of December 31, 2017. Based on Atlas' expectations of future taxable income, its ability to change its investment strategy, as well as reversing gross future tax liabilities, management believes it is more likely than not that Atlas will fully realize the net future tax assets. However, there can be no guarantee that a valuation allowance will not be required in the future.

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Atlas accounts for uncertain tax positions in accordance with the income taxes accounting guidance. Atlas has analyzed filing positions in the federal and state jurisdictions where it is required to file tax returns, as well as the open tax years in these jurisdictions. Atlas believes that its federal and state income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain federal and state income tax positions have been recorded. Atlas would recognize interest and penalties related to unrecognized tax benefits as a component of the provision for federal income taxes. Atlas did not incur any federal income tax related interest income, interest expense or penalties for the three month periods ended March 31, 2018 and 2017. Tax year 2014 and years thereafter are subject to examination by the IRS.

8. COMMITMENTS AND CONTINGENCIES

On May 22, 2012, Atlas closed the sale and leaseback of its former headquarters building to 150 Northwest Point, LLC, a Delaware limited liability company. Atlas recognized a gain on the sale of this property of $213,000, which was deferred and recognized over the initial five year lease term, which ended in May 2017. The deferred gain was completely recognized at the end of the second quarter in 2017, and no offset to rent expense was recognized for the three month period ended March 31, 2018. Atlas recognized $11,000 as an offset to rent expense for the three month period ended March 31, 2017. Total rental expense recognized on the former headquarters building was $197,000 for the three month period ended March 31, 2017. There was no rental expense recognized on the former headquarters building for the three month period ended March 31, 2018.

As of March 31, 2018, Atlas has the following future minimum rentals, related principally to office space, required under operating leases having initial or remaining noncancelable lease terms in excess of one year ($ in '000s):

Year	2018	2019	2020	2021	2022	2023 & Beyond	Total
Amount	$850	$1,148	$1,070	$937	$157	$ —	$4,162

The Company has entered into various contracts to renovate and furnish the building that was purchased in 2016 to serve as the Company's new headquarters, which the Company moved into on October 27, 2017. As of March 31, 2018, the remaining contractual obligations related to the renovation and furnishing of Atlas' new headquarters building are $76,000.

The Company has entered into subscription agreements to allow for participation by the Company in limited liability investments, which invest in income-producing real estate, equities and insurance linked securities. As of March 31, 2018, the unfunded commitments are $6.1 million.

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

Atlas is exposed to credit risk on balances receivable from policyholders, agents and reinsurers. Credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. Atlas has procedures to monitor and minimize its exposure to delinquent agent balances, including, but not limited to, reviewing account current statements, processing policy cancellations for non-payment and other collection efforts deemed appropriate. Atlas also has procedures to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurers' insolvency.

Virtually all states require insurers licensed to do business therein to bear a portion of contingent and incurred claims handling expenses and the unfunded amount of "covered" claims and unearned premium obligations of impaired or insolvent insurance companies, either up to the policy's limit, the applicable guaranty fund covered claims obligation cap, or 100% of statutorily defined workers' compensation benefits, subject to applicable deductibles. These obligations are funded by assessments, made on a retrospective, prospective or pre-funded basis, which are levied by guaranty associations within the state, up to prescribed limits (typically 2% of "net direct premiums written"), on all member insurers in the state on the basis of the proportionate share of the premiums written by member insurers in certain covered lines of business in which the impaired, insolvent or failed insurer was engaged.

In addition, as a condition to the ability to conduct business in certain states (and within the jurisdiction of some local governments), insurance companies are subject to or required to participate in various premium or claims based insurance-related assessments, including non-voluntary assigned risk pools, underwriting associations, workers' compensation second-injury funds, reinsurance funds and other state insurance facilities. Atlas' proportionate share of these various premium or claims based insurance-related assessments, including non-voluntary assigned risk pools, underwriting associations, workers' compensation second-injury funds, reinsurance funds and other state insurance facilities is not expected to be material.

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9. PROPERTY AND EQUIPMENT

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

	March 31, 2018	December 31, 2017
Buildings	$7,425	$ 7,425
Land	1,840	1,840
Building improvements	8,551	7,900
Leasehold improvements	171	140
Internal use software	11,848	9,567
Computer equipment	1,492	1,465
Furniture and other office equipment	2,832	2,582
Total	34,159	30,919
Accumulated depreciation	(7,159)	(6,480)
Total property and equipment, net	$27,000	$ 24,439

Depreciation expense and amortization was $678,000 and $273,000 for the three month periods ended March 31, 2018 and 2017, respectively. For the year ended December 31, 2017, depreciation expense and amortization was $1.4 million.

During the year ended December 31, 2016, Atlas purchased a building and land to serve as its new corporate headquarters to replace its former leased office space. Atlas' Chicago area staff moved into this space in late October 2017 and occupies approximately 70,000 square feet on the second and third floors of the building. An unrelated tenant occupies the remaining office space on the first floor of the building. Rental income related to this lease agreement for the three month periods ended March 31, 2018 and 2017 was $163,000 and $104,000, respectively. Depreciation expense related to the building and its improvements was $261,000 for the three month period ended March 31, 2018. There was $171,000 of depreciation expense related to the building and its improvements recorded for the year ended December 31, 2017.

10. REINSURANCE CEDED

As is customary in the insurance industry, Atlas reinsures portions of certain insurance policies it writes, thereby providing a greater diversification of risk and minimizing exposure on larger risks. Atlas remains contingently at risk with respect to any reinsurance ceded and would incur an additional loss if an assuming company were unable to meet its obligation under the reinsurance treaty.

Atlas monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Letters of credit are maintained for any unauthorized reinsurer to cover ceded unearned premium reserves, ceded claims and claims adjustment expense reserve balances and ceded paid claims. These policies mitigate the risk of credit quality or dispute from becoming a danger to financial strength. To date, the Company has not experienced any material difficulties in collecting reinsurance recoverables.

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Premiums written, premiums earned and amounts related to reinsurance as of and for the three month periods ended March 31, 2018 and 2017 are as follows ($ in ‘000s):

	Three Month Periods Ended	
	March 31, 2018	March 31, 2017
Direct premiums written	$85,710	$91,065
Assumed premiums written	9,879	7,431
Ceded premiums written	(13,403)	(12,863)
Net premiums written	$82,186	$85,633
Direct premiums earned	$63,124	$58,365
Assumed premiums earned	4,056	1,657
Ceded premiums earned	(11,288)	(11,596)
Net premiums earned	$55,892	$48,426
Ceded claims and claims adjustment expenses	$8,245	$3,725
Ceding commissions	4,463	3,700

11. CLAIMS LIABILITIES

Unpaid claims and claims adjustment expenses

The changes in the provision for unpaid claims and claims adjustment expenses, net of amounts recoverable from reinsurers, for the three month periods ended March 31, 2018 and 2017 were as follows ($ in ‘000s):

	Three Month Periods Ended	
	March 31, 2018	March 31, 2017
Unpaid claims and claims adjustment expenses, beginning of period	$211,648	$139,004
Less: reinsurance recoverable	53,402	35,370
Net unpaid claims and claims adjustment expenses, beginning of period	158,246	103,634
Change in retroactive reinsurance ceded	—	(17)
Incurred related to:		
Current year	33,900	29,013
Prior years	1,146	287
	35,046	29,300
Paid related to:		
Current year	7,301	5,404
Prior years	33,565	32,765
	40,866	38,169
Net unpaid claims and claims adjustment expenses, end of period	152,426	94,748
Add: reinsurance recoverable	52,316	33,223
Unpaid claims and claims adjustment expenses, end of period	$204,742	$127,971

The process of establishing the estimated provision for unpaid claims and claims adjustment expenses is complex and imprecise, as it relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments.

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The unfavorable development for the three month period ended March 31, 2018 and the three month period ended March 31, 2017 primarily resulted from Atlas' participation in non-voluntary assigned risk pools and run-off commercial auto. Assigned risk pools are established by state governments to cover high-risk insureds who cannot purchase insurance through conventional means.

12. SHARE-BASED COMPENSATION

On January 6, 2011, Atlas adopted a stock option plan (the "Stock Option Plan") in order to advance the interests of Atlas by providing incentives to eligible persons defined in the plan. In the second quarter of 2013, a new equity incentive plan (the "Equity Incentive Plan") was approved by the Company's common shareholders at the Annual General Meeting, and Atlas ceased to grant new stock options under the preceding Stock Option Plan. The Equity Incentive Plan is a securities based compensation plan, pursuant to which Atlas may issue restricted stock grants for ordinary voting common shares, restricted units, stock grants for ordinary voting common shares, stock options and other forms of equity incentives to eligible persons as part of their compensation. The Equity Incentive Plan is considered an amendment and restatement of the Stock Option Plan, although outstanding stock options issued pursuant to the Stock Option Plan will continue to be governed by the terms of the Stock Option Plan.

Stock options - Stock option activity for the three month periods ended March 31, 2018 and 2017 follows (prices in Canadian dollars designated with "C$" and United States dollars designated with "US$"):

	Three Month Periods Ended			
	March 31, 2018		March 31, 2017	
C$ Denominated:	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding, beginning of period	54,390	C$6.00	187,728	C$6.22
Granted	—	—	—	—
Exercised	(27,195)	C$6.00	—	—
Outstanding, end of period	27,195	C$6.00	187,728	C$6.22

	Three Month Periods Ended			
	March 31, 2018		March 31, 2017	
US$ Denominated:	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding, beginning of period	375,000	US$17.01	375,000	US$17.01
Granted	—	—	—	—
Exercised	—	—	—	—
Outstanding, end of period	375,000	US$17.01	375,000	US$17.01

There are 202,195 stock options that are exercisable as of March 31, 2018. The stock option grants outstanding have a weighted average remaining life of 6.23 years and have an intrinsic value of $155,000 as of March 31, 2018.

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

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On March 12, 2015, the Board of Directors of Atlas granted equity awards of (i) 200,000 restricted stock grants for ordinary voting common shares of the Company and (ii) 200,000 options to acquire ordinary voting common shares to the executive officers of the Company as part of the Company's annual compensation process. The awards were made under the Company's Equity Incentive Plan. The awards vest in five equal annual installments of 20%, provided that an installment shall not vest unless an annual performance target based on specific book value growth rates linked to return on equity goals is met. In the event the performance target is not met in any year, the 20% installment for such year shall not vest, but such non-vested installment shall carry forward and can become vested in future years (up to the fifth year from the date of grant), subject to achievement in a future year of the applicable performance target for such year. For the three month period ended March 31, 2018, no shares of either of these restricted stock grants for ordinary voting common shares or these options to acquire ordinary voting common shares vested due to annual performance targets not met.

The Monte-Carlo simulation model was used, for both the options and restricted stock grants for ordinary voting common shares, to estimate the fair value of compensation expense as a result of the performance based component of these grants. Utilizing the Monte-Carlo simulation model, the fair values were $1.5 million and $1.9 million for the options and restricted stock grants for ordinary voting common shares, respectively. This expense will be amortized over the anticipated vesting period.

Restricted shares - The activity for the restricted stock grants for ordinary voting common shares and restricted share units for the three month periods ended March 31, 2018 and 2017 are as follows:

	Three Month Periods Ended			
	March 31, 2018		March 31, 2017	
	Number of Shares	Weighted Average Fair Value at Grant Date	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested, beginning of period	234,080	$ 16.15	311,120	$ 15.92
Granted	—	—	—	—
Vested	(44,448)	12.20	(37,040)	12.20
Non-vested, end of period	189,632	$ 17.08	311,120	$ 15.98

In accordance with ASC 718 (Stock-Based Compensation), Atlas has recognized share-based compensation expense on a straight-line basis over the requisite service period of the last separately vesting portion of the award. Share-based compensation expense is a component of other underwriting expenses on the statements of income and comprehensive income. Atlas recognized $285,000 and $320,000 in share-based compensation expense, including income tax expense, for the three month periods ended March 31, 2018 and 2017, respectively. Total unearned share-based compensation expense was $584,000 related to all stock option grants and $1.2 million related to restricted stock grants for ordinary voting common shares and restricted share units as of March 31, 2018. This unearned share-based compensation expense will be amortized over the next 23 months.

13. OTHER EMPLOYEE BENEFIT PLANS

Defined Contribution Plan - Atlas has a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Contributions to this plan are limited based on IRS guidelines. Atlas matches 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 2.5% of annual earnings, for a total maximum expense of 3.75% of annual earnings per participant. Atlas' matching contributions are discretionary. Employees are 100% vested in their own contributions and vest in Atlas contributions based on years of service equally over 5 years with 100% vested after 5 years. Company contributions were $147,000 and $128,000 for the three month periods ended March 31, 2018 and 2017, respectively.

Employee Stock Purchase Plan - The Atlas Employee Stock Purchase Plan (the "ESPP") encourages employee interest in the operation, growth and development of Atlas and provides an additional investment opportunity to employees. Full time and permanent part time employees working more than 30 hours per week were allowed to invest up to 7.5%

of adjusted salary in Atlas ordinary voting common shares. Atlas matches 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 5% of annual earnings, for a total maximum expense of 5% of annual earnings per participant. Atlas' matching contributions are discretionary. Atlas also pays all administrative costs related to this plan. Atlas' costs incurred related to the matching portion of the ESPP were $65,000 and $55,000 for the three month periods ended March 31, 2018 and 2017, respectively. Share purchases pursuant to this plan are made in the open market.

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14. SHARE CAPITAL AND MEZZANINE EQUITY

Share Capital

The share capital is as follows:

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

During 2017, the 128,191 restricted voting common shares that were beneficially owned or controlled by Kingsway Financial Services, Inc. (including its subsidiaries and affiliated companies, “Kingsway”) were sold to non-affiliates of Kingsway. The restricted voting common shares are entitled to vote at all meetings of shareholders, except at meetings of holders of a specific class that are entitled to vote separately as a class. The restricted voting common shares as a class shall not carry more than 30% of the aggregate votes eligible to be voted at a general meeting of common shareholders. The Kingsway-owned restricted voting common shares automatically converted to ordinary voting common shares upon their sale to non-affiliates of Kingsway. There are no restricted voting common shares outstanding as of March 31, 2018.

There were 7,408 and 14,816 non-vested restricted stock units (“RSUs”) as of March 31, 2018 and December 31, 2017, respectively. These RSUs are participative and are included in the computations of earnings per common share and book value per common share for these periods.

During the three month period ended March 31, 2018, the Company issued 7,408 ordinary voting common shares as a result of the vesting of RSUs. During the three month period ended March 31, 2018, the Company issued 27,195 ordinary voting common shares and immediately canceled 6,169 shares as a result of a cashless exercise of options. During the three month period ended March 31, 2017, the Company issued 7,408 ordinary voting common shares as a result of the vesting of RSUs.

On March 21, 2017, the Company’s Board of Directors approved a Share Repurchase Program of up to 650,000 shares of common stock. The repurchases could be made from time to time in open market transactions, privately-negotiated transactions, block purchases, or otherwise in accordance with securities laws at the discretion of the Company’s management until March 21, 2018. The Share Repurchase Program was not extended. The Company’s decisions around the timing, volume, and nature of share repurchases, and the ultimate amount of shares repurchased, was dependent on market conditions, applicable securities laws, and other factors. The share repurchase program and the Board’s authorization of the program could have been modified, suspended, or discontinued at any time. During the three month period ended March 31, 2018, 255,505 shares were repurchased under this Share Repurchase Program.

Mezzanine Equity

There were no preferred shares outstanding as of March 31, 2018 and as of December 31, 2017.

Preferred shareholders are entitled to dividends on a cumulative basis, whether or not declared by the Board of Directors, at the rate of $0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. In liquidation, dissolution or winding-up of Atlas, preferred shareholders receive the greater of $1.00 per share plus all declared and unpaid dividends or the amount they would receive in liquidation if the preferred shares had been converted to restricted voting common shares or ordinary voting common shares immediately prior to liquidation. Preferred shareholders are not entitled to vote.

As of March 31, 2018 and December 31, 2017, Atlas accrued $333,000 in dividends on the preferred shares for the former owner of Anchor, which remain unpaid. The paid claims development on Global Liberty’s pre-acquisition claims reserves was in excess of $4.0 million, and as a result, pursuant to the terms of the Anchor stock purchase agreement, dividends will no longer accrue to the former owner of Anchor.

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15. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs for the three month periods ended March 31, 2018 and 2017 consisted of the following ($ in ‘000s):

Three
Month
Periods
Ended