UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended September 30, 2019

or

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $1.00 per share | AAME | NASDAQ Global Market |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☑ Emerging growth company ☐

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

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

The total number of shares of the registrant's Common Stock, $1 par value, outstanding on October 23, 2019 was 20,479,501.

**ATLANTIC AMERICAN CORPORATION**

**TABLE OF CONTENTS**

## Part I. Financial Information

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## ATLANTIC AMERICAN CORPORATION
## CONDENSED CONSOLIDATED BALANCE SHEETS
*(Dollars in thousands, except per share data)*

### ASSETS

| | *Unaudited* September 30, 2019 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 36,013 | $ 12,630 |
| Investments: | | |
| Fixed maturities, available-for-sale, at fair value (amortized cost: $205,124 and $219,924) | 217,517 | 210,386 |
| Equity securities, at fair value (cost: $7,168 and $10,515) | 19,507 | 20,758 |
| Other invested assets (cost: $7,005 and $6,905) | 7,103 | 7,424 |
| Policy loans | 1,989 | 2,085 |
| Real estate | 38 | 38 |
| Investment in unconsolidated trusts | 1,238 | 1,238 |
| Total investments | 247,392 | 241,929 |
| Receivables: | | |
| Reinsurance | 30,481 | 26,110 |
| Insurance premiums and other (net of allowance for doubtful accounts: $192 and $207) | 17,996 | 15,223 |
| Deferred income taxes, net | 175 | 4,184 |
| Deferred acquisition costs | 38,801 | 37,094 |
| Other assets | 9,933 | 4,560 |
| Intangibles | 2,544 | 2,544 |
| Total assets | $ 383,335 | $ 344,274 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | *Unaudited* September 30, 2019 | December 31, 2018 |
|---|---|---|
| Insurance reserves and policyholder funds: | | |
| Future policy benefits | $ 92,685 | $ 90,257 |
| Unearned premiums | 28,152 | 24,206 |
| Losses and claims | 76,261 | 72,612 |
| Other policy liabilities | 1,226 | 1,973 |
| Total insurance reserves and policyholder funds | 198,324 | 189,048 |
| Other liabilities | 34,862 | 20,116 |
| Junior subordinated debenture obligations, net | 33,738 | 33,738 |
| Total liabilities | 266,924 | 242,902 |
| | | |
| Commitments and contingencies (Note 10) | | |
| Shareholders' equity: | | |
| Preferred stock, $1 par, 4,000,000 shares authorized; Series D preferred, 55,000 shares issued and outstanding; $5,500 redemption value | 55 | 55 |
| Common stock, $1 par, 50,000,000 shares authorized; shares issued: 22,400,894; shares outstanding: 20,479,501 and 20,170,360 | 22,401 | 22,401 |
| Additional paid-in capital | 57,819 | 57,414 |
| Retained earnings | 34,850 | 37,208 |
| Accumulated other comprehensive income (loss) | 9,791 | (7,535) |
| Unearned stock grant compensation | (943) | (186) |
| Treasury stock, at cost: 1,921,393 and 2,230,534 shares | (7,562) | (7,985) |
| Total shareholders' equity | 116,411 | 101,372 |
| Total liabilities and shareholders' equity | $ 383,335 | $ 344,274 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue: | | | | |
| Insurance premiums, net | $ 45,005 | $ 42,557 | $ 135,256 | $ 127,604 |
| Net investment income | 2,187 | 2,215 | 6,834 | 7,111 |
| Realized investment gains (losses), net | (430) | 484 | 1,565 | 797 |
| Unrealized gains on equity securities, net | 944 | 1,083 | 2,096 | 753 |
| Other income | 39 | 31 | 139 | 88 |
| Total revenue | 47,745 | 46,370 | 145,890 | 136,353 |
| Benefits and expenses: | | | | |
| Insurance benefits and losses incurred | 34,719 | 33,087 | 104,177 | 98,478 |
| Commissions and underwriting expenses | 11,471 | 8,722 | 33,995 | 28,456 |
| Interest expense | 533 | 529 | 1,624 | 1,497 |
| Other expense | 2,766 | 2,960 | 8,142 | 9,168 |
| Total benefits and expenses | 49,489 | 45,298 | 147,938 | 137,599 |
| Income (loss) before income taxes | (1,744) | 1,072 | (2,048) | (1,246) |
| Income tax expense (benefit) | (352) | 138 | (392) | (341) |
| Net income (loss) | (1,392) | 934 | (1,656) | (905) |
| Preferred stock dividends | (100) | (100) | (299) | (299) |
| Net income (loss) applicable to common shareholders | $ (1,492) | $ 834 | $ (1,955) | $ (1,204) |
| Earnings (loss) per common share (basic and diluted) | $ (.07) | $ .04 | $ (.10) | $ (.06) |

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

# ATLANTIC AMERICAN CORPORATION
## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
*(Unaudited; Dollars in thousands)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net income (loss) | $ (1,392) | $ 934 | $ (1,656) | $ (905) |
| Other comprehensive income (loss): | | | | |
| Available-for-sale fixed maturity securities: | | | | |
| Gross unrealized holding gain (loss) arising in the period | 5,871 | 63 | 22,275 | (10,327) |
| Related income tax effect | (1,232) | (13) | (4,677) | 2,169 |
| Subtotal | 4,639 | 50 | 17,598 | (8,158) |
| Less: reclassification adjustment for net realized (gains) losses included in net income (loss) | 538 | (484) | (344) | (797) |
| Related income tax effect | (113) | 101 | 72 | 167 |
| Subtotal | 425 | (383) | (272) | (630) |
| Total other comprehensive income (loss), net of tax | 5,064 | (333) | 17,326 | (8,788) |
| Total comprehensive income (loss) | $ 3,672 | $ 601 | $ 15,670 | $ (9,693) |

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

Table of Contents

# ATLANTIC AMERICAN CORPORATION
## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
*(Unaudited; Dollars in thousands, except per share data)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Preferred stock:** | | | | |
| Balance, beginning of period | $ 55 | $ 55 | $ 55 | $ 55 |
| Repurchases of preferred stock | - | - | - | - |
| Net issuance of preferred stock | - | - | - | - |
| Balance, end of period | 55 | 55 | 55 | 55 |
| **Common stock:** | | | | |
| Balance, beginning of period | 22,401 | 22,401 | 22,401 | 22,401 |
| Repurchases of common stock | - | - | - | - |
| Net issuance of common stock | - | - | - | - |
| Balance, end of period | 22,401 | 22,401 | 22,401 | 22,401 |
| **Additional paid-in capital:** | | | | |
| Balance, beginning of period | 57,444 | 57,416 | 57,414 | 57,495 |
| Restricted stock grants, net of forfeitures | 372 | - | 396 | (88) |
| Issuance of shares under stock plans | 3 | 3 | 9 | 12 |
| Balance, end of period | 57,819 | 57,419 | 57,819 | 57,419 |
| **Retained earnings:** | | | | |
| Balance, beginning of period | 36,342 | 36,273 | 37,208 | 30,993 |
| Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018 | - | - | - | 9,825 |
| Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018 | - | - | - | (2,100) |
| Net income (loss) | (1,392) | 934 | (1,656) | (905) |
| Dividends on common stock | - | - | (403) | (407) |
| Dividends accrued on preferred stock | (100) | (100) | (299) | (299) |
| Balance, end of period | 34,850 | 37,107 | 34,850 | 37,107 |
| **Accumulated other comprehensive income (loss):** | | | | |
| Balance, beginning of period | 4,727 | (6,429) | (7,535) | 9,751 |
| Cumulative effect of adoption of updated accounting guidance for equity financial instruments at January 1, 2018 | - | - | - | (9,825) |
| Reclassification of certain tax effects from accumulated other comprehensive income at January 1, 2018 | - | - | - | 2,100 |
| Other comprehensive income (loss), net of tax | 5,064 | (333) | 17,326 | (8,788) |
| Balance, end of period | 9,791 | (6,762) | 9,791 | (6,762) |
| **Unearned Stock Grant Compensation:** | | | | |
| Balance, beginning of period | (150) | (322) | (186) | (579) |
| Restricted stock grants, net of forfeitures | (877) | - | (948) | 135 |
| Amortization of unearned compensation | 84 | 70 | 191 | 192 |
| Balance, end of period | (943) | (252) | (943) | (252) |
| **Treasury Stock:** | | | | |
| Balance, beginning of period | (8,049) | (7,727) | (7,985) | (7,133) |
| Restricted stock grants, net of forfeitures | 505 | - | 552 | (47) |
| Purchase of shares for treasury | - | (103) | (71) | (463) |
| Net shares acquired related to employee share-based compensation plans | (23) | (26) | (72) | (223) |
| Issuance of shares under stock plans | 5 | 6 | 14 | 16 |
| Balance, end of period | (7,562) | (7,850) | (7,562) | (7,850) |
| **Total shareholders' equity** | $ 116,411 | $ 102,118 | $ 116,411 | $ 102,118 |
| **Dividends declared on common stock per share** | $ - | $ - | $ .02 | $ .02 |

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

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

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (1,656) | $ (905) |
| Adjustments to reconcile loss to net cash used in operating activities: | | |
| Acquisition costs deferred, net | (1,707) | (2,240) |
| Realized investment gains, net | (1,565) | (797) |
| Unrealized gains on equity securities, net | (2,096) | (753) |
| Distributions received from equity method investees | 379 | 725 |
| Compensation expense related to share awards | 191 | 192 |
| Depreciation and amortization | 588 | 783 |
| Deferred income tax benefit | (596) | (1,335) |
| Increase in receivables, net | (7,917) | (7,882) |
| Increase in insurance reserves and policyholder funds | 9,276 | 14,230 |
| Increase (decrease) in other liabilities | 3,271 | (6,760) |
| Other, net | (5,738) | (377) |
| Net cash used in operating activities | (7,570) | (5,119) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Proceeds from investments sold | 119,929 | 28,177 |
| Proceeds from investments matured, called or redeemed | 5,907 | 4,577 |
| Investments purchased | (94,316) | (40,827) |
| Additions to property and equipment | (44) | (252) |
| Net cash provided by (used in) investing activities | 31,476 | (8,325) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Payment of dividends on common stock | (403) | (407) |
| Proceeds from shares issued under stock plans | 23 | 28 |
| Treasury stock acquired — share repurchase authorization | (71) | (463) |
| Treasury stock acquired — net employee share-based compensation | (72) | (223) |
| Net cash used in financing activities | (523) | (1,065) |
| Net increase (decrease) in cash and cash equivalents | 23,383 | (14,509) |
| Cash and cash equivalents at beginning of period | 12,630 | 24,547 |
| Cash and cash equivalents at end of period | $ 36,013 | $ 10,038 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Cash paid for interest | $ 1,644 | $ 1,471 |
| Cash paid for income taxes | $ 1,625 | $ 1,892 |

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

**ATLANTIC AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
*(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"). The Parent's primary operating subsidiaries, American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as "Bankers Fidelity"), operate in two principal business units. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying financial 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 annual financial statements. In the opinion of management, all adjustments (consisting only 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, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Annual Report"). The Company's financial condition and results of operations and cash flows as of and for the three month and nine month periods ended September 30, 2019 are not necessarily indicative of the financial condition or results of operations and cash flows that may be expected for the year ending December 31, 2019 or for any other future period.

The Company's significant accounting policies have not changed materially from those set out in the 2018 Annual Report, except as noted below for the adoption of new accounting standards.

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.** Recently Issued Accounting Standards

***Adoption of New Accounting Standards***

**Leases.** On January 1, 2019, the Company adopted the requirements of Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842). The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a right-of-use ("ROU") asset and lease liability on the balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The new standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

As part of the transition to the new standard, the Company was required to measure and recognize leases that existed at January 1, 2019 and elected to use a modified retrospective approach. For leases that existed at the effective date, the Company elected the package of three transition practical expedients and therefore did not reassess any of the following: (i) whether an arrangement is or contains a lease, (ii) lease classification, or (iii) what qualifies as an initial direct cost.

The adoption of this ASU resulted in the Company recognizing a ROU asset of $6,088 as part of other assets and a lease liability of $6,088 as part of other liabilities in the consolidated balance sheet. The adoption of this ASU did not have a material effect on the Company's results of operations or liquidity.

**Revenue from Contracts with Customers.** In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"). ASU 2014-09, as modified, provides guidance for recognizing revenue which excludes insurance contracts and financial instruments. Revenue is to be recognized when, or as, goods or services are transferred to customers in an amount that reflects the consideration that an entity is expected to be entitled in exchange for those goods or services. For the nine months ended September 30, 2019 and 2018, approximately $139 and $88, respectively, or approximately one-tenth of 1% of the Company's total revenues, were within the scope of this updated guidance. The Company adopted ASU 2014-09 as of January 1, 2018. The adoption of this ASU did not have an impact on the Company's consolidated financial statements.

### *Future Adoption of New Accounting Standards*

For information regarding accounting standards that the Company has not yet adopted, see the “Recently Issued Accounting Standards - Future Adoption of New Accounting Standards” section of Note 1 of Notes to Consolidated Financial Statements in the 2018 Annual Report.

**Note 3.** Investments

The following tables set forth the estimated fair value, gross unrealized gains, gross unrealized losses and cost or amortized cost of the Company’s investments in fixed maturities and equity securities, aggregated by type and industry, as of September 30, 2019 and December 31, 2018.

Fixed maturities were comprised of the following:

| | September 30, 2019 | | | |
|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Gains | Gross Unrealized Losses | Cost or Amortized Cost |
| Fixed maturities: | | | | |
| Bonds: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies and authorities | $ 19,338 | $ 624 | $ 122 | $ 18,836 |
| Obligations of states and political subdivisions | 4,999 | 432 | - | 4,567 |
| Corporate securities: | | | | |
| Utilities and telecom | 21,287 | 2,110 | 3 | 19,180 |
| Financial services | 58,290 | 3,510 | 69 | 54,849 |
| Other business – diversified | 51,719 | 2,446 | 87 | 49,360 |
| Other consumer – diversified | 61,692 | 3,644 | 92 | 58,140 |
| Total corporate securities | 192,988 | 11,710 | 251 | 181,529 |
| Redeemable preferred stocks: | | | | |
| Other consumer – diversified | 192 | — | — | 192 |
| Total redeemable preferred stocks | 192 | — | — | 192 |
| Total fixed maturities | $ 217,517 | $ 12,766 | $ 373 | $ 205,124 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Gains | Gross Unrealized Losses | Cost or Amortized Cost |
| Fixed maturities: | | | | |
| Bonds: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies and authorities | $ 27,422 | $ 36 | $ 1,061 | $ 28,447 |
| Obligations of states and political subdivisions | 8,364 | 347 | 72 | 8,089 |
| Corporate securities: | | | | |
| Utilities and telecom | 19,642 | 873 | 431 | 19,200 |
| Financial services | 49,477 | 747 | 2,942 | 51,672 |
| Other business – diversified | 49,196 | 226 | 2,844 | 51,814 |
| Other consumer – diversified | 56,093 | 84 | 4,501 | 60,510 |
| Total corporate securities | 174,408 | 1,930 | 10,718 | 183,196 |
| Redeemable preferred stocks: | | | | |
| Other consumer – diversified | 192 | — | — | 192 |
| Total redeemable preferred stocks | 192 | — | — | 192 |
| Total fixed maturities | $ 210,386 | $ 2,313 | $ 11,851 | $ 219,924 |

Bonds having an amortized cost of $10,444 and $10,452 and included in the tables above were on deposit with insurance regulatory authorities as of September 30, 2019 and December 31, 2018, respectively, in accordance with statutory requirements.

Equity securities were comprised of the following:

| | September 30, 2019 | | | |
|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Gains | Gross Unrealized Losses | Cost or Amortized Cost |
| Equity securities: | | | | |
| Common and non-redeemable preferred stocks: | | | | |
| Financial services | $ 2,797 | $ 309 | $ — | $ 2,488 |
| Other business – diversified | 312 | 265 | — | 47 |
| Other consumer – diversified | 16,398 | 11,765 | — | 4,633 |
| Total equity securities | $ 19,507 | $ 12,339 | $ — | $ 7,168 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| | Estimated Fair Value | Gross Unrealized Gains | Gross Unrealized Losses | Cost or Amortized Cost |
| Equity securities: | | | | |
| Common and non-redeemable preferred stocks: | | | | |
| Utilities and telecom | $ 1,686 | $ 722 | $ — | $ 964 |
| Financial services | 4,552 | 172 | — | 4,380 |
| Other business – diversified | 306 | 259 | — | 47 |
| Other consumer – diversified | 14,214 | 9,090 | — | 5,124 |
| Total equity securities | $ 20,758 | $ 10,243 | $ — | $ 10,515 |

The carrying value and amortized cost of the Company’s investments in fixed maturities at September 30, 2019 and December 31, 2018 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

| | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost |
| Due in one year or less | $ - | $ - | $ 3,150 | $ 3,150 |
| Due after one year through five years | 13,665 | 13,267 | 19,787 | 19,699 |
| Due after five years through ten years | 76,413 | 72,480 | 127,617 | 133,863 |
| Due after ten years | 119,335 | 111,267 | 43,823 | 46,338 |
| Asset backed securities | 8,104 | 8,110 | 16,009 | 16,874 |
| Totals | $ 217,517 | $ 205,124 | $ 210,386 | $ 219,924 |

The following tables present the Company's unrealized losses for securities by type and length of time the security was in a continuous unrealized loss position as of September 30, 2019 and December 31, 2018.

| | September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 1,020 | $ 4 | $ 7,689 | $ 118 | $ 8,709 | $ 122 |
| Corporate securities | 22,791 | 61 | 7,430 | 190 | 30,221 | 251 |
| Total temporarily impaired securities | $ 23,811 | $ 65 | $ 15,119 | $ 308 | $ 38,930 | $ 373 |

| | December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ — | $ — | $ 24,786 | $ 1,061 | $ 24,786 | $ 1,061 |
| Obligations of states and political subdivisions | — | — | 3,980 | 72 | 3,980 | 72 |
| Corporate securities | 49,633 | 1,592 | 97,012 | 9,126 | 146,645 | 10,718 |
| Total temporarily impaired securities | $ 49,633 | $ 1,592 | $ 125,778 | $ 10,259 | $ 175,411 | $ 11,851 |

The evaluation for an other than temporary impairment ("OTTI") 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. Potential 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, management's intent and ability to hold the securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its 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.

There were no OTTI charges recorded during the three month and nine month periods ended September 30, 2019 and 2018.

As of September 30, 2019 and December 31, 2018, there were twenty-four and one hundred forty securities, respectively, in an unrealized loss position which primarily included certain of the Company's investments in fixed maturities within the financial services, other diversified business and other diversified consumer sectors. The decrease in the number and value of securities in an unrealized loss position during the nine month period ended September 30, 2019 was primarily attributable to the appreciation of fixed maturity market prices due to the current interest rate environment. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of September 30, 2019.

The following table is a summary of realized investment gains (losses) for the three month and nine month periods ended September 30, 2019 and 2018.

| | Three Months Ended September 30, 2019 | | | |
|---|---|---|---|---|
| | Fixed Maturities | Equity Securities | Other Invested Assets | Total |
| Gains | $ 1,112 | $ 108 | $ — | $ 1,220 |
| Losses | (1,650) | — | — | (1,650) |
| Realized investment gains (losses), net | $ (538) | $ 108 | $ — | $ (430) |

| | Three Months Ended September 30, 2018 | | | |
|---|---|---|---|---|
| | Fixed Maturities | Equity Securities | Other Invested Assets | Total |
| Gains | $ 212 | $ 272 | $ — | $ 484 |
| Losses | — | — | — | — |
| Realized investment gains (losses), net | $ 212 | $ 272 | $ — | $ 484 |

| | Nine Months Ended September 30, 2019 | | | |
|---|---|---|---|---|
| | Fixed Maturities | Equity Securities | Other Invested Assets | Total |
| Gains | $ 1,994 | $ 1,221 | $ — | $ 3,215 |
| Losses | (1,650) | — | — | (1,650) |
| Realized investment gains (losses), net | $ 344 | $ 1,221 | $ — | $ 1,565 |

| | Nine Months Ended September 30, 2018 | | | |
|---|---|---|---|---|
| | Fixed Maturities | Equity Securities | Other Invested Assets | Total |
| Gains | $ 829 | $ 272 | $ — | $ 1,101 |
| Losses | (304) | — | — | (304) |
| Realized investment gains (losses), net | $ 525 | $ 272 | $ — | $ 797 |

The following table presents the portion of unrealized gains (losses) on equity securities still held for the three month and nine month periods ended September 30, 2019 and 2018.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net realized and unrealized gains (losses) recognized during the period on equity securities | $ 1,052 | $ 1,355 | $ 3,317 | $ 1,025 |
| Less: Net realized gains (losses) recognized during the period on equity securities sold during the period | 108 | 272 | 1,221 | 272 |
| Unrealized gains (losses) on equity securities, net | $ 944 | $ 1,083 | $ 2,096 | $ 753 |

***Variable Interest Entities***

The Company holds passive interests in a number of entities that are considered to be variable interest entities ("VIEs") under GAAP guidance. The Company's VIE interests principally consist of interests in limited partnerships and limited liability companies formed for the purpose of achieving diversified equity returns. The Company's VIE interests, carried as a part of other invested assets, totaled $7,103 and $7,424 as of September 30, 2019 and December 31, 2018, respectively. The Company's VIE interests, carried as a part of investment in unconsolidated trusts, totaled $1,238 as of September 30, 2019 and December 31, 2018.

The Company does not have power over the activities that most significantly impact the economic performance of these VIEs and thus is not the primary beneficiary. Therefore, the Company has not consolidated these VIEs. The Company's involvement with each VIE is limited to its direct ownership interest in the VIE. The Company has no arrangements with any of the VIEs to provide other financial support to or on behalf of the VIE. The Company's maximum loss exposure relative to these investments was limited to the carrying value of the Company's investment in the VIEs, which amount to $8,341 and $8,662, as of September 30, 2019 and December 31, 2018, respectively. As of September 30, 2019 and December 31, 2018, the Company has outstanding commitments totaling $4,900 and $0, respectively, whereby the Company is committed to fund these investments and may be called by such VIEs during the commitment period to fund the purchase of new investments and partnership expenses.

**Note 4.** Fair Values of Financial Instruments

The estimated fair values have been determined by the Company using available market information from various market sources and appropriate valuation methodologies as of the respective dates. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its 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 financial instruments valued using Level 1 criteria include cash equivalents, U.S. Treasury securities and exchange traded common stocks.

Level 2 Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include significantly most of its fixed maturities, which consist of U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements of its fixed maturities and non-redeemable preferred stocks using Level 2 criteria, the Company utilizes data from outside sources, including nationally recognized pricing services and broker/dealers. Prices for the majority of the Company's Level 2 fixed maturities and non-redeemable preferred stocks were determined using unadjusted prices received from pricing services that utilize a matrix pricing concept, which is a mathematical technique used widely in the industry to value debt securities based on various relationships to other benchmark quoted prices.

Level 3 Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. The Company's financial instruments valued using Level 3 criteria consist of a limited number of fixed maturities. As of September 30, 2019 and December 31, 2018, the value of the Company's fixed maturities valued using Level 3 criteria was $1,220 and $1,066, respectively. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

As of September 30, 2019, financial instruments 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 |
|---|---|---|---|---|
| Assets: | | | | |
| Fixed maturities | $ 11,233 | $ 205,064 | $ 1,220 (1) | $ 217,517 |
| Equity securities | 16,921 | 2,586(1) | — | 19,507 |
| Cash equivalents | 29,132 | — | — | 29,132 |
| Total | $ 57,286 | $ 207,650 | $ 1,220 | $ 266,156 |

(1) All underlying securities are financial services industry related.

As of December 31, 2018, financial instruments 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 |
|---|---|---|---|---|
| Assets: | | | | |
| Fixed maturities | $ 11,413 | $ 197,907 | $ 1,066(1) | $ 210,386 |
| Equity securities | 16,398 | 4,360(1) | — | 20,758 |
| Cash equivalents | 8,250 | — | — | 8,250 |
| Total | $ 36,061 | $ 202,267 | $ 1,066 | $ 239,394 |

(1) All underlying securities are financial services industry related.

The following tables provide a roll-forward of the Company's financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month and nine month periods ended September 30, 2019 and 2018.

| | Fixed Maturities |
|---|---|
| Balance, December 31, 2018 | $ 1,066 |
| Total unrealized gains included in other comprehensive loss | 49 |
| Balance, March 31, 2019 | 1,115 |
| Total unrealized gains included in other comprehensive income | 59 |
| Balance, June 30, 2019 | 1,174 |
| Total unrealized gains included in other comprehensive income | 46 |
| Balance, September 30, 2019 | $ 1,220 |

| | Fixed Maturities |
|---|---|
| Balance, December 31, 2017 | $ 1,369 |
| Total unrealized losses included in other comprehensive loss | (30) |
| Balance, March 31, 2018 | 1,339 |
| Total unrealized gains included in other comprehensive loss | 7 |
| Balance, June 30, 2018 | 1,346 |
| Total realized gains included in earnings | 208 |
| Total unrealized losses included in other comprehensive loss | (53) |
| Settlements | (483) |
| Balance, September 30, 2018 | $ 1,018 |

The Company's fixed maturities valued using Level 3 inputs consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies that are not actively traded. There are no assumed prepayments and/or default probability assumptions as a majority of these instruments contain certain U.S. government agency strips to support repayment of the principal. Other qualitative and quantitative information received from the original underwriter of the pooled offerings is also considered, as applicable.

The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of the Company's financial instruments as of September 30, 2019 and December 31, 2018.

| | | September 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|
| | Level in Fair Value Hierarchy (1) | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets: | | | | | |
| Cash and cash equivalents | Level 1 | $ 36,013 | $ 36,013 | $ 12,630 | $ 12,630 |
| Fixed maturities | (1) | 217,517 | 217,517 | 210,386 | 210,386 |
| Equity securities | (1) | 19,507 | 19,507 | 20,758 | 20,758 |
| Other invested assets | Level 3 | 7,103 | 7,103 | 7,424 | 7,424 |
| Policy loans | Level 2 | 1,989 | 1,989 | 2,085 | 2,085 |
| Real estate | Level 2 | 38 | 38 | 38 | 38 |
| Investment in unconsolidated trusts | Level 2 | 1,238 | 1,238 | 1,238 | 1,238 |
| Liabilities: | | | | | |
| Junior subordinated debentures, net | Level 2 | 33,738 | 33,738 | 33,738 | 33,738 |

(1) See the aforementioned information for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

There have not been any transfers between Level 1, Level 2 and Level 3 during the periods presented in these condensed consolidated financial statements.

**Note 5.** Liabilities for Unpaid Losses, Claims and Loss Adjustment Expenses

The roll-forward of liabilities for unpaid losses, claims and loss adjustment expenses for the nine months ended September 30, 2019 and 2018 is as follows:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Beginning liabilities for unpaid losses, claims and loss adjustment expenses, gross | $ 72,612 | $ 65,689 |
| Less: Reinsurance recoverable on unpaid losses | (14,354) | (11,968) |
| Beginning liabilities for unpaid losses, claims and loss adjustment expenses, net | 58,258 | 53,721 |
| | | |
| Incurred related to: | | |
| Current accident year | 103,017 | 96,424 |
| Prior accident year development | (629) | (1,049) |
| Total incurred | 102,388 | 95,375 |
| | | |
| Paid related to: | | |
| Current accident year | 66,682 | 62,598 |
| Prior accident years | 34,314 | 28,950 |
| Total paid | 100,996 | 91,548 |
| Ending liabilities for unpaid losses, claims and loss adjustment expenses, net | 59,650 | 57,548 |
| Plus: Reinsurance recoverable on unpaid losses | 16,611 | 14,268 |
| Ending liabilities for unpaid losses, claims and loss adjustment expenses, gross | $ 76,261 | $ 71,816 |

Following is a reconciliation of total incurred losses to total insurance benefits and losses incurred for the nine months ended September 30, 2019 and 2018:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Total incurred losses | $ 102,388 | $ 95,375 |
| Cash surrender value and matured endowments | 1,020 | 1,057 |
| Benefit reserve changes | 769 | 2,046 |
| Total insurance benefits and losses incurred | $ 104,177 | $ 98,478 |

**Note 6.** 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 those activities necessary or incidental thereto.

The financial structure of each of Atlantic American Statutory Trust I and II as of September 30, 2019 was as follows:

| | Atlantic American Statutory Trust I | Atlantic American Statutory Trust II |
|---|---|---|
| JUNIOR SUBORDINATED DEBENTURES [1] [2] | | |
| Principal amount owed September 30, 2019 | $ 18,042 | $ 23,196 |
| Less: Treasury debt [3] | — | (7,500) |
| Net balance September 30, 2019 | $ 18,042 | $ 15,696 |
| Net balance December 31, 2018 | $ 18,042 | $ 15,696 |
| 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 [4] | 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) On August 4, 2014, the Company acquired $7,500 of the Junior Subordinated Debentures.

(4) 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.

**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, 2019 | | |
|---|---|---|---|
| | Loss | Weighted Average Shares (In thousands) | Per Share Amount |
| *Basic and Diluted Loss Per Common Share:* | | | |
| Net loss | $ (1,392) | 20,250 | |
| Less preferred stock dividends | (100) | — | |
| Net loss applicable to common shareholders | $ (1,492) | 20,250 | $ (.07) |

| | Three Months Ended September 30, 2018 | | |
|---|---|---|---|
| | Income | Weighted Average Shares (In thousands) | Per Share Amount |
| *Basic and Diluted Earnings Per Common Share:* | | | |
| Net income | $ 934 | 20,420 | |
| Less preferred stock dividends | (100) | — | |
| Net income applicable to common shareholders | $ 834 | 20,420 | $ .04 |

| | Nine Months Ended September 30, 2019 | | |
|---|---|---|---|
| | Loss | Weighted Average Shares (In thousands) | Per Share Amount |
| *Basic and Diluted Loss Per Common Share:* | | | |
| Net loss | $ (1,656) | 20,185 | |
| Less preferred stock dividends | (299) | — | |
| Net loss applicable to common shareholders | $ (1,955) | 20,185 | $ (.10) |

| | Nine Months Ended September 30, 2018 | | |
|---|---|---|---|
| | Loss | Weighted Average Shares (In thousands) | Per Share Amount |
| *Basic and Diluted Loss Per Common Share:* | | | |
| Net loss | $ (905) | 20,314 | |
| Less preferred stock dividends | (299) | — | |
| Net loss applicable to common shareholders | $ (1,204) | 20,314 | $ (.06) |

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.

**Note 8.** Income Taxes

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Federal income tax provision at statutory rate of 21% | $ (366) | $ 225 | $ (430) | $ (262) |
| Dividends-received deduction | (6) | (10) | (20) | (30) |
| Other permanent differences | 41 | 22 | 79 | 50 |
| Adjustment for prior years' estimates to actual | (21) | (99) | (21) | (99) |
| Income tax expense (benefit) | $ (352) | $ 138 | $ (392) | $ (341) |

The components of income tax expense (benefit) were:

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| Current - Federal | $ (368) | $ 255 | $ 204 | $ 994 |
| Deferred - Federal | 16 | (117) | (596) | (1,335) |
| Total | $ (352) | $ 138 | $ (392) | $ (341) |

**Note 9.** Leases

The Company has two operating lease agreements, each for the use of office space in the ordinary course of business. The first lease renews annually on an automatic basis and based on original assumptions, management is reasonably certain to exercise the renewal option for an additional eight years from the January 1, 2019 effective date of the new lease guidance. The original term of the second lease was ten years and amended in January 2017 to provide for an additional seven years, with a termination date on September 30, 2026. The rate used in determining the present value of lease payments is based upon an estimate of the Company's incremental secured borrowing rate commensurate with the term of the underlying lease.

These leases are accounted for as operating leases, whereby lease expense is recognized on a straight-line basis over the term of the lease. Lease expense reported for the nine months ended September 30, 2019 was $761. See the "Adoption of New Accounting Standards – Leases" section of Note 2 of Notes to Condensed Consolidated Financial Statements for additional information regarding the accounting for leases.

Additional information regarding the Company's real estate operating leases is as follows:

| | Nine Months Ended September 30, 2019 |
|---|---|
| **Other information on operating leases:** | |
| Cash payments included in the measurement of lease liabilities reported in operating cash flows | $ 632 |
| Right-of-use assets included in other assets on the condensed consolidated balance sheet | 5,631 |
| Weighted average discount rate | 6.8% |
| Weighted average remaining lease term in years | 7.1 years |

The following table presents maturities and present value of the Company's lease liabilities:

| | Lease Liability |
|---|---|
| Remainder of 2019 | $ 182 |
| 2020 | 978 |
| 2021 | 1,015 |
| 2022 | 1,031 |
| 2023 | 1,048 |
| Thereafter | 3,091 |
| Total undiscounted lease payments | 7,345 |
| Less: present value adjustment | 1,585 |
| Operating lease liability included in other liabilities on the condensed consolidated balance sheet | $ 5,760 |

As of September 30, 2019, the Company has no operating leases that have not yet commenced.

**Note 10.** Commitments and Contingencies

From time to time, the Company is, and expects to continue to be, 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 financial condition or results of operations of the Company.

Table of Contents

**Note 11.** Segment Information

The Parent's primary insurance subsidiaries, American Southern and Bankers Fidelity, operate in two principal business units, each focusing on 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. Substantially all revenue other than in the corporate and other segment is from external sources. The following sets forth the assets, revenue and income (loss) before income taxes for each business unit as of and for the periods ended 2019 and 2018.

| **Assets** | September 30, 2019 | December 31, 2018 |
|---|---|---|
| American Southern | $ 141,569 | $ 122,724 |
| Bankers Fidelity | 216,850 | 195,663 |
| Corporate and Other | 154,527 | 134,643 |
| Adjustments & Eliminations | (129,611) | (108,756) |
| Total assets | $ 383,335 | $ 344,274 |

| **Revenues** | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| American Southern | $ 14,605 | $ 13,998 | $ 45,580 | $ 42,174 |
| Bankers Fidelity | 32,311 | 31,196 | 97,931 | 92,950 |
| Corporate and Other | 3,069 | 3,703 | 9,686 | 9,122 |
| Adjustments & Eliminations | (2,240) | (2,527) | (7,307) | (7,893) |
| Total revenue | $ 47,745 | $ 46,370 | $ 145,890 | $ 136,353 |

| **Income (Loss) Before Income Taxes** | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| American Southern | $ 471 | $ 995 | $ 3,849 | $ 3,892 |
| Bankers Fidelity | (1,334) | 512 | (3,828) | (1,762) |
| Corporate and Other | (881) | (435) | (2,069) | (3,376) |
| Income (loss) before income taxes | $ (1,744) | $ 1,072 | $ (2,048) | $ (1,246) |

**Note 12.** Related Party Transactions

During the nine month period ended September 30, 2019, the Company transferred its remaining fractional interest in an aircraft arrangement to Gray Television, Inc., a related party, for $151.

Item 2.

## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management’s discussion and analysis of the financial condition and results of operations of Atlantic American Corporation (“Atlantic American” or the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”) as of and for the three month and nine month periods ended September 30, 2019. This discussion should be read in conjunction with the unaudited consolidated financial statements and notes thereto included elsewhere herein, as well as with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Annual Report”).

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”). Each operating company is managed separately, offers different products and is evaluated on its individual performance.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ significantly from those estimates. The Company has identified certain estimates that involve a higher degree of judgment and are subject to a significant degree of variability. The Company’s critical accounting policies and the resultant estimates considered most significant by management are disclosed in the 2018 Annual Report. Except as disclosed in Note 2 of Notes to Condensed Consolidated Financial Statements, the Company’s critical accounting policies are consistent with those disclosed in the 2018 Annual Report.

### Overall Corporate Results

The following presents the Company’s revenue, expenses and net income (loss) for the three month and nine month periods ended September 30, 2019 and the comparable period in 2018:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands) | | | |
| Insurance premiums, net | $ 45,005 | $ 42,557 | $ 135,256 | $ 127,604 |
| Net investment income | 2,187 | 2,215 | 6,834 | 7,111 |
| Realized investment gains (losses), net | (430) | 484 | 1,565 | 797 |
| Unrealized gains on equity securities, net | 944 | 1,083 | 2,096 | 753 |
| Other income | 39 | 31 | 139 | 88 |
| Total revenue | 47,745 | 46,370 | 145,890 | 136,353 |
| Insurance benefits and losses incurred | 34,719 | 33,087 | 104,177 | 98,478 |
| Commissions and underwriting expenses | 11,471 | 8,722 | 33,995 | 28,456 |
| Interest expense | 533 | 529 | 1,624 | 1,497 |
| Other expense | 2,766 | 2,960 | 8,142 | 9,168 |
| Total benefits and expenses | 49,489 | 45,298 | 147,938 | 137,599 |
| Income (loss) before income taxes | $ (1,744) | $ 1,072 | $ (2,048) | $ (1,246) |
| Net income (loss) | $ (1,392) | $ 934 | $ (1,656) | $ (905) |

Management also considers and evaluates performance by analyzing the non-GAAP measure operating income (loss), and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” operating results of the Company before considering certain items that are either beyond the control of management (such as taxes, which are subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized and unrealized investment gains, which are not a part of the Company’s primary operations and are, to a limited extent, subject to discretion in terms of timing of realization).

A reconciliation of net income (loss) to operating loss for the three month and nine month periods ended September 30, 2019 and the comparable periods in 2018 is as follows:

| Reconciliation of Non-GAAP Financial Measure | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Net income (loss) | $ (1,392) | $ 934 | $ (1,656) | $ (905) |
| Income tax expense (benefit) | (352) | 138 | (392) | (341) |
| Realized investment (gains) losses, net | 430 | (484) | (1,565) | (797) |
| Unrealized gains on equity securities, net | (944) | (1,083) | (2,096) | (753) |
| Non-GAAP operating loss | $ (2,258) | $ (495) | $ (5,709) | $ (2,796) |

On a consolidated basis, the Company had net loss of $1.4 million, or $0.07 per diluted share, for the three month period ended September 30, 2019, compared to net income of $0.9 million, or $0.04 per diluted share, for the three month period ended September 30, 2018. The Company had net loss of $1.7 million, or $0.10 per diluted share, for the nine month period ended September 30, 2019, compared to net loss of $0.9 million, or $0.06 per diluted share, for the nine month period ended September 30, 2018. Premium revenue for the three month period ended September 30, 2019 increased $2.4 million, or 5.8%, to $45.0 million from $42.6 million in the three month period ended September 30, 2018. For the nine month period ended September 30, 2019, premium revenue increased $7.7 million, or 6.0%, to $135.3 million from $127.6 million in the comparable period in 2018. The increase in premium revenue was primarily attributable to an increase in Medicare supplement business in the life and health operations, coupled with an increase in the automobile physical damage line of business in the property and casualty operations. Operating loss increased $1.8 million in the three month period ended September 30, 2019 from the three month period ended September 30, 2018. For the nine month period ended September 30, 2019, the operating loss increased $2.9 million over the comparable period in 2018. The increase in operating loss was primarily due to unfavorable loss experience in the life and health operations.

A more detailed analysis of the individual operating segments and other corporate activities follows.

## American Southern

The following summarizes American Southern's premiums, losses, expenses and underwriting ratios for the three month and nine month periods ended September 30, 2019 and the comparable periods in 2018:

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Gross written premiums | $ 9,953 | $ 9,250 | $ 50,228 | $ 44,592 |
| Ceded premiums | (1,403) | (1,238) | (4,091) | (3,669) |
| Net written premiums | $ 8,550 | $ 8,012 | $ 46,137 | $ 40,923 |
| Net earned premiums | $ 14,475 | $ 13,050 | $ 43,035 | $ 39,299 |
| Net loss and loss adjustment expenses | 9,440 | 10,672 | 28,346 | 28,544 |
| Underwriting expenses | 4,696 | 2,331 | 13,386 | 9,737 |
| Underwriting income | $ 339 | $ 47 | $ 1,303 | $ 1,018 |
| Loss ratio | 65.2% | 81.8% | 65.9% | 72.6% |
| Expense ratio | 32.4 | 17.9 | 31.1 | 24.8 |
| Combined ratio | 97.6% | 99.7% | 97.0% | 97.4% |

Gross written premiums at American Southern increased $0.7 million, or 7.6%, during the three month period ended September 30, 2019 and $5.6 million, or 12.6%, during the nine month period ended September 30, 2019, from the comparable periods in 2018. The increase in gross written premiums was primarily attributable to an increase in premiums written in the automobile physical damage line of business due to increased writings from certain agencies and a new agency that started in the second half of 2018. Partially offsetting the increase in gross written premiums was a decline in premiums written in the surety line of business as a result of increased competition.

Ceded premiums increased $0.2 million, or 13.3%, during the three month period ended September 30, 2019 and $0.4 million, or 11.5%, during the nine month period ended September 30, 2019, from the comparable periods in 2018. The increase in ceded premiums in 2019 was due primarily to an increase in earned premiums in certain accounts within the automobile physical damage and general liability lines of business, which are subject to reinsurance.

The following presents American Southern's net earned premiums by line of business for the three month and nine month periods ended September 30, 2019 and the comparable periods in 2018:

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Automobile liability | $ 7,585 | $ 6,878 | $ 22,422 | $ 21,123 |
| Automobile physical damage | 3,597 | 3,013 | 10,998 | 8,365 |
| General liability | 884 | 678 | 2,487 | 2,131 |
| Surety | 1,552 | 1,729 | 4,847 | 5,441 |
| Other lines | 857 | 752 | 2,281 | 2,239 |
| Total | $ 14,475 | $ 13,050 | $ 43,035 | $ 39,299 |

Net earned premiums increased $1.4 million, or 10.9%, during the three month period ended September 30, 2019, and increased $3.7 million, or 9.5%, during the nine month period ended September 30, over the comparable periods in 2018. The increase in net earned premiums was primarily attributable to an increase in automobile physical damage coverage resulting from additional writings from a new agency as previously mentioned. Premiums are earned ratably over their respective policy terms, and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

The performance of an insurance company is often measured by its combined ratio. The combined ratio represents the percentage of losses, loss adjustment expenses and other expenses that are incurred for each dollar of premium earned by the Company. A combined ratio of under 100% represents an underwriting profit while a combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

Net loss and loss adjustment expenses at American Southern decreased $1.2 million, or 11.5%, during the three month period ended September 30, 2019, and $0.2 million, or 0.7%, during the nine month period ended September 30, 2019, over the comparable periods in 2018. As a percentage of net earned premiums, net loss and loss adjustment expenses were 65.2% in the three month period ended September 30, 2019, compared to 81.8% in the three month period ended September 30, 2018. For the nine month period ended September 30, 2019, this ratio decreased to 65.9% from 72.6% in the comparable period in 2018. The decrease in the loss ratio during the three month and nine month periods ended September 30, 2019 was primarily due to more favorable loss experience as a result of a decline in the severity of losses in the surety line of business. Also contributing to the decrease in the loss ratio during the three month and nine month periods ended September 30, 2019 was a lower amount of claims in the automobile physical damage line of business.

Underwriting expenses increased $2.4 million, or 101.5%, during the three month period ended September 30, 2019, and $3.6 million, or 37.5%, during the nine month period ended September 30, 2019, over the comparable periods in 2018. As a percentage of net earned premiums, underwriting expenses were 32.4% in the three month period ended September 30, 2019, compared to 17.9% in the three month period ended September 30, 2018. For the nine month period ended September 30, 2019, this ratio increased to 31.1% from 24.8% in the comparable period in 2018. The increase in the expense ratio during the three month and nine month periods ended September 30, 2019 was primarily due to American Southern's use of a variable commission structure with certain agents, which compensates the participating agents in relation to the loss ratios of the business they write. During periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. During the three month and nine month periods ended September 30, 2019, variable commissions at American Southern increased $2.0 million and $2.6 million, respectively, from the comparable periods in 2018 due to more favorable loss experience in the surety line of business. Also contributing to the increase in the expense ratio were increases in fixed commissions and various underwriting expenses.

## Bankers Fidelity

The following summarizes Bankers Fidelity's earned premiums, losses, expenses and underwriting ratios for the three month and nine month periods ended September 30, 2019 and the comparable periods in 2018:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (Dollars in thousands) | | | |
| Medicare supplement | $ 44,810 | $ 41,123 | $ 133,680 | $ 120,550 |
| Other health products | 1,953 | 2,139 | 5,839 | 5,729 |
| Life insurance | 2,075 | 2,306 | 6,371 | 6,879 |
| Gross earned premiums | 48,838 | 45,568 | 145,890 | 133,158 |
| Ceded premiums | (18,308) | (16,061) | (53,669) | (44,853) |
| Net earned premiums | 30,530 | 29,507 | 92,221 | 88,305 |
| Insurance benefits and losses | 25,279 | 22,415 | 75,831 | 69,934 |
| Underwriting expenses | 8,365 | 8,270 | 25,927 | 24,779 |
| Total expenses | 33,644 | 30,685 | 101,758 | 94,713 |
| Underwriting loss | $ (3,114) | $ (1,178) | $ (9,537) | $ (6,408) |
| Loss ratio | 82.8% | 76.0% | 82.2% | 79.2% |
| Expense ratio | 27.4 | 28.0 | 28.1 | 28.1 |
| Combined ratio | 110.2% | 104.0% | 110.3% | 107.3% |

Net earned premium revenue at Bankers Fidelity increased $1.0 million, or 3.5%, during the three month period ended September 30, 2019, and $3.9 million, or 4.4%, during the nine month period ended September 30, 2019, over the comparable periods in 2018. Gross earned premiums from the Medicare supplement line of business increased $3.7 million, or 9.0%, during the three month period ended September 30, 2019, and $13.1 million, or 10.9%, during the nine month period ended September 30, 2019, due primarily to successful execution of new business generating strategies with both new and existing agents. Other health product premiums decreased $0.2 million, or 8.7%, during the three month period ended September 30, 2019, and increased $0.1 million, or 1.9%, during the nine month period ended September 30, 2019, from the comparable periods in 2018. The increase in other health product premiums during the nine month period ended September 30, 2019 was primarily a result of new sales of the company's hospital indemnity and group health products. Gross earned premiums from the life insurance line of business decreased $0.2 million, or 10.0%, during the three month period ended September 30, 2019, and $0.5 million, or 7.4%, during the nine month period ended September 30, 2019 from the comparable periods in 2018 due to the redemption and settlement of existing policy obligations exceeding the level of new sales activity. Premiums ceded increased $2.2 million, or 14.0%, during the three month period ended September 30, 2019 and $8.8 million, or 19.7%, during the nine month period ended September 30, 2019, over the comparable periods in 2018. The increase in ceded premiums for the three month and nine month periods ended September 30, 2019 was due to an increase in Medicare supplement premiums subject to reinsurance.

Benefits and losses increased $2.9 million, or 12.8%, during the three month period ended September 30, 2019, and $5.9 million, or 8.4%, during the nine month period ended September 30, 2019, over the comparable periods in 2018. As a percentage of net earned premiums, benefits and losses were 82.8% in the three month period ended September 30, 2019, compared to 76.0% in the three month period ended September 30, 2018. For the nine month period ended September 30, 2019, this ratio increased to 82.2% from 79.2% in the comparable period in 2018. The increase in the loss ratio for the three month and nine month periods ended September 30, 2019 was primarily attributable to unfavorable loss experience in the Medicare supplement line of business. Throughout 2018 and continuing into the nine month period ended September 30, 2019, Bankers Fidelity experienced a higher than expected level of claims in the Medicare supplement line of business which had an unfavorable effect on the Company's loss patterns and increased the resultant loss ratio.

Underwriting expenses increased $0.1 million, or 1.1%, during the three month period ended September 30, 2019, and $1.1 million, or 4.6%, during the nine month period ended September 30, 2019, over the comparable periods in 2018. As a percentage of net earned premiums, underwriting expenses were 27.4% in the three month period ended September 30, 2019, compared to 28.0% in the three month period ended September 30, 2018. For the nine month period ended September 30, 2019, this ratio remained unchanged from the comparable period in 2018 at 28.1%. The slight change in the expense ratio for the three month period ended September 30, 2019 was primarily due to a slight improvement in commission expenses as a percentage of net earned premiums.

## NET INVESTMENT INCOME AND REALIZED GAINS (LOSSES)

Investment income decreased slightly during the three month period ended September 30, 2019, and $0.3 million, or 3.9%, during the nine month period ended September 30, 2019, over the comparable periods in 2018. The decrease in investment income during the nine month period ended September 30, 2019 was primarily attributable to a decrease in the equity in earnings from investments in real estate partnerships of $0.2 million over the comparable period in 2018.

The Company had net realized investment losses of $0.4 million during the three month period ended September 30, 2019, compared to net realized investment gains of $0.5 million during the three month period ended September 30, 2018. The Company had net realized investment gains of $1.6 million during the nine month period ended September 30, 2019, compared to net realized investment gains of $0.8 million during the nine month period ended September 30, 2018. During the three month period ended September 30, 2019, management engaged a new investment advisor to manage the Company's investment portfolio. In conjunction with such engagement, management reevaluated the Company's investment allocations and as a result of the rebalancing of the portfolio, certain securities were sold at a realized loss. The net realized investment gains during the nine month period ended September 30, 2019 resulted from the disposition of certain of the Company's investments in equity and fixed maturities. Management continually evaluates the Company's investment portfolio and makes adjustments for impairments and/or divests investments as may be determined to be appropriate.

## UNREALIZED GAINS (LOSSES) ON EQUITY SECURITIES

On January 1, 2018 the Company adopted ASU No. 2016-01, which requires, among other things, investments in equity securities to be measured at fair value at the end of the reporting period, with any changes in fair value reported in net income. As a result of the adoption of ASU No. 2016-01, the Company recognized net unrealized gains on equity securities still held of $1.0 million during the three month period ended September 30, 2019 and unrealized gains on equity securities still held of $1.1 million during the three month period ended September 30, 2018. The Company recognized net unrealized gains on equity securities still held of $2.1 million during the nine month period ended September 30, 2019 and unrealized gains on equity securities still held of $0.8 million during the nine month period ended September 30, 2018. Changes in unrealized gains on equity securities for the applicable periods are primarily the result of fluctuations in the market values of the Company's equity investments.

## INTEREST EXPENSE

Interest expense remained relatively consistent during the three month period ended September 30, 2019, and increased $0.1 million, or 8.5%, during the nine month period ended September 30, 2019, over the comparable periods in 2018. Changes in interest expense were primarily due to changes in the London Interbank Offered Rate ("LIBOR"), as the interest rates on the Company's outstanding junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") are directly related to LIBOR.

## OTHER EXPENSES

Other expenses (commissions, underwriting expenses, and other expenses) increased $2.6 million, or 21.9%, during the three month period ended September 30, 2019, and $4.5 million, or 12.0%, during the nine month period ended September 30, 2019, from the comparable periods in 2018. The increase in other expenses was primarily attributable to a $2.0 million and $2.6 million increase in the three month and nine month periods ended September 30, 2019, respectively, in the variable commission accrual in the property and casualty operations. Also contributing to the increase in other expenses were increased costs associated with the growth of the Medicare supplement line of business. On a consolidated basis, as a percentage of earned premiums, other expenses increased to 31.6% in the three month period ended September 30, 2019 from 27.5% in the three month period ended September 30, 2018. For the nine month period ended September 30, 2019, this ratio increased to 31.2% from 29.5% in the comparable period in 2018. The increase in the expense ratio during the three month and nine month periods ended September 30, 2019 was primarily attributable to the increase costs associated with the growth in Medicare supplement line of business and variable commissions, as discussed previously.

## LIQUIDITY AND CAPITAL RESOURCES

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment income and proceeds from the sale and maturity of its invested assets. The Company believes that, within each operating company, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and operating expenses as needed.

Cash flows at the Parent are derived from dividends, management fees, and tax-sharing payments, as described below, from the subsidiaries. The principal cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At September 30, 2019, the Parent had approximately $16.7 million of unrestricted cash and investments.

The Parent's insurance subsidiaries reported a statutory net loss of $4.2 million for the nine month period ended September 30, 2019, compared to statutory net loss of $1.0 million for the nine month period ended September 30, 2018. Statutory results are impacted by the recognition of all costs of acquiring business. In periods in which the Company's first year premiums increase, statutory results are generally lower than results determined under GAAP. Statutory results for the Company's property and casualty operations may differ from the Company's results of operations under GAAP due to the deferral of acquisition costs for financial reporting purposes. The Company's life and health operations' statutory results may differ from GAAP results primarily due to the deferral of acquisition costs for financial reporting purposes, as well as the use of different reserving methods.

Over 90% of the invested assets of the Parent's insurance subsidiaries are invested in marketable securities that can be converted into cash, if required; however, the use of such assets by the Company is limited by state insurance regulations. Dividend payments to a parent corporation by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At September 30, 2019, American Southern had $42.4 million of statutory surplus and Bankers Fidelity had $24.1 million of statutory surplus. In 2019, dividend payments by the Parent's insurance subsidiaries in excess of $4.3 million would require prior approval. Through September 30, 2019, the Parent received dividends of $3.6 million from its subsidiaries.

The Parent provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries include reimbursements for various shared services and other expenses incurred directly on behalf of the subsidiaries by the Parent. In addition, there is in place a formal tax-sharing agreement between the Parent and its insurance subsidiaries. As a result of the Parent's tax loss, it is anticipated that the tax-sharing agreement will continue to provide the Parent with additional funds from profitable subsidiaries to assist in meeting its cash flow obligations.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in Junior Subordinated Debentures. The outstanding $18.0 million and $15.7 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At September 30, 2019, the effective interest rate was 6.57%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities. As of September 30, 2019, the Company has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from potential future financing arrangements.

At September 30, 2019, the Company had 55,000 shares of Series D preferred stock ("Series D Preferred Stock") outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of Series D Preferred Stock have a stated value of $100 per share; accrue annual dividends at a rate of $7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,378,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. At September 30, 2019, the Company had accrued but unpaid dividends on the Series D Preferred Stock totaling $0.3 million.

Cash and cash equivalents increased from $12.6 million at December 31, 2018 to $36.0 million at September 30, 2019. The increase in cash and cash equivalents during the nine month period ended September 30, 2019 was primarily attributable to $31.5 million of net investment sales and maturity of securities exceeding purchases of securities, partially offset by net cash used in operating activities of $7.6 million.

The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it expects to receive from its subsidiaries and, if needed, additional borrowings from financial institutions, will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities, which, if implemented, would have a material adverse effect on the Company's liquidity, capital resources or operations.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company disclosed its off-balance sheet arrangements in the 2018 Annual Report. As of September 30, 2019, there have been no material changes to these off-balance sheet arrangements outside the ordinary course of business.

## CONTRACTUAL OBLIGATIONS

As a smaller reporting company, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore is not providing the table of contractual obligations required by Item 303 of Regulation S-K.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the "Exchange Act") reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the intentional acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and may not be detected. An evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

*This report contains and references certain information that constitutes forward-looking statements as that term is defined in the federal securities laws. Statements, to the extent they are not statements of historical facts, should be considered forward-looking statements, and are subject to various risks and uncertainties. Such forward-looking statements are made based upon management's current assessments of various risks and uncertainties, as well as assumptions made in accordance with the "safe harbor" provisions of the federal securities laws. The Company's actual results could differ materially from the results anticipated in these forward-looking statements as a result of such risks and uncertainties, including those identified in filings made by the Company from time to time with the Securities and Exchange Commission. In addition, other risks and uncertainties not known by us, or that we currently determine to not be material, may materially adversely affect our financial condition, results of operations or cash flows. The Company undertakes no obligation to update any forward-looking statement as a result of subsequent developments, changes in underlying assumptions or facts, or otherwise.*

# PART II. OTHER INFORMATION

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 31, 2016, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company's common stock (the "Repurchase Plan") on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases could be made from time to time in accordance with applicable securities laws and other requirements. The Company suspended the Repurchase Plan in May 2019 in connection with ending the relationship with the registered broker under the Repurchase Plan. The Company expects to evaluate the implementation of a replacement plan in the future.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended September 30, 2019.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1 – July 31, 2019 | - | $ - | - | 325,129 |
| August 1 – August 31, 2019 | - | - | - | 325,129 |
| September 1 – September 30, 2019 | - | - | - | 325,129 |
| **Total** | - | $ - | - | |

## Item 6. Exhibits

| | |
|---|---|
| 31.1 | Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

## SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

Date: November 12, 2019

By: /s/ J. Ross Franklin
J. Ross Franklin
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

**EXHIBIT 31.1**

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Hilton H. Howell, Jr., certify that:

1. I have reviewed this report on Form 10-Q of Atlantic American Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Hilton H. Howell, Jr.
Hilton H. Howell, Jr.
President and Chief Executive Officer

**EXHIBIT 31.2**

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, J. Ross Franklin, certify that:

1. I have reviewed this report on Form 10-Q of Atlantic American Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 12, 2019

/s/ J. Ross Franklin
J. Ross Franklin
Vice President and
Chief Financial Officer

**EXHIBIT 32.1**

Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q of Atlantic American Corporation (the “Company”) for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company certifies, that, to such officer’s knowledge:

(1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: November 12, 2019

/s/ Hilton H. Howell, Jr.
Hilton H. Howell, Jr.
President and Chief Executive Officer

Date: November 12, 2019

/s/ J. Ross Franklin
J. Ross Franklin
Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.