ATLANTIC AMERICAN CORP
Form 10-Q
November 08, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

Commission File Number 0-3722

ATLANTIC AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	58-1027114 (I.R.S. Employer Identification No.)
4370 Peachtree Road, N.E., Atlanta, Georgia (Address of principal executive offices)	30319 (Zip Code)

(404) 266-5500
(Registrant's telephone number, including area code)

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

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 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company þ

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

The total number of shares of the registrant's Common Stock, $1 par value, outstanding on November 4, 2010, was 22,269,206.

ATLANTIC AMERICAN CORPORATION

TABLE OF CONTENTS

Part I.Financial Information		Page No.
Item 1.	Financial Statements:	
	Consolidated Balance Sheets - September 30, 2010 and December 31, 2009	2
	Consolidated Statements of Operations -Three months and nine months ended September 30, 2010 and 2009	3
	Consolidated Statements of Shareholders' Equity -Nine months ended September 30, 2010 and 2009	4
	Consolidated Statements of Cash Flows - Nine months ended September 30, 2010 and 2009	5
	Notes to Consolidated Financial Statements	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 4T.	Controls and Procedures	26
Part II.	Other Information	
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 6.	Exhibits	27
Signatures		28

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value)

ASSETS

	Unaudited September 30, 2010	December 31, 2009
Cash and cash equivalents, including short-term investments of $14,703 and $14,697	$ 64,907	$ 20,129
Investments:		
Fixed maturities (cost: $143,430 and $189,111)	151,581	184,060
Common and non-redeemable preferred stocks (cost: $8,631 and $8,631)	7,591	6,914
Other invested assets (cost: $1,013 and $1,021)	1,013	1,021
Policy and student loans	2,130	2,139
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	163,591	195,410
Receivables:		
Reinsurance	11,532	11,489
Other (net of allowance for doubtful accounts: $521 and $533)	8,518	6,023
Deferred income taxes, net	418	6,041
Deferred acquisition costs	20,558	19,453
Other assets	1,911	1,413
Goodwill	2,128	2,128
Total assets	$ 273,563	$ 262,086
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policy funds:		
Future policy benefits	$ 60,399	$ 58,981
Unearned premiums	20,709	18,130
Losses and claims	50,675	50,112
Other policy liabilities	1,330	1,990
Total policy liabilities	133,113	129,213
Accounts payable and accrued expenses	12,273	14,165
Junior subordinated debenture obligations	41,238	41,238
Total liabilities	186,624	184,616
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred stock, $1 par, 4,000,000 shares authorized; Series D preferred, 70,000 shares issued and outstanding; $7,000 redemption value	70	70

Common stock, $1 par, 50,000,000 shares authorized; shares issued: 22,373,900; shares outstanding: 22,274,962 and 22,291,310		22,374		22,374
Additional paid-in capital		57,129		57,129
Retained earnings		4,041		3,404
Accumulated other comprehensive income (loss)		3,453		(5,405)
Treasury stock, at cost: 98,938 and 82,590 shares		(128)		(102)
Total shareholders' equity		86,939		77,470
Total liabilities and shareholders' equity	$	273,563	$	262,086

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
Insurance premiums	$24,577	$22,774	$72,322	$68,512
Investment income	2,302	2,699	7,435	8,142
Realized investment gains, net	211	14	224	1
Other income	56	51	215	202
Total revenue	27,146	25,538	80,196	76,857
Benefits and expenses:				
Insurance benefits and losses incurred	16,451	15,840	49,266	45,753
Commissions and underwriting expenses	7,409	6,804	21,376	21,734
Interest expense	660	679	1,955	2,094
Other	2,045	2,044	6,381	6,848
Total benefits and expenses	26,565	25,367	78,978	76,429
Income before income taxes	581	171	1,218	428
Income tax expense	56	2,279	200	2,268
Net income (loss)	525	(2,108)	1,018	(1,840)
Preferred stock dividends	(127)	(127)	(381)	(381)
Net income (loss) applicable to common stock	$398	$(2,235)	$637	$(2,221)
Net income (loss) per common share (basic and diluted)	$.02	$(.10)	$.03	$(.10)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited; Dollars in thousands)

Nine Months Ended September 30, 2010	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2009	$70	$22,374	$ 57,129	$3,404	$ (5,405)	$(102)	$77,470
Comprehensive income:							
Net income	-	-	-	1,018	-	-	1,018
Increase in unrealized investment gains	-	-	-	-	13,879	-	13,879
Fair value adjustment to derivative financial instrument	-	-	-	-	(251)	-	(251)
Deferred income tax attributable to other comprehensive income	-	-	-	-	(4,770)	-	(4,770)
Total comprehensive income							9,876
Dividends accrued on preferred stock	-	-	-	(381)	-	-	(381)
Purchase of shares for treasury	-	-	-	-	-	(26)	(26)
Balance, September 30, 2010	$70	$22,374	$ 57,129	$4,041	$ 3,453	$(128)	$86,939
Nine Months Ended September 30, 2009							
Balance, December 31, 2008	$70	$22,374	$ 57,107	$5,119	$ (9,200)	$(56)	$75,414
Comprehensive income:							
Net loss	-	-	-	(1,840)	-	-	(1,840)
Decrease in unrealized investment losses	-	-	-	-	9,395	-	9,395
Fair value adjustment to derivative financial instrument	-	-	-	-	373	-	373
Minimum pension liability adjustment	-	-	-	-	375	-	375
Deferred income tax attributable to other comprehensive income	-	-	-	-	(3,550)	-	(3,550)
Total comprehensive income							4,753
Dividends accrued on preferred stock	-	-	-	(381)	-	-	(381)
Amortization of unearned compensation	-	-	22	-	-	-	22
Purchase of shares for treasury	-	-	-	-	-	(15)	(15)
Balance, September 30, 2009	$70	$22,374	$ 57,129	$2,898	$ (2,607)	$(71)	$79,793

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in thousands)

	Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$1,018	$(1,840)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of deferred acquisition costs	7,250	7,471
Acquisition costs deferred	(8,355)	(7,610)
Realized investment gains	(224)	(1)
Increase (decrease) in insurance reserves	3,900	(2,079)
Compensation expense related to share awards	-	22
Depreciation and amortization	292	216
Deferred income tax expense	853	2,283
(Increase) decrease in receivables, net	(2,307)	4,583
Decrease in other liabilities	(1,524)	(6,369)
Other, net	(580)	53
Net cash provided by (used in) operating activities	323	(3,271)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold, called or matured	73,142	89,688
Investments purchased	(28,611)	(94,158)
Additions to property and equipment	(50)	(94)
Net cash provided by (used in) investing activities	44,481	(4,564)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of shares for treasury	(26)	(15)
Net cash used in financing activities	(26)	(15)
Net increase (decrease) in cash and cash equivalents	44,778	(7,850)
Cash and cash equivalents at beginning of period	20,129	37,321
Cash and cash equivalents at end of period	$64,907	$29,471
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$1,962	$2,141
Cash paid for income taxes	$-	$-

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

ATLANTIC AMERICAN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2010
(Unaudited; Dollars in thousands, except per share amounts)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Atlantic American Corporation (the "Parent") and its subsidiaries (collectively with the Parent, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for audited financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements included herein and these related notes should be read in conjunction with the Company's consolidated financial statements, and the notes thereto, that are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. Operating results for the three month and nine month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010 or for any other future period.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Note 2. Impact of Recently Issued Accounting Standards

In October 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-26, Financial Services – Insurance (Topic 944) – Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ("ASU 2010-26") which specifies which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. In accordance with ASU 2010-26, incremental direct costs of contract acquisition should be capitalized. Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in Subtopic 340-20, Other Assets and Deferred Costs – Capitalized Advertising Costs, are met. All other acquisition related costs, including costs incurred by the insurer in soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, should be expensed as incurred. If the initial application of ASU 2010-26 results in the capitalization of acquisition costs that had not been capitalized previously, the entity may elect not to capitalize those types of costs. The amendments in ASU 2010-26 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The amendments in ASU 2010-26 should be applied prospectively upon adoption; although retrospective application to all prior periods presented upon the date of adoption is also permitted, but not required. Early adoption is permitted, but only at the beginning of an entity's annual reporting period. The Company will adopt the amendments to ASU 2010-26 on January 1, 2012 and does not expect the adoption to have a material impact on the Company's financial condition or results of operations.

In January 2010, the FASB issued ASU No. 2010-6, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements ("ASU 2010-6"), which requires entities to make disclosures about recurring and nonrecurring fair value measurements. In accordance with ASU 2010-6, the reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. ASU 2010-6 also requires an entity to present separately information about purchases, sales, issuances, and settlements in the reconciliation of fair value measurements using significant unobservable inputs (Level 3). The disclosures in ASU 2010-6 are effective for interim and annual reporting periods beginning after December 15, 2009, except for purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. See Note 11, Investments, for expanded interim disclosures.

Table of Contents

In June 2009, the FASB issued amendments to Accounting Standards Codification ("ASC") 810-10 ("ASC 810-10"), which amend the consolidation guidance applicable to variable interest entities ("VIEs"). Pursuant to these amendments, an entity would consolidate a VIE, as the primary beneficiary, when the entity has both of the following: (a) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Ongoing reassessment of whether an enterprise is the primary beneficiary of a VIE is required. The amendments to ASC 810-10 eliminate the quantitative approach previously required for determining the primary beneficiary of a VIE. The amendments to ASC 810-10 are effective for fiscal years and interim periods beginning after November 15, 2009. The Company adopted the amendments to ASC 810-10 on January 1, 2010. Adoption of the amendments to ASC 810-10 did not have a material impact on the Company's financial condition or results of operations.

In June 2009, the FASB issued an amendment to ASC 860. The amendment to ASC 860 amends the derecognition guidance and eliminates the concept of a qualifying special purpose entity. The amendment to ASC 860 is effective for fiscal years and interim periods beginning after November 15, 2009. Early adoption of the amendment to ASC 860 was prohibited. The Company adopted the amendment to ASC 860 on January 1, 2010. Adoption of the amendment to ASC 860 did not have a material impact on the Company's financial condition or results of operations.

Note 3. Segment Information

The Company's primary operating subsidiaries, American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") and Bankers Fidelity Life Insurance Company ("Bankers Fidelity") operate in two principal business units, each focusing on a specific geographic region and/or specific products. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each business unit is managed independently and is evaluated on its individual performance. The following sets forth the revenue and pre-tax income (loss) for each business unit for the three month and nine month periods ended September 30, 2010 and 2009.

Revenues	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
American Southern	$ 9,825	$ 9,586	$ 28,924	$ 29,865
Bankers Fidelity	17,162	15,851	50,814	46,635
Corporate and Other	159	101	458	357
Total revenue	$ 27,146	$ 25,538	$ 80,196	$ 76,857

Income (loss) before income taxes	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
American Southern	$ 1,256	$ 1,149	$ 3,128	$ 3,514
Bankers Fidelity	546	466	1,793	1,582
Corporate and Other	(1,221)	(1,444)	(3,703)	(4,668)
Income before income taxes	$ 581	$ 171	$ 1,218	$ 428

Table of Contents

Note 4. Credit Arrangements

Bank Debt

At September 30, 2010, the Company had a revolving credit facility (the “Credit Agreement”) with Wells Fargo Bank, National Association (“Wells Fargo”), pursuant to which the Company is able to, subject to the terms and conditions thereof, borrow or reborrow up to $5,000. The interest rate on amounts outstanding under the Credit Agreement is, at the option of the Company, equivalent to either (a) the base rate (which equals the higher of the Prime Rate or 0.5% above the Federal Funds Rate, each as defined) or (b) the London Interbank Offered Rate (“LIBOR”) determined on an interest period of 1-month, 2-months, 3-months or 6-months, plus 2.00%. Interest on amounts outstanding is payable quarterly. The Credit Agreement requires the Company to comply with certain covenants, including, among others, ratios that relate funded debt to both total capitalization and earnings before interest, taxes, depreciation and amortization, as well as the maintenance of minimum levels of tangible net worth. The Company must also comply with limitations on capital expenditures, certain payments, additional debt obligations, equity repurchases and certain redemptions, as well as minimum risk-based capital levels. Upon the occurrence of an event of default, Wells Fargo may terminate the Credit Agreement and declare all amounts outstanding due and payable in full. During the nine month period ended September 30, 2010, there was no balance outstanding under this Credit Agreement and the Company was in compliance with all terms of the Credit Agreement. The termination date of this Credit Agreement is June 30, 2011. The Company expects that it would seek to extend or renew the Credit Agreement on or prior to expiration, although no assurances can be provided that any extension or replacement would be available to the Company on acceptable terms, or at all.

Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities (“Trust Preferred Securities”) representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures (“Junior Subordinated Debentures”) of Atlantic American; and (iii) engaging in only those activities necessary or incidental thereto.

The financial structure of each of Atlantic American Statutory Trust I and II as of September 30, 2010 was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES (1) (2)		
Principal amount owed	$ 18,042	$ 23,196
Balance September 30, 2010	18,042	23,196
Balance December 31, 2009	18,042	23,196
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer	Yes	Yes
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	$ 1	$ 1
Liquidation value	17,500	22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly

Distribution guaranteed by (3)	Atlantic American Corporation	Atlantic American Corporation

(1) For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures' respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company's common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.

(2) The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.

(3) The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

Table of Contents

Note 5. Derivative Financial Instruments

On February 21, 2006, the Company entered into a zero cost interest rate collar with Wells Fargo to hedge future interest payments on a portion of the Junior Subordinated Debentures. The notional amount of the collar was $18,042 with an effective date of March 6, 2006. The collar has a LIBOR floor rate of 4.77% and a LIBOR cap rate of 5.85% and adjusts quarterly on the 4th of each March, June, September and December through termination on March 4, 2013. The Company began making payments to Wells Fargo under the zero cost interest rate collar on June 4, 2008. As a result of interest rates remaining below the LIBOR floor rate of 4.77%, these payments to Wells Fargo under the zero cost interest rate collar have continued through September 30, 2010. While the Company may be exposed to counterparty risk should Wells Fargo fail to perform, based on the current level of interest rates, and coupled with the current macroeconomic outlook, the Company believes that its current counterparty risk exposure is minimal.

The estimated fair value and related carrying value of the Company's interest rate collar at September 30, 2010 was a liability of approximately $1,798 with a corresponding decrease in accumulated other comprehensive income in shareholders' equity, net of deferred tax.

Note 6. Reconciliation of Other Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net realized gains on investments included in net income	$211	$14	$224	$1
Other components of comprehensive income:				
Net pre-tax unrealized gains on investments arising during period	$ 4,300	$ 7,179	$ 14,103	$ 9,396
Reclassification adjustment	(211)	(14)	(224)	(1)
Net pre-tax unrealized gains on investments recognized in other comprehensive income	4,089	7,165	13,879	9,395
Fair value adjustment to derivative financial instrument	(65)	(130)	(251)	373
Minimum pension liability adjustment	-	-	-	375
Deferred income tax attributable to other comprehensive income	(1,409)	(2,462)	(4,770)	(3,550)
Change in accumulated other comprehensive income	2,615	4,573	8,858	6,593
Accumulated other comprehensive income (loss) beginning of period	838	(7,180)	(5,405)	(9,200)
Accumulated other comprehensive income (loss) end of period	$ 3,453	$(2,607)	$ 3,453	$(2,607)

Table of Contents

Note 7. Earnings (Loss) Per Common Share

A reconciliation of the numerator and denominator used in the earnings (loss) per common share calculations is as follows:

	Three Months Ended September 30, 2010		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$ 525	22,281	
Less preferred stock dividends	(127)		
Net income applicable to common shareholders	398	22,281	$ .02
Diluted Earnings Per Common Share:			
Effect of dilutive stock options		31	
Net income applicable to common shareholders	$ 398	22,312	$ .02

	Three Months Ended September 30, 2009		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Loss Per Common Share:			
Net loss	$ (2,108)	22,323	
Less preferred stock dividends	(127)		
Net loss applicable to common shareholders	$ (2,235)	22,323	$ (.10)

	Nine Months Ended September 30, 2010		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$ 1,018	22,286	
Less preferred stock dividends	(381)		
Net income applicable to common shareholders	637	22,286	$ .03
Diluted Earnings Per Common Share:			
Effect of dilutive stock options		32	
Net income applicable to common shareholders	$ 637	22,318	$ .03

Table of Contents

	Nine Months Ended September 30, 2009		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Loss Per Common Share:			
Net loss	$ (1,840)	22,311	
Less preferred stock dividends	(381)		
Net loss applicable to common shareholders	$ (2,221)	22,311	$ (.10)

The assumed conversion of the Company's Series D Preferred Stock was excluded from the earnings (loss) per common share calculation for all periods presented since its impact would have been antidilutive. All outstanding stock options were excluded from the earnings (loss) per common share calculation for the three month and nine month periods ended September 30, 2009 since their impact also would have been antidilutive.

Note 8. Income Taxes

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax expense is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Federal income tax provision at statutory rate of 35%	$203	$60	$426	$150
Tax exempt interest and dividends received deductions	(55)	(56)	(147)	(174)
Other permanent differences	16	16	29	33
Change in asset valuation allowance due to change in judgment relating to realizability of deferred tax assets	-	1,755	-	1,755
Adjustment for prior years' estimates to actual	(108)	504	(108)	504
Income tax expense	$56	$2,279	$200	$2,268

The components of the income tax expense were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Current - Federal	$ (659)	$ (15)	$ (653)	$ (15)
Deferred - Federal	715	539	853	528
Change in deferred tax asset valuation allowance	-	1,755	-	1,755
Total	$ 56	$ 2,279	$ 200	$ 2,268

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and nine month periods ended September 30, 2010 resulted from the dividends-received deduction ("DRD") and the provision-to-filed return adjustments. The current estimated DRD is adjusted as underlying factors change. The actual current year DRD can vary from the estimates based on, but not limited to, actual distributions from these investments as well as appropriate levels of taxable income. The provision-to-filed return adjustments are generally updated at the completion of the third quarter of each fiscal year and were $108 in the three month and nine month periods ended September 30, 2010. The provision-to-filed-return adjustments for the three month and nine month periods ended September 30, 2010 were primarily due to adjustments related to the carryback and utilization of capital losses on investments in the Company's life and health operation.

Table of Contents

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and nine month periods ended September 30, 2009 resulted from the DRD, the change in deferred tax asset valuation allowance, and the provision-to-filed return adjustments. The change in deferred tax asset valuation allowance was due to reassessment of the realization of certain capital loss carryforward benefits. The Company has established a corresponding valuation allowance of $1,755 as it does not anticipate having sufficient future capital gains to offset these capital losses during the applicable carryforward period. The provision-to-filed return adjustments were $504 in the three month and nine month periods ended September 30, 2009. The provision-to-filed-return adjustments for the three month and nine month periods ended September 30, 2009 were primarily due to adjustments related to the 2008 sale of the Company's regional property and casualty operations.

Note 9. Employee Retirement Plans

Effective May 31, 2008, the Company froze all benefits related to its qualified pension plan, as well as its supplemental executive retirement plan ("SERP"). In May 2009, the Company terminated the SERP and distributed the accumulated benefits to those participating employees. On March 11, 2010, the Company received a determination letter from the Internal Revenue Service approving the termination of the Company's qualified pension plan. In May 2010, the Company distributed the accumulated benefits to participating employees, and terminated the qualified pension plan. In connection with the May 2010 termination and settlement of the qualified pension plan, the Company incurred a non-recurring charge of $319 during the nine month period ended September 30, 2010.

Note 10. Commitments and Contingencies

From time to time, the Company is involved in various claims and lawsuits incidental to and in the ordinary course of its businesses. In the opinion of management, any such known claims are not expected to have a material effect on the business or financial condition of the Company.

Table of Contents

Note 11. Investments

The following tables set forth the carrying value, gross unrealized gains, gross unrealized losses and amortized cost of the Company's investments, aggregated by type and industry, as of September 30, 2010 and December 31, 2009.

Investments were comprised of the following:

	September 30, 2010			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed Maturity Securities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$64,197	$4,419	$-	$59,778
Obligations of states and political subdivisions	14,613	300	23	14,336
Corporate securities				
Utilities and telecom	24,659	2,709	-	21,950
Financial services	14,989	579	1,603	16,013
Media	2,500	147	-	2,353
Other business – diversified	10,500	823	-	9,677
Other consumer – diversified	11,401	744	13	10,670
Total corporate securities	64,049	5,002	1,616	60,663
Redeemable preferred stocks				
Utilities and telecom	2,735	235	-	2,500
Financial services	4,902	30	137	5,009
Media	892	-	59	951
Other consumer – diversified	193	-	-	193
Total redeemable preferred stocks	8,722	265	196	8,653
Total fixed maturity securities	151,581	9,986	1,835	143,430
Common and non-redeemable preferred stocks:				
Financial services	6,551	1,242	77	5,386
Media	916	-	2,282	3,198
Other business – diversified	124	77	-	47
Total common and non-redeemable preferred stocks	7,591	1,319	2,359	8,631
Other invested assets (fair value of $1,013)	1,013	-	-	1,013
Policy and student loans	2,130	-	-	2,130
Real estate	38	-	-	38
Investments in unconsolidated trusts	1,238	-	-	1,238
Investments	163,591	11,305	4,194	156,480
Short-term investments	14,703	-	-	14,703
Total investments	$178,294	$11,305	$4,194	$171,183

Table of Contents

	December 31, 2009			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed Maturity Securities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$124,392	$628	$3,538	$127,302
Corporate securities				
Utilities and telecom	24,615	695	105	24,025
Financial services	13,518	228	2,324	15,614
Media	2,412	59	-	2,353
Other business – diversified	6,515	125	92	6,482
Other consumer – diversified	4,726	134	90	4,682
Total corporate securities	51,786	1,241	2,611	53,156
Redeemable preferred stocks				
Utilities and telecom	2,668	168	-	2,500
Financial services	4,215	6	800	5,009
Media	806	-	145	951
Other consumer – diversified	193	-	-	193
Total redeemable preferred stocks	7,882	174	945	8,653
Total fixed maturity securities	184,060	2,043	7,094	189,111
Common and non-redeemable preferred stocks:				
Financial services	6,097	1,029	318	5,386
Media	718	-	2,480	3,198
Other business – diversified	99	52	-	47
Total common and non-redeemable preferred stocks	6,914	1,081	2,798	8,631
Other invested assets (fair value of $1,021)	1,021	-	-	1,021
Policy and student loans	2,139	-	-	2,139
Real estate	38	-	-	38
Investments in unconsolidated trusts	1,238	-	-	1,238
Investments	195,410	3,124	9,892	202,178
Short-term investments	14,697	-	-	14,697
Total investments	$210,107	$3,124	$9,892	$216,875

The amortized cost and carrying value of fixed maturity securities and short-term investments at September 30, 2010 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Maturities	September 30, 2010	
	Carrying Value	Amortized Cost
Due in one year or less	$ 17,569	$ 17,507
Due after one year through five years	7,726	7,278
Due after five years through ten years	28,260	25,797
Due after ten years	111,639	106,558
Varying maturities	1,090	993
Totals	$ 166,284	$ 158,133

-14-

Table of Contents

The following table sets forth the carrying value, amortized cost, and net unrealized gains or losses of the Company's investments aggregated by industry as of September 30, 2010 and December 31, 2009.

	September 30, 2010			December 31, 2009		
	Carrying Value	Amortized Cost	Unrealized Gains (Losses)	Carrying Value	Amortized Cost	Unrealized Gains (Losses)
U.S. Treasury securities and U.S. Government agencies	$64,197	$59,778	$4,419	$124,392	$127,302	$(2,910)
Obligations of states and political subdivisions	14,613	14,336	277	-	-	-
Utilities and telecom	27,394	24,450	2,944	27,283	26,525	758
Financial services	26,442	26,408	34	23,830	26,009	(2,179)
Media (1)	4,308	6,502	(2,194)	3,936	6,502	(2,566)
Other business – diversified	10,624	9,724	900	6,614	6,529	85
Other consumer – diversified	11,594	10,863	731	4,919	4,875	44
Other investments	4,419	4,419	-	4,436	4,436	-
Investments	$163,591	$156,480	$7,111	$195,410	$202,178	$(6,768)

(1) Media includes related party investments in Gray Television, Inc. with an amortized cost basis of $3,198 and which had an aggregate carrying value of $916 and $718 at September 30, 2010 and December 31, 2009, respectively.

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of September 30, 2010 and December 31, 2009.

	September 30, 2010					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	$2,010	$23	$-	$-	$2,010	$23
Corporate securities	5,233	36	3,420	1,580	8,653	1,616
Redeemable preferred stocks	-	-	3,024	196	3,024	196
Common and non-redeemable preferred stocks	974	26	3,148	2,333	4,122	2,359
Total temporarily impaired securities	$8,217	$85	$9,592	$4,109	$17,809	$4,194

	December 31, 2009					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$96,977	$3,300	$4,772	$238	$101,749	$3,538
Corporate securities	12,894	609	7,525	2,002	20,419	2,611
Redeemable preferred stocks	-	-	4,515	945	4,515	945
Common and non-redeemable preferred stocks	-	-	3,683	2,798	3,683	2,798

Total temporarily impaired securities	$109,871	$3,909	$20,495	$5,983	$130,366	$9,892

Table of Contents

The following is a summary of investment impairments the Company recorded due to other than temporary declines in values for the three month and nine month periods ended September 30, 2010 and 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Redeemable preferred stocks	$ -	$ -	$ -	$ 44
Other invested assets	-	-	-	17
Total	$ -	$ -	$ -	$ 61

During the nine month period ended September 30, 2009, the Company recorded a $61 realized loss due to other than temporary impairments in its investment in redeemable preferred securities of General Motors Corporation and certain other invested assets. There were no impairments recorded during the three month and nine month periods ended September 30, 2010.

The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. The risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, the intent and ability to hold these securities until price recovery, the nature of the investment and the prospects for the issuer and its industry, the status of an issuer's continued satisfaction of the investment obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status.

As of September 30, 2010, securities in an unrealized loss position were primarily related to the Company's investments in fixed maturity securities, and common and non-redeemable preferred stocks within the financial services and media sectors. The media sector includes related party investments in Gray Television, Inc. which had unrealized losses of $2,282 as of September 30, 2010 and accounted for the majority of the unrealized loss position in that sector. The Company does not intend to sell nor does it expect to be required to sell the securities referenced previously. In addition, the Company asserts its intent and ability to retain the above equity securities until price recovery. Furthermore, based upon the Company's expected continuation of receipt of contractually required principal and interest payments, the Company has deemed these securities to be temporarily impaired as of September 30, 2010.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's Level 1 instruments consist of short-term investments.

Level 2 Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets or liabilities. The Company's Level 2 instruments include most of its fixed maturity securities, which consist of U.S. Treasury securities and U.S. Government securities, municipal bonds, and certain corporate fixed maturity securities, as well as its common and non-redeemable preferred stocks. In determining Level 2 fair value measurements, the Company utilizes various external pricing services.

Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). The Company's Level 3 financial instruments include certain fixed maturity securities and a zero cost interest rate collar. Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. As of September 30, 2010, the value of the Company's fixed maturity securities valued using Level 3 criteria was $2,035 and the value of the zero cost interest rate collar was a liability of $1,798 (See Note 5). The use of different criteria or assumptions regarding data may have yielded different valuations.

Table of Contents

As of September 30, 2010, investments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed maturity securities	$ -	$ 149,546	$ 2,035	$ 151,581
Equity securities	-	7,591	-	7,591
Short-term investments	14,703	-	-	14,703
Total	$ 14,703	$ 157,137	$ 2,035	$ 173,875

As of December 31, 2009, investments carried at fair value were measured on a recurring basis as summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)