

ASSURANCEAMERICA CORP
Form 10-Q
November 12, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2010

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-06334

AssuranceAmerica Corporation

(Exact name of smaller reporting company as specified in its charter)

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Nevada
(State of Incorporation)
5500 Interstate North Parkway, Suite 600
(Address of principal executive offices)

87-0281240
(IRS Employer ID Number)
30328
(Zip Code)

(770) 952-0200

(Issuer's telephone number, including area code)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or 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 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. (Check one):

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

There were 65,494,357 shares of the Registrant's \$.01 par value Common Stock outstanding as of November 5, 2010.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	(Unaudited)	
	September 30, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	\$ 8,088,733	\$ 6,253,643
Cash restricted	1,802,337	1,800,000
Short-term investments	360,948	365,717
Long-term investments, at fair value (amortized cost \$8,379,412 and \$7,745,142)	8,527,293	7,518,144
Long-term investments, held to maturity at amortized cost (fair value \$4,986,847 and \$4,981,850)	1,001,089	1,015,374
Marketable equity securities, at fair value (cost \$1,958,111 and \$1,888,334)	2,061,240	1,918,841
Other long-term investments	744,322	
Other securities	155,000	155,000
Investment income due and accrued	193,241	180,719
Receivable from insureds	36,711,165	35,173,717
Reinsurance recoverable (including \$9,666,005 and \$14,099,266 on paid losses)	32,176,962	43,809,125
Prepaid reinsurance premiums	25,928,912	25,098,051
Deferred acquisition costs	2,608,015	2,457,647
Property and equipment (net of accumulated depreciation of \$4,930,008 and \$4,344,673)	2,000,878	2,012,963
Other receivables	3,588,577	1,766,762
Prepaid expenses	998,446	510,558
Intangibles (net of accumulated amortization of \$3,328,893 and \$3,051,877)	7,588,193	7,509,934
Security deposits	122,594	105,315
Prepaid income tax		249,452
Deferred tax assets	2,346,028	2,909,229
Other assets	325,816	335,526
Total assets	\$ 137,329,789	\$ 141,145,717
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable and accrued expenses	\$ 11,904,588	\$ 8,551,370
Unearned premium	37,267,811	35,916,156
Unpaid losses and loss adjustment expenses	31,671,126	41,972,983
Reinsurance payable	30,158,044	28,523,284
Provisional commission reserve	2,894,381	3,599,289
Funds withheld from reinsurers	1,875,000	1,875,000
Federal income taxes payable	9,150	
Revolving line of credit	1,500,000	1,500,000
Notes payable and related party debt	199,318	774,001
Junior subordinated debentures payable	4,986,847	4,981,850
Total liabilities	122,466,265	127,693,933

Commitments and Contingencies

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Common stock, \$.01 par value (authorized 120,000,000 and 80,000,000, outstanding 65,494,357 and 65,144,357)	654,943	651,443
Surplus-paid in	17,782,429	17,363,620
Accumulated deficit	(3,730,729)	(4,440,473)
Accumulated other comprehensive gains (losses):		
Net unrealized gains (losses) on investment securities, net of taxes	156,881	(122,806)
Total stockholders equity	14,863,524	13,451,784
Total liabilities and stockholders equity	\$ 137,329,789	\$ 141,145,717

See accompanying notes to consolidated financial statements.

Table of Contents**ASSURANCEAMERICA CORPORATION****(Unaudited) CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
Gross premiums written	\$ 24,908,126	\$ 27,080,533	\$ 78,946,512	\$ 84,733,359
Gross premiums ceded	(16,636,790)	(18,123,071)	(53,257,566)	(57,042,434)
Net premiums written	8,271,336	8,957,462	25,688,946	27,690,925
(Increase) decrease in unearned premiums, net of prepaid reinsurance premiums	25,191	(139,747)	(520,796)	(1,861,362)
Net premiums earned	8,296,527	8,817,715	25,168,150	25,829,563
Commission income	5,595,289	5,366,796	16,326,066	17,125,276
Managing general agent fees	2,693,884	2,603,629	8,332,545	7,812,300
Net investment income	165,428	179,768	501,917	522,891
Net investment gains (losses)	3,627	5,511	(2,075)	(320,190)
Other fee income	105,711	77,091	334,622	259,708
Total revenue	16,860,466	17,050,510	50,661,225	51,229,548
Expenses:				
Losses and loss adjustment expenses	6,056,487	6,214,195	17,892,230	18,286,400
Selling, general and administrative expenses	10,171,700	9,926,900	29,935,364	29,335,305
Stock option expense	103,939	84,510	317,308	251,686
Depreciation and amortization expense	297,904	301,106	862,785	895,100
Interest expense	92,979	102,005	280,644	354,695
Total operating expenses	16,723,009	16,628,716	49,288,331	49,123,186
Income before provision for income tax expense	137,457	421,794	1,372,894	2,106,362
Income tax provision	105,328	187,292	663,149	873,150
Net income	\$ 32,129	\$ 234,502	\$ 709,745	\$ 1,233,212
Earnings per common share				
Basic	\$ 0.000	\$ 0.004	\$ 0.011	\$ 0.019
Diluted	\$ 0.000	\$ 0.004	\$ 0.011	\$ 0.019
Weighted average shares outstanding-basic	65,494,357	65,144,357	65,458,460	65,112,495
Weighted average shares outstanding-diluted	66,139,978	65,495,170	65,957,494	65,261,331

See accompanying notes to consolidated financial statements.

Table of Contents**ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES****(Unaudited) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
Net income	\$ 32,129	\$ 234,502	\$ 709,745	\$ 1,233,212
Other comprehensive gains (losses):				
Change in unrealized gains (losses) of investments:				
Unrealized gains arising during the year	305,600	507,501	445,424	643,623
Reclassification adjustment for realized gains (losses) recognized during the year	(3,627)	(5,511)	2,075	320,190
Net change in unrealized gains	301,973	501,990	447,499	963,813
Deferred income taxes on above changes	(113,239)	(188,246)	(167,812)	(361,430)
Other comprehensive gains	188,734	313,744	279,687	602,383
Comprehensive income	\$ 220,863	\$ 548,246	\$ 989,432	\$ 1,835,595

See accompanying notes to consolidated financial statements.

Table of Contents**ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES****(Unaudited) CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income	\$ 709,745	\$ 1,233,212
Adjustments to net income to net cash provided (used) by operating activities		
Net investment losses on securities	2,075	320,190
Depreciation and amortization	945,472	900,009
Stock-based compensation	317,308	251,686
Deferred tax provision	395,389	554,352
Changes in assets and liabilities:		
Investment income due and accrued	(12,522)	(115,114)
Receivables	(3,359,263)	(9,150,101)
Prepaid expenses and other assets	(495,457)	(1,232)
Unearned premiums	1,351,655	6,665,828
Unpaid loss and loss adjustment expenses	(10,301,857)	1,933,841
Ceded reinsurance payable	1,634,760	(512,797)
Reinsurance recoverable	11,632,163	(1,761,362)
Prepaid reinsurance premiums	(830,861)	(4,804,465)
Accounts payable and accrued expenses	3,091,218	2,249,539
Prepaid income taxes/federal income taxes payable	258,602	309,903
Deferred acquisition costs	(150,368)	(361,103)
Provisional commission reserve	(704,908)	(132,431)
Net cash provided (used) by operating activities	4,483,151	(2,420,045)
Cash flows from investing activities:		
Purchases of property and equipment, net	(541,959)	(226,203)
Change in short-investments	4,769	807
Proceeds from sales, call and maturities of investments	1,357,895	5,232,127
Purchases of investments	(2,871,746)	(4,363,872)
Transfer of cash to restricted cash	(2,337)	
Cash received on sale of book of business		30,000
Cash paid for acquisition of agencies, net of cash acquired	(125,000)	(34,200)
Net cash provided (used) by investing activities	(2,178,378)	638,659
Cash flows from financing activities:		
Repayment of notes payable	(574,683)	(804,916)
Stock issued, net of expenses	105,000	120,000
Net cash used by financing activities	(469,683)	(684,916)
Net increase (decrease) in cash and cash equivalents	1,835,090	(2,466,302)
Cash and cash equivalents, beginning of period	6,253,643	8,287,149
Cash and cash equivalents, end of period	\$ 8,088,733	\$ 5,820,847

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See accompanying notes to consolidated financial statements.

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ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(1) Description of Business

AssuranceAmerica Corporation, a Nevada corporation (the Company) is an insurance holding company whose business is comprised of AssuranceAmerica Insurance Company (AAIC), AssuranceAmerica Managing General Agency, LLC (MGA) and TrustWay Insurance Agencies, LLC (TrustWay), each wholly owned. The Company primarily solicits and underwrites non-standard private passenger automobile insurance. The Company is headquartered in Atlanta, Georgia.

(2) Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. In our opinion, the financial statements reflect all adjustments (consisting solely of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim period. Certain items in prior period financial statements have been reclassified to conform to the current presentation. For further information, please refer to our audited consolidated financial statements appearing in the Form 10-K for the year ended December 31, 2009.

Basis of Investments and Presentation

Valuation of available-for-sale investments. Our available for sale investment portfolio are recorded at fair value, which is typically based on publicly-available quoted prices. From time to time, the carrying value of our investments may be temporarily impaired because of the inherent volatility of publicly-traded investments. We do not adjust the carrying value of any investment unless management determines that the impairment of an investment's value is other than temporary.

We conduct regular reviews to assess whether our investments are impaired and if any impairment is other than temporary. Factors considered by us in assessing whether an impairment is other than temporary include the credit quality of the investment, the duration of the impairment, our ability and intent to hold the investment until recovery or maturity and overall economic conditions. If we determine that the value of any investment is other-than-temporarily impaired, we record a charge against earnings in the amount of the impairment.

Gains and losses realized on the disposition of available for sale investment securities are determined on the specific identification basis and credited or charged to income. Premium and discount on available for sale investment securities are amortized and accreted using the interest method and charged or credited to investment income.

Valuation of held to maturity investments. Our held to maturity investments consists of Redeemable Preferred securities, which are carried at amortized cost with realized gains and losses reported in the current period's earnings. Premium and discount on these securities are amortized and accreted using the interest method and charged or credited to investment income.

Other long-term investments. Our other long-term investment consists of low income federal housing credits, which are being amortized over the life of the credits using the amortized cost method. The credits will be utilized over 10 years as required by the federal government and will be offset against the company's federal income tax expenses.

Estimates

A discussion of our significant accounting policies and the use of estimates is included in the notes to the consolidated financial statements included in the Company's Financial Statements for the year ended December 31, 2009 as filed with the Securities and Exchange Commission in the 2009 Form 10-K.

Table of Contents**New Accounting Standards Adopted****Disclosures about Fair Value Measurements**

In March 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-11, Derivatives and Hedging, (Topic 815), which provides accounting guidance that clarifies the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. The guidance addresses how to determine which embedded credit derivative features, including those in collateralized debt obligations and synthetic collateralized debt obligations are considered to be embedded derivatives that should not be analyzed for potential bifurcation and separate accounting under the existing accounting guidance for embedded derivatives. The guidance is effective for fiscal quarters beginning after June 15, 2010. Since the Company has no such derivatives, this guidance will not have any effect on the results of operations or financial position.

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820), the FASB issued new accounting guidance which expands disclosure requirements relating to fair value measurements. The guidance adds requirements for disclosing amounts of and reasons for significant transfers into and out of Levels 1 and 2 and requires gross rather than net disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The guidance also provides clarification that fair value measurement disclosures are required for each class of assets and liabilities. Disclosures about the valuation techniques and inputs used to measure fair value for measurements that fall in either Level 2 or Level 3 are also required. The Company adopted the provisions of the new guidance as of March 31, 2010.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued ASU 2009-17, Consolidations (Topic 810), the FASB issued new accounting guidance, which requires an entity to perform a qualitative analysis to determine whether it holds a controlling financial interest (i.e., is a primary beneficiary) in a variable interest entity (VIE). The analysis identifies the primary beneficiary of a VIE as the entity that has both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE. The Company adopted the new guidance as of January 1, 2010. The adoption had no impact on the Company's results of operations or financial position.

(3) Investments

The Company's marketable equity and long-term investment securities have been classified as available-for-sale and the Redeemable Preferred security that we own is considered held to maturity and is carried at amortized cost. The Company's long-term securities are available to be sold in response to the Company's liquidity needs, changes in market interest rates, asset-liability management strategies, and other economic factors. Investments available-for-sale are stated at fair value on the balance sheet. Unrealized gains and losses are excluded from earnings and are reported as a component of other comprehensive income within shareholders' equity, net of related deferred income taxes. The other long-term investments represents low income housing credits and are carried at amortized costs.

A decline in the fair value of an available-for-sale security below cost that is deemed other than temporary results in a charge to income, resulting in the establishment of a new cost basis for the security. Net unrealized gains for the nine months ended September 30, 2010 and 2009 were \$447,499 and \$963,813, respectively.

Premiums and discounts are amortized or accreted, respectively, over the life of the related fixed maturity security as an adjustment to yield using a method that approximates the effective interest method. Dividends and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific-identification method for determining the cost of securities sold.

A summary of investments follows as of:

	September 30, 2010	December 31, 2009
Short-term investments and bank certificates of deposit	\$ 360,948	\$ 365,717

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U.S. Treasury securities and obligations of U.S. government corporations and agencies	5,091,404	4,967,070
Corporate debt securities	4,436,978	3,566,448
Marketable equity securities	2,061,240	1,918,841
Other long-term investments	744,322	
Total	\$ 12,694,892	\$ 10,818,076

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The amortized cost, fair value and gross unrealized gains or losses of debt securities available-for-sale at September 30, 2010 and December 31, 2009, by contractual maturity, is shown below:

Years to Maturity	September 30, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
One to five years		\$ 5,141,856	\$ 128,249	\$ 2,262	\$ 5,267,843
Five to ten years		2,321,591	104,100	108,038	2,317,653
Over ten years		915,965	25,832		941,797
Total		\$ 8,379,412	\$ 258,181	\$ 110,300	\$ 8,527,293

Years to Maturity	December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
One to five years		\$ 4,501,055	\$ 45,063	\$ 34,560	\$ 4,511,558
Five to ten years		2,325,276	3,674	220,404	2,108,546
Over ten years		918,811		20,771	898,040
Total		\$ 7,745,142	\$ 48,737	\$ 275,735	\$ 7,518,144

The amortized cost, fair value and gross unrealized gains or losses of securities available-for-sale at September 30, 2010 and December 31, 2009, by security type, is shown below:

Security Type	September 30, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies		\$ 4,903,634	\$ 191,192	\$ 3,422	\$ 5,091,404
Corporate debt securities		3,475,778	66,989	106,878	3,435,889
Marketable equity securities		1,958,111	221,631	118,502	2,061,240
Total		\$ 10,337,523	\$ 479,812	\$ 228,802	\$ 10,588,533

Security Type	December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies		\$ 5,016,183	\$ 3,674	\$ 52,787	\$ 4,967,070
Corporate debt securities		2,728,959	45,063	222,948	2,551,074
Marketable equity securities		1,888,334	176,186	145,679	1,918,841
Total		\$ 9,633,476	\$ 224,923	\$ 421,414	\$ 9,436,985

The amortized cost of securities held to maturity at September 30, 2010 and December 31, 2009, by security type, is shown below:

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Security Type	September 30, 2010	Amortized Cost	Unrealized Gains	Unrealized losses	Fair Value
Corporate debt securities		\$ 1,001,089	\$ 3,985,758	\$	\$ 4,986,847

Security Type	December 31, 2009	Amortized Cost	Unrealized Gains	Unrealized losses	Fair Value
Corporate debt securities		\$ 1,015,374	\$ 3,966,476	\$	\$ 4,981,850

As of September 30, 2010, the Company has determined that all of the unrealized losses in the table above were temporary.

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There were no fundamental issues with any of these securities and the Company has the ability and intent to hold the securities until there is a recovery in fair value. The carrying amounts of individual assets are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. The Company considers internal and external information, such as credit ratings, in concluding that the impairments are not other than temporary.

Following table shows the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position at September 30, 2010 and December 31, 2009.

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Estimated Market Fair Value	Gross Unrealized Losses	Estimated Market Fair Value
September 30, 2010:				
U.S. Treasury and government agencies	\$ 3,422	\$ 837,563	\$	\$
Corporate debt securities	615	780,506	106,263	436,535
Equity securities	27,219	223,578	91,283	349,172
	\$ 31,256	\$ 1,841,647	\$ 197,546	\$ 785,707
December 31, 2009:				
U.S. Treasury and government agencies	\$ 52,787	\$ 4,467,069	\$	\$
Corporate debt securities	9,604	1,162,896	213,344	327,822
Equity securities	6,308	84,836	139,371	657,196
	\$ 68,699	\$ 5,714,801	\$ 352,715	\$ 985,018

The total proceeds received on sold investments amounted to \$357,894 and \$5,232,127 for the nine months ended September 30, 2010 and 2009, respectively. The Company realized gains and losses of \$47,443 and \$49,518, respectively, during 2010 and \$94,509 and \$414,699, respectively, for the same period last year.

(4) Fair Value Disclosures

The fair value of our investments in fixed income and equity securities is based on observable market quotations, other market observable data, or is derived from such quotations and market observable data. We utilize third party pricing servicers, brokers and internal valuation models to determine fair value. We gain assurance of the overall reasonableness and consistent application of the assumptions and methodologies and compliance with accounting standards for fair value determination through our ongoing monitoring of the fair values received or derived internally.

Level 1 inputs are unadjusted, quoted prices in active markets for identical instruments at the measurement date (e.g., U.S. Treasury securities and active exchange-traded equity securities). Level 2 securities are comprised of securities whose fair value was determined by a nationally recognized pricing service using observable market inputs. Level 3 securities are comprised of (i) securities for which the pricing service is unable to provide a fair value, (ii) securities whose fair value is determined by the pricing service based on unobservable inputs and (iii) securities, other than securities backed by the U.S. Government, that are not rated by a nationally recognized statistical rating organization.

Following table illustrates the fair value measurements as of September 30, 2010:

Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable	Significant Other Unobservable
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Description:			Inputs (Level 2)	Inputs (Level 3)
Available for sale securities:				
U.S. Treasury and government agencies	\$ 5,091,404	\$ 5,091,404		
Corporate debt securities	3,435,889		\$ 3,435,889	
Marketable equity securities	2,061,240	2,061,240		
Total	\$ 10,588,533	\$ 7,152,644	\$ 3,435,889	\$

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The estimated liabilities for losses and loss adjustment expenses include the accumulation of estimates for losses for claims reported prior to the balance sheet dates (case reserves), estimates (based upon actuarial analysis of historical data) of losses for claims incurred but not reported (IBNR) and for the development of case reserves to ultimate values, and estimates of expenses for investigating, adjusting and settling all incurred claims. Amounts reported are estimates of the ultimate costs of settlement, net of estimated salvage and subrogation. These estimated liabilities are subject to the outcome of future events, such as changes in medical and repair costs as well as economic and social conditions that impact the settlement of claims. Management believes that, given the inherent variability in any such estimates, the aggregate reserves are reasonably adequate. The methods of making such estimates and for establishing the resulting reserves are reviewed and updated quarterly and any resulting adjustments are reflected in current operations.

A summary of unpaid losses and loss adjustment expenses, net of reinsurance ceded, is as follows:

	September 30, 2010	December 31, 2009
Case basis	\$ 5,088,216	\$ 6,412,373
IBNR	4,071,953	5,850,751
Total	\$ 9,160,169	\$ 12,263,124

(6) Reinsurance

In the normal course of business, the Company seeks to reduce its overall risk levels by obtaining reinsurance from other insurance companies or reinsurers. Reinsurance premiums and reserves on reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company periodically reviews the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies.

Reinsurance assets include balances due from other insurance companies under the terms of reinsurance agreements. Amounts applicable to ceded unearned premiums, ceded loss payments and ceded claims liabilities are reported as assets in the accompanying balance sheets. The Company believes the fair value of its reinsurance recoverables approximates their carrying amounts.

The impact of reinsurance on the statements of operations for the period ended September 30, 2010 and 2009 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Premiums written:				
Direct	\$ 24,908,886	\$ 27,093,309	\$ 78,947,429	\$ 84,508,606
Assumed	(760)	(12,776)	(917)	224,753
Ceded	(16,636,790)	(18,123,071)	(53,257,566)	(57,042,434)
Net	\$ 8,271,336	\$ 8,957,462	\$ 25,688,946	\$ 27,690,925
Premiums earned:				
Direct	\$ 25,437,176	\$ 26,443,066	\$ 77,595,773	\$ 77,650,170
Assumed	(761)	84,560	(918)	417,361

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Ceded	(17,139,888)	(17,700,175)	(52,426,705)	(52,237,968)
Net	\$ 8,296,527	\$ 8,817,715	\$ 25,168,150	\$ 25,829,563
Losses and loss adjustment expenses incurred:				
Direct	\$ 21,105,038	\$ 21,892,618	\$ 63,245,870	\$ 62,474,028
Assumed	5,949	56,451	41,914	433,417
Ceded	(15,054,500)	(15,734,874)	(45,395,554)	(44,621,045)
Net	\$ 6,056,487	\$ 6,214,195	\$ 17,892,230	\$ 18,286,400

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The impact of reinsurance on the balance sheets as of the dates indicated as follows:

	September 30, 2010	December 31, 2009
Unpaid losses and loss adjustment expense:		
Direct	\$ 31,545,393	\$ 41,814,027
Assumed	125,733	158,956
Ceded	(22,510,957)	(29,709,859)
Net	\$ 9,160,169	\$ 12,263,124
Unearned premiums:		
Direct	\$ 37,267,248	\$ 35,915,592
Assumed	563	564
Ceded	(25,928,912)	(25,098,051)
Net	\$ 11,338,899	\$ 10,818,105

The Company received \$12,037,522 in commissions on premiums ceded during the nine-month period ended September 30, 2010. Had all of the Company's reinsurance agreements been cancelled at September 30, 2010, the Company would have returned \$6,377,163 in reinsurance commissions to its reinsurers and its reinsurers would have returned \$25,928,912 in unearned premiums to the Company.

(7) Income Taxes

The provision for federal and state income taxes for the period ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Current	\$ (134,380)	\$ 206,069	\$ 267,760	\$ 318,798
Deferred	239,708	(18,777)	395,389	554,352
Total provision for income taxes	\$ 105,328	\$ 187,292	\$ 663,149	\$ 873,150

The current tax provision for the third quarter of 2010 compared to 2009, mainly resulted from the utilization of the Company's net operating loss carryforwards during the quarter.

(8) Capital Stock**Common Stock**

During the first nine months of 2010 and 2009, the Company issued 350,000 and 190,476 shares of common stock, \$.01 par value to its board of directors, respectively.

Stock-Based Compensation

In April of 2010, the Company's shareholders approved the 2010 Incentive Plan (2010 Plan). The aggregate number of shares of common stock reserved and available for issuance pursuant to awards granted to participants under the 2010 Plan consists of 2,000,000 shares. As of September 30, 2010, there were 7,241,245 shares of the Company's common stock subject to outstanding awards under the prior 2000 Incentive

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Plan (the Prior Plan). The company will not grant any additional awards under the Prior Plan, and it expired in June 2010.

The weighted-average grant date fair value of options granted during the nine months ended September 30, 2010 and 2009, using the Black-Scholes-Merton option-pricing model, was \$0.2425 and \$0.21823, respectively. There were no options exercised during the nine months ended September 30, 2010 and 2009.

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Total compensation cost for share-based payment arrangements recognized for the three and nine months ended September 30, 2010 was \$103,939 and \$317,308, respectively. Total compensation cost for share-based payment arrangements recognized for the three and nine months ended September 30, 2009 was \$84,510 and \$251,686 respectively. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model using the assumptions noted in the following table.

	September 30, 2010	September 30, 2009
Weighted-average-grant-date fair value	\$0.2425	\$0.21823
Expected volatility	163% -168%	107% -109%
Weighted average volatility	164%	107%
Risk-free interest rate	1.91% -2.59%	2.47% -3.84%
Expected term (in years)	6.1	9.6
Forfeiture rate (per year)	6.7	6.6

A summary of all stock option activity during the nine months ending September 30, 2010 and 2009, were as follows:

	September 30, 2010		September 30, 2009	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options Outstanding				
January 1	7,789,721	\$ 0.53	6,230,008	\$ 0.66
Add (deduct):				
Granted			392,190	\$ 0.25
Forfeited			(52,777)	\$ 0.84
Expired				
March 31	7,789,721	\$ 0.53	6,569,421	\$ 0.64
Add (deduct):				
Granted	407,000	\$ 0.17	731,700	\$ 0.29
Forfeited	(282,590)	\$ 0.82	(125,800)	\$ 0.71
Expired	(75,306)	\$ 0.61		
June 30	7,838,825	\$ 0.51	7,175,321	\$ 0.60
Add (deduct):				
Granted	510,000	\$ 0.27	896,000	\$ 0.26
Forfeited	(563,580)	\$ 0.30	(430,000)	\$ 0.53
Expired	(2,000)	\$ 0.35		
September 30	7,783,245	\$ 0.51	7,640,921	\$ 0.57
Exercisable, September 30	3,580,750	\$ 0.63	2,431,173	\$ 0.72

The aggregate intrinsic value of options outstanding and of options exercisable at September 30, 2010 was \$618,000 and \$172,000, respectively and those options have weighted-average contractual terms of 6.7 years and 5.5 years, respectively. As of September 30, 2010 there was \$1,005,000 of unrecognized compensation cost related to non-vested stock options and this cost is expected to be recognized over a weighted-average period of 1.6 years.

(9) Commitments and Contingencies**Contingencies**

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In the normal course of business, the Company is named as a defendant in lawsuits related to claims and other insurance policy issues. Some of the actions seek extra-contractual and/or punitive damages. These actions are vigorously defended unless a reasonable settlement appears appropriate. In the opinion of management, the ultimate outcome of known litigation is not expected to be material to the Company's financial condition, results of operations, or cash flows.

Contractual Commitments

The Company leases office space for its corporate headquarters in Atlanta, Georgia. Effective October 1, 2009 the Company signed an amendment to extend its lease until 2019 under more favorable lease terms. The Company leases retail office space at various locations in Georgia, Florida and Alabama under short to medium term commercial leases. The Company also leases office equipment for use in its various locations. Rent expense for long-term leases with predetermined minimum rental escalations is recognized on a straight-line basis, and the difference between the recognized rental expense and amounts payable under the leases, or deferred rent, is included in other liabilities. The Company has a contractual commitment with terms greater than one year for the purchase of the policy management system code.

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The Company had a contractual commitment in association with long-term debt owed to its current Chairman and Chief Executive Officer in the amount of \$483,606 as of December 30, 2009, which was paid off on June 30, 2010. Further, the Company has a long-term commitment in connection with Junior Subordinated Debentures issued in December 2005. On March 10, 2009, AAIC purchased all of the Capital Securities issued by the Trust at a discounted price of \$1,000,000 from the non-affiliated holder of those securities. The discount is being accreted to interest income over the remaining life of the Capital Securities using the interest method. The purchase resulted in an increase in our investment portfolio for redeemable preferred stock in the amount of \$1,001,089. Please refer to Note 7 of the *Notes to Consolidated Financial Statements*, as of December 31, 2009 included in our Annual Report on Form 10-K for additional information about the long-term debt arrangements.

Minimum amounts due under the Company's non-cancelable commitments at September 30, 2010 are as follows:

	Long-Term Debt Obligations	Operating Lease Obligations	Total
Payments due by period			
Less than 1 year	\$ 83,849	\$ 431,989	\$ 515,838
1-3 years	115,469	2,827,692	2,943,161
4-5 years		1,400,036	1,400,036
More than 5 years	4,986,847	2,993,402	7,980,249
Total	\$ 5,186,165	\$ 7,653,119	\$ 12,839,284

Defined Contribution Plan

The Company's associates participate in the AssuranceAmerica Corporation 401(k) defined contribution retirement plan. Under the plan, the Company can elect to make discretionary contributions. Effective January 1, 2008, the Company elected to match 33% of employee contributions up to 6% of gross earnings. Matching contributions during the first nine months of 2010 and 2009 were \$90,867 and \$85,195, respectively. The eligibility requirements are 21 years of age, 6 months of service and full time employment.

(10) Net Income Per Share

Basic and diluted income per common share is computed using the weighted average number of common shares outstanding during the period. Potential common shares not included in the calculations of net income per share for the nine months ended September 30, 2010 and 2009, because their inclusion would be anti-dilutive, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Stock options	4,202,495	5,209,748	4,202,495	5,209,748

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The reconciliation of the amounts used in the computation of both basic earnings per share and diluted earnings per share for the periods ended September 30, 2010 and 2009 are as follows:

	Net Income (Loss)	Average Shares Outstanding	Per Share Amount
For the three months ended September 30, 2010:			
Net income basic	\$ 32,129	65,494,357	\$ 0.000
Effect of dilutive stock warrants and options		645,621	
Net income diluted	\$ 32,129	66,139,978	\$ 0.000
For the three months ended September 30, 2009:			
Net income basic	\$ 234,502	65,144,357	\$ 0.004
Effect of dilutive stock warrants and options		350,813	
Net income diluted	\$ 234,502	65,495,170	\$ 0.004
For the nine months ended September 30, 2010:			
Net income basic	\$ 709,745	65,458,460	\$ 0.011
Effect of dilutive stock warrants and options		499,034	
Net income diluted	\$ 709,745	65,957,494	\$ 0.011
For the nine months ended September 30, 2009:			
Net income basic	1,233,212	65,112,495	\$ 0.019
Effect of dilutive stock warrants and options		148,836	
Net income diluted	\$ 1,233,212	65,261,331	\$ 0.019

(11) Supplemental Cash Flow Information

	2010	2009
Cash paid during the nine months ended September 30:		
Interest	\$ 280,644	\$ 354,695
Income taxes	\$ 3,455	\$ 6,721

On June 16, 2010 the Company purchased the assets of Atlantic Southeastern Insurance Group, LLC and James T. Moore Company for an estimated price of \$144,000. The Company paid \$100,000 in cash and the balance of \$44,000 will be paid on the last day of the thirteenth month following the closing date. The acquired companies will offer commercial insurance through the retail agencies.

On March 26, 2010 the Company purchased the assets of NexTT Solutions, LLC for an estimated purchase price of \$243,000. The Company paid \$25,000 as a down payment and the remaining balance will be paid once the renewals are finalized. The purchase price reflects \$211,725 for its 2009 renewals in 2010 and 2010 renewals in 2011, which is subject to change and will be finalized in 2011 and \$31,275 was paid to NexTT for the rights to its agency software program. NexTT Solutions offers sports injury solutions to colleges and universities through one of

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our TrustWay insurance agencies.

On March 1, 2009 the Company purchased the assets of First Choice Insurance, LLC for cash of \$28,800 and as part of the purchase agreement the Company issued a note payable in the amount of \$115,200.

The following table illustrates the composition of acquisitions for the nine months ended September 30, 2010 and 2009:

	2010	2009
Fair value of assets acquired, including identifiable intangibles	\$ 332,000	\$ 80,000
Goodwill	55,000	69,400
Cash paid to sellers	(125,000)	(34,200)
Payable due to seller	\$ 262,000	\$ 115,200

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The Company's subsidiaries are each unique operating entities performing a separate business function. AAIC, a property and casualty insurance company focuses on writing nonstandard automobile business in the states of Georgia, Alabama, Arizona, Florida, Indiana, Louisiana, Mississippi, South Carolina, Texas and Virginia. MGA markets AAIC's policies through more than 2,600 independent agencies in these states. MGA provides all of the underwriting, accounting, product management, legal, policyholder administration and claims functions for AAIC and for two unaffiliated insurers that retain the non-standard automobile insurance policies produced by MGA in Florida and Texas. MGA receives various fees related to insurance transactions that vary according to state insurance laws and regulations. TrustWay is comprised of 52 retail insurance agencies that focus on selling nonstandard automobile policies and related coverages in Georgia, Florida and Alabama. TrustWay receives commissions and various fees associated with the sale of the products and services from its appointing insurance carriers.

The Company evaluates profitability based on pretax income. Pretax income for each segment is defined as the revenues less the segment's operating expenses including depreciation, amortization and interest.

Following are the operating results for the Company's various segments and an overview of segment assets:

(\$ in thousands)	MGA	TrustWay	AAIC	Company	Eliminations	Consolidated
THIRD QUARTER 2010						
Revenues						
External customer	\$ 6,399	\$ 1,986	\$ 8,475	\$	\$	\$ 16,860
Intersegment	1,768	284	820	847	(3,719)	
Income						
Segment pretax income (loss)	496	(574)	202	13		137
Assets						
Segment assets	16,795	13,161	119,356	24,515	(36,497)	137,330
THIRD QUARTER 2009						
Revenues						
External customer	\$ 6,577	\$ 1,427	\$ 9,047	\$	\$	\$ 17,051
Intersegment	1,811	519	875	711	(3,916)	
Income						
Segment pretax income (loss)	533	(762)	1,109	(458)		422
Assets						
Segment assets	15,484	13,673	126,267	21,160	(33,269)	143,315

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(\$ in thousands)	MGA	TrustWay	AAIC	Company	Eliminations	Consolidated
FIRST NINE MONTHS 2010						
Revenues						
External customer	\$ 19,625	\$ 5,225	\$ 25,811	\$	\$	\$ 50,661
Intersegment	5,357	1,152	2,543	2,543	(11,595)	
Income						
Segment pretax income (loss)	1,638	(1,511)	1,295	(49)		1,373
Assets						
Segment assets	16,795	13,161	119,356	24,515	(36,497)	137,330
FIRST NINE MONTHS 2009						
Revenues						
External customer	\$ 20,477	\$ 4,599	\$ 26,154	\$	\$	\$ 51,230
Intersegment	5,824	2,117	2,768	2,133	(12,842)	
Income						
Segment pretax income (loss)	2,030	(1,510)	2,150	(564)		2,106
Assets						
Segment assets	15,484	13,673	126,267	21,160	(33,269)	143,315

(13) FASB Accounting Standards Updates

In October 2010, the FASB issued Accounting Standards update No. 2010-26 (ASU 2010-26), Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (Topic 944). The objective of this update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The current definition of *acquisition costs* in the Master Glossary of the *FASB Accounting Standards Codification* is costs that vary with and are primarily related to the acquisition of insurance contracts. Costs that meet that definition are typically recognized as assets and are commonly referred to as *deferred acquisition costs*. Deferred acquisition costs are amortized over time using amortization methods dependent upon the nature of the underlying insurance product (that is, proportional to revenues, based on a contract's estimated gross profit, or based on a contract's estimated gross margin). Other costs that do not vary with and are not primarily related to the acquisition of new and renewal insurance contracts such as those relating to investment management, general administration, and policy maintenance are charged to expense as incurred. As a result of the diversity in practice relating to the interpretation of which costs qualify as deferrable acquisition costs within the insurance industry, certain stakeholders initially raised the question of whether advertising costs meet the definition of acquisition costs.

However, interpretation of the phrase *vary with and are primarily related to* raises a broader conceptual issue that also applies to other types of costs; therefore, application of the amendments in this update are not limited to advertising costs. The amendments in this update affect insurance entities that are within the scope of Topic 944, Financial Services Insurance (which includes but is not limited to stock life insurance entities, mutual life insurance entities, and property and liability insurance entities), that incur costs in the acquisition of new and renewal insurance contracts. The amendments in this update specify that the following costs incurred in the acquisition of new and renewal contracts should be capitalized in accordance with the amendments in this update: (1) Incremental direct costs of contract acquisition. Incremental direct costs are those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transactions not occurred. (2) Certain costs related directly to the following acquisition activities performed by the insurer for the contract: (a) Underwriting, (b) Policy issuance and processing, (c) Medical and inspection, (d) Sales force contract selling.

The costs related directly to those activities include only the portion of an employee's total compensation (excluding any compensation that is capitalized as incremental direct costs of contract acquisition) and payroll-related fringe benefits related directly to time spent performing those activities for actual acquired contracts and other costs related directly to those activities that would not have been incurred if the contract had not been acquired. 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. If those criteria are met, the direct-response advertising costs should then be included as deferred acquisition costs for classification, subsequent measurement, and premium deficiency purposes in accordance with Topic 944. If the capitalization criteria in Subtopic 340-20 are not met, advertising costs are not included as deferred acquisition costs and should be accounted for in accordance with the guidance in Subtopic 720-35, Other Expenses Advertising Costs. All other acquisition-related costs including costs incurred by the insurer for soliciting potential customers, market research, training, administration,

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unsuccessful acquisition or renewal efforts, and product development should be charged to expense as incurred. Administrative costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and should be charged to expense as incurred. If the initial application of the amendments in this update results in the capitalization of acquisition costs that had not been capitalized previously by an entity, the entity may elect not to capitalize those types of costs. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The amendments in this update should be applied prospectively upon adoption. Retrospective application to all prior periods presented upon the date of adoption also is permitted, but not required. Early adoption is permitted, but only at the beginning of an entity's annual reporting period. The Company is currently assessing the impact that this update will have on the results of operations, financial position and disclosures.

In August 2010, the FASB issued Accounting Standards update No. 2010-22 (ASU 2010-22), *SEC Update* Amendments to Various Topics for Technical Corrections to SEC Paragraphs. The adoption of ASU 2010-22 did not have any effect on the Company's results of operations, financial position or disclosures.

In August 2010, the FASB issued Accounting Standards update No. 2010-21 (ASU 2010-21), *SEC Update* Accounting for Technical Amendments to Various SEC Rules and Schedules. This ASU did not have any effect on the Company's results of operations, financial position or disclosures.

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

Results of Operations

The Company reported a net income of \$32 thousand and \$0.7 million for the three and nine months ended September 30, 2010, compared to net income of \$0.2 million and \$1.2 million for the three and nine months ended September 30, 2009. The Company's fully diluted earnings per common share for the three months ended September 30, 2010 and 2009 was \$0.000 and \$0.004, respectively. For nine months ended September 30, 2010 and 2009 fully diluted earnings were \$0.011 and \$0.019, respectively. The net income for three months ended September 30, 2010 declined \$0.2 as compared to 2009. The nine months ended September 30, 2010 results decreased \$0.5 million when compared to 2009. The above mentioned decreases mainly resulted from a decline in premiums, commissions and higher selling and administrative expenses, offset by higher fee income and lower investment losses.

Revenues

Premiums

Gross premiums written for the three and nine month ended September 30, 2010 were \$24.9 million and \$78.9 million compared to \$27.1 million and \$84.7 million, respectively in 2009. The majority of the \$2.2 million decline in premium in the third quarter of 2010 mainly relates to a change in rates and increased competition in the states of Florida of \$2.8 million, Georgia of \$2.2, Louisiana of \$0.4 million, offset by an increase in the state of Virginia for \$1.9 million, where AAIC began writing in the first quarter of 2010 and \$0.4 million increase in one-month policies product offered in Texas. The nine month decrease of \$5.8 million was similarly impacted by the change in rates resulting in a decline of \$8.2 million in Florida, \$3.5 million in Georgia, \$1.5 million in Louisiana, offset by \$1.8 million increase in our new one-month policies product in Texas and new state entry in Virginia of \$4.5 million. As of September 30, 2010 the soft market and economic factors continues to put additional pressure on our writings in Florida and Georgia. These two states accounted for approximately 14% of the decline in premium for the first nine months of 2010. However, policies in-force as of September 30, 2010 increased 2.5% from December 31, 2009. Further, the Company ceded approximately 68% of its direct premiums written to its reinsurers during 2010, constant with the rate in 2009. The amount ceded for the nine months ended September 30, 2010 and 2009, was \$53.3 million and \$57.0 million, respectively.

Premiums written refers to the total amount of premiums billed to the policyholder less the amount of premiums returned, generally as a result of cancellations, during a given period. Premiums written become premiums earned as the policy ages. Barring premium rate changes, if an insurance company writes the same mix of business each year, premiums written and premiums earned will be equal and the unearned premium reserve will remain constant. During periods of growth, the unearned premium reserve will increase, causing premiums earned to be less than premiums written. Conversely, during periods of decline, the unearned premium reserve will decrease, causing premiums earned to be greater than premiums written. The Company's net premiums earned, after deducting reinsurance, was \$25.2 million for the first nine months of 2010 compared to \$25.8 million for the same period in 2009.

Commission and Fee Income

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In our MGA operations, we receive managing general agent fees for agency, underwriting, policy administration, and claims adjusting services performed on behalf of insurers. We also receive commission and service fee income in TrustWay on other insurance products produced for unaffiliated insurance companies on which we do not bear underwriting risk, including travel protection, vehicle protection and hospital indemnity insurance policies. Commission rates vary between carriers and are applied to premiums written to determine commission income.

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Commission income for the three and nine months ended September 30, 2010 was \$5.6 million and \$16.3 as compared to \$5.4 million and \$17.1 million for the same periods last year. The decrease in commissions for the nine-month period is primarily due to the lower premium volume generated by the MGA. AAIC pays MGA commission on 30% of premium, which AAIC retains and this amount is subsequently eliminated upon consolidation.

Managing general agent fees for the three and nine-month periods ended September 30, 2010 were \$2.7 million and \$8.3 million, an increase of \$0.1 million and \$0.5 million when compared to the same periods of 2009. The increase is due to higher policy related fees on premiums. Although, premiums declined, the Company still receives fees on policy's in-force, which has increased despite lower premium volume due to a greater amount of six month policies written as compared to prior years.

Other fee income for the three and nine months ended September 30, 2010 were \$106 thousand and \$335 thousand in relation to \$77 thousand and \$260 thousand for the same periods in 2009. The higher fees relates to revenue generated from towing and rental products offered to insureds in the retail (TrustWay) segment.

Net Investment Income and investment gains and (losses)

Our investment portfolio is generally highly liquid and consists substantially of readily marketable, investment-grade debt and equity securities. Net investment income is primarily comprised of interest and dividends earned on these securities and related investment expenses, net of realized investments gains and losses. Net investment income, including realized investment gains (losses) was \$0.2 million for the third quarter of 2010 and \$0.5 million for the nine months ended September 30, 2010 compared to net investment income for the same periods in 2009 of \$0.2 million. The increase for the year mainly resulted from higher realized investment gains due to improved market conditions.

Expenses***Loss and Loss Adjustment Expenses***

Losses and loss adjustment expenses include payments made to settle claims, estimates for future claim payments and changes in those estimates for current and prior periods, as well as loss adjustment expenses incurred in connection with settling claims. Losses and loss adjustment expenses are influenced by many factors, such as claims frequency and severity trends, the impact of changes in estimates for prior accident years, and increases in the cost of medical treatment and automobile repairs. The anticipated impact of inflation is considered when we establish our premium rates and set loss reserves. We work with our actuary to prepare a rolling quarterly actuarial analysis and establish or adjust (for prior accident quarters) reserves, based upon our estimate of the ultimate incurred losses and loss adjustment expenses to reflect loss development information and trends that have been updated for the most recent quarter's activity. Each quarter our estimate of ultimate loss and loss adjustment expenses is evaluated by accident quarter, by state and by major coverage group (e.g., bodily injury, physical damage) and changes in estimates are reflected in the period the additional information becomes known.

We have historically used reinsurance to manage our exposure to losses by ceding a portion of our gross losses and loss adjustment expenses to reinsurers. We remain obligated for amounts covered by reinsurance in the event that the reinsurers do not meet their obligations under the agreements due to, for example, disputes with the reinsurer or the reinsurer's insolvency. The Company cedes approximately 68% of its direct loss and loss adjustment expenses incurred to its reinsurers and the amount ceded for the first nine months of 2010, was \$45.4 million compared to \$44.6 million as of September 30, 2009.

After making deductions for the effect of reinsurance, losses and loss adjustment expenses were \$6.1 million and \$17.9 million or the three-month and nine-month periods ended September 30, 2010. As a percentage of earned premiums, this amount increased for the three-month period ended September 30, 2010, from 70.5% to 73.0%, when compared with the same period in 2009. As a percentage of earned premiums, this amount decreased for the nine-month period ended September 30, 2010, from 70.8% to 71.1%, when compared with the same period in 2009. The amount represents actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including the expenses associated with settling claims. The increase in the year-over-year loss ratio is primarily due to adverse development in prior accident years.

Other Expenses

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Other operating expenses, including selling and general and administrative increased \$0.2 million and \$0.6 million for the three month and nine month periods ended September 30, 2010 when compared to the same periods of 2009. As a percentage of revenue, selling and general and administrative expenses for the three month period ended September 30, 2010 increased from 58.2% to 60.3% when compared to the 2009 period. As a percentage of revenue, selling and general and administrative expenses for the nine month period ended September 30, 2010 increased from 57.3% to 59.1% when compared to the 2009 period. The increase in selling expenses is primarily attributable to higher staffing costs and lower revenue within the wholesale division when compared to the 2009 period.

Table of Contents***Income Tax Expense***

The provision for income taxes for the three month and nine month periods ended September 30, 2010, consists of federal and state income taxes at the Company's effective tax rate. The Company had a tax expense of \$0.1 million and \$0.7 million expense for the three month and nine month periods ended September 30, 2010, representing an effective tax rate of 76.6% and 48.3%, respectively. This compares to a tax expense of \$0.2 million and \$0.9 million for the comparable 2009 periods, which had an effective tax rate of 44.4% and 41.5%, respectively. The tax rate increase in the three and nine months ended is primarily related to the increase in stock option expense, which is a permanent tax difference.

Financial Condition

As of September 30, 2010, the Company had investments and cash of \$22.7 million, compared to \$19.0 million as of December 31, 2009. The Company's investment strategy is to invest in highly liquid, short-term investments, and equity securities as well as investing in bonds with short durations in order to meet its insurance obligations. As of September 30, 2010, the Company had \$10.3 million in cash and short-term investments, which included \$1.8 million of cash restricted to provide security for certain reinsurance reserve obligations. The equity security portfolio amounted to \$2.1 million and is diversified amongst various industries. The Company's long term investments of \$10.3 million are spread among direct obligations of the U.S. Treasury as well as those securities unconditionally guaranteed as to the payment of principal and interest by the United States government or any agency thereof and in corporate bonds, redeemable preferred and investment tax credits. The Company's investment activities are made in accordance with the Company's investment policy. The objectives of the investment policy are to obtain favorable after-tax returns on investments through a diversified portfolio of fixed income, equity and real estate holdings. The Company's investment criteria and practices reflect the short-term duration of its contractual obligations with policyholders and regulators. Tax considerations include federal and state income tax as well as premium tax abatement and credit opportunities offered to insurance companies in the states where AAIC writes policies.

Premiums receivable as of September 30, 2010, increased \$1.5 million to \$36.7 million compared to \$35.2 million as of December 31, 2009. The balance represents amounts due from AAIC's insureds and the increase is directly attributable to the increase in AAIC's premium writings during 2010. The Company's policy is to write off receivable balances immediately upon cancellation or expiration, and the Company does not consider an allowance for doubtful accounts to be necessary.

Reinsurance recoverables as of September 30, 2010, decreased \$11.6 million, to \$32.2 million compared to \$43.8 million as of December 31, 2009. The decrease is directly related to AAIC's reduction in unpaid reinsurance reserves of \$7.2 million due to the settlement of claims and \$4.4 million decrease for paid loss reinsurance recoverables. AAIC maintains a quota-share reinsurance treaty with its reinsurers in which it cedes approximately 68% of both premiums and losses. The \$32.2 million represents the reinsurers' portion of losses and loss adjustment expense, both paid and unpaid.

Prepaid reinsurance premiums as of September 30, 2010, increased \$0.8 million to \$25.9 million compared to \$25.1 million as of December 31, 2009. The increase is due to the seasonality of AAIC's premium volume during the year and represents premiums ceded to its reinsurers which have not been fully earned.

Deferred acquisitions costs as of September 30, 2010, increased \$0.2 million to \$2.6 million compared to \$2.5 million as of December 31, 2009. The increase results from AAIC's premium produced for the first nine months of the year.

Other receivables as of September 30, 2010 increased \$1.8 million to \$3.6 million compared to \$1.8 million as of December 31, 2009. The balances represent TrustWay receivables from insurance carriers for direct bill commissions and balances due to MGA from insurance carriers for amounts owed in accordance with the terms of its managing general agency agreements. The increase in the receivable is attributable to amounts due to the TrustWay agency for premiums and claim reimbursements paid on behalf of carriers and claim administrators of \$2.0 million, offset by an increase in amounts due to MGA for expenses reimbursements due from non-affiliated carriers of \$0.2 million.

Intangible assets as of September 30, 2010, increased \$0.1 million to \$7.6 million from the balance of \$7.5 million as of December 31, 2009. This increase relates to acquisitions made during the year of \$0.3 million, offset by \$0.2 million of amortization of intangible assets in 2010.

Prepaid income taxes decreased \$0.2 million as of September 30, 2010 due to an increase in net income during the first nine months of September 30, 2010.

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Deferred tax assets decreased \$0.6 million to \$2.3 million as of September 30, 2010, compared to the balance of \$2.9 million as of December 31, 2009. This decrease primarily related to the utilization of net operating loss carry forwards during 2010.

Accounts payable and accrued expenses as of September 30, 2010, increased \$3.4 million from the December 31, 2009 balance of \$8.6 million to \$11.9. The increase is primarily due to \$3.0 million related to TrustWay agency balances due to carriers for premiums, \$0.2 million of deferred revenue, \$0.1 million in accrued rent and commissions payable of \$0.4 million, offset by \$0.3 million in accrued expenses.

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Unearned premium as of September 30, 2010 increased \$1.4 million to \$37.3 million, compared to \$35.9 million as of December 31, 2009, and represents premiums written but not earned. This is directly attributable to the increase in AAIC's premium writings during 2010.

Unpaid losses and loss adjustment expenses decreased \$10.3 million to \$31.7 million as of September 30, 2010 from \$42.0 million at December 31, 2009. The decrease is mainly due to the increase in claim settlements during the period as the Company is accelerating and paying claims faster, which should improve claim results. This unpaid amount represents management's estimates of future amounts needed to pay claims and related expenses.

Reinsurance payable as of September 30, 2010 increased \$1.7 million to \$30.2 million, compared to \$28.5 million as of December 31, 2009. The amount represents premiums owed to the Company's reinsurers. AAIC maintains seven quota-share reinsurance treaties with its reinsurers in which it cedes approximately 68% of both premiums and losses for the majority of its states. The increase is mainly attributable to the reimbursement of \$3.0 million of premiums received from its reinsurers as a result of an overpayment in prior years, offset by an increase in ceded premiums paid due to premium production.

Provisional commission reserves represent the difference between our minimum ceding commission and the provisional amount paid by the reinsurers. These balances as of September 30, 2010 decreased \$0.7 million to \$2.9 million, compared to the balance at December 31, 2009 of \$3.6 million. The decrease is related to prior period provisions payments, offset by increases in current year AAIC writings.

Notes payable as of September 30, 2010, decreased \$0.6 million to \$0.2 million compared to \$0.8 million as of December 31, 2009. The change resulted primarily from \$0.3 million in final payments applied to the principal balances payable on promissory notes due from the Company's Chairman.

Liquidity and Capital Resources

Net cash provided by operating activities the period ended September 30, 2010, was \$4.5 million compared to net cash used by operating activities of \$2.4 million for the same period of 2009. The increase in operating activities was mainly due to a \$3.0 million reimbursement from the reinsurers and higher reinsurance recoverables.

Investing activities for the period ended September 30, 2010 reflect \$0.1 million paid related to agency acquisitions, \$0.5 million in purchases of computer software and hardware and leasehold improvements in our headquarters and in TrustWay, offset by net outflows from investments in the amount of \$1.5 million.

Financing activities for the period ended September 30, 2010 improved by \$0.2 million due to lower principal payments made to the Chairmen for payment of outstanding loan.

The Company's liquidity and capital needs have been met in the past through premium, commission and fee income, loans from its Chairman, its former Chief Executive Officer, and former Division President of the Company and the issuance of its Series A Convertible Preferred Stock, Common Stock and Debt Securities. The Company's made its final related party debt payment of the unsecured promissory notes payable to its Chairman in June 2010. The promissory note carried an interest rate of 8% per annum and provided for the repayment of principal on an annual basis.

On June 30, 2010, the Company entered into a First Amendment Agreement (the "First Amendment") to the Loan Agreement between the Company and Wells Fargo Bank, N.A. (as successor in interest by merger to Wachovia Bank, N.A.) (the "Lender"). The First Amendment amends the Loan Agreement, dated July 17, 2009, between the Company and the Lender (the "Loan Agreement").

The First Amendment extends the maturity date for the facility to July 16, 2011. The proceeds of the facility may be used for funding certain permitted acquisitions, funding short-term loans to the Company's wholly owned subsidiary, AAIC, or for working capital or general corporate needs in the ordinary course of business. The credit facility is secured by a pledge of the Company's ownership interests in two of the Company's subsidiaries, TrustWay and MGA, and is guaranteed by the same entities. In addition, TrustWay pledged its ownership interest in TrustWay T.E.A.M., Inc., which is also a guarantor.

The First Amendment provides that the facility shall be repaid in full and no loans under the facility may be outstanding for at least one period of 30 consecutive days during each 12 month period in which the Loan Agreement is in effect. In addition, the Company's minimum fixed charge

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coverage ratio, which was 1.35 under the Loan Agreement, decreases to 1.10 for each of the fiscal quarters ended June 30, 2010, and September 30, 2010 and to 1.25 for each subsequent fiscal quarter. The Loan Agreement includes customary covenants, including financial covenants regarding minimum fixed charge coverage ratio and minimum net worth. As of September 30, 2010, management believes the Company was in compliance with all these covenants. The interest rate is 3.00% plus 90-day LIBOR due and payable monthly (3.2914% September 30, 2010). As of September 30, 2010, there is \$1.5 million in borrowings outstanding under the credit agreement.

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On December 22, 2005, the Company consummated the private placement of 5,000 of the Trust's floating rate capital securities, with a liquidation amount of \$1,000 per capital security (the "Capital Securities"). In connection with the Trust's issuance and sale of the Capital Securities, the Company purchased from the Trust 155 of the Trust's floating rate common securities, with a liquidation amount of \$1,000 per common security (the "Common Securities"). The Trust used the proceeds from the issuance and sale of the Capital Securities and the Common Securities to purchase \$5,155,000 in aggregate principal amount of the floating rate junior subordinated debentures of the Company (the "Debentures"). The Capital Securities mature on December 31, 2035, but may be redeemed at par beginning December 31, 2010. The Capital Securities require quarterly distributions by the Trust to the holders of the Capital Securities, at a floating rate of three-month LIBOR plus 5.75% per annum, reset quarterly. Distributions are cumulative and will accrue from the date of original issuance but may be deferred for a period of up to 20 consecutive quarterly interest payment periods, if the Company exercises its right under the Indenture to defer the payment of interest on the Debentures.

On March 10, 2009, AAIC purchased all of the Capital Securities issued by the Trust at a discounted price of \$1,000,000 from the non-affiliated holder of those securities. The discount is being accreted to interest income over the remaining life of the Capital Securities using the interest method.

To support Company growth, the Company maintains a highly liquid investment portfolio and closely manages capital requirements. AAIC is required by the state of South Carolina to maintain minimum statutory capital and surplus of \$3.0 million. As of September 30, 2010, AAIC's statutory capital and surplus was \$13.4 million.

In April of 2010, the Company's shareholders approved the Company's 2010 Incentive Plan ("2010 Plan"). The aggregate number of shares of common stock reserved and available for issuance pursuant to awards granted to participants under the 2010 Plan consists of 2,000,000 shares. As of September 30, 2010, there were 7,241,245 shares of the Company's common stock subject to outstanding awards under the prior 2000 Incentive Plan (the "Prior Plan"). The Company will not grant any additional awards under the Prior Plan, and it expired in June 2010.

Loss and LAE Reserves

The Company is required to make certain estimates and assumptions when preparing its financial statements and accompanying notes in accordance with GAAP. One area which requires estimations and assumptions is the establishment of loss and LAE reserves. Loss and LAE reserves are established to reflect the estimated costs of paying claims and claims expenses under insurance policies we have issued. These reserves are an approximation of amounts necessary to settle all outstanding claims, including claims of which we are aware and claims that have been incurred but not reported ("IBNR") as of the financial statement date.

At September 30, 2010 and 2009, we had \$9.2 million and \$12.3 million of net loss and LAE reserves, which included \$5.1 million and \$6.4 million of case reserves and \$4.1 million and \$5.9 million of IBNR reserves. During 2010, the Company had a decrease in case reserves and IBNR reserves. This decrease is the result of an enhanced claims handling process enabling us to better serve our customers and accelerate claims payments in some cases, which reduces the need for reserves.

GROSS RESERVES BY LINE OF BUSINESS

The following table presents the gross reserves by line of business as of September 30, 2010 and December 31, 2009:

	2010	2009
Personal Auto Liability	\$ 30,234,726	\$ 37,540,801
Personal Auto Physical Damage	1,436,400	4,432,182
Total Gross Reserves-Unpaid Losses and LAE	\$ 31,671,126	\$ 41,972,983

The decrease in gross reserves was \$10.3 million due to an increase in claims settlements and improved claim handling in the first nine months of 2010. The liability line of business decreased \$7.3 million and the auto physical damage line decreased of \$3.0 million.

Variability of Reserves for Loss and LAE

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Management believes that there are no changes in key factors or assumptions that would materially affect the estimate of the reserves for loss and LAE and the financial position of the Company. The Company's low average policy limit and concentration on the nonstandard auto driver classification help stabilize fluctuations in frequency and severity, thereby limiting the potential variability the reserve level may have on reported results. For example, approximately 97% of policies included within the nonstandard book of business include only the state-mandated minimum policy limits for bodily injury and property damage, which mitigates the complexity of estimating average severity. These low limits tend to reduce the exposure of the loss reserves on this coverage to medical cost inflation on severe injuries since the minimum policy limits will limit the total payout.

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The following table provides the estimated changes in the liability and related payments made for the calendar periods ended September 30, 2010 and 2009. The increase in paid losses and LAE has enabled us to reduce loss and LAE reserves over time.

	2010	2009
Change in net loss and LAE reserves	\$ (3,102,921)	\$ 323,516
Paid losses and LAE	20,995,151	17,962,884
Total incurred losses and LAE	\$ 17,892,230	\$ 18,286,400
Loss and LAE ratio(1)	71.1%	70.8%

(1) The ratio was calculated by taking losses and LAE divided by the Net Premiums Earned.

Losses and Loss Adjustment Expenses

The Company's claims costs represents payments made and estimated future payments to be made to or on behalf of our policyholders, including expenses needed to adjust or settle claims. These costs relate to current costs under our non-standard state-mandated automobile insurance programs. Claims costs are impacted by loss severity and frequency and are influenced by inflation and driving patterns, among other factors. Accordingly, anticipated changes in these factors are taken into account when we establish premium rates and loss reserves.

During the nine months ended September 30, 2010, our loss and LAE ratio increased slightly by 0.3% as compared to a 10.2% decrease in the same period a year ago. The first nine months of September 2010 increase is due to an increase in industry-wide loss costs in both bodily injury and auto physical damage coverages and the September 2009 decrease was mainly related to an increase in premium production and policy fees, which were classified as premium in 2009. We continuously monitor internal and industry-wide severity trends and adjust rates as appropriate to compensate for the higher loss costs.

The table below presents the development experienced in the following periods:

	2010	2009
Prior year incurred losses and LAE	\$ 919,003	\$ (209,001)
Current year incurred losses and LAE	16,973,227	18,495,401
Total incurred losses and LAE	\$ 17,892,230	\$ 18,286,400
Increase (decrease) to the calendar year loss and LAE ratio	0.3%	(8.4)%

The 2010 prior year incurred loss development was unfavorable by \$0.9 million for the first nine months of 2010 due to an increase in losses in the 2009 and prior accident years. The 2009 prior year-to-date development was favorable by \$0.2 million, which related to the 2008 and prior accident years. The unfavorable development reflects losses settling for more than previously reserved and the favorable development reflects losses settling for less than previously reserved, particularly in our higher limit bodily injury coverages. Changes in our estimate of severity from what we originally expected when establishing the reserves is the principal cause of prior accident year development. These changes in estimates are the result of what we are observing in the underlying data as it develops. Our personal lines case loss reserves (e.g., claims settling for more than reserved) had minimal development during the year.

Ceded Reinsurance

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The Company cedes a significant portion of its personal automobile premium to other reinsurers. The Company's reinsurance strategy is to use quota share reinsurance to mitigate the financial impact of losses on its operations, while enabling premium growth within its capital base. Historically, the Company's reinsurance contracts have been one or two years in duration, subject to renewal.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company periodically reviews the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies. Further, the reinsurers cover up to \$2,000,000 in aggregate claims for extra contractual obligations each policy year.

The impact of reinsurance on the income statement as of September 30, 2010 and 2009 is as follows:

	2010	2009
Written premiums ceded:	\$ 53,257,566	\$ 57,042,434
Ceding commissions earned:	\$ 12,037,522	\$ 13,265,446
Ceded losses and loss adjustment expenses incurred:	\$ 45,395,554	\$ 44,621,051

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The impact of reinsurance on the balance sheets as of September 30 and December 31, 2009 is as follows:

	2010	2009
Reinsurance recoverable:	\$ 32,176,962	\$ 43,809,125
Ceded unpaid losses and loss adjustment expense:	\$ 22,510,957	\$ 29,709,859
Ceded unearned premiums:	\$ 25,928,912	\$ 25,098,051
Reinsurance payable:	\$ 30,158,044	\$ 28,523,284

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. The Company reports as assets (a) the estimated reinsurance recoverable on unpaid losses, including an estimate for losses incurred but not reported, and (b) amounts paid to reinsurers applicable to the policies-in-force.

During 2010 and 2009, the Company ceded approximately 68% of its premium and losses to the contracted reinsurers. Premiums ceded under this reinsurance agreement for the nine months ended September 30, 2010 and 2009 were \$53.3 million and \$57.4 million, respectively. The related ceding commission was approximately \$12.0 million in 2010 and \$13.3 million in 2009. The decline in ceded premium is mainly due to a decrease in premium volume in the states of Florida, Georgia and Louisiana, offset by increases in Texas and Virginia.

Ceded reinsurance for all programs reduced the Company's incurred losses and LAE by \$45.4 million and \$44.6 million for the nine months ended September 30, 2010 and 2009, respectively.

Reinsurance assets include balances due from other contracted reinsurers under the terms of reinsurance agreements. Amounts applicable to ceded unearned premiums, ceded loss payments and ceded claims liabilities are reported as assets in the accompanying balance sheets. Under the reinsurance agreements, the Company has four reinsurers that are required to collateralize the reinsurance recoverables. As of September 30, 2010, all reinsurers have provided a letter of credit or a secured trust account to provide security sufficient to satisfy the Company's obligations under the reinsurance agreement. The Company believes the fair value of its reinsurance recoverables approximates their carrying amounts.

The Company's reinsurance recoverable balances amounted to \$32.2 million and \$43.8 million as of September 30, 2010 and December 31, 2009, respectively. The recoverable includes ceded unpaid losses and loss adjustment expenses of \$22.5 million and \$29.7 million of the same periods, respectively. The ceded reserves from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies ceded. Reinsurance recoverable assets include paid loss balances due from other insurance companies under the terms of reinsurance agreements in the amount of \$9.7 million and \$14.1 million as of September 30, 2010 and December 31, 2009, respectively. The paid loss recoverables are in good standing as of September 30, 2010.

The Company's ceded unearned premium relates to policies in force and is earned ratably over the policy period. As of September 30, 2010 and December 31, 2009, the ceded unearned reserves amounted to \$25.9 million and \$25.1 million, respectively. The unearned premium will become earned over the term of the policy. Reinsurance payable of \$30.2 million and \$28.5 million as of September 30, 2010 and December 31, 2009 represents the amounts due to reinsurers for ceded premiums net of commissions. The Company pays its reinsurers on a collected premium basis, and no balances are in dispute through September 30, 2010.

The Company's quota share reinsurance facility has a significant impact on its cash flows. Since the Company cedes approximately 68% of its premium and losses, the Company relies heavily on its reinsurers to settle outstanding reinsurance balances due for loss payments net of premiums collected. The Company paid premiums net of commissions of \$39.7 million and \$44.0 million and received reinsurance recoverables on paid loss and loss adjustment expenses of \$57.0 million and \$42.8 million in 2010 and 2009, respectively.

The Company's reinsurance strategies have not changed from previous years and the Company's limited loss exposure is approximately 30%, which is based on the existing quota share agreement, whereby the Company cedes approximately 68% of its losses. While the Company monitors conditions within the reinsurance market, adverse conditions could have an impact on the Company's ability to secure reinsurance capacity, thereby limiting its ability to cede future losses.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISKS

Not Applicable

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report on Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures in accordance with Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Annual Report on Changes in Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2010. In making this assessment, management used the criteria described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate. Based on this evaluation, management determined that, as of September 30, 2010, we maintained effective internal control over financial reporting, and there were no changes in our internal control over financial reporting made during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

Not Applicable

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

For 2010, each non-officer director may choose between (i) an amount in cash equal to \$15,000 plus the number of shares equal to \$15,000 divided by the share price on December 31, of the prior year or (ii) the number of shares equal to \$30,000 divided by the share price on December 31, of the prior year. During the first nine months of 2010, the Company issued 350,000 shares of common stock, \$.01 par value, to members of its board of directors pursuant to this director compensation program. The shares were issued on January 28, 2010 to directors, each an accredited investor, as a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended and Regulation D. The Company received no consideration for the common stock issued.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. REMOVED AND RESERVED

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

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ITEM 6. EXHIBITS

- (a) Exhibits.
 - 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASSURANCEAMERICA CORPORATION

By: /s/ Guy W. Millner
Guy Millner
Chairman and CEO

Date: November 12, 2010

By: /s/ Sheree S. Williams
Sheree S. Williams
Chief Financial Officer

Date: November 12, 2010