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## Section 1: 10-Q (10-Q)

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36804

## Patriot National, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

46-4151376  
(I.R.S. Employer  
Identification No.)

401 East Las Olas Boulevard, Suite 1650  
Fort Lauderdale, Florida 33301  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (954) 670-2900

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

Indicate by check mark whether the registrant has submitted electronically 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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the registrant's common stock outstanding on May 13, 2016 was 26,831,182.

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PATRIOT NATIONAL, INC.  
FORM 10-Q

TABLE OF CONTENTS

|   | <u>Page<br/>No.</u> |
|---|---------------------|
| <b><u>PART I—Financial Information</u></b>  |                     |
| Item 1. <u>Financial Statements.</u>  | 1                   |
| <u>Consolidated Balance Sheets as of March 31, 2016 (Unaudited) and December 31, 2015</u>                                     | 1                   |
| <u>Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2016 and<br/>    March 31, 2015</u> | 2                   |
| <u>Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2016 and<br/>    March 31, 2015</u> | 3                   |
| <u>Consolidated Statements of Stockholders' Equity (Unaudited) for the three months ended<br/>    March 31, 2016</u>          | 4                   |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u>   | 5                   |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                          | 21                  |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | 36                  |
| Item 4. <u>Controls and Procedures</u>  | 36                  |
| <b><u>PART II — Other Information</u></b>   |                     |
| Item 1. <u>Legal Proceedings</u>  | 37                  |
| Item 1A. <u>Risk Factors</u>  | 37                  |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 37                  |
| Item 3. <u>Defaults Upon Senior Securities</u>  | 37                  |
| Item 4. <u>Mine Safety Disclosures</u>  | 37                  |
| Item 5. <u>Other Information</u>  | 37                  |
| Item 6. <u>Exhibits</u>   | 38                  |
| <u>SIGNATURES</u>   | 40                  |

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PATRIOT NATIONAL, INC.  
Consolidated Balance Sheets  
(In thousands)

|  | March 31,<br>2016<br>(Unaudited) | December 31,<br>2015 |
|--|----------------------------------|----------------------|
| <b>Assets</b>  |                                  |                      |
| <b>Current Assets</b>  |                                  |                      |
| Cash   | \$ 11,774                        | \$ 8,372             |
| Equity and fixed income security investments   | —                                | 3,173                |
| Total cash and investments   | 11,774                           | 11,545               |
| Restricted cash  | 19,786                           | 16,055               |
| Fee income receivable  | 9,877                            | 8,159                |
| Fee income receivable from related party   | 20,618                           | 27,036               |
| Net receivable from related parties  | 414                              | 499                  |
| Other current assets   | 2,761                            | 2,046                |
| Total current assets   | 65,230                           | 65,340               |
| Fixed assets, net  | 5,224                            | 5,092                |
| Goodwill   | 122,465                          | 118,141              |
| Intangible assets  | 82,374                           | 75,681               |
| Forward purchase asset   | 48,826                           | 28,120               |
| Advance on facilitation agreement  | 2,000                            | 2,000                |
| Other long term assets   | 11,329                           | 11,428               |
| Total Assets   | \$ 337,448                       | \$ 305,802           |
| <b>Liabilities and Equity</b>  |                                  |                      |
| <b>Liabilities</b>   |                                  |                      |
| Deferred claims administration services income   | \$ 9,608                         | \$ 10,639            |
| Net advanced claims reimbursements   | 3,014                            | 1,835                |
| Income taxes payable   | 2,323                            | 2,996                |
| Current earn-out payable   | 8,082                            | 10,556               |
| Accounts payable, accrued expenses and other liabilities   | 36,961                           | 32,809               |
| Deferred purchase consideration  | 1,672                            | 6,128                |
| Revolver borrowings outstanding  | 29,932                           | 18,032               |
| Current portion of notes payable   | 5,500                            | 5,500                |
| Current portion of capital lease obligation  | 1,632                            | 2,232                |
| Total current liabilities  | 98,724                           | 90,727               |
| Earn-out payable   | 6,837                            | 1,827                |
| Notes payable, net of deferred loan fees   | 97,370                           | 98,648               |
| Warrant redemption liability   | 48,826                           | 28,120               |
| Total Liabilities  | 251,757                          | 219,322              |
| <b>Equity</b>  |                                  |                      |
| Preferred stock, \$.001 par value; 100,000 shares authorized, no shares issued and outstanding as of March 31, 2016 and December 31, 2015  | —                                | —                    |
| Common stock, \$.001 par value; 1,000,000 shares authorized, 28,207 issued and 27,215 outstanding as of March 31, 2016 and 28,105 issued and outstanding as of December 31, 2015 | 21                               | 21                   |
| Treasury stock   | (5,651)                          | —                    |
| Additional paid in capital   | 121,423                          | 119,999              |
| Accumulated deficit  | (29,904)                         | (33,305)             |
| Total Patriot National, Inc. Stockholders' Equity  | 85,889                           | 86,715               |
| Less Non-controlling interest  | (198)                            | (235)                |
| Total Equity   | 85,691                           | 86,480               |
| Total Liabilities and Equity   | \$ 337,448                       | \$ 305,802           |

See accompanying notes to consolidated financial statements.

**PATRIOT NATIONAL, INC.**  
**Consolidated Statements of Operations**  
(In thousands, except per share amounts)  
(Unaudited)

|  | <b>Three Months Ended March 31,</b> |                   |
|--|-------------------------------------|-------------------|
|  | <b>2016</b>                         | <b>2015</b>       |
| <b>Revenues</b>  |                                     |                   |
| Fee income   | \$ 40,417                           | \$ 18,369         |
| Fee income from related party                                      | 24,450                              | 24,623            |
| Total fee income and fee income from related party                 | 64,867                              | 42,992            |
| Net investment income  | 35                                  | 1                 |
| Net realized losses on investments                                 | (295)                               | —                 |
| <b>Total Revenues</b>  | <b>64,607</b>                       | <b>42,993</b>     |
| <b>Expenses</b>  |                                     |                   |
| Salaries and related expenses                                      | 23,640                              | 14,468            |
| Commission expense   | 13,136                              | 8,889             |
| Outsourced services  | 3,570                               | 2,462             |
| Other operating expenses   | 9,797                               | 6,331             |
| Acquisition costs  | 614                                 | 604               |
| Interest expense   | 1,412                               | 1,258             |
| Depreciation and amortization                                      | 4,717                               | 2,303             |
| Stock compensation expense   | 1,424                               | 2,535             |
| Decrease in fair value of warrant redemption liability             | —                                   | (1,385)           |
| Costs related to extinguishment of debt <sup>(1)</sup>             | —                                   | 13,681            |
| <b>Total Expenses</b>  | <b>58,310</b>                       | <b>51,146</b>     |
| Net Income (Loss) before income tax expense                        | 6,297                               | (8,153)           |
| Income tax expense (benefit)                                       | 2,859                               | (3,352)           |
| Net Income (Loss) Including Non-Controlling Interest in Subsidiary | 3,438                               | (4,801)           |
| Net Income attributable to non-controlling interest in subsidiary  | 37                                  | 15                |
| <b>Net Income (Loss)</b>   | <b>\$ 3,401</b>                     | <b>\$ (4,816)</b> |
| <b>Earnings Per Common Share</b>                                   |                                     |                   |
| Basic  | \$ 0.12                             | \$ (0.19)         |
| Diluted  | 0.12                                | (0.19)            |
| <b>Weighted Average Common Shares Outstanding</b>                  |                                     |                   |
| Basic  | 27,407                              | 25,163            |
| Diluted  | 28,037                              | 25,163            |

(1) Costs related to extinguishment of debt include \$4.3 million of early payment penalties and \$9.3 million associated with the write-off of related deferred financing fees and original issue discounts.

**See accompanying notes to consolidated financial statements.**

**PATRIOT NATIONAL, INC.**  
**Consolidated Statements of Cash Flows**  
(In thousands)  
(Unaudited)

|   | <b>Three Months Ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2016</b>                         | <b>2015</b>      |
| <b>Operating Activities</b>   |                                     |                  |
| Net Income (Loss)   | \$ 3,438                            | \$ (4,801)       |
| Adjustments to reconcile net (loss) income to net cash from operating activities: |                                     |                  |
| Depreciation and amortization   | 4,717                               | 2,303            |
| Amortization of loan costs in interest expense                                    | 152                                 | 85               |
| Decrease in fair value of warrant redemption liability                            | —                                   | (1,385)          |
| Stock compensation expense  | 1,424                               | 2,535            |
| Write-off of deferred financing and original issue discounts                      | —                                   | 9,342            |
| Net realized losses (gains) on investments  | 295                                 | —                |
| Provision for uncollectible fee income  | 146                                 | 150              |
| Changes in certain assets and liabilities:  |                                     |                  |
| Decrease (increase) in:   |                                     |                  |
| Fee income receivable   | (383)                               | (521)            |
| Fee income receivable from related party  | 6,418                               | (1,752)          |
| Other current assets  | (721)                               | (592)            |
| Increase (decrease) in:   |                                     |                  |
| Net payable to related parties  | 85                                  | 1,747            |
| Deferred claims administration services income                                    | (1,031)                             | (210)            |
| Net advanced claims reimbursements  | 1,179                               | 625              |
| Income taxes payable  | (673)                               | (14,948)         |
| Accounts payable and accrued expenses   | 3,608                               | 8,359            |
| <b>Net Cash Provided by Operating Activities</b>                                  | <b>18,654</b>                       | <b>937</b>       |
| <b>Investment Activities:</b>   |                                     |                  |
| Net increase in restricted cash   | (3,731)                             | (4,854)          |
| Purchase of equity securities   | (300)                               | —                |
| Proceeds from sale of equity securities   | 3,178                               | —                |
| Purchase of fixed assets and other long-term assets                               | (1,224)                             | (1,429)          |
| Acquisitions, net of \$28 and \$73 cash acquired in 2016 and 2015, respectively   | (7,873)                             | (6,681)          |
| <b>Net Cash Used in Investment Activities</b>                                     | <b>(9,950)</b>                      | <b>(12,964)</b>  |
| <b>Financing Activities:</b>  |                                     |                  |
| Proceeds from initial public offering, net  | —                                   | 98,275           |
| Proceeds from senior secured term loans, net of fees                              | —                                   | 38,891           |
| Repayment of senior secured term loans  | (1,375)                             | —                |
| Payment of loan fees  | (49)                                | —                |
| Payment of costs for initial public offering                                      | —                                   | (2,479)          |
| Revolver facility borrowings  | 11,900                              | 4,750            |
| Payment of acquisition earn-outs  | (9,527)                             | —                |
| Repurchase of common stock  | (5,651)                             | —                |
| Repayment of note payable   | —                                   | (119,573)        |
| Repayment of capital lease obligation   | (600)                               | (783)            |
| <b>Net Cash (Used in) Provided by Financing Activities</b>                        | <b>(5,302)</b>                      | <b>19,081</b>    |
| Increase in cash  | 3,402                               | 7,054            |
| Cash, beginning of period   | 8,372                               | 4,251            |
| Cash, end of period   | <u>\$ 11,774</u>                    | <u>\$ 11,305</u> |
| <b>Supplemental Cash Flow Data</b>  |                                     |                  |
| Interest Paid   | <u>\$ 1,235</u>                     | <u>\$ 1,155</u>  |
| Income Taxes Paid   | <u>\$ 3,532</u>                     | <u>\$ 11,596</u> |

See accompanying notes to consolidated financial statements.

**PATRIOT NATIONAL, INC.**  
**Consolidated Statements of Stockholders' Equity (Deficit)**  
(In thousands)  
(Unaudited)

|   | <b>Patriot National, Inc. Stockholders' Equity</b> |               |                           |   |                                |  |                                       |
|---|--|---------------|---------------------------|---|--------------------------------|--|---------------------------------------|
|   | <b>Common Stock</b>                                |               | <b>Treasury<br/>Stock</b> | <b>Additional<br/>Paid In<br/>Capital</b> | <b>Accumulated<br/>Deficit</b> | <b>Non-<br/>Controlling<br/>Interest</b> | <b>Total<br/>Equity<br/>(Deficit)</b> |
|   | <b>Shares</b>                                      | <b>Amount</b> |                           |   |                                |  |                                       |
| Balance, January 1, 2016                              | 28,105   | \$ 21         | \$ —                      | \$ 119,999                                | \$ (33,305)                    | \$ (235)                                 | \$ 86,480                             |
| Repurchase of common stock                            | (992)  | —             | (5,651)                   | —   | —                              | —  | (5,651)                               |
| Non-cash stock compensation                           | —  | —             | —                         | 1,424                                     | —                              | —  | 1,424                                 |
| Restricted stock awards issued,<br>net of forfeitures | 102  | —             | —                         | —   | —                              | —  | —                                     |
| Balance before Net Income                             | 27,215   | 21            | (5,651)                   | 121,423                                   | (33,305)                       | (235)                                    | 82,253                                |
| Net Income  | —  | —             | —                         | —   | 3,401                          | 37                                       | 3,438                                 |
| Balance, March 31, 2016                               | <u>27,215</u>                                      | <u>\$ 21</u>  | <u>\$ (5,651)</u>         | <u>\$ 121,423</u>                         | <u>\$ (29,904)</u>             | <u>\$ (198)</u>                          | <u>\$ 85,691</u>                      |

See accompanying notes to consolidated financial statements.

**PATRIOT NATIONAL, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business and Basis of Presentation**

***Description of Business***

Patriot National, Inc. (“Patriot National” or the “Company”) is an independent national provider of comprehensive technology-enabled outsourcing solutions that help insurance carriers, employers and other clients mitigate risk, comply with complex regulations, and save time and money. We offer end-to-end insurance related and specialty services that allow our clients to improve efficiencies and reduce expenses through our value-added processes. The core of our value proposition includes the benefit of a “one-stop” solution with our broad array of offered services, scalable state-of-the-art technology, and support for complex business and regulatory processes.

We principally offer two types of services: front-end services, such as brokerage, underwriting and policyholder services, and back-end services, such as claims adjudication and administration. We provide our services either on an individual basis, as bundles of two or more services tailored to a client’s specific needs or on a turnkey basis where we provide a comprehensive set of front-end and back-end services to a client. We also offer specialty services currently including technology outsourcing and other IT services, as well as employment pre-screening and background checks. As a service company, we do not assume any underwriting or insurance risk. Our revenue is primarily fee-based, most of which is contractually committed or highly recurring.

Patriot National is headquartered in Ft. Lauderdale, Florida.

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been omitted pursuant to such rules and regulations. Included for comparative purposes are our consolidated financial statements for the three month period ended March 31, 2015.

The unaudited consolidated financial statements included herein are, in the opinion of management, prepared on a basis consistent with our audited consolidated financial statements for the year ended December 31, 2015 and include all normal recurring adjustments necessary for a fair presentation of the information set forth. The quarterly results of operations are not necessarily indicative of the results of operations to be reported for subsequent quarters or the full year. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015. In the preparation of our unaudited consolidated financial statements as of March 31, 2016, management evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure therein.

For the Company’s two consolidated subsidiaries, Contego Services Group, LLC (“Contego Services Group”) that is 97% owned, and DecisionUR, LLC (“DecisionUR”) that is 98.8% owned, the third party equity interests are referred to as non-controlling interests. The portion of the third party members’ equity (deficit) of Contego Services Group and DecisionUR are presented as non-controlling interests in the accompanying consolidated balance sheets as of March 30, 2016 and consolidated balance sheet as of December 31, 2015. The Company discloses the following three measures of net income (loss): (i) net income (loss), including non-controlling interest in subsidiary, (ii) net income (loss) attributable to non-controlling interest in subsidiary, and (iii) net income (loss).

**2. Effect of Recently Issued Financial Accounting Standards**

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, “Improvements to Employee Share-Based Payment Accounting”, an update to Accounting Standard Codification (“ASC”) Topic 718, *Compensation – Stock Compensation*. This new accounting guidance requires that all companies recognize the income tax effects of awards in the income statement when the awards vest or are settled, rather than maintaining an additional paid-in capital (APIC) pool and recognizing the tax benefits in excess of compensation costs through equity. As it relates to forfeitures, the guidance allows for companies to choose whether to continue to estimate forfeitures or account for forfeitures as they occur. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the new guidance may be applied either retrospectively or on a prospective basis. The Company is currently reviewing the guidance, and the impact from its adoption on our consolidated financial statements cannot be determined at this time.

In February 2016, the FASB issued ASU 2016-02, intended to improve financial reporting about leasing transactions. ASU 2016-02 affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. ASU 2016-02 will require organizations that lease assets—referred to as “lessees”—to recognize on the balance sheet the assets and

liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements.

ASU 2016-02 will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, ASU 2016-02 will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations. The company is currently reviewing the impact that implementing this guidance will have.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes,” which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated standard is effective for us beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. We adopted the new guidance in 2016, which did not have a material impact on our consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments”, an update to ASC Topic 805, *Business Combinations*. This update requires that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjusting amounts are determined. The amendment requires that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. We adopted the new guidance in 2016, which did not have a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 regarding ASC Topic 205, *Presentation of Financial Statements – Going Concern*. The updated guidance related to determining whether substantial doubt exists about an entity’s ability to continue as a going concern. The amendment provides guidance for determining whether conditions or events give rise to substantial doubt that an entity has the ability to continue as a going concern within one year following issuance of the financial statements and requires specific disclosures regarding the conditions or events leading to substantial doubt. The updated guidance is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2016. Earlier adoption is permitted, but we do not anticipate electing early adoption. We do not expect the adoption of this guidance to have a material impact on our combined financial statements.

In May 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, *Revenue from Contracts with Customers*. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued a deferral of effective date for this standard. For public companies this standard applies to annual reporting period beginning after December 15, 2017, including interim reporting periods within that reporting period, and early adoption is not permitted. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

### 3. Business Combinations

Effective January 28, 2016, the Company acquired substantially all of the assets of Mid Atlantic Insurance Services, Inc. for approximately \$15.7 million.

The total purchase price was comprised of the following consideration (in thousands):

| Name and Effective Date of Acquisition (In thousands):  | Cash Paid | Stock Issued | Accrued Liability | Recorded Earnout Payable | Maximum Potential Earnout Payable | Total Recorded Purchase Price |
|---|-----------|--------------|-------------------|--------------------------|-----------------------------------|-------------------------------|
| Mid Atlantic Insurance Services, Inc (January 28, 2016) | \$ 7,901  | \$ —         | \$ 926            | \$ 7,750                 | \$ 8,500                          | \$ 15,651                     |

The “maximum potential earnout payable” disclosed in the foregoing table represent the maximum amount of additional consideration that could be paid pursuant to the terms of the purchase agreement for the applicable acquisition. The “recorded earnout payable” disclosed in the foregoing table are primarily based upon the estimated future operating results of the acquired entities over a five-year period subsequent to the acquisition date. The recorded earnout payables are measured at fair value as of the acquisition date and are included on that basis in the total recorded purchase price in the foregoing table. We will record subsequent changes in the fair value of these estimated earnout obligations in our statement of operations when incurred.

The fair value of these earnout obligations is based on the present value of the expected future payments to be made to the sellers of the acquired entities in accordance with the provisions outlined in the respective purchase agreements, which is a Level 3 fair value measurement, as discussed further in Note 11, *Fair Value of Financial Assets and Liabilities*. In determining fair value, we estimated the acquired entity’s future performance using financial projections developed by management for the acquired entity and market participant assumptions that were derived for revenue growth and/or profitability. We estimated future payments using the earnout formula and performance targets specified in each purchase agreement and these financial projections. We then discounted these payments to present value using a risk-adjusted rate that takes into consideration market-based rates of return that reflect the ability of the acquired entity to achieve the targets. Changes in financial projections, market participant assumptions for revenue growth and/or profitability, or the risk-adjusted discount rate, would result in a change in the fair value of recorded earnout obligations.

The aggregate amount of maximum earnout obligations related to acquisitions as of March 31, 2016 was \$17.5 million, of which \$14.9 million was recorded in our consolidated balance sheet as of March 31, 2016, based on the aggregate estimated fair value of the expected future payments to be made. In addition, the aggregate amount of deferred purchase consideration recorded on our balance sheet as of March 31, 2016 was \$1.7 million.

The preliminary estimated fair value of the net assets of MidAtlantic Insurance Services, inc. acquired at the date of acquisition is as follows:

| <b>In thousands</b>              | <b>Total</b>     |
|----------------------------------|------------------|
| <b>Assets Acquired:</b>          |                  |
| Cash                             | \$ 28            |
| Accounts receivable              | 1,481            |
| Fixed assets                     | 50               |
| Goodwill                         | 4,893            |
| <b>Intangible assets:</b>        |                  |
| Customer & carrier relationships | 9,205            |
| Non-compete agreements           | 120              |
| Trade name portfolio             | 800              |
| Total intangible assets          | 10,125           |
| Total assets acquired            | 16,577           |
| Liabilities assumed              | 926              |
| Total net assets acquired        | <u>\$ 15,651</u> |

The net assets acquired are preliminary and subject to measurement period adjustments.

In accordance with FASB ASC 350, Intangibles—Goodwill and Other, intangible assets, which are comprised of the estimated fair value of the service contracts acquired, customer and carrier relationships, non-compete agreements, developed technology and trade names are being amortized over the respective estimated life, ranging from two to ten years, in a manner that, in management’s opinion, reflects the pattern in which the intangible asset’s future economic benefits are expected to be realized. Intangible assets are tested for impairment at least annually (more frequently if certain indicators are present). In the event that management determines that the value of the intangible asset has become impaired, the Company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made.

Provisional estimates of fair value and the allocation of the purchase price are established at the time of each acquisition and are subsequently reviewed within the first year of operations, the measurement period, following the acquisition date to determine the necessity for adjustments. The fair value of the tangible assets and liabilities for each applicable acquisition at the acquisition date approximated their carrying values. We estimate the fair value as the present value of the benefits anticipated from ownership of the subject customer list in excess of returns required on the investment in contributory assets necessary to realize those benefits. The rate used to discount the net benefits was based on a risk-adjusted rate that takes into consideration market-based rates of return and reflects the risk of the asset relative to the acquired business. These discount rates generally ranged from 17% to 30% for our acquisitions through March 31, 2016. The fair value of non-compete agreements was established using estimated financial projections for the acquired company based on market participant assumptions and various non-compete scenarios.

Customer and carrier relationships, non-compete agreements and trade names related to our acquisitions are amortized using the straight-line method over their estimated useful lives (ten years for customer and carrier relationships, one to two years for non-compete agreements and five to seven years for trade names), while goodwill is not subject to amortization. We use the straight-line method to amortize these intangible assets because the pattern of their economic benefits cannot be reasonably determined with any certainty. We review all of our intangible assets for impairment periodically (at least annually) and whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. In reviewing intangible assets, if the fair value is less than the carrying amount of the respective (or underlying) asset, an indicator of impairment would exist, and further analysis would be required to determine whether or not a loss would need to be charged against current period earnings. Based on the results of impairment reviews during the three-month periods ended March 31, 2016 and 2015, no impairments were required.

Our consolidated financial statements for the three months ended March 31, 2016 include the operations of Mid Atlantic, the acquired entity, from its respective acquisition date, totaling \$1.0 million of revenues and \$0.1 million of net loss.

The following is a summary of the unaudited pro forma historical results, as if this entity and the entities acquired in 2015 had been acquired at January 1, 2015 (in thousands, except per share data):

| <b>In thousands (except per share data)</b> | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| Total revenues                              | 65,142                              | 58,752      |
| Net (loss) income                           | 3,403                               | (4,216)     |
| Basic net (loss) income per share           | \$ 0.12                             | \$ (0.17)   |
| Diluted net (loss) income per share         | \$ 0.12                             | \$ (0.17)   |

This unaudited supplemental pro forma financial information includes the results of operations of acquired businesses presented as if they had been combined as of January 1, 2015. The unaudited supplemental pro forma financial information has been provided for illustrative purposes only. The unaudited supplemental pro forma financial information does not purport to be indicative of the actual results that would have been achieved by the combined companies for the periods presented, or of the results that may be achieved by the combined companies in the future. Future results may vary significantly from the results reflected in the following unaudited supplemental pro forma financial information because of future events and transactions, as well as other factors, many of which are beyond the Company's control.

#### **4. Equity and Fixed Income Security Investments**

Equity and fixed income security investments are carried at fair value. We classify these investments as a trading portfolio with changes to the fair value of investments marked-to-market value and reflected in the aggregate net income or loss for the period incurred. The trading portfolio is utilized to generate investment income with available cash on hand.

As of December 31, 2015 the fair value of our investments was \$3.2 million. There were no investments held as of March 31, 2016.

#### **5. Fixed Assets and Other Long Term Assets**

##### *Fixed Assets*

Fixed assets are stated at cost, less accumulated depreciation and amortization. Expenditures for computer equipment, software, and furniture and fixtures are capitalized and depreciated on a straight-line basis over a five, three, and seven year estimated useful lives, respectively. Expenditures for building are capitalized and depreciated on a straight-line basis over a thirty-nine year estimated useful life. Expenditures for leasehold improvements on office space and facilities are capitalized and amortized on a straight-line basis over the term of the lease.

As of March 31, 2016 and December 31, 2015, our major classes of fixed assets consisted of the following:

| <u>In thousands</u>  | <u>March 31,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|--|---------------------------|------------------------------|
|  | (Unaudited)               |                              |
| <b>Fixed Assets</b>  |                           |                              |
| Computer equipment, software and furniture and fixtures        | \$ 8,634                  | \$ 8,124                     |
| Building   | 1,428                     | 1,428                        |
| Leasehold improvements   | 3,786                     | 3,733                        |
| Total fixed assets   | 13,848                    | 13,285                       |
| Less accumulated depreciation and amortization                 | (8,624)                   | (8,193)                      |
| Fixed assets, net of accumulated depreciation and amortization | <u>\$ 5,224</u>           | <u>\$ 5,092</u>              |

#### *Other Long Term Assets*

Other long term assets, which are solely comprised of capitalized policy and claims administration system development costs, are also stated at cost, net of accumulated depreciation. Expenditures for capitalized policy and claims administration system development costs are capitalized and depreciated on a straight line basis over a five-year estimated useful life.

As of March 31, 2016 and December 31, 2015, other long term assets consisted of the following:

| <u>In thousands</u>   | <u>March 31,<br/>2016</u> | <u>December 31,<br/>2015</u> |
|---|---------------------------|------------------------------|
|   | (Unaudited)               |                              |
| Other long term assets  |                           |                              |
| Capitalized policy and claims administration system development costs | \$ 18,445                 | \$ 17,712                    |
| Less accumulated depreciation   | (7,116)                   | (6,284)                      |
| Other long term assets, net of accumulated depreciation               | <u>\$ 11,329</u>          | <u>\$ 11,428</u>             |

We periodically review all fixed assets and other long term assets that have finite lives for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Upon sale or retirement, the cost and related accumulated depreciation and amortization of assets disposed of are removed from the accounts, and any resulting gain or loss is reflected in earnings.

## **6. Goodwill and Other Intangible Assets**

### *Goodwill*

Goodwill represents the excess of consideration paid over the fair value of net assets acquired. Goodwill is not amortized but is tested at least annually for impairment (or more frequently if certain indicators are present or management otherwise believes it is appropriate to do so). In the event that management determines that the value of goodwill has become impaired, we will record a charge for the amount of impairment during the fiscal quarter in which the determination is made. We determined that there was no impairment as of March 31, 2016.

The Company acquired \$4.9 million of goodwill during the three-month period ended March 31, 2016 as a result of the acquisition discussed in Note 3, *Business Combinations*. Changes in goodwill are summarized as follows:

| <u>In thousands</u>             |                   |
|---------------------------------|-------------------|
| Balance as of December 31, 2015 | \$ 118,141        |
| Goodwill acquired               | 4,893             |
| Acquisition adjustments         | (569)             |
| Balance as of March 31, 2016    | <u>\$ 122,465</u> |

## Intangible Assets

Intangible assets that have finite lives are amortized over their useful lives. The company acquired \$10.1 million of intangible assets during the three-month period ended March 31, 2016 as a result of the acquisition discussed in Note 3, *Business Combinations*. The intangible assets, their original fair values, and their net book values are detailed below as of the dates presented:

| In thousands                       | March 31, 2016   |                          |                  | December 31, 2015 |                          |                  |
|------------------------------------|------------------|--------------------------|------------------|-------------------|--------------------------|------------------|
|                                    | Gross Asset      | Accumulated Amortization | Net Asset        | Gross Asset       | Accumulated Amortization | Net Asset        |
|                                    | (Unaudited)      |                          |                  |                   |                          |                  |
| <b>Intangible Assets</b>           |                  |                          |                  |                   |                          |                  |
| Service contracts                  | \$ 35,120        | \$ (7,303)               | \$ 27,817        | \$ 35,120         | \$ (6,204)               | \$ 28,916        |
| Customer and carrier relationships | 40,243           | (2,887)                  | 37,356           | 31,039            | (1,947)                  | 29,092           |
| Non-compete agreements             | 4,859            | (2,108)                  | 2,751            | 4,739             | (1,505)                  | 3,234            |
| Developed technology               | 13,268           | (2,308)                  | 10,960           | 13,268            | (1,647)                  | 11,621           |
| Trade names                        | 3,829            | (339)                    | 3,490            | 3,029             | (211)                    | 2,818            |
| <b>Total</b>                       | <b>\$ 97,319</b> | <b>\$ (14,945)</b>       | <b>\$ 82,374</b> | <b>\$ 87,195</b>  | <b>\$ (11,514)</b>       | <b>\$ 75,681</b> |

The table below reflects the estimated amortization expense for the Company's intangible assets for each of the next five years and thereafter:

| In thousands                 | March 31, 2016   |
|------------------------------|------------------|
| (Unaudited)                  |                  |
| <b>Amortization expense</b>  |                  |
| 2016 (remaining nine months) | \$ 10,547        |
| 2017                         | 12,554           |
| 2018                         | 11,629           |
| 2019                         | 11,629           |
| 2020                         | 9,985            |
| Thereafter                   | 26,030           |
| <b>Total</b>                 | <b>\$ 82,374</b> |

## 7. Notes Payable and Lines of Credit

As of March 31, 2016 and December 31, 2015, notes payable were comprised of the following:

| In thousands                          | March 31, 2016   | December 31, 2015 |
|---------------------------------------|------------------|-------------------|
|                                       | (Unaudited)      |                   |
| BMO Senior Secured Term Loans         | \$ 105,125       | \$ 106,500        |
| Less current portion of notes payable | (5,500)          | (5,500)           |
| Less deferred loan fees               | (2,255)          | (2,352)           |
| Notes Payable                         | <b>\$ 97,370</b> | <b>\$ 98,648</b>  |

### Senior Secured Credit Facility

On January 22, 2015, we entered into a Credit Agreement with BMO Harris Bank N.A., as administrative agent (the "Administrative Agent"), and the other lenders party thereto, which provides for a \$40.0 million revolving credit facility and a \$40.0 million term loan facility (the "Senior Secured Credit Facility"). The Senior Secured Credit Facility has a maturity of five years, and borrowings thereunder bear interest, at our option, at LIBOR plus a margin ranging from 250 basis points to 325 basis points or at base rate plus a margin ranging from 150 basis points to 225 basis points. Margins on all loans and fees will be increased by 2% per annum during the existence of an event of default. The revolving credit facility includes borrowing capacity available for letters of credit and borrowings on same-day notice, referred to as swing line loans. At any time prior to maturity, we have the right to increase the size of the revolving credit facility or the term loan facility by an aggregate amount of up to \$20.0 million, but in minimum increments of \$5.0 million. As of June 30, 2015, we increased the term loan facility by \$20.0 million through two \$10.0 million incremental term loans. Additionally, on August 14, 2015, we entered into a second amendment to our Senior Secured Credit Facility (the "Second Amendment") which provides for an additional \$50.0 million of term loans plus the ability to increase the term loan by an additional \$50.0 million under certain conditions. The Second Amendment also added a requirement that until we deliver a

certificate certifying that (a) our total leverage ratio is equal to or less than 2.25 to 1.00 and (b) our Adjusted EBITDA for the twelve-months then ended is at least \$70.0 million, the outstanding revolving loans (plus any swing line loans and the aggregate stated amount of all letters of credit) shall not exceed \$30.0 million. On December 23, 2015 we entered into a third amendment, which permits Patriot to exercise the provisions of the Rescission and Exchange Agreement for the private placement of company stock and warrants, and related Back-to-Back Agreement with the selling shareholder, as described in Note 12, Related Party Transactions. On March 3, 2016, we entered into a fourth amendment, which permits Patriot to repurchase shares of its outstanding common stock pursuant to certain volume and timing limitations. All other material terms and conditions in the Senior Secured Credit Facility were unchanged by the amendments.

As of March 31, 2016, the outstanding balance under our Senior Secured Credit Facility was \$135.0 million (comprised of \$105.1 million outstanding under the term loan facility and \$29.9 million outstanding under the revolving credit facility). Accordingly, we had \$10.1 million available to borrow under the revolving credit facility.

In addition to paying interest on outstanding principal under the Senior Secured Credit Facility, we are required to pay a commitment fee to the Administrative Agent for the ratable benefit of the lenders under the revolving credit facility in respect of the unutilized commitments thereunder, ranging from 35 basis points to 50 basis points, depending on specified leverage ratios. With respect to letters of credit, we are also required to pay a per annum participation fee equal to the applicable LIBOR margin on the face amount of each letter of credit as well as a fee equal to 0.125% on the face amount of each letter of credit issued (or the term of which is extended). This latter 0.125% fee is payable to the issuer of the letter of credit for its own account, along with any standard documentary and processing charges incurred in connection with any letter of credit.

The term loan facility amortizes quarterly beginning the first full quarter after the closing date at a rate of 5% per annum of the original principal amount during the first two years, 7.5% per annum of the original principal amount during the third and fourth years and 10% per annum of the original principal amount during the fifth year, with the remainder due at maturity. Principal amounts outstanding under the revolving credit facility are due and payable in full at maturity. In the event of any sale or other disposition by us or our subsidiaries guaranteeing the Senior Secured Credit Facility (as described below) of any assets with certain exceptions, we are required to prepay all proceeds received from such a sale towards the remaining scheduled payments of the term loan facility.

Additionally, all obligations under the Senior Secured Credit Facility (as described below) are guaranteed by all of our existing and future subsidiaries, other than foreign subsidiaries to the extent the assets of such foreign subsidiaries do not exceed 5% of our and our subsidiaries' total assets on a consolidated basis, and secured by a first-priority perfected security interest in substantially all of our and our guaranteeing subsidiaries' tangible and intangible assets, whether now owned or hereafter acquired, including a pledge of 100% of the stock of each guarantor.

The Senior Secured Credit Facility contains certain covenants that, among other things and subject to significant exceptions, limit our ability and the ability of our restricted subsidiaries to engage in certain business and financing activities and that require us to maintain certain financial covenants, including requirements to maintain (i) a maximum total leverage ratio of total outstanding debt to adjusted EBITDA for the most recently-ended four fiscal quarters of no more than 300% and (ii) a minimum fixed charge coverage ratio of adjusted EBITDA to the sum of cash interest expense plus income tax expense (or less any income tax benefits) plus capital expenditures, plus dividends, share repurchases and other restricted payments, plus regularly scheduled principal payments of debt for the same period of a least 150% for the most recently ended four quarters. The Senior Secured Credit Facility allows us to pay dividends in an amount up to 50% of our net income if certain other financial conditions are met.

The Senior Secured Credit Facility contains other restrictive covenants, including those regarding: indebtedness (including capital leases) and guarantees; liens; operating leases; investments and acquisitions; loans and advances; mergers, consolidations and other fundamental changes; sales of assets; transactions with affiliates; no material changes in nature of business; dividends and distributions, stock repurchases, and other restricted payments; change in name, jurisdiction of organization or fiscal year; burdensome agreements; and capital expenditures.

The Senior Secured Credit Facility also has events of default that may result in acceleration of the borrowings thereunder, including: (i) nonpayment of principal, interest, fees or other amounts (subject to customary grace periods for items other than principal); (ii) failure to perform or observe covenants set forth in the loan documentation (subject to customary grace periods for certain affirmative covenants); (iii) any representation or warranty proving to have been incorrect in any material respect when made; (iv) cross-default to other indebtedness and contingent obligations in an aggregate amount in excess of an amount to be agreed upon; (v) bankruptcy and insolvency defaults (with grace period for involuntary proceedings); (vi) inability to pay debts; (vii) monetary judgment defaults in excess of an agreed upon amount; (viii) ERISA defaults; (ix) change of control; (x) actual invalidity or unenforceability of any loan document, any security interest on any material portion of the collateral or asserted (by any loan party) invalidity or unenforceability of any security interest on any collateral; (xi) actual or asserted (by any loan party) invalidity or unenforceability of any guaranty; (xii) material unpaid, final judgments that have not been vacated, discharged, stayed or bonded pending appeal within a specified number of days after the entry thereof; and (xiii) any other event of default agreed to by us and the Administrative Agent.

As of March 31, 2016, we were in compliance with the financial and other restrictive covenants under our outstanding material debt obligations, including our Senior Secured Credit Facility.

## 8. Capital Lease Obligations

Equipment subject to capital lease is comprised of capitalized policy and claims administration software development costs and related computer equipment. Monthly payments on the capital lease, which expires on December 3, 2016, were approximately \$0.2 million as of March 31, 2016. Payments may be adjusted in connection with a change in the interest rate swap rate quoted in the Bloomberg Swap Rate Report. The Company's obligations for future payments on the capital lease as of March 31, 2016, based on the interest rate swap rate in effect on that date, are as follows:

| <u>In thousands</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|------------------|-----------------|--------------|
| 2016                | 1,632            | 30              | 1,662        |

## 9. Earnings Per Share

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include detachable common stock warrants and stock-based awards of restricted shares and stock options, and contingent shares attributable to deferred purchase consideration.

The components of basic and diluted EPS are as follows:

| <u>In thousands (except earnings per share)</u>   | <u>Three Months Ended</u><br><u>March 31,</u> |             |
|---|---|-------------|
|   | <u>2016</u>                                   | <u>2015</u> |
| <b>Basic net earnings (loss) per share</b>  |   |             |
| Net income (loss) available to common shareholders  | \$ 3,401                                      | \$ (4,816)  |
| Weighted average number of common shares outstanding  | 27,407  | 25,163      |
| Basic net earnings (loss) per share   | \$ 0.12                                       | \$ (0.19)   |
| <b>Diluted net earnings (loss) per share</b>  |   |             |
| Net income (loss) available to common shareholders  | \$ 3,401                                      | \$ (4,816)  |
| Adjustments to net income (loss) applicable to dilutive shares                              | —   | —           |
| Net earnings (loss) attributable to diluted shares  | \$ 3,401                                      | \$ (4,816)  |
| Weighted average number of common shares outstanding  | 27,407  | 25,163      |
| Dilutive effect of warrants, options, and restricted shares using the treasury stock method | 630   | —           |
| Weighted average number of common and common equivalent shares outstanding                  | 28,037  | 25,163      |
| Diluted net earnings (loss) per share   | \$ 0.12                                       | \$ (0.19)   |

For the three months ended March 31, 2016 there were 1.2 million weighted average stock options and 0.2 million weighted average restricted shares that were not dilutive. Additionally, there was no impact from the Series B warrants to basic or diluted earnings per share for the three months ended March 31, 2016. Effective on April 7, 2016 the Series B warrants were fixed at 4.9 million shares. The Series B warrants will be included in the computation of both basic and diluted earnings per share from April 7, 2016 until the warrant shares are settled in accordance with ASC 260. The Series A warrant shares are included in diluted earnings per share using the treasury stock method for the three months ended March 31, 2016.

Due to the net loss of \$4.8 million reported for the three months ended March 31, 2015, weighted average outstanding detachable common stock warrants representing 229,267 shares of common stock and restricted shares representing 46,372 shares of common stock were not dilutive. As a result, basic and diluted earnings per share both reflect a net loss of \$0.19 per share for the three months then ended.

## 10. Stock-Based Compensation

### *Omnibus Incentive Plan*

On January 15, 2015, the Board of Directors approved the Patriot National 2014 Omnibus Incentive Plan (the “Omnibus Incentive Plan”), subject to and with effect upon approval of such plan by the stockholders of the Company.

The Compensation Committee of our Board of Directors determines the participants under the Omnibus Incentive Plan. The Omnibus Incentive Plan provides for non-qualified and incentive stock options, restricted stock and restricted stock units, any or all of which may be made contingent upon the achievement of performance criteria. Subject to the Omnibus Incentive Plan limits, the compensation committee has the discretionary authority to determine the size of an award and on May 11, 2015 delegated the authority to Steven Mariano, our President, to award the grants without the consent of the Compensation Committee.

Shares of our common stock available for issuance under the Omnibus Incentive Plan include authorized and unissued shares of common stock or authorized and issued shares of common stock reacquired and held as treasury shares or otherwise, or a combination thereof. The number of available shares is reduced by the aggregate number of shares that become subject to outstanding awards granted under the Omnibus Incentive Plan. To the extent that shares subject to an outstanding award granted under either the Omnibus Incentive Plan are not issued or delivered by reason of the expiration, termination, cancellation or forfeiture of such award or by reason of the settlement of such award in cash, then such shares will again be available for grant under the Omnibus Incentive Plan. Shares withheld to satisfy tax withholding requirements upon the vesting of awards other than stock options will also be available for grant under the Omnibus Incentive Plan. Shares that are used to pay the exercise price of an option, shares delivered to or withheld by us to pay withholding taxes related to stock options, and shares that are purchased on the open market with the proceeds of an option exercise, may not again be made available for issuance.

### *Stock Options*

In the three months ended March 31, 2016, we issued stock options as incentive compensation for officers and certain key employees. The exercise price of each stock option is the closing market price of our common stock on the date of grant. The options will vest in three equal annual installments on the first, second and third anniversaries of grant and expire 10 years after the grant date. The fair values of these stock options were estimated using the Black-Scholes valuation model with the following weighted-average assumptions:

| <b>In thousands</b>                    | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2016</b>                             | <b>2015</b> |
| Expected dividend yield                | 0%                                      | 0%          |
| Risk-free interest rate <sup>(1)</sup> | 0.49%                                   | 0.49%       |
| Expected volatility <sup>(2)</sup>     | 33.02%                                  | 33.02%      |
| Expected life in years <sup>(3)</sup>  | 3.0                                     | 3.0         |

- (1) The risk-free interest rate for the periods within the contractual term of the options is based on the U.S. Treasury yield curve in effect at the time of the grant.
- (2) The expected volatility is a measure of the amount by which a stock price has fluctuated or is expected to fluctuate based primarily on our and our peers' historical data.
- (3) The expected life is the period of time, on average, that participants are expected to hold their options before exercise based primarily on our historical data.

For the three months ended March 31, 2016, we awarded 68,533 options and 96,405 were forfeited, leaving 1,176,837 outstanding. At March 31, 2016 the intrinsic value of these options was \$0. Option activity for the three months ended March 31, 2016 was as follows:

| <b>In thousands, except weighted-average price and remaining contractual term</b> | <b>Number of Shares</b> | <b>Weighted-Average Exercise Price</b> | <b>Weighted-Average Remaining Contractual Term</b> | <b>Aggregate Intrinsic Value</b> |
|---|-------------------------|--|--|----------------------------------|
| Options outstanding at December 31, 2015  | 1,205                   | \$ 14.41                               | 9.2  | \$ —                             |
| Options granted   | 68                      | \$ 6.45                                | 9.8  | \$ —                             |
| Options exercised   | —                       | \$ —                                   |  |                                  |
| Options cancelled or forfeited  | (97)                    | \$ 14.37                               |  |                                  |
| Options outstanding at March 31, 2016   | <u>1,176</u>            | <u>\$ 13.92</u>                        | <u>8.9</u>   | <u>\$ —</u>                      |
| Options expected to vest at March 31, 2016  | <u>839</u>              | <u>\$ 14.00</u>                        | <u>8.9</u>   | <u>\$ —</u>                      |
| Options exercisable at March 31, 2016   | <u>337</u>              | <u>\$ 13.71</u>                        | <u>8.8</u>   | <u>\$ —</u>                      |

For the three months ended March 31, 2016, we recognized \$0.3 million of stock compensation expense associated with these options, and there was \$1.6 million of total unrecognized stock compensation cost related to unvested stock options that is expected to be recognized over a period of approximately 2.4 years.

#### *Restricted Stock Awards*

In the three months ended March 31, 2016, we issued 101,352 restricted shares as incentive compensation for officers, directors, and certain key employees, 32,707 restricted shares were forfeited and 64,415 were settled leaving 558,445 remaining restricted shares outstanding as of March 31, 2016. The fair value of outstanding restricted shares at March 31, 2016 was \$4.3 million. Grants of restricted shares for the three months ended March 31, 2016 were as follows:

| <b>In thousands, except weighted-average fair value price</b> | <b>Number of Shares</b> | <b>Weighted-Average Grant-Date Fair Value</b> |
|---|-------------------------|---|
| Unvested restricted shares outstanding at December 31, 2015   | 554                     | \$ 14.63                                      |
| Restricted shares granted                                     | 101                     | \$ 6.16                                       |
| Restricted shares vested                                      | (64)                    | \$ 14.00                                      |
| Restricted shares forfeited                                   | (33)                    | \$ 14.47                                      |
| Unvested restricted shares outstanding as of March 31, 2016   | <u>558</u>              | <u>\$ 12.98</u>                               |

As of March 31, 2016, we recognized \$0.9 million of stock compensation expense associated with these restricted shares, and there was \$3.2 million of total unrecognized stock compensation cost related to unvested restricted stock to be recognized over a period of approximately 2.4 years.

#### *Restricted Stock Units*

During the three months ended March 31, 2016, we issued 9,240 restricted stock units, 12,108 were forfeited, 34,206 vested, resulting in 131,856 restricted stock units outstanding as of March 31, 2016. The fair value of these awards at March 31, 2016 was \$1.0 million. During the three months ended March 31, 2016, we recognized \$0.2 million of stock compensation expense associated with these restricted stock units. Unrecognized stock compensation expense associated with RSUs is \$1.0 million and will be recognized over the remaining contractual lives of these awards, approximately 2.1 years.

| <b>In thousands, except weighted-average fair value price</b>    | <b>Number of Shares</b> | <b>Weighted-Average Grant-Date Fair Value</b> |
|--|-------------------------|---|
| Unvested restricted stock units outstanding at December 31, 2015 | 169                     | \$ 15.03                                      |
| Restricted stock units granted                                   | 9                       | \$ 5.86                                       |
| Restricted stock units vested                                    | (34)                    | \$ 14.17                                      |
| Restricted stock units forfeited                                 | (12)                    | \$ 15.12                                      |
| Unvested restricted stock units outstanding as of March 31, 2016 | <u>132</u>              | <u>\$ 14.60</u>                               |

## 11. Fair Value Measurement of Financial Assets and Liabilities

With respect to the Company's financial assets and liabilities, which include short term investments, notes payable, capital lease obligation, earnout obligations of acquisitions and warrant redemption liability, the Company has adopted current accounting guidance which establishes the authoritative definition of fair value, establishes a framework for measuring fair value, creates a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. This guidance defines fair value as the price that would be paid to transfer the warrant redemption liability in an orderly transaction between market participants at the measurement date. As required under current accounting guidance, the Company has identified and disclosed its financial assets and liabilities in a fair value hierarchy, which consists of the following three levels:

|                | <b>Definition</b>   |
|----------------|---|
| <i>Level 1</i> | Observable unadjusted quoted prices in active markets for identical securities.   |
| <i>Level 2</i> | Observable inputs other than quoted prices in active markets for identical securities, including: <ul style="list-style-type: none"> <li>(i) quoted prices in active markets for similar securities.</li> <li>(ii) quoted prices for identical or similar securities in markets that are not active.</li> <li>(iii) inputs other than quoted prices that are observable for the security (e.g., interest rates, yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, credit risks and default rates).</li> <li>(iv) inputs derived from or corroborated by observable market data by correlation or other means.</li> </ul> |
| <i>Level 3</i> | Unobservable inputs, including the reporting entity's own data, as long as there is no contrary data indicating market participants would use different assumptions.  |

The Company's equity and fixed income security investments and forward purchase assets for which carrying values were equal to fair values, classified by level within the fair value hierarchy, were as follows as of March 31, 2016:

|                                      | <b>Fair Value Measurement, Using</b>  |  |  | <b>Total</b>     |
|--------------------------------------|---|--|--|------------------|
|                                      | <b>Quoted Prices in<br/>Active Markets for<br/>Identical Securities<br/>(Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |                  |
| <b>March 31, 2016 (in thousands)</b> |   |  |  |                  |
| Common and preferred stocks          | \$ —  | \$ —   | \$ —   | \$ —             |
| Corporate notes and bonds            | —   | —  | —  | —                |
| Forward purchase asset               | —   | —  | 48,826   | 48,826           |
| <b>Total</b>                         | <b>\$ —</b>   | <b>\$ —</b>  | <b>\$ 48,826</b>   | <b>\$ 48,826</b> |

|   | <b>Fair Value Measurement, Using</b>  |  |  | <b>Total</b>     |
|---|---|--|--|------------------|
|   | <b>Quoted Prices in<br/>Active Markets for<br/>Identical Securities<br/>(Level 1)</b> | <b>Significant Other<br/>Observable Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |                  |
| <b>December 31, 2015 (in thousands)</b> |   |  |  |                  |
| Common and preferred stocks             | \$ 384  | \$ —   | \$ —   | \$ 384           |
| Corporate notes and bonds               | 2,789   | —  | —  | 2,789            |
| Forward purchase asset                  | —   | —  | 28,120   | 28,120           |
| <b>Total</b>                            | <b>\$ 3,173</b>   | <b>\$ —</b>  | <b>\$ 28,120</b>   | <b>\$ 31,293</b> |

The following is a reconciliation of the fair value of the Company's financial assets that were measured using significant unobservable (Level 3) inputs:

| <b>Three Months Ended</b>                        | <b>Forward<br/>Purchase<br/>Asset</b> | <b>Total</b>     |
|--|---------------------------------------|------------------|
| <b>March 31, 2016 (in thousands)</b>             |                                       |                  |
| Fair value, January 1, 2016                      | \$ 28,120                             | \$ 28,120        |
| Increase in fair value of forward purchase asset | 20,706                                | 20,706           |
| Fair Value, March 31, 2016                       | <b>\$ 48,826</b>                      | <b>\$ 48,826</b> |

The Company's notes payable, capital lease obligation, earnout obligations of acquisitions and warrant redemption liability, for which carrying values were equal to fair values, classified by level within the fair value hierarchy, were as follows as of March 31, 2016 and December 31, 2015:

|                                      | Fair Value Measurement, Using                                      |   |   | Total            |
|--------------------------------------|--|---|---|------------------|
|                                      | Quoted Prices in Active Markets for Identical Securities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |                  |
| <b>March 31, 2016 (in thousands)</b> |  |   |   |                  |
| Earnout payable on acquisitions      | \$ —   | \$ —  | \$ 14,919                                 | \$ 14,919        |
| Deferred purchase consideration      | —  | —   | 1,672                                     | 1,672            |
| Warrant redemption liability         | —  | —   | 48,826                                    | 48,826           |
| Total                                | <u>\$ —</u>  | <u>\$ —</u>                                   | <u>\$ 65,417</u>                          | <u>\$ 65,417</u> |

|   | Fair Value Measurement, Using                                      |   |   | Total            |
|---|--|---|---|------------------|
|   | Quoted Prices in Active Markets for Identical Securities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |                  |
| <b>December 31, 2015 (in thousands)</b> |  |   |   |                  |
| Earnout payable on acquisitions         | \$ —   | \$ —  | \$ 12,383                                 | \$ 12,383        |
| Deferred purchase consideration         | —  | —   | 6,128                                     | 6,128            |
| Warrant redemption liability            | —  | —   | 28,120                                    | 28,120           |
| Total                                   | <u>\$ —</u>  | <u>\$ —</u>                                   | <u>\$ 46,631</u>                          | <u>\$ 46,631</u> |

The following is a reconciliation of the fair value of the Company's financial liabilities that were measured using significant unobservable (Level 3) inputs:

| Three Months Ended   | Earnout Payable  | Deferred Purchase Consideration | Warrant Redemption Liability | Total            |
|--|------------------|---------------------------------|------------------------------|------------------|
| <b>March 31, 2016 (in thousands)</b>                               |                  |                                 |                              |                  |
| Fair value, January 1, 2016  | \$ 12,383        | \$ 6,128                        | \$ 28,120                    | \$ 46,631        |
| Record present value earnout payable on acquisitions               | 7,750            | —                               | —                            | 7,750            |
| Earnout payments made  | (5,214)          | —                               | —                            | (5,214)          |
| Deferred purchase payments made                                    | —                | (4,350)                         | —                            | (4,350)          |
| Acquisition adjustment to purchase price                           | —                | (150)                           | —                            | (150)            |
| Amortize present value discount on deferred purchase consideration | —                | 44                              | —                            | 44               |
| Increase in fair value of warrant redemption liability             | —                | —                               | 20,706                       | 20,706           |
| Fair Value, March 31, 2016   | <u>\$ 14,919</u> | <u>\$ 1,672</u>                 | <u>\$ 48,826</u>             | <u>\$ 65,417</u> |

## 12. Related Party Transactions

### *Relationship and Transactions with Guarantee Insurance Group and Guarantee Insurance*

As of May 11, 2016 Steven M. Mariano, our founder, Chief Executive Officer and Chairman, beneficially owned 54.5% of the outstanding shares of our common stock and substantially all of the outstanding equity of Guarantee Insurance Group. As a result, our transactions with Guarantee Insurance Group and its subsidiaries, including Guarantee Insurance and GUI, are related party transactions.

### *Service Fees Received from Guarantee Insurance*

We provide brokerage and policyholder services and claims administration services to Guarantee Insurance pursuant to the Services Agreements and the Program Administrator Agreement. We have been providing a full range of brokerage and policyholder services to Guarantee Insurance pursuant to the Program Administrator Agreement since August 6, 2014.

Pursuant to the Services Agreements, we provide our services in connection with claims arising out of insurance policies held or underwritten by Guarantee Insurance. The Services Agreements have various terms and expiration dates ranging from 2018 to 2022, unless otherwise extended or earlier terminated as provided therein. The fees we receive are based, depending on the service provided, upon a percentage of reference premium, flat monthly fees, hourly fees or the savings we achieve, among others.

Pursuant to Program Administrator Agreement, we act as Guarantee Insurance's exclusive general agent for the purpose of underwriting, issuing and delivering insurance contracts in connection with Guarantee Insurance's workers' compensation insurance program. The agreement with Guarantee Insurance remains in effect until terminated by either party upon 180 days' prior written notice to the other party for cause. Guarantee Insurance may also terminate the agreement, in whole or in part, immediately upon written notice to us in the event of our insolvency or bankruptcy, systematic risk-binding that is not in compliance with the applicable underwriting guidelines or procedures and the occurrence of certain other events. The fees we receive are based upon premiums written for each account bound with Guarantee Insurance.

A portion of the fees that we receive from Guarantee Insurance pursuant to the Services Agreements and the Program Administrator Agreement are for Guarantee Insurance's account (which we recognize as "fee income from related party") and a portion of the fees are for the account of reinsurance captive entities to which Guarantee Insurance has ceded a portion of its written risk (which we recognize as "fee income"). See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Principal Components of Financial Statements—Revenue." As a result, a substantial portion of fee income we recognize from non-related parties is nevertheless derived from our relationship with Guarantee Insurance. For the three months ended March 31, 2016, we recognized \$40.0 million in total fee income and fee income from related party derived from our contracts and relationships with Guarantee Insurance, and our fee income from related party was \$24.5 million. Our total fee income and fee income from related party pursuant to contracts with Guarantee Insurance and our fee income from related party constituted 62% and 38%, respectively, of our total fee income and fee income from related party for the three months ended March 31, 2016.

Our prices by customer for our brokerage and policyholder services and claims administration services were unchanged for the three months ended March 31, 2016 and 2015, and, accordingly, the net increase in fee income was solely related to changes in the volume of business we managed.

Because fee income from related party for claims administration services is based on the net portion of claims expense retained by Guarantee Insurance, as described in Note 13, *Concentration*, the Company's revenues attributable to contracts with Guarantee Insurance do not necessarily represent fee income from related party.

Fee income from related party for the three months ended March 31, 2016 and 2015 was \$24.5 million and \$24.6 million, respectively.

Fee income receivable from related party was \$20.6 million as of March 31, 2016 and \$27.0 million as of December 31, 2015.

During the three months ended March 31, 2016, Patriot completed and amended agreements between its operating subsidiaries and Guarantee Insurance Company in the normal course of business. These include an agreement and subsequent amendments to the agreement effective January 1, 2016 between Guarantee and Patriot Underwriters regarding rates for agent commission expense. Additionally, Patriot National, Inc. executed an agreement on January 15, 2016 with Guarantee Insurance Group for legal advisory services, for which Patriot received fees of \$0.8 million.

### ***Loan Arrangements and Receivable from Affiliates***

As of March 31, 2016, we had a net receivable from related parties of \$0.4 million due from entities controlled by Mr. Mariano, our founder, Chairman, President and Chief Executive Officer. As of December 31, 2015, we had a net receivable from related parties amount of approximately \$0.5 million due from entities controlled by Mr. Mariano.

In addition, on December 23, 2015, we and Steven M. Mariano amended the Stock Back-to-Back Agreement, pursuant to which, upon the exercise of the New Warrants, we would purchase a number of shares of our common stock owned by Steven M. Mariano equal to 100% of the shares to be issued in connection with the exercise by the PIPE investors of the New Warrants. See Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Recent Events."

### ***Statement of Policy Regarding Transactions with Related Persons***

Our board of directors has adopted a written Related Person Transaction Policy to assist it in reviewing, approving and ratifying transactions with related persons and to assist us in the preparation of related disclosures required by the SEC. This Related Person Transaction Policy supplements our other policies that may apply to transactions with related persons, such as the Corporate Governance Guidelines of our board of directors and our Code of Business Conduct and Ethics.

The Related Person Transaction Policy provides that all transactions with related persons covered by the policy must be reviewed and approved and ratified by the Audit Committee or disinterested members of the board of directors and that any employment relationship or transaction involving an executive officer and any related compensation must be approved or recommended for the approval of the board of directors by the Compensation Committee.

In reviewing transactions with related persons, the Audit Committee or disinterested members of the board of directors will consider all relevant facts and circumstances, including, without limitation:

- the nature of the related person's interest in the transaction;
- the material terms of the transaction;
- the importance of the transaction both to the Company and to the related person;
- whether the transaction would likely impair the judgment of a director or executive officer to act in the best interest of the Company;
- whether the value and the terms of the transaction are substantially similar as compared to those of similar transactions previously entered into by the Company with non-related persons, if any; and
- any other matters that management or the Audit Committee or disinterested directors, as applicable, deem appropriate.

The Audit Committee or disinterested members of the board of directors, as applicable, will not approve or ratify any related person transaction unless it shall have determined in good faith that, upon consideration of all relevant information, the related person transaction is in, or is not inconsistent with, the best interests of the Company. The Audit Committee or the disinterested members of the board of directors, as applicable, may also conclude, upon review of all relevant information, that the transaction does not constitute a related person transaction and thus that no further review is required under this policy.

Generally, the Related Person Transaction Policy applies to any current or proposed transaction in which:

- the Company was or is to be a participant;
- the amount involved exceeds \$120,000; and

any related person (i.e., a director, director nominee, executive officer, greater than 5% beneficial owner and any immediate family member of such person) had or will have a direct or indirect material interest.

### **13. Concentration**

For the three months ended March 31, 2016, approximately 62% of total combined fee income and fee income from related party was attributable to contracts with Guarantee Insurance, the Company's largest customer and a related party, and approximately 5% was attributable to contracts with the Company's second largest customer. For the three months ended March 31, 2015, approximately 83% of total combined fee income and fee income from related revenues was attributable to contracts with Guarantee Insurance, and approximately 10% were attributable to contracts with the Company's second largest customer.

As of March 31, 2016, approximately 68% of combined fee income receivable and fee income receivable from related party was attributable to contracts with Guarantee Insurance and approximately 2% of combined fee income receivable and fee income receivable from related party were attributable to contracts with the Company's second largest customer. As of December 31, 2015, approximately 77% of combined fee income receivable and fee income receivable from related party was attributable to contracts with Guarantee Insurance and approximately 3% of combined fee income receivable and fee income receivable from related party was attributable to contracts with the Company's second largest customer.

Because fee income from related party for claims administration services is based on the net portion of claims expense retained by Guarantee Insurance, the Company's revenues attributable to contracts with Guarantee Insurance do not necessarily represent fee income from related party.

### **14. Commitments and Contingencies**

#### *Contractual Obligations and Commitments*

In connection with the Senior Secured Credit Facility as described in Note 7, *Notes Payable and Lines of Credit*, the common stock of the Company and the common stock or units of each of the Company's wholly and majority owned subsidiaries were pledged as collateral.

### *Off-Balance Sheet Arrangements*

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

The Company has employment agreements with certain executives and other employees, which provide for compensation and certain other benefits and for severance payments under certain circumstances. The employment agreements contain clauses that become effective upon a change of control of the Company. Upon the occurrence of any of the defined events in the employment agreements, the Company would be obligated to pay certain amounts to the relevant employees.

The Company maintains cash at various financial institutions, and, at times, balances may exceed federally insured limits. Management does not believe this results in any material effect on the Company's financial position or results of operations.

In the normal course of business, the Company may be party to various legal actions that management believes will not result in any material effect on the Company's financial position or results of operations.

### **15. Warrant Redemption Liability**

The estimated fair value of the redeemable warrants is reflected as warrant redemption liability in the accompanying consolidated balance sheets as of March 31, 2016 and December 31, 2015, and the change in the liability is reflected as an increase (decrease) in fair value of warrant redemption liability in the accompanying consolidated statements of operations. In estimating the value of the redeemable warrants and common stock, giving consideration to all valuation approaches and methods in its analysis and ultimately relying on a variety of established appraisal methods and techniques, applying a Monte Carlo simulation of estimated value, the guideline public company method in combination with the discounted future returns method and, as appropriate, the option pricing model using Black Scholes. Various valuation indications are weighted using the Probability-Weighted Expected Return Method (PWERM) in accordance with the AICPA's *Accounting and Valuation Guide: Valuation of Privately-Held-Company Equity Securities Issued as Compensation*.

As of March 31, 2016, the estimated fair value of Series A and Series B warrant redemption liabilities was \$48.8 million. We estimated the fair value of New Series A Warrants as of March 31, 2016. The payoff structure of New Series A Warrants can be replicated by purchasing (i) 0.15 units of Common Stock and (ii) 0.85 units of call option on Common Stock at an adjusted strike price (dollar strike price divided by 85%). The value of call option was estimated using Black Scholes. The estimated fair value of the New Series B Warrants was determined as the closing share price at March 31, 2016 less the exercise price of \$0.01.

On December 13, 2015 we entered into a securities purchase agreement (the "Securities Purchase Agreement") with Steven M. Mariano, our President and Chief Executive Officer, and the PIPE investors pursuant to which the PIPE investors purchased (i) 2,500,000 shares of our common stock from Steven M. Mariano, for an aggregate purchase price of approximately \$30 million, and (ii) 666,666 shares of our common stock, warrants to purchase up to an aggregate of 2,083,333 shares of our common stock (the "Old Series A Warrants") and prepaid warrants for 1,000,000 shares of our common stock (the "Old Series B Warrants" and, together with the Old Series A Warrants, the "Old Warrants"), for an aggregate purchase price of approximately \$20 million. In addition, we entered into an agreement (the "Stock Back-to-Back Agreement") with Steven M. Mariano, pursuant to which, upon the exercise of the Old Warrants, we would purchase a number of shares of our common stock owned by Steven M. Mariano equal to 60% of the shares to be issued in connection with the exercise by the PIPE investors of the Old Warrants.

On December 23, 2015 we entered into several rescission and exchange agreements (collectively, the "Exchange Agreement") with Steven M. Mariano and the PIPE investors pursuant to which (i) we and the PIPE investors rescinded the sale and purchase of 666,666 shares of our common stock and prepaid warrants for 1,000,000 shares of our common stock and (ii) we exchanged the Old Series A Warrant for new warrants to purchase up to an aggregate of 3,250,000 shares of our common stock (the "New Series A Warrants"), and the Old Series B Warrant for new prepaid warrants to purchase a number of shares that the holder could purchase at a price equal to 90% of the lowest 10-day volume-weighted average stock price during the period commencing on February 1, 2016 through and including the Adjustment Time (as defined in the New Series B Warrants, which we expect to end at 9:00 A.M. on the tenth trading day after the filing of this Annual Report on Form 10-K) less the number of shares such holder purchased, in each case subject to adjustments and limitations pursuant to their terms. Based on the 10-day volume-weighted average stock price during the period commencing on February 1, 2016 through March 17, 2016 of \$4.51, we estimate that 4,889,165 shares of our common stock would be issuable upon exercise of the New Series B Warrants.

In addition, we and Steven M. Mariano amended the Stock Back-to-Back Agreement, pursuant to which, upon the exercise of the New Warrants, we would purchase a number of shares of our common stock owned by Steven M. Mariano equal to 100% of the shares to be issued in connection with the exercise by the PIPE investors of the New Warrants, resulting in no dilution for our existing shareholders.

The New Series A Warrants are exercisable at an exercise price of the lesser of (i) \$10.00 and (ii) 85% of the market price of the shares (as defined in the New Warrants), from July 1, 2016 to December 31, 2020. The New Series B Warrants are exercisable at an exercise price of \$0.01 from December 16, 2015 to December 31, 2020. The exercise price of the New Warrants is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions.

In addition, the Exchange Agreement amended the registration rights agreement to provide the PIPE investors with registration rights to register the shares issuable upon exercise of the New Warrants, subject to penalties and other customary provisions. We also entered into a third amendment to our existing credit agreement to permit these transactions under the covenants included therein.

On December 23, 2015, we also entered into a Voting Agreement with Steven M. Mariano, pursuant to which Steven M. Mariano agreed to vote in favor of issuances of shares of common stock in the event that, as a result of an increase in the number of shares that may be purchased upon exercise of the New Warrants to the Adjusted Share Amount (as defined in the New Warrants), such number of shares would exceed the Exchange Cap (as defined in the New Warrants).

## **16. Income Taxes**

The Company uses an estimated annual effective tax rate method of computing its interim tax provision. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rates. In these cases, the actual tax expense or benefit applicable to that item is treated discretely and is reported in the same period as the related item.

The effective tax rate is based on forecasted annual pre-tax income, permanent differences and statutory tax rates. For the three months ended March 31, 2016, the effective income tax rate was 45%. The main driver of the difference in the effective tax rate from the statutory rate is the increase in valuation allowance for acquired deferred tax assets.

The Company and its subsidiaries are subject to U.S. federal income tax, as well as income tax in multiple states with heavy concentration in Florida, California, and Pennsylvania. The net deferred tax asset as of March 31, 2016 was \$12.1 million before valuation allowance. A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefit related to such assets will not be realized. In assessing the need for a valuation allowance, the Company considered both positive and negative evidence in concluding that a full valuation allowance was necessary against its net deferred tax assets at March 31, 2016.

At March 31, 2016 and December 31, 2015, the Company had no unrecognized tax benefits and no amounts recorded for uncertain tax positions.

## **17. Subsequent Events**

On March 3, 2016, the Board of Directors approved a \$15 million stock repurchase program. Under the new Repurchase Program, the Company may repurchase up to a maximum of \$15 million of its common stock. Pursuant to the Fourth Amendment to the BMO Credit Facility, the Company may purchase no more than 1,000,000 shares in any calendar month. For the three months ended March 31, 2016, the Company purchased 992,182 shares for a purchase price of \$5.7 million in the open market. Total purchases under the plan as of May 11, 2016 were 1,360,457 shares for a purchase price of \$8.7 million in the open market. As of May 11, 2016, 1,360,457 of the repurchased shares have been retired and none remain as treasury shares.

On April 13, 2016, Hudson Bay Master Fund Ltd. (“Hudson Bay”) filed suit in the US District Court for the Southern District of New York against the Company, Steven M. Mariano, our Chairman and Chief Executive Officer, and American Stock Transfer Company, LLC as a nominal Defendant. Hudson Bay alleges that the Company and Mr. Mariano are in breach of various contracts regarding delivery of price adjustment warrants, and that Mr. Mariano interfered with those same contracts between the Company and Hudson Bay. Hudson Bay seeks specific performance of the contracts, monetary damages, and attorney’s fees. On April 14, 2016, CVI Investments Inc. (“CVI”), also filed suit against the Company in the same court. The CVI suit makes similar allegations of breach of contract regarding the price adjustment warrants. The CVI suit similarly seeks specific performance of the contracts, monetary damages, and attorney’s fees, as well as injunctive relief.

The Company has filed answers in both actions denying the allegations and asserting defenses. The Company has been indemnified for any losses related to the warrant agreements by Mr. Mariano.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Combined Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015, and with the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2015.*

### Disclosure Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes statements that express our opinions, expectations, estimates, beliefs, plans, objectives, strategies, assumptions, future revenues or performance, financing needs, business trends or projections regarding future events or future results and therefore are, or may be deemed to be, "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "anticipate," "believe," "estimate," "expect," "seek," "project," "potential," "intend," "strive," "plan," "may," "might," "will," "would," or "should" or, in each case, their negative or other variations or comparable terminology. They appear in a number of places throughout this Quarterly Report on Form 10-Q and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. Risks related to the Company and our common stock include, but are not limited to the following:

- Because we have a limited operating history as a stand-alone, combined company and business, our historical financial condition and results of operations are not necessarily representative of the results we would have achieved as a stand-alone, combined, publicly-traded company and may not be a reliable indicator of our future results.
- Our business may be materially adversely impacted by general economic and labor market conditions.
- The workers' compensation insurance industry is cyclical in nature, which may affect our overall financial performance.
- We may be more vulnerable to negative developments in the workers' compensation insurance industry than companies that also provide outsourced services for other lines of insurance.
- If workers' compensation claims decline in frequency or severity, our results of operations and financial condition may be adversely affected.
- Our total fee income and fee income from related party are currently substantially dependent on our relationships with Guarantee Insurance and a small number of other insurance carrier clients.
- Our relationship with Guarantee Insurance may create conflicts of interest, and we cannot be certain that all our transactions with Guarantee Insurance will be conducted on the same terms as those available from unaffiliated third parties.
- We have acquired 17 insurance and other services firms in a short period of time and we have limited experience integrating the operations of companies or businesses that we have acquired and may incur substantial costs in connection therewith which could adversely affect our growth and results of operations.
- If we fail to grow our business organically we may be unable to execute our business plan or adequately address competitive challenges.
- If we cannot sustain our relationships with independent retail agencies, we may be unable to operate profitably.
- Changes in the healthcare industry could adversely impact our performance.
- Our geographic concentration ties our performance to business, economic and regulatory conditions in certain states, and unfavorable conditions in these states could have a significant adverse impact on our business, financial condition and results of operations.
- We are subject to extensive regulation and supervision, and our failure to comply with such regulation or adapt to new regulatory and legislative initiatives may adversely impact our business.
- Our goodwill and intangible assets could become impaired, which could lead to material non-cash charges against earnings.

- Our substantial indebtedness could adversely affect our financial condition, our ability to raise additional capital to fund our operations, our ability to operate our business, our ability to react to changes in the economy or our industry and our ability to pay our debts and could expose us to interest rate risk to the extent of our variable debt and divert our cash flow from operations to make debt payments.
- Servicing our indebtedness will require a significant amount of cash. Our ability to generate sufficient cash depends on many factors, some of which are not within our control.
- Despite our current level of indebtedness, we may be able to incur substantially more debt and enter into other transactions, which could further exacerbate the risks to our financial condition described above.
- We operate in a highly competitive industry, and others may have greater financial resources to compete effectively.
- We compete on the basis of the quality of our outcome-driven service model, and our failure to continue to perform at high levels could adversely affect our business.
- Our business is dependent on the efforts of our senior management and other key employees who leverage their industry expertise, knowledge of our markets and services and relationships with independent retail agencies that sell the insurance products of our carrier partners.
- We are reliant on our information processing systems, and any failure or inadequate performance of these systems could have a material adverse effect on our business, financial condition and results of operations.
- Cyber-attacks or other security breaches involving our computer systems or the systems of one or more of our clients, independent retail agencies or vendors could materially and adversely affect our business.
- If we infringe on the proprietary rights of others, our business operations may be disrupted, and any related litigation could be time consuming and costly.
- We are, and may become, party to lawsuits or other claims that could adversely impact our business.
- Our founder, Chairman, President and Chief Executive Officer owns a significant percentage of our outstanding capital stock and will be able to influence stockholder and management decisions, which may conflict with your interests as a stockholder.
- Future sales, or the perception of future sales, by us or our affiliates could cause the market price for our common stock to decline.
- There is an increased potential for short sales of our common stock due to the sales of shares issued upon exercise of warrants, which could materially affect the market price of the stock.
- Certain provisions of the New Series A Warrants and New Series B Warrants provide for preferential treatment to the holders of the warrants and could impede a sale of our company.
- Because we have no plans to pay cash dividends on our common stock for the foreseeable future, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.
- Our ability to raise capital in the future may be limited, which could make us unable to fund our capital requirements.
- If securities analysts do not publish research or reports about our business or if they downgrade or provide negative outlook on our stock or our sector, our stock price and trading volume could decline.
- We are an “emerging growth company”, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.
- We have incurred, and will continue to incur, increased costs, and are subject to additional regulations and requirements as a result of being a public company, which could lower our profits or make it more difficult to run our business.
- Our internal controls over financial reporting may not be effective, and our independent registered public accounting firm may not be able to certify as to their effectiveness, which could have a significant and material adverse effect on our business, financial condition, results of operations or prospects.
- Anti-takeover provisions in our organizational documents could delay or prevent a change of control.

For a more detailed discussion of these factors, see the information under the heading “Risk Factors” herein and in our Annual Report on Form 10-K for the year ended December 31, 2015. Our forward-looking statements speak only as of the date of this report or as of the date they are made, and we undertake no obligation to update any forward-looking statements.

## Terms Used in this Quarterly Report on Form 10-Q

Unless otherwise specified or the context requires otherwise, the following terms used in this Quarterly Report on Form 10-Q have the meanings ascribed to them below:

- references to “Patriot,” “Patriot National,” “the Company,” “we,” “us” or “our” refer to Patriot National, Inc. and its consolidated subsidiaries unless the context requires otherwise;
- references to “AIG” refer to AIG Property Casualty Company, American Home Assurance Company, AIG Assurance Company, AIU Insurance Company, Commerce and Industry Insurance Company, Granite State Insurance Company, Illinois National Insurance Co., National Union Fire Insurance Company of Pittsburgh, PA., New Hampshire Insurance Company, and The Insurance Company of the State of Pennsylvania, collectively.
- references the “Back-to-Back agreement” refer to the agreement executed in connection with the PIPE between Mr. Mariano and the Company effective as of December 13, 2015, pursuant to which we would purchase a number of shares of our common stock owned by Mr. Mariano equal to 60% of the shares to be issued in connection with the exercise of the Old Warrants;
- references to “bundled” services refer to arrangements where we provide two or more services to a client;
- references to “Guarantee Insurance” refer to Guarantee Insurance Company and references to “Guarantee Insurance Group” refer to Guarantee Insurance Group, Inc. (f/k/a Patriot National Insurance Group, Inc.), the parent company of Guarantee Insurance, entities that are both controlled by Steven M. Mariano, our founder, Chairman, President and Chief Executive Officer;
- references to the “GUI Acquisition” refer to our acquisition, effective August 6, 2014, of contracts to provide marketing, underwriting and policyholder services and related assets and liabilities from a subsidiary of Guarantee Insurance Group;
- references to the “New Series A Warrants”, the “New Series B Warrants” or together, the “New Warrants” refer to the warrants issued to the PIPE Investors pursuant to the rescission and exchange agreements entered into on December 23, 2015 whereby the Old Warrants were exchanged for the New Warrants;
- references to the “Old Series A Warrants”, the “Old Series B Warrants” or together, the “Old Warrants” refer to the warrants issued to the PIPE Investors pursuant to the Securities Purchase Agreement effective December 13, 2015 by and among Mr. Mariano, the Company and the PIPE Investors;
- references to the “Patriot Care Management Acquisition” refer to our acquisition, effective August 6, 2014, of a business that provides nurse case management and bill review services (the “Patriot Care Management Business”);
- references to the “PennantPark Entities” refer to PennantPark Investment Corporation, PennantPark Floating Rate Capital Ltd., PennantPark SBIC II LP and PennantPark Credit Opportunities Fund LP;
- references to the “PennantPark Debt” refer to debt pursuant to the PennantPark Loan Agreement;
- references to the “PennantPark Loan Agreement” refer to the amended and restated first lien term loan agreement, dated as of August 6, 2014 between, among others, us and certain of our subsidiaries, as borrowers, certain of our other subsidiaries and certain affiliated entities, as guarantors, and the PennantPark Entities, as lenders;
- references to the “PIPE” refer to the private investments made by Tenor Capital Management (through Alto Opportunity Master Fund, SPC), Heights Capital Management (through CVI Investments, Inc.) and Hudson Bay Capital Management (through Hudson Bay Master Fund Ltd.) (together the “PIPE Investors”) in December 2015;
- references to “reference premiums written” refer to the aggregate premiums, grossed up for large deductible credits, written by or for our insurance carrier partners in respect of the policies we produce and service on their behalf;
- references to “reinsurance captives” or “reinsurance captive entities” refer to segregated portfolio cell captive entities that assume underwriting risk written initially by an insurance carrier client;
- references to “turnkey” refer to arrangements where we provide both front-end services such as brokerage, underwriting and policyholder service, and back-end services such as claims adjudication and administration services to an insurance carrier client;
- references to the “UBS Credit Agreement” refer to the credit agreement, dated as of August 6, 2014 between, among others, us and certain of our subsidiaries, the lenders party thereto and UBS Securities LLC, as lead arranger, bookmanager, documentation agent and syndication agent

- references to the “UBS Debt” refer to debt pursuant to the UBS Credit Agreement; and
- references to “Zurich” refer to Zurich American Insurance Company, Zurich American Insurance Company of Illinois, American Guarantee and Liability Insurance Company, American Zurich Insurance Company, Steadfast Insurance Company, Empire Fire & Marine Insurance Company, Empire Indemnity Insurance Company, Maryland Casualty Company, Assurance Company of America, Maryland Insurance Company, Northern Insurance Company of New York, The Fidelity and Deposit Company of Maryland, Colonial American Casualty and Surety Company, Universal Underwriters Insurance Company, Universal Underwriters Life Insurance Company, Universal Underwriters of Texas Insurance Company, Zurich Insurance Company Canadian Branch collectively.

## **Overview**

### *Business*

We are an independent national provider of comprehensive technology-enabled insurance and employer solutions. Our products and services help insurance carriers, employers and other clients mitigate risk, comply with complex regulations and save time and money. We offer end-to-end insurance-related and specialty services that allow our clients to improve efficiencies and reduce expenses through our value-added processes. The core of our value proposition includes the benefit of a “one-stop” solution with our broad array of offered services, scalable state-of-the-art technology, and support for complex business and regulatory processes.

We principally offer two types of services: front-end services, such as brokerage, underwriting and policyholder services, and back-end services, such as claims adjudication and administration. We provide our services either on an individual basis, as bundles of two or more services tailored to a client’s specific needs, or on a turnkey basis where we provide a comprehensive set of front-end and back-end services to a client. We also offer specialty services currently including technology outsourcing and other IT services, as well as employment pre-screening and background checks.

We generate fee revenue for our services from our clients based on (1) a percentage of premiums for the policies we service, (2) the cost savings we achieve for our clients or (3) a fixed fee for a particular service. Unlike our insurance and reinsurance carrier clients, we do not generate underwriting income or assume underwriting risk on workers’ compensation plans.

### **Recent Events**

On March 3, 2016, the Board of Directors approved a \$15 million stock repurchase program. Under the new Repurchase Program, the Company may repurchase up to a maximum of \$15 million of its common stock. Pursuant to the Fourth Amendment to the BMO Credit Facility, the Company may purchase no more than 1,000,000 shares in any calendar month. For the three months ended March 31, 2016, the Company purchased 992,182 shares for a purchase price of \$5.7 million in the open market. Total purchases under the plan as of May 11, 2016 were 1,360,457 shares for a purchase price of \$8.7 million in the open market. As of May 11, 2016, 1,360,457 of the repurchased shares have been retired and none remain as treasury shares.

On April 13, 2016, Hudson Bay Master Fund Ltd. (“Hudson Bay”) filed suit in the US District Court for the Southern District of New York against the Company, Steven M. Mariano, our Chairman and Chief Executive Officer, and American Stock Transfer Company, LLC as a nominal Defendant. Hudson Bay alleges that the Company and Mr. Mariano are in breach of various contracts regarding delivery of price adjustment warrants, and that Mr. Mariano interfered with those same contracts between the Company and Hudson Bay. Hudson Bay seeks specific performance of the contracts, monetary damages, and attorney’s fees. On April 14, 2016, CVI Investments Inc. (“CVI”), also filed suit against the Company in the same court. The CVI suit makes similar allegations of breach of contract regarding the price adjustment warrants. The CVI suit similarly seeks specific performance of the contracts, monetary damages, and attorney’s fees, as well as injunctive relief.

The Company has filed answers in both actions denying the allegations and asserting defenses. The Company has been indemnified for any losses related to the warrant agreements by Mr. Mariano.

## Key Performance Measures

We use certain key performance measures in evaluating our business and results of operations, and we may refer to one or more of these key performance measures in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These key performance measures include:

- *Gross reference premium written*: gross reference premium written refers to the aggregate premium, grossed up for large deductible credits, written by or for our insurance carrier partners in respect of the policies we produce and service on their behalf.
- *Reference premium written*: reference premium written refers to the earned aggregate premium, grossed up for large deductible credits, written by or for our insurance carrier partners in respect of the policies we produce and service on their behalf. For Guarantee Insurance, which records written premium on the effective date of the policy based on the estimated total premium for the term of the policy, reference written premium is equal to written premium based on the estimated total premium for the term of the policy, earned as of the effective date of the policy, grossed up for large deductible credits. Subsequent adjustments to the estimated total premium for the term of the policy are reflected as adjustments to reference written premium when the adjustments become known. For our third party insurance carrier clients, for whom record written premium as premium is collected, reference written premium is equal to collected premium, grossed up for large deductible credits. We evaluate our business (in respect of revenue both from brokerage and policyholder services and from claims administrative services) both in respect of the overall revenue generated by reference premium written, and the margin on such revenue. With respect to our brokerage and policyholder services, changes in reference premium written generally correspond to changes in total revenues.

The policies we write for our insurance and reinsurance carrier clients generally have a term of one year, and reference premium written is earned by our insurance and reinsurance carrier clients on a pro rata basis over the terms of the underlying policies. Likewise, the claims associated with these policies are generally incurred on a pro rata basis over the terms of the underlying policies. Generally, we perform our claims administration services on a claim from the date it is incurred through the date it is closed. We refer to claims that have been incurred, but not yet closed, for a particular period as “managed claims exposures.” With respect to our claims administration services, changes in managed claims exposures generally correspond to changes in total revenues.

- *Adjusted EBITDA*: we define Adjusted EBITDA as net income (loss) adjusted for income tax expense (benefit), interest expense, depreciation and amortization expense, and certain non-cash and/or non-recurring transactions as shown in the Reconciliation from Net Income(Loss) to Adjusted EBITDA .
- *Adjusted EBITDA Margins*: we define Adjusted EBITDA Margins as Adjusted EBITDA divided by the sum of fee income and fee income from related party.
- *Operating Cash Flow*: we define Operating Cash Flow as Adjusted EBITDA less income tax expense, interest expense, and capital expenditures.
- *Adjusted Earnings (Loss)*: we define Adjusted Earnings (Loss) and Adjusted Earnings (Loss) per share as net income (loss) adjusted for cost for debt payoff, non-cash stock compensation costs, net realized gains (losses) on investments, increase (decrease) in fair value of warrant redemption liability, acquisition costs and loss on exchange of units and warrants.

We present Adjusted EBITDA, Adjusted EBITDA Margins, Operating Cash Flow and Adjusted Earnings in this report because they are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short and long-term operational plans. In particular, we believe that the exclusion of the amounts eliminated in calculating Adjusted EBITDA, Operating Cash Flow and Adjusted Earnings can provide useful measures for period-to-period comparisons of our core business. Accordingly, we believe that Adjusted EBITDA, Operating Cash Flow and Adjusted Earnings provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA, Adjusted EBITDA Margins, Operating Cash Flow and Adjusted Earnings have limitations as analytical tools, and should not be considered in isolation or as a substitute for analysis of our financial results under GAAP. Some of these limitations are as follows:

- Although depreciations and amortization expense are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs or tax payments that may represent a reduction in cash available to us; and
- Other companies, including companies in our industry, may calculate Adjusted EBITDA, Operating Cash Flow and Adjusted Earnings or similarly titled measured differently, which reduce their usefulness as a comparative measure.

## Reference Premium Written

| In thousands                    | Three Months Ended March 31, |            |
|---------------------------------|------------------------------|------------|
|                                 | 2016                         | 2015       |
| Gross Reference Premium Written | \$ 144,343                   | \$ 119,522 |
| Reference Premium Written       | \$ 148,253                   | \$ 103,002 |

Gross reference premium written for the three months ended March 31, 2016 was \$144.3 million compared to \$119.5 million for the three months ended March 31, 2015, an increase of \$24.8 million. The increase was attributable to the inception of new contracts with AIG and certain other insurance carrier clients, which generated an increase in gross reference premium of \$33.6 million, and an increase in Zurich of \$4.1 million for the three months, which was partially offset by a decrease of \$6.8 million with Scottsdale and a decrease of \$6.1 million with Guarantee Insurance.

Reference premium written for the three months ended March 31, 2016 was \$148.3 million compared to \$103.0 million for the three months ended March 31, 2015, an increase of \$45.3 million. The increase was attributable to the inception of new contracts with AIG and certain other insurance carrier clients, which generated an increase in reference premium written of \$51.8 million, and an increase in Scottsdale of \$2.0 million for the three months, which was partially offset by a decrease of \$2.4 million with Zurich and a decrease of \$6.1 million with Guarantee Insurance.

## Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure and is not in accordance with, or an alternative to, the GAAP information provided in this Quarterly Report on Form 10-Q. For further information regarding our use of non-GAAP financial measures and a reconciliation of Adjusted EBITDA to Net income (loss), see “—Reconciliations to Non-GAAP Key Performance Measures”.

| In thousands      | Three Months Ended March 31, |            |
|-------------------|------------------------------|------------|
|                   | 2016                         | 2015       |
| Net income (loss) | \$ 3,401                     | \$ (4,816) |
| Adjusted EBITDA   | \$ 15,659                    | \$ 10,828  |

Adjusted EBITDA for the three months ended March 31, 2016 was \$15.7 million compared to \$10.8 million for the three months ended March 31, 2015, an increase of \$4.9 million. The increase was attributable to a \$21.9 million increase in total fee income and fee income from related party, partially offset by a \$17.0 million increase in total expenses (excluding depreciation and amortization, changes in fair value of warrant liabilities, non-cash stock compensation, severance expense, acquisition costs, public offering costs, costs related to the extinguishment of debt, interest expense, and income tax expense which are added back to net income to arrive at Adjusted EBITDA), all of which are discussed more fully below.

## Operating Cash Flow

Operating cash flow is a non-GAAP financial measure and is not in accordance with, or an alternative to, the GAAP information provided in this Quarterly Report on Form 10-Q. For further information regarding our use of non-GAAP financial measures and a reconciliation of Operating cash flow to Net income (loss), see “—Reconciliations to Non-GAAP Key Performance Measures”.

| In thousands                              | Three Months Ended March 31, |            |
|---|------------------------------|------------|
|   | 2016                         | 2015       |
| Net income (loss)                         | \$ 3,401                     | \$ (4,816) |
| Net cash provided by operating activities | \$ 18,654                    | \$ 937     |
| Operating cash flow                       | \$ 10,316                    | \$ 8,226   |

Operating cash flow for the three months ended March 31, 2016 was \$10.3 million compared to \$8.2 million for the three months ended March 31, 2015, an increase of \$2.1 million. Operating cash flow is defined as Adjusted EBITDA, less income tax expense, interest expense, and capital expenditures. The increase was primarily attributable to the \$4.9 million increase in Adjusted EBITDA described above, partially offset by \$2.9 million of income tax expense for the three months ended March 31, 2016.

## Adjusted Earnings

Adjusted Earnings is a non-GAAP financial measure and is not in accordance with, or an alternative to, the GAAP information provided in this Quarterly Report on Form 10-Q. For further information regarding our use of non-GAAP financial measures and a reconciliation of Operating cash flow to Net income (loss), see “—Reconciliations to Non-GAAP Key Performance Measures”.

| In thousands      | Three Months Ended March 31, |            |
|-------------------|------------------------------|------------|
|                   | 2016                         | 2015       |
| Net income (loss) | \$ 3,401                     | \$ (4,816) |
| Adjusted earnings | \$ 5,799                     | \$ 4,427   |

Adjusted Earnings for the three months ended March 31, 2016 were \$5.8 million as compared to \$4.4 million for the three months ended March 31, 2015, an increase of \$1.4 million. The increase was attributable to a \$21.9 million increase in total fee income and fee income from related party, partially offset by a \$20.5 million increase in total expenses (excluding changes in fair value of warrant liabilities, non-cash stock compensation, severance expense, acquisition costs, public offering costs, and costs related to the extinguishment of debt which are added back to net income to arrive at Adjusted Earnings), all of which are discussed more fully below.

## Results of Operations

The following table sets forth certain combined statement of operations data derived from our unaudited combined financial statements included elsewhere in this Quarterly Report on Form 10-Q.

| In thousands  | Three Months Ended March 31, |                   |
|---|------------------------------|-------------------|
|   | 2016                         | 2015              |
| <b>Combined Statement of Operations Data</b>                              |                              |                   |
| <b>Revenues</b>   |                              |                   |
| Fee income  | \$ 40,417                    | \$ 18,369         |
| Fee income from related party   | 24,450                       | 24,623            |
| Total fee income and fee income from related party                        | 64,867                       | 42,992            |
| Net investment income   | 35                           | 1                 |
| Net realized (losses) gains on investments                                | (295)                        | —                 |
| <b>Total Revenues</b>   | <b>64,607</b>                | <b>42,993</b>     |
| <b>Expenses</b>   |                              |                   |
| Salaries and related expenses   | 23,640                       | 14,468            |
| Commission expense  | 13,136                       | 8,889             |
| Outsourced services   | 3,570                        | 2,462             |
| Other operating expenses  | 9,797                        | 6,331             |
| Acquisition costs   | 614                          | 604               |
| Interest expense  | 1,412                        | 1,258             |
| Depreciation and amortization   | 4,717                        | 2,303             |
| Stock compensation expense  | 1,424                        | 2,535             |
| Decrease in fair value of warrant redemption liability                    | —                            | (1,385)           |
| Costs related to extinguishment of debt                                   | —                            | 13,681            |
| <b>Total Expenses</b>   | <b>58,310</b>                | <b>51,146</b>     |
| <b>Net Income (Loss) before income tax (benefit) expense</b>              | <b>6,297</b>                 | <b>(8,153)</b>    |
| Income tax expense (benefit)  | 2,859                        | (3,352)           |
| <b>Net Income (Loss) Including Non-Controlling Interest in Subsidiary</b> | <b>3,438</b>                 | <b>(4,801)</b>    |
| Net Income attributable to Non-controlling interest in subsidiary         | 37                           | 15                |
| <b>Net Income (Loss)</b>  | <b>\$ 3,401</b>              | <b>\$ (4,816)</b> |

### **Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015**

#### **Revenues:**

**Total Fee Income and Fee Income from Related Party.** Total fee income and fee income from related party for the three months ended March 31, 2016 was \$64.9 million compared to \$43.0 million for the three months ended March 31, 2015, an increase of \$21.9 million or approximately 51%. The increase in fee income and fee income from related party was primarily related to increases in the volume of business we managed as a result of transactions that occurred in August of 2014 and from acquisitions completed since January 2015.

For the three months ended March 31, 2016, approximately 62% of our total fee income and fee income from related party was attributable to our contracts with Guarantee Insurance, a related party, and approximately 5% of our total fee income and fee income from related party was attributable to contracts with our second largest client for both the three months ended March 31, 2016.

For the three months ended March 31, 2015 approximately 83% of our total fee income and fee income from related party was attributable to our contracts with Guarantee Insurance, and approximately 10% of our total fee income and fee income from related party were attributable to our contracts with our second largest client.

**Fee Income.** Fee income, which represents fee income from non-related parties, for the three months ended March 31, 2016 was \$40.4 million compared to \$18.4 million for the three months ended March 31, 2015, an increase of \$22.0 million.

Our prices by customer for our brokerage and policyholder services and claims administration services were unchanged for the three-month period ended March 31, 2016 relative to the three-month period ended March 31, 2015, and, accordingly, the net increase in fee income was solely related to changes in the volume of business we managed.

**Fee Income from Related Party.** Fee income from related party for the three months ended March 31, 2016 was \$24.5 million compared to \$24.6 million for the three months ended March 31, 2015, a decrease of \$0.1 million.

Our prices by customer for our brokerage and policyholder services and claims administration services were unchanged for the three-month period ended March 31, 2016 relative to the three-month period ended March 31, 2015, and accordingly, the net increase in fee income was solely related to changes in the volume of business we managed.

“Fee income from related party” represents a portion of fee income earned from Guarantee Insurance, a related party as described in Note 12, *Related Party Transactions*. Fee income from Guarantee Insurance for claims administration services is based on the net portion of claims expense retained by Guarantee Insurance pursuant to quota share reinsurance agreements between Guarantee Insurance, PUI’s third party insurance company customers and the segregated portfolio cell reinsurers that assume business written by Guarantee Insurance. Certain fee income from third-party segregated portfolio cell reinsurers is remitted to the Company by Guarantee Insurance on behalf of the segregated portfolio cell reinsurers. Fee income from Guarantee Insurance for brokerage, underwriting and policyholder services represents fees for soliciting applications for workers’ compensation insurance for Guarantee Insurance, based on a percentage of premiums written or other amounts negotiated by the parties.

Because fee income from related party for claims administration services is based on the net portion of claims expense retained by Guarantee Insurance, as described in Note 13, *Concentration*, the Company’s revenues attributable to contracts with Guarantee Insurance do not necessarily represent fee income from related party.

**Net Investment Income.** Net investment income was \$35,000 for the three months ended March 31, 2016 compared to \$1,000 for the three months ended March 31, 2015. For the three months ended March 31, 2016, the net loss on investments was \$0.3 million. For the period ended March 31, 2015 there was no gain or loss on investments.

#### **Expenses:**

**Salaries and Related Expenses.** Salaries and related expenses for the three months ended March 31, 2016 were \$23.6 million compared to \$14.5 million for the three months ended March 31, 2015, an increase of \$9.1 million.

This increase was principally driven by additional headcount and expenses incurred to increase revenue, both organically and through acquisition, which have contributed to the increase in salaries and related expenses.

**Commission Expense.** Commission expense for the three months ended March 31, 2016 was \$13.1 million compared to \$8.9 million for the three months ended March 31, 2015, an increase of \$4.2 million. This increase was a direct result of the increased fee income and fee income from related party recognized as a result of the increased volume in the business we manage.

**Outsourced Services.** Outsourced services for the three months ended March 31, 2016 were \$3.6 million compared to \$2.5 million for the three months ended March 31, 2015, an increase of \$1.1 million or approximately 44%. This increase was principally due to the acquisition of Global HR Research LLC, effective August 31, 2015.

*Other Operating Expenses.* Other operating expenses for the three months ended March 31, 2016 were \$9.8 million compared to \$6.3 million for the three months ended March 31, 2015, an increase of \$3.5 million or approximately 56%. The increase of other operating expense corresponds to the increased volume in business we manage.

*Acquisition Costs.* For the three months ended March 31, 2016 and 2015, we incurred \$0.6 million and \$0.6 million of acquisition costs. These costs were predominantly comprised of salary and related expenses, professional costs and other fees associated with acquisition activities.

*Interest Expense.* Interest expense for the three months ended March 31, 2016 was \$1.4 million compared to \$1.3 million for the three months ended March 31, 2015, a decrease of \$0.1 million. The increase in interest expense was the result of amortization of loan costs of \$0.2 million for the three months ended March 31, 2016, compared to \$0.1 million for the three months ended March 31, 2015, an increase of \$0.1 million. The increase was attributable to the amortization of deferred loan costs associated with the amendments to our Senior Credit facility.

*Depreciation and Amortization.* Depreciation and amortization for the three months ended March 31, 2016 was \$4.7 million compared to \$2.3 million for the three months ended March 31, 2015, an increase of \$2.4 million. The increase was attributable mainly to the increased intangible asset amortization associated with our acquisitions.

*Stock Compensation Expense.* The Company recognized \$1.4 million of stock compensation expense during the three months ended March 31, 2016 and \$2.5 million for the three month period ended March 31, 2015. Stock compensation expense is related to restricted stock and stock option awards. See Note 10, *Stock-Based Compensation*, for further detail related to these awards and the recognized expense.

*Decrease (Increase) in Fair Value of Warrant Redemption Liability.* There was a \$20.7 million increase in the fair value of warrant redemption liability for the three months ending March 31, 2016, which was fully offset by a corresponding \$20.7 million increase in the fair value of the forward purchase asset, which represents the Back-to-Back agreement. These instruments are fully described in *Note 12 Related Party* and *Note 15 Warrant Redemption Liability*. For the three months ended March 31, 2015 the decrease in fair value of warrant redemption liability was \$1.4 million which reflects the change in fair value from estimated valuation on December 31, 2014 to the exercise of the detachable common stock warrants associated with Pennant Park on January 22, 2015. There was no remaining warrant redemption liability as of March 31, 2015 and no future fair value adjustments are required.

*Cost from the Extinguishment of Debt.* For the three months ended March 31, 2016 there was no expense related to the extinguishment of debt. The Company recognized expenses for “Make-Whole” payments upon repayment of the PennantPark Debt and UBS Debt on January 22, 2015. These expenses were comprised of \$3.8 million to the PennantPark Entities and \$0.6 million to UBS. Due to the magnitude of these expenses, they are presented separately from interest expense in our combined results for the three months ended March 31, 2015

*Income Tax Expense.* Income tax expense was \$2.9 million for the three months ended March 31, 2016 compared to income tax benefit of \$3.3 million for the three months ended March 31, 2015, an increase in income tax expense of \$6.2 million. For the three months ended March 31, 2016, the effective income tax rates were approximately 45%. The effective tax rate is based on forecasted annual pre-tax income, permanent differences and statutory tax rates. The main difference in the effective tax rate from the statutory rate is the increase to the valuation allowance of deferred tax assets as a result of increased deferred tax assets associated with acquisitions.

#### *Net Income:*

As a result of the factors described above, net income increased by \$8.2 million to a net income of \$3.4 million for the three months ended March 31, 2016 as compared to a net loss of \$4.8 million for the three months ended March 31, 2015.

#### **Seasonality**

Although our revenue and operating results associated with our claims administration services are generally not subject to seasonality, our revenue and operating results associated with our brokerage and policyholder services are generally subject to seasonal variations as a result of the distribution of renewal dates of existing policies throughout the year, with slightly more renewals occurring in the first and third calendar quarter based on the current distribution of such dates.

#### **Impact of Inflation**

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had a material impact on our results of operations during the last two fiscal years, nor do we believe it is likely to have such a material impact in the foreseeable future.

## Liquidity and Capital Resources

### Sources and Uses of Funds

Our principal needs for liquidity have been, and for the foreseeable future will continue to be, working capital, capital expenditures and funding potential acquisitions, potential redemption of detachable common stock warrants, as well as servicing our Senior Secured Credit Facility. Our primary sources of liquidity include cash flows from operations and available cash and cash equivalents.

We believe that our cash flow from operations and available cash and cash equivalents will be sufficient to meet our liquidity needs for the foreseeable future. As of March 31, 2016, our unrestricted cash and cash equivalents were \$11.8 million. In addition, as of March 31, 2016, restricted cash was \$19.8 million, which are funds we receive from our insurance carrier clients and are earmarked exclusively for payments of claims on behalf of such clients. We cannot use restricted cash for other purposes.

To the extent we require additional liquidity, we anticipate that it will be funded through the incurrence of other indebtedness (which may include capital markets indebtedness, our Senior Secured Credit Facility or indebtedness under other credit facilities), equity financings or a combination thereof. Although we have no specific current plans to do so, if we decide to pursue one or more significant acquisitions, we may incur additional debt or sell additional equity to finance such acquisitions.

### Cash Flows

The following table summarizes our cash flow activities for the three months ended March 31, 2016 and 2015.

| <b>In thousands</b>                                 | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| <b>Cash flow activities:</b>                        |                                     |             |
| Net Cash Provided by Operating Activities           | \$ 18,654                           | \$ 937      |
| Net Cash Used in Investment Activities              | (9,950)                             | (12,964)    |
| Net Cash Provided by (Used in) Financing Activities | (5,302)                             | 19,081      |

### Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2016 was \$18.7 million compared to \$0.9 million for the three months ended March 31, 2015, an increase of \$17.8 million. The increase was largely attributable to a \$14.9 million decrease in income taxes payable for the three months ended March 31, 2015, as a result of payments made in 2015 related to the 2014 tax year. This increase is also a result of an increase in cash earnings as reflected in the earlier discussion of Adjusted EBITDA, net of working capital fluctuations.

### Investing Activities

Net cash used in investing activities for the three months ended March 31, 2016 was \$10.0 million compared to \$13.0 million for the three months ended March 31, 2015, a decrease of \$3.0 million. This decrease was attributable to funding of acquisitions of \$7.9 million in 2016 from \$6.7 million in 2015, an increase of \$1.2 million, the purchase of fixed assets and other long-term assets of \$1.2 million in 2016 from \$1.4 million in 2015, a decrease of \$0.2 million, a decrease in restricted cash of \$3.7 million in 2016 from \$4.9 million in 2015, an increase of \$1.2 million, an increase in the proceeds from the sale of equity securities of \$3.2 million in 2016, net of \$0.3 million used for the purchase of equity securities 2016.

### Financing Activities

Net cash used by financing activities for the three months ended March 31, 2016 was \$5.3 million compared to net cash provided by financing activity of \$19.1 million for the three months ended March 31, 2015, an increase of \$24.4 million. This increase was attributable to \$9.5 million of payments made in connection with acquisition earnouts and \$5.6 million for the repurchase of our common stock in 2016, net of \$11.9 million in proceeds from borrowings under our revolving credit facility.

### Capital Expenditures

For the three months ended March 31, 2016, we made capital expenditures of \$1.2 million attributable to \$0.5 million of fixed assets and \$0.7 million of capitalized software development. For the three months ended March 31, 2015, we made capital expenditures of \$1.4 million attributable to \$0.2 million of fixed assets and \$1.2 million of capitalized software development.

## ***Indebtedness***

As of March 31, 2016, we had a total of \$105.1 million of term loan debt outstanding under our Senior Secured Credit Facility, \$29.9 million outstanding under our revolving credit facility, and we had \$10.1 million available to borrow under the revolving credit. We had \$1.6 million of capital leases outstanding as of March 31, 2016.

### ***Senior Secured Credit Facility***

On January 22, 2015, we entered into a credit agreement which provides for a \$40.0 million revolving credit facility and a \$40.0 million term loan facility (the "Senior Secured Credit Facility"). The Senior Secured Credit Facility has a maturity of five years, and borrowings thereunder bear interest, at our option, at LIBOR plus a margin ranging from 250 basis points to 325 basis points or at base rate plus a margin ranging from 150 basis points to 225 basis points. Margins on all loans and fees will be increased by 2% per annum during the existence of an event of default. The revolving credit facility includes borrowing capacity available for letters of credit and borrowings on same-day notice, referred to as swing line loans. At any time prior to maturity, we have the right to increase the size of the revolving credit facility or the term loan facility by an aggregate amount of up to \$20.0 million, but in minimum increments of \$5.0 million.

As of June 30, 2015, we increased the term loan facility by \$20.0 million through two \$10.0 million incremental term loans. On August 14, 2015, we entered into a second amendment to the Senior Secured Credit Facility (the "Second Amendment") which provides for an additional \$50.0 million of term loans plus the ability to increase the term loan by an additional \$50.0 million under certain conditions. The Second Amendment also added a requirement that until the we deliver a certificate certifying that (a) our total leverage ratio is equal to or less than 2.25 to 1.00 and (b) our Adjusted EBITDA for the twelve-months then ended is at least \$70.0 million, the outstanding revolving loans (plus any swing line loans and the aggregate stated amount of all letters of credit) shall not exceed \$30.0 million. On December 23, 2015 we entered into a third amendment, which permits Patriot to exercise the provisions of the Rescission and Exchange Agreement for the private placement of company stock and warrants, and related Back-to-Back Agreement with the selling shareholder, as described in Related Party transactions. On March 3, 2016, we entered into a fourth amendment, which permits Patriot to repurchase shares of its outstanding common stock pursuant to certain volume and timing limitations. All other material terms and conditions in the Senior Secured Credit Facility were unchanged by the amendments.

In addition to paying interest on outstanding principal under the Senior Secured Credit Facility, we are required to pay a commitment fee to the Administrative Agent for the ratable benefit of the lenders under the revolving credit facility in respect of the unutilized commitments thereunder, ranging from 35 basis points to 50 basis points, depending on specified leverage ratios. With respect to letters of credit, we are also required to pay a per annum participation fee equal to the applicable LIBOR margin on the face amount of each letter of credit as well as a fee equal to 0.125% on the face amount of each letter of credit issued (or the term of which is extended). This latter 0.125% fee is payable to the issuer of the letter of credit for its own account, along with any standard documentary and processing charges incurred in connection with any letter of credit.

The term loan facility amortizes quarterly beginning the first full quarter after the closing date at a rate of 5% per annum of the original principal amount during the first two years, 7.5% per annum of the original principal amount during the third and fourth years and 10% per annum of the original principal amount during the fifth year, with the remainder due at maturity. Principal amounts outstanding under the revolving credit facility are due and payable in full at maturity. In the event of any sale or other disposition by us or our subsidiaries guaranteeing the Senior Secured Credit Facility of any assets with certain exceptions, we are required to prepay all proceeds received from such a sale towards the remaining scheduled payments of the term loan facility.

In addition, all obligations under the Senior Secured Credit Facility are guaranteed by all of our existing and future subsidiaries, other than foreign subsidiaries to the extent the assets of such foreign subsidiaries do not exceed 5% of our and our subsidiaries' total assets on a combined basis, and secured by a first-priority perfected security interest in substantially all of our and our guaranteeing subsidiaries' tangible and intangible assets, whether now owned or hereafter acquired, including a pledge of 100% of the stock of each guarantor.

The Senior Secured Credit Facility contains certain covenants that, among other things and subject to significant exceptions, limit our ability and the ability of our restricted subsidiaries to engage in certain business and financing activities and that require us to maintain certain financial covenants, including requirements to maintain (i) a maximum total leverage ratio of total outstanding debt to adjusted EBITDA for the most recently ended four fiscal quarters of no more than 300% and (ii) a minimum fixed charge coverage ratio of adjusted EBITDA to the sum of cash interest expense (which amount shall be calculated on an annualized basis for the three-, six- and nine-month periods ended March 31, 2016, June 30, 2016 and September 30, 2016) plus income tax expense (or less any income tax benefits) plus capital expenditures plus dividends, share repurchases and other restricted payments plus regularly scheduled principal payments of debt for the same period of a least 150% for the most recently-ended four quarters. The Senior Secured Credit Facility allows us to pay dividends in an amount up to 50% of our net income if certain other financial conditions are met.

The Senior Secured Credit Facility contains other restrictive covenants, including those regarding: indebtedness (including capital leases) and guarantees; liens; operating leases; investments and acquisitions; loans and advances; mergers, consolidations and other fundamental changes; sales of assets; transactions with affiliates; no material changes in nature of business; dividends and distributions, stock repurchases, and other restricted payments; change in name, jurisdiction of organization or fiscal year; burdensome agreements; and capital expenditures.

The Senior Secured Credit Facility also has events of default that may result in acceleration of the borrowings thereunder, including: (i) nonpayment of principal, interest, fees or other amounts (subject to customary grace periods for items other than principal); (ii) failure to perform or observe covenants set forth in the loan documentation (subject to customary grace periods for certain affirmative covenants); (iii) any representation or warranty proving to have been incorrect in any material respect when made; (iv) cross-default to other indebtedness and contingent obligations in an aggregate amount in excess of an amount to be agreed upon; (v) bankruptcy and insolvency defaults (with grace period for involuntary proceedings); (vi) inability to pay debts; (vii) monetary judgment defaults in excess of an agreed upon amount; (viii) ERISA defaults; (ix) change of control; (x) actual invalidity or unenforceability of any loan document, any security interest on any material portion of the collateral or asserted (by any loan party) invalidity or unenforceability of any security interest on any collateral; (xi) actual or asserted (by any loan party) invalidity or unenforceability of any guaranty; (xii) material unpaid, final judgments that have not been vacated, discharged, stayed or bonded pending appeal within a specified number of days after the entry thereof; and (xiii) any other event of default agreed to by us and the Administrative Agent.

As of March 31, 2016, we were in compliance with the financial and other restrictive covenants under our outstanding material debt obligations, including our Senior Secured Credit Facility.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

The Company has employment agreements with certain executives and other employees, which provide for compensation and certain other benefits and for severance payments under certain circumstances. The employment agreements contain clauses that become effective upon a change of control of the Company. Upon the occurrence of any of the defined events in the employment agreements, the Company would be obligated to pay certain amounts to the relevant employees.

The Company maintains cash at various financial institutions, and, at times, balances may exceed federal insured limits. Management does not believe this results in any material effect on the Company's financial position or results of operations. In the normal course of business, the Company may be party to various legal actions that management believes will not result in any material effect on the Company's financial position or results of operations.

### **Effect of Recently Issued Financial Accounting Standards**

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting", an update to Accounting Standard Codification ("ASC") Topic 718, *Compensation – Stock Compensation*. This new accounting guidance requires that all companies recognize the income tax effects of awards in the income statement when the awards vest or are settled, rather than maintaining an additional paid-in capital (APIC) pool and recognizing the tax benefits in excess of compensation costs through equity. As it relates to forfeitures, the guidance allows for companies to choose whether to continue to estimate forfeitures or account for forfeitures as they occur. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted and the new guidance may be applied either retrospectively or on a prospective basis. The Company is currently reviewing the guidance, and the impact from its adoption on our consolidated financial statements cannot be determined at this time.

In February 2016, the FASB issued ASU 2016-02, intended to improve financial reporting about leasing transactions. ASU 2016-02 affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. ASU 2016-02 will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—ASU 2016-02 will require both types of leases to be recognized on the balance sheet. ASU 2016-02 also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements.

ASU 2016-02 will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, ASU 2016-02 will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations. The company is currently reviewing the impact that implementing this guidance will have.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes,” which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The updated standard is effective for us beginning on January 1, 2017 with early application permitted as of the beginning of any interim or annual reporting period. We plan to adopt the new guidance in 2016, which is not expected to have a material impact on our consolidated financial statements other than reclassifying current deferred tax assets and liabilities to noncurrent in the balance sheet. See Note 16 to our consolidated financial statements for a discussion on income tax balances

In September 2015, the FASB issued ASU 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments”, an update to ASC Topic 805, *Business Combinations*. This update requires that an acquirer recognize adjustments to the provisional amounts that are identified during the measurement period in the reporting period in which the adjusting amounts are determined. The amendment requires that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. Adoption of this guidance has not had a material impact on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15 regarding ASC Topic 205, *Presentation of Financial Statements – Going Concern*. The updated guidance related to determining whether substantial doubt exists about an entity’s ability to continue as a going concern. The amendment provides guidance for determining whether conditions or events give rise to substantial doubt that an entity has the ability to continue as a going concern within one year following issuance of the financial statements and requires specific disclosures regarding the conditions or events leading to substantial doubt. The updated guidance is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2016. Earlier adoption is permitted, but we do not anticipate electing early adoption. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606, *Revenue from Contracts with Customers*. The standard provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued a deferral of effective date for this standard. For public companies this standard applies to annual reporting period beginning after December 15, 2017, including interim reporting periods within that reporting period, and early adoption is not permitted. We are currently evaluating the accounting, transition and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

## JOBS Act

The JOBS Act contains provisions that, among other things, allow an emerging growth company to take advantage of specified reduced reporting requirements. In particular, the JOBS Act provides that an emerging growth company can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We have elected to take advantage of such extended transition period, and, as a result, we will not be required to comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for companies that are not emerging growth companies.

## Reconciliations to Non-GAAP Key Performance Measures

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2016                            | 2015       |
|   | (In thousands)                  |            |
| <b>Reconciliation from Net Income (Loss) to Adjusted EBITDA:</b>            |                                 |            |
| Net Income (Loss)   | \$ 3,401                        | \$ (4,816) |
| Income tax expense (benefit)  | 2,859                           | (3,352)    |
| Interest expense  | 1,412                           | 1,258      |
| Depreciation and amortization   | 4,717                           | 2,303      |
| EBITDA  | 12,389                          | (4,607)    |
| Net losses on investments   | 295                             | —          |
| Decrease in fair value of warrant redemption liability                      | —                               | (1,385)    |
| Public offering costs   | 10                              | —          |
| Stock compensation expense  | 1,424                           | 2,535      |
| Acquisition costs   | 614                             | 604        |
| Severance expense   | 927                             | —          |
| Costs related to extinguishment of debt                                     | —                               | 13,681     |
| Adjusted EBITDA   | \$ 15,659                       | \$ 10,828  |
| Calculation of Adjusted EBITDA margins:                                     |                                 |            |
| Total Fee Income  | \$ 64,867                       | \$ 42,992  |
| Adjusted EBITDA   | 15,659                          | 10,828     |
| Adjusted EBITDA margins   | 24.1%                           | 25.2%      |
|   | Three Months Ended<br>March 31, |            |
|   | 2016                            | 2015       |
|   | (In thousands)                  |            |
| <b>Reconciliation to Operating Cash Flow:</b>                               |                                 |            |
| Adjusted EBITDA (calculated above)  | \$ 15,659                       | \$ 10,828  |
| Less: Income tax expense  | (2,859)                         | —          |
| Less: Cash interest expense, excluding \$152 and \$85 of deferred loan fees | (1,260)                         | (1,173)    |
| Less: Purchase of fixed assets and other long-term assets                   | (1,224)                         | (1,429)    |
| Operating cash flow   | \$ 10,316                       | \$ 8,226   |

| Three Months Ended |      |
|--------------------|------|
| March 31,          |      |
| 2016               | 2015 |

(In thousands)

**Reconciliation from Net Cash Provided by Operating Activities to Operating Cash Flow:**

|  |                  |                 |
|--|------------------|-----------------|
| Net Cash Provided by Operating Activities  | \$ 18,654        | \$ 937          |
| Changes in certain assets and liabilities:   |                  |                 |
| Increase (decrease) in:  |                  |                 |
| Fee income receivable  | 383              | 521             |
| Fee income receivable from related party   | (6,418)          | 1,752           |
| Other current assets   | 721              | 592             |
| Decrease (increase) in:  |                  |                 |
| Net payable to related parties   | (85)             | (1,747)         |
| Deferred claims administration services income   | 1,031            | 210             |
| Net advanced claims reimbursements   | (1,179)          | (625)           |
| Income taxes payable, net of income tax benefit of \$3.4 million for the three months ended March 31, 2015 | 673              | 11,596          |
| Accounts payable and accrued expenses  | (3,608)          | (8,359)         |
| Net income attributable to non-controlling interest in subsidiary  | (37)             | (15)            |
| Public offering costs  | 10               | —               |
| Acquisition costs  | 614              | 604             |
| Severance expense  | 927              | —               |
| Early payment penalty on repayment of debt   | —                | 4,339           |
| Provision for uncollectible fee income   | (146)            | (150)           |
| Excess tax deduction for the issuance of restricted stock awards   | —                | —               |
| Purchase of fixed assets and other long-term assets  | (1,224)          | (1,429)         |
| Operating cash flow  | <u>\$ 10,316</u> | <u>\$ 8,226</u> |

|  | Three Months Ended |            |
|--|--------------------|------------|
|  | March 31,          |            |
|  | 2016               | 2015       |
|  | (In thousands)     |            |
| <b>Reconciliation from Net (Loss) Income to Adjusted Earnings:</b>   |                    |            |
| Net Income (Loss)  | \$ 3,401           | \$ (4,816) |
| Net income attributable to non-controlling interest in subsidiary    | 37                 | 15         |
| Income tax expense (benefit)   | 2,859              | (3,352)    |
| Net income (loss) before income tax expense                          | 6,297              | (8,153)    |
| Adjustments to Net income (loss) before income tax expense:          |                    |            |
| Net losses on investments  | 295                | —          |
| Decrease in fair value of warrant redemption liability               | —                  | (1,385)    |
| Public offering costs  | 10                 | —          |
| Stock compensation expense   | 1,424              | 2,535      |
| Acquisition costs  | 614                | 604        |
| Severance expense  | 927                | —          |
| Costs related to extinguishment of debt                              | —                  | 13,681     |
| Total  | 3,270              | 15,435     |
| Adjusted net income before income tax expense                        | 9,567              | 7,282      |
| Income tax expense at statutory rate                                 | 3,731              | 2,840      |
| Adjusted Net Income Including Non-Controlling Interest in Subsidiary | 5,836              | 4,442      |
| Net income attributable to non-controlling interest in subsidiary    | 37                 | 15         |
| Adjusted Earnings  | \$ 5,799           | \$ 4,427   |
| Calculation of Adjusted Earnings Per Common Share                    |                    |            |
| Basic  | \$ 0.21            | \$ 0.18    |
| Diluted  | 0.21               | 0.17       |
| Weighted Average Common Shares Outstanding                           |                    |            |
| Basic  | 27,407             | 25,163     |
| Diluted  | 28,037             | 25,439     |
| Statutory Tax Rate   | 39.0%              | 39.0%      |

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2016, we were not subject to any material interest rate risk or credit risk, and we had no exposure to foreign currency risk.

### ITEM 4. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

#### Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On April 13, 2016, Hudson Bay Master Fund Ltd. (“Hudson Bay”) filed suit in the US District Court for the Southern District of New York against the Company, Steven M. Mariano, our Chairman and Chief Executive Officer, and American Stock Transfer Company, LLC as a nominal Defendant. Hudson Bay alleges that the Company and Mr. Mariano are in breach of various contracts regarding delivery of price adjustment warrants, and that Mr. Mariano interfered with those same contracts between the Company and Hudson Bay. Hudson Bay seeks specific performance of the contracts, monetary damages, and attorney’s fees. On April 14, 2016, CVI Investments Inc. (“CVI”), also filed suit against the Company in the same court. The CVI suit makes similar allegations of breach of contract regarding the price adjustment warrants. The CVI suit similarly seeks specific performance of the contracts, monetary damages, and attorney’s fees, as well as injunctive relief.

The Company has filed answers in both actions denying the allegations and asserting defenses. The Company has been indemnified for any losses related to the warrant agreements by Mr. Mariano.

### ITEM 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, see the information under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

(a) None.

(b) None.

**ITEM 6. EXHIBITS**

| <b>Exhibit Number</b> | <b>Exhibit Description</b>   |
|-----------------------|--|
| 2.1                   | Asset Purchase Agreement dated as of January 28, 2016 by and between Patriot Underwriters, Inc. and Mid Atlantic Insurance Services, Inc. (incorporated by reference to Exhibit 2.21 to the Registrant's Annual Report on Form 10-K filed on March 21, 2016 (File No. 001-36804))  |
| 3.1                   | Amended and Restated Certificate of Incorporation of Patriot National, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 22, 2015 (File no. 001-36804))   |
| 3.2                   | Amended and Restated By-Laws of Patriot National, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on January 22, 2015 (File no. 001-36804))  |
| 10.1                  | Credit Agreement, dated as of January 22, 2015, by and among Patriot National, Inc., the Lenders party thereto and BMO Harris Bank N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 22, 2015 (File no. 001-36804))                                   |
| 10.2                  | First Amendment to the Credit Agreement, dated as of June 15, 2015, by and among Patriot National, Inc., the lenders party thereto and BMO Harris Bank N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 14, 2015 (File no. 001-36804))             |
| 10.3                  | Third Amendment to the Credit Agreement, dated as of December 23, 2015, by and among Patriot National, Inc., the lenders party thereto and BMO Harris Bank N.A., as administrative agent (incorporated by reference to Exhibit 10.25 to the Registrant's Registration Statement on Form S-1 filed on January 15, 2016 (File no. 333-209010)) |
| 10.4                  | Fourth Amendment to the Credit Agreement, dated as of March 3, 2016, by and among Patriot National, Inc., the lenders party thereto and BMO Harris Bank N.A., as administrative agent (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K filed on March 21, 2016 (File No. 001-36804))               |
| 10.5                  | Securities Purchase Agreement, dated as of December 13, 2015, among Patriot National, Inc., Steven M. Mariano and the buyers named therein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 14, 2015 (File no. 001-36804))  |
| 10.6                  | Stock Back-to-Back Agreement, dated as of December 13, 2015, between Patriot National, Inc. and Steven M. Mariano (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on December 14, 2015 (File no. 001-36804))   |
| 10.7                  | Rescission and Exchange Agreement, dated as of December 23, 2015, among Patriot National, Inc. and the investors named therein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 23, 2015 (File no. 001-36804))  |
| 10.8                  | Amended and Restated Stock Back-to-Back Agreement, dated as of December 23, 2015, between Patriot National, Inc. and Steven M. Mariano (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 23, 2015 (File no. 001-36804))  |
| 10.9                  | Form of Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on December 15, 2015 (File no. 001-36804))   |
| 10.10                 | Form of Voting Agreement (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on December 23, 2015 (File no. 001-36804))  |
| 10.11                 | Patriot National, Inc. Acquisition Incentive Plan Under the Patriot National, Inc. 2014 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on November 12, 2015 (File no. 001-36804))   |
| 31.1                  | Certificate of Steven M. Mariano, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |
| 31.2                  | Certificate of Thomas C. Shields, Executive Vice President, Chief Financial Officer and Treasurer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |

|         |  |
|---------|--|
| 32.1    | Certificate of Steven M. Mariano, President and Chief Executive Officer, pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)                           |
| 32.2    | Certificate of Thomas C. Shields, Executive Vice President, Chief Financial Officer and Treasurer, pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema Document  |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |

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\* This document has been identified as a management contract or compensatory plan or arrangement.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

## SIGNATURES

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

PATRIOT NATIONAL, INC.

Date: May 13, 2016

By: /s/ Thomas C. Shields  
Executive Vice President, Chief Financial Officer  
& Treasurer, Authorized Signatory

40

[\(Back To Top\)](#)

## Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

### CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Steven M. Mariano, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 of Patriot National, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2016

/s/ Steven M. Mariano  
**Steven M. Mariano**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

[\(Back To Top\)](#)

## Section 3: EX-31.2 (EX-31.2)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Thomas C. Shields, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 of Patriot National, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 13, 2016

/s/ Thomas C. Shields

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**Thomas C. Shields**  
**Executive Vice President, Chief Financial**  
**Officer and Treasurer**  
**(Principal Financial Officer)**

[\(Back To Top\)](#)

## Section 4: EX-32.1 (EX-32.1)

**CERTIFICATION PURSUANT TO  
 18 U.S.C. SECTION 1350,  
 AS ADOPTED PURSUANT TO  
 SECTION 906 OF THE SARBANES-OXLEY  
 ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Patriot National, Inc. (the "Company") for the quarterly period ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven M. Mariano, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2016

/s/ Steven M. Mariano

**Steven M. Mariano**  
**President and Chief Executive Officer**  
**(Principal Executive Officer)**

[\(Back To Top\)](#)

## **Section 5: EX-32.2 (EX-32.2)**

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY  
ACT OF 2002**

In connection with the Annual Report on Form 10-Q of Patriot National, Inc. (the "Company") for the quarterly period ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas C. Shields, Executive Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2016

/s/ Thomas C. Shields

**Thomas C. Shields**  
**Executive Vice President, Chief Financial**  
**Officer and Treasurer**  
**(Principal Financial Officer)**

[\(Back To Top\)](#)