**2013 First Quarter Conference Call**

**May 14, 2013**

**8:30 AM ET**

**Operator:** Greetings and welcome to the Atlas Financial Holdings, Inc., 2013 first quarter earnings call. At this time, all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Scott Wollney, CEO for Atlas Financial Holdings. Thank you, Mr. Wollney, you may begin.

**Mr. Scott Wollney:** Thanks, Kevin, and good morning, everyone. Thank you for joining us.

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

On this morning's call, I'll provide a brief update on our business operations and our first quarter results. Paul will review our financials and then I'll return to share our growth strategy for the remainder of the year. We'll then open it up for Q&A.

During this call, we'll make reference to a presentation which is available in the earnings release info section of the investor relations area of our website.

Before I begin, I'll turn it over to Paul to read the Safe Harbor Statement.

**Mr. Paul Romano:** Thank you, Scott.

This morning, Atlas issued its 2013 first quarter financial results. Copies of this press release are available at the investor relation's section at our company's website at www.atlas-fin.com.

As Scott mentioned, we'll be utilizing a slide show presentation in conjunction with this call. This presentation is available at our website's investor relation section and then under the earnings release info selection.

We will welcome each of you to review this presentation and follow along. On this call, Atlas may make forward looking statements regarding the company, its subsidiaries, and businesses. Such statements are based on the current expectations of the management of each entity.

The words anticipate, expect, believe, may, should, estimate, project, outlook, forecast, or similar used, are words to identify such forward looking information. The forward looking events and circumstances discussed on this call may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting the companies. Including risk factors regarding the insurance industry, economic factors in the equity markets, generally, and the risk factors discussed in the risk factor section of its Form 10-K for the year ended December 31, 2012.

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

When discussing our business operations, we may use certain terms of art, which are not defined under U.S. GAAP.

In the event of unintentional difference between the presentation materials and our Gap results, investors should rely on the financial information in our public filings.

All amounts discussed on this call are in U.S. dollars unless otherwise indicated.

Beginning with slide three of our presentation, we've provided a snap shot of the company's current financial position. With that, I'd like to turn the call back over to Scott.

**Mr. Scott Wollney:** Thanks, Paul.

The first quarter was a transformational period for our company. We completed our previously announced acquisition of Gateway Insurance Company in January, which greatly expanded Atlas's geographic presence and our core commercial auto lines of business. And in February, we successfully completed our U.S. IPO, culminating in the company become listed on the NASDAQ under the symbol AFH.

We are now in the strongest position, both operationally and financially, than at any point in Atlas's history. And 100 percent of our resources are focused on core specialty commercial auto lines of business.

First quarter highlights, as illustrated on slide four of the presentation, include the following: Gross written premium increased 90 percent driven by our significant growth in core commercial auto lines.

We improved each of our financial ratios, resulting in year over year improvement in our combined ratio, which was 98.1 percent during the first quarter, driven primarily by a $915,000 improvement in underwriting results.

Our net income for the three month period ended March 31, 2013 was $602,000, which included legal and professional fees, plus restructuring and near-term costs surrounding our Gateway acquisition as compared to a net income of $135,000 in the prior year period.

Book value per common share for Atlas at March 31, 2013 was $6.20 as compared to $6.09 at March 31, 2012 and $6.55 at December 31, 2012.

We've been very pleased with our progress so far. This growth and improvement of profitability is a result of our strategic focus and efficient operating structure. Key elements of our core focus are summarized on slide five of our presentation and include the following highlights.

Our core lines of business consist of specialty insurance products for users of light commercial vehicles, specifically: taxi cab, limousines, and paratransit operators. These core lines improved by 92.6 percent in gross written premium during the first quarter. This growth was achieved due to a strong independent agency network where the majority of our agents have more than 10 years of experience selling our core products for one or more of our insurance subsidiaries.

We do not distribute through wholesalers, managing general agents, or other intermediaries where disconnected from the point of sale.

Our independent agents know their customers, understand their value proposition, know how to sell it, and are as committed to our specialty niche as we are.

In the first quarter, we actively wrote business in 38 states and only operate in markets that we feel have pricing metrics sustainable for long-term profitability.

Our geographic expansion, as illustrated beginning on slide 6, was completed in advance of what is now a hardening insurance market. Atlas is currently distributing products in the 40 states plus Washington D.C., shown in Blue, on the map in our presentation.

We enter markets based on three criteria. First, it must be an area where we feel our value proposition has comparative advantage relative to our competition.

Our insured's may crash a lot due the nature of their business. And because their vehicles are income producing assets, every moment that they aren't on the road equates the dollars lost for the owner. As specialists in this space, this is an important aspect of our value proposition.

We've built a network across the country that specializes in getting taxis and limos back on the road quicker than our competitors, and we target markets where this is a particular value to our potential customers. This network has been able to serve our customers as a result of the work flows, which are designed to leverage the relationships we've established over time.

Second, we look at areas only if we feel we can write between 1 and $5 million in premium in the first 12-24 months.

And third, it must be a market deemed a favorable environment in terms of achieving underwriting profitability. That is, we need to be able to properly gage and value potential loss. An example would be avoiding states where there is a high propensity for fraud. We review each state in which we're writing business regularly, to evaluate rate sufficiency and to validate their assumptions are holding up.

On the next slide, you'll see that, geographically, Atlas is a more diverse company at March 31, 2013 than it was a year ago.

In 2011, 86 percent of our business originated from five states with 60 percent of our written business in the state of Illinois. This was largely due to the non-core private passenger non-standard auto business, which was discontinued last year. We expect the trend towards diversification to continue with the addition of the Gateway business and incremental vertical organic growth.

The evolution of our company, since early 2011, has been strategic, measured, and accomplished through effective execution as illustrated on slide eight of the presentation.

When we acquired American Country and American Service, we recognized that there was much to do.

We had to reengage our agent network, clean up infrastructure, exit non-core lines of business, and refocus on selected core markets. We then shifted our attention to expand geographically in preparation

In the past few quarters, the benefit of this reorganization and refocusing of our business, coupled with increasing scale, is beginning to become apparent in our operating results, as demonstrated on slide nine.

We are now in the process of implementing similar actions with Gateway.

We believe our value proposition is resonating with our distribution channel and policy holders, allowing us to compete on product and service attributes as opposed to price alone. In addition, we are seeing continued improvement on the pricing front and the market overall. With that, I'll turn the call over to Paul for a review of our financial results.

**Mr. Paul Romano:** Thanks, Scott.

As shown on slide 11 of the presentation, Atlas's gross premium written increased 90.2 percent to $22.4 million in the first quarter 2013. As Scott mentioned, our core commercial auto writings are now more than offsetting the decrease in the non-core private passenger non-standard auto business that we exited throughout 2012.

Net premium earned was $15.9 million in the three month period ended March 31, 2013, a 91.2 percent increase compared to 8.3 million from Q1 of 2012. Net premium earned from core commercial lines increased by 201 percent in the three month period ended March 31, 2013, relative to the prior year quarter.

Even without the access taxi program, which began earning in the third quarter 2012, net premium earn related to our core commercial lines, increased by 139 percent.

With the wind down of the non-core personal lines business behind us, virtually 100 percent of our earned premium now relates to core lines, whereas only 61.8 percent of the earned premium in Q1 of 2012 related to our core lines.

Let me take a moment now to summarize our operating ratios for the quarter.

The first quarter 2013, Atlas's loss ratio was 64.6 percent compared to 71 percent in the prior year period. This reduction is almost entirely due to the shift in business to higher retention, better underwritten core commercial auto lines.

Acquisition costs were $2.3 million in the first quarter 2013 or 14.3 percent of net premium earned as compared to 16.5 percent in the prior year period. This reduction is attributable to the reduction of the non-core personal lines business, which had carried higher commission rates.

The other underwriting expense ratio was 19.2 percent in the third period--in the third quarter--in the three month period ended March 31, 2013 compared to 19.8 percent in the three month period ended March 31, 2012.

During the first quarter 2013, we incurred severance and other near-term costs related to the acquisition of Gateway in the amount of $370,000. These costs increased our underwriting expense ratio by 2.3 percentage points. We've included a detailed chart in our press release, the MD&A section of our Form 10-Q, and in the appendix of this quarter's slide show presentation, to clearly indicate the one-time impact of this acquisition.

As we've noted on past calls, other underwriting expense, or OUE, is one area where we believe continuing improvement will be seen as premium growth continues. We feel that the company has sufficient operating infrastructure in place to sustain growth and premium without considerable increases in cost in the near-term.

Once we reach our minim efficient scale of 50-$60 million in net premium earned, we believe our OUE will trend to a run rate of approximately 10 to 12 percentage points of net premium earned.

As a result of the improvements across each line in our financials and including the costs associated with the acquisition of Gateway, the company's combined ratio for the first quarter 2013 was 98.1 percent compared to a 107.3 in the prior year quarter.

Now, let me move to the investment side.

As shown in slide 12 of the presentation, Atlas's cash and invested assets at March 31, 2013 were $145.3 million as compared to 120.8 million at December 31, 2012. These totals include the proceeds of the company's stock offering in the first quarter.

Investment income in the quarter was $710,000, which represented an annualized yield of 2.2 percent. Excluding capital gains, annualized yield was approximately 2 percent.

We continue to maintain a steady investment strategy with fixed maturities representing 99 percent of our investment holdings, which remains unchanged from the prior year.

The average duration of our portfolio is approximately 3.8 years, which is matched to our expected liquidity and client payment needs.

Net income for the three month period ended March 31, 2013 was $602,000 compared to net income of 135,000 in the prior year period. This equated to $.04 of diluted earnings per common share, net of the accounting treatment for the companies preferred shares.

Removing the impact of legal and professional fees and their structuring and near-term costs related to Gateway acquisition, net income was $1.3 million or $.13 per diluted common share.

The U.S. IPO was completed during the first quarter. The company sold 1.5 million common shares and sold an additional 451,500 common shares to fulfill the over allotment. The IPO provided Atlas with approximately $9.8 million in net proceeds, and the company currently has 8,095,892 common shares outstanding. Book value for common share at March 31, 2013 was $6.20 compared to $6.09 at March 31, 2012 and $6.55 at December 31, 2012.

In the first quarter 2013, book value was reduced relative to December 31, 2012 as follows: a reduction of $.37 related to dilution from our U.S. IPO, a reduction of $.04 from legal and professional fees related to our acquisition of Gateway, an increase of $.04 from operating income, and an increase of $.02 from all other items.

It's important to note that while we were able to utilize a small portion of our deferred tax assets in the quarter, the company carries a valuation allowance related to capital loss, and net operating loss carry forwards of $1.47 per common share, as at March 31, 2013.

As indicated in our press release dated May 10, 2013, these DTAs are potentially subject to limitation by Internal Revenue Code Section 382, if there is ownership change of more than 50 percent during any three year period.

Factors such as the date of triggering event, the stock price on that date, and other elements taken into consideration by this portion of the tax code, would ultimately determine the impact of this shift for our DTAs.

Based on the current stock price, we estimate that the near-term ownership shift could limit approximately 25-50 percent of our DTAs, however, up to this point, we believe that there has been no such events. With that, let me turn the call back to Scott for a brief review of market trends and outlook for Atlas.

**Mr. Scott Wollney:** Thanks again, Paul.

For the remainder of 2013, we're focused on leveraging the foundation that we've built here at Atlas. Our financial results are now beginning to reflect the potential we envisioned when we began our restructuring, and we expect to continue this trend of strong vertical growth across our network, creating greater economies of scale.

In the first quarter, we absorbed transaction and restructuring costs associated with the acquisition of Gateway, and still delivered positive operating earnings. As previously indicated, we expect Gateway to be accretive in the first year, and we're very pleased with the progress our team has already made to integrate this valuable asset into our overall platform.

We're equally pleased with the continued growth and profitability of core business generated across the entire organization.

A.M. Best estimates the U.S.  Commercial auto insurance market to be approximately $24 billion, that includes long-haul trucking, bus, etc..  For the markets we serve, taxi, limo, and paratransit, we believe the market is approximately 1.5 billion in premiums.

We're an industry leader in this market, and we feel Atlas is well positioned to achieve proportional market share of approximately 20 percent of this specialty segment.  That's our goal over time.
Insurance is about understand and managing risk.  We recognize that success in our business requires people who possess and utilize expertise to benefit all stakeholders.  From our customers, who get in a fender bender on a rainy day and need their car back on the road to stay in business, to our agents, who recognize the benefit of a true value proposition when trying to compete for business, and to the entire

Atlas team building scale in a niche market, our success will continue to be the result of the expertise, strength, and commitment of our organization, business partners, and customers.

As I've noted in meetings with many of you, our entire management team went through the challenge of restructuring the company when we began.  This included difficult decisions, but we made them and will continue to do so as we grow thoughtfully and strategically into the current hardening market.

We don't take our responsibilities lightly and know that our experience provides the Atlas team with a valuable perspective.  We recognize that our growth needs to be stable and sustainable, and we are very encouraged with the direction in which we're headed.  Kevin, with that, let's open it up for questions.

**Operator:** We will now be conducting a question and answer session.

If you'd like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate your line is in question queue. You may press star-two if you'd like remove your question from the queue. For participants who are using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, if you have a question today, please press star-one on your telephone keypad.

Our first question today is coming from Fang Lee from Baleen Capital, please proceed with your question.

**Mr. Fang Lee:** Hey, Scott, Paul, how are you guys?

**Mr. Scott Wollney:** Good, Fang, how are you?

**Mr. Paul Romano:** Excellent, Fang.

**Mr. Fang Lee:** Great. Great quarter. And, I thought you guys did a great job with the presentation. It looks very clear.

**Mr. Scott Wollney:** Thank you.

**Mr. Paul Romano:** Thank you.

**Mr. Fang Lee:** I had a question on the Gateway worker's compensation [sp]--or--I guess, insurance seated.

**Mr. Paul Romano:** Yep.

**Mr. Fang Lee:** So, it's 4.8 million, and the front of the presentation says it was related to Q3--it was related to Q3-Q4 premiums written?

**Mr. Paul Romano:** Yeah, so on the worker's comp, there are a couple of things that take place. As of January 1, when we bought the company, there is a portfolio transfer. And what that--what happens with that is the loss reserves and the under premium reserves are seated to the third party reinsurer. That's triggering the net written premium impact, which we're seating off the under premium reserves for the worker's comp that were on the books at 12-31-2012. So, that's showing the net written premium impact.

**Mr. Scott Wollney:** Alright.

So, that'll be a one-time event, and then going forward, 100 percent of any new premium will seated off to the reinsurer, but you won't see that sort of single quarter large adjustment, that was the result of what Paul described.

**Mr. Fang Lee:** So, in other words, the 22.4 million of gross premiums you wrote, all of that was related to your core taxi and, you know, commercial auto--.

**Mr. Scott Wollney:** --From a gross--

**Mr. Fang Lee:** --I guess--.

**Mr. Scott Wollney:** --Yeah, from a gross perspective, Fang, , we had the $22.4 million. We had about a million dollars with Assurity business, and on the worker's comp, there was about $500,000 written on the worker's comp. So, netting those two items out, we had about $21 million worth of core lines.

**Mr. Fang Lee:** I see.

And so, there was a--in other words, there was a negative kind of 4.3 million impact on net, premiums that was a one time impact.

**Mr. Scott Wollney:** Exactly.

**Mr. Fang Lee:** Perfect.

Thank you, guys.

**Mr. Paul Romano:** Alright.

Thanks for the question, Fang.

**Operator:** Alright.

Your next question is coming from Dan Ferrell [sp] from Stern AG [sp]. Please proceed with your question.

**Mr. Dan Ferrell:** Hi, good morning.

**Mr. Scott Wollney:** Good morning, Dan.

**Mr. Paul Romano:** Hi, Dan--.

**Mr. Dan Ferrell:** --, I just had a question on, expense ratio. If I, within your other GNA [sp], if I pull out some of the expenses that you've called out as unusual related to severance and some other items, I'd still get, you know, another expense ratio that's higher than sort of the 10-12 percent you want to eventually get to.

I'm just wondering what the path of improvement looks like, because it seems your earned premium, at least on a quarterly basis, is getting pretty close to that threshold, you know, where you'd get scale. So, I'm just wondering in the quarter, if there is some other unusually higher expenses that get managed down in addition to what you call that.

**Mr. Scott Wollney:** Right.

There are. So, we highlighted the severance that was incurred in the first quarter. , all of the employees who were given notice were employed for much of, if not, all of the first quarter--.

**Mr. Scott Wollney:** --, and so there was about 2 1/2 percentage points on the combined ratio, or the OUE ratio, , that related to salary and benefits--.

**Mr. Scott Wollney:** --For those folks, , who will not continue on throughout the year. , so that was a big portion, , of the difference. And then as you point out, we're close to scale, but we're not quite there yet.

, there was also a bit of overlap, probably 1 percentage point, , related to third party contracts, , you know, vendor contracts, that were immediately reviewed and we are in the process of consolidating, you know, the Gateway vendors with the existing Atlas vendors. , but again, in the first quarter, there was more overlap than we'd expect to see as we go forward.

**Mr. Dan Ferrell:** That's helpful.

And then, just on market conditions and pricing, you talked about continued rate improvement. I think on the last call, you sort of said the pricing that you were seeing would get you to a 60 or low 60s, you know, combined is what--lost ratio. Is that still the environment that we're seeing from a pricing perspective?

**Mr. Scott Wollney:** So, we're pricing to a 60. And some geographic areas, we we're actually pricing to a slightly higher profit margin, , based on the competitive environment we're seeing. , so our pricing targets are consistent with where they were a quarter ago. , obviously as we write that business, it will earn in ratably throughout the year, and so it will take that time to average the loss ratio from the current ratio down to the pricing target. , and we do intend to be relatively conservative in terms of how quickly we recognize the benefit of that pricing action, , but we are pricing to those levels.

**Mr. Dan Ferrell:** Okay.

Alright, thank you very much.

**Mr. Scott Wollney:** Alright, thank you for the questions, Dan.

**Mr. Paul Romano:** Thanks, Dan.

**Operator:** Thank you.

As a reminder, if you would like to be placed in the question queue, please press star-one on your telephone keypad. Please hold while we pull for further questions.

Our next question is coming from John Barnage [sp] from Stanley O'Neil [sp]. Please proceed with your question.

**Mr. John Barnage:** Yes. Hi, good morning, how are you?

**Mr. Scott Wollney:** Good morning.

**Mr. Paul Romano:** Good morning.

**Mr. John Barnage:** Just a couple of questions. Did we see any negative development from the remaining, non-core business in the quarter?

**Mr. Scott Wollney:** No.

**Mr. John Barnage:** Okay.

And then, , California showed up in written premiums this quarter, as a result of the Gateway acquisition, how large a piece do you want that state to be in the book?

**Mr. Scott Wollney:** So, we don't have a specific top line target, , you know, right now, it generated about a million dollars. , there is a competitor that had been writing through managing general agents in California that had about a $20 million book of taxi and limo business. , they have terminated that MGA [sp] relationship. , we do not expect nor do we want to target all of that book, , but it does give you an idea of how much potential there is in California.

**Mr. John Barnage:** Okay. Great. Thank you very much.

**Mr. Scott Wollney:** Yep, thanks for the question.

**Operator:** Thank you.

As a reminder, if you would like to be placed in the question queue, please press star-one on your telephone keypad. Please hold while we pull for further questions. If there are no further questions at this time, I'd like to turn the floor back over to management for any further or closing comments.

**Mr. Scott Wollney:** Great.

Thank you to everyone for joining us.

We are available to answer any additional questions you might have and look forward to speaking with you again during Atlas's second quarter financial results call.

Kevin, you may now disconnect the line.

**Operator:** Thank you.

This does conclude our teleconference. You may disconnect your lines at this time and have a wonderful day.

We thank you for your participation today.