

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, 2020

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

(Address of principal executive offices)

30319

(Zip Code)

(404) 266-5500

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
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 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 22, 2020 was 20,414,279.

ATLANTIC AMERICAN CORPORATION

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	<i>Unaudited</i> September 30, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	\$ 8,940	\$ 12,893
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost: \$222,969 and \$219,233)	247,997	232,472
Equity securities, at fair value (cost: \$6,400 and \$7,168)	14,323	22,922
Other invested assets (cost: \$9,908 and \$9,908)	9,097	9,960
Policy loans	1,964	2,007
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	274,657	268,637
Receivables:		
Reinsurance	29,961	32,135
Insurance premiums and other (net of allowance for doubtful accounts: \$198 and \$183)	20,039	13,134
Deferred income taxes, net	679	314
Deferred acquisition costs	39,769	38,861
Other assets	8,363	9,108
Intangibles	2,544	2,544
Total assets	\$ 384,952	\$ 377,626
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds:		
Future policy benefits	\$ 91,694	\$ 92,490
Unearned premiums	30,198	26,035
Losses and claims	78,157	81,448
Other policy liabilities	1,015	1,933
Total insurance reserves and policyholder funds	201,064	201,906
Accounts payable and accrued expenses	22,135	23,588
Junior subordinated debenture obligations, net	33,738	33,738
Total liabilities	256,937	259,232
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: 20,414,279 and 20,472,162	22,401	22,401
Additional paid-in capital	57,436	57,820
Retained earnings	36,042	36,020
Accumulated other comprehensive income	19,772	10,459
Unearned stock grant compensation	(350)	(781)
Treasury stock, at cost: 1,986,615 and 1,928,732 shares	(7,341)	(7,580)
Total shareholders' equity	128,015	118,394
Total liabilities and shareholders' equity	\$ 384,952	\$ 377,626

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,	
	2020	2019	2020	2019
Revenue:				
Insurance premiums, net	\$ 44,978	\$ 45,005	\$ 137,027	\$ 135,256
Net investment income	1,828	2,187	5,717	6,834
Realized investment gains (losses), net	183	(430)	432	1,565
Unrealized gains (losses) on equity securities, net	(731)	944	(7,831)	2,096
Other income	11	39	71	139
Total revenue	46,269	47,745	135,416	145,890
Benefits and expenses:				
Insurance benefits and losses incurred	29,219	34,719	89,878	104,177
Commissions and underwriting expenses	11,202	11,471	34,682	33,995
Interest expense	363	533	1,253	1,624
Other expense	3,052	2,766	9,116	8,142
Total benefits and expenses	43,836	49,489	134,929	147,938
Income (loss) before income taxes	2,433	(1,744)	487	(2,048)
Income tax expense (benefit)	557	(352)	166	(392)
Net income (loss)	1,876	(1,392)	321	(1,656)
Preferred stock dividends	(100)	(100)	(299)	(299)
Net income (loss) applicable to common shareholders	\$ 1,776	\$ (1,492)	\$ 22	\$ (1,955)
Earnings (loss) per common share (basic)	\$.09	\$ (.07)	\$ —	\$ (.10)
Earnings (loss) per common share (diluted)	\$.09	\$ (.07)	\$ —	\$ (.10)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	\$ 1,876	\$ (1,392)	\$ 321	\$ (1,656)
Other comprehensive income:				
<u>Available-for-sale fixed maturity securities:</u>				
Gross unrealized holding gain arising in the period	3,016	5,871	12,133	22,275
Related income tax effect	(633)	(1,232)	(2,548)	(4,677)
Subtotal	2,383	4,639	9,585	17,598
Less: reclassification adjustment for net realized gains (losses) included in net income (loss)	(95)	538	(344)	(344)
Related income tax effect	20	(113)	72	72
Subtotal	(75)	425	(272)	(272)
Total other comprehensive income, net of tax	2,308	5,064	9,313	17,326
Total comprehensive income	\$ 4,184	\$ 3,672	\$ 9,634	\$ 15,670

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Preferred stock:				
Balance, beginning of period	\$ 55	\$ 55	\$ 55	\$ 55
Balance, end of period	55	55	55	55
Common stock:				
Balance, beginning of period	22,401	22,401	22,401	22,401
Balance, end of period	22,401	22,401	22,401	22,401
Additional paid-in capital:				
Balance, beginning of period	57,435	57,444	57,820	57,414
Restricted stock grants, net of forfeitures	—	372	(377)	396
Issuance of shares under stock plans	1	3	(7)	9
Balance, end of period	57,436	57,819	57,436	57,819
Retained earnings:				
Balance, beginning of period	34,266	36,342	36,020	37,208
Net income (loss)	1,876	(1,392)	321	(1,656)
Dividends on common stock	—	—	—	(403)
Dividends accrued on preferred stock	(100)	(100)	(299)	(299)
Balance, end of period	36,042	34,850	36,042	34,850
Accumulated other comprehensive income (loss):				
Balance, beginning of period	17,464	4,727	10,459	(7,535)
Other comprehensive income, net of tax	2,308	5,064	9,313	17,326
Balance, end of period	19,772	9,791	19,772	9,791
Unearned Stock Grant Compensation:				
Balance, beginning of period	(466)	(150)	(781)	(186)
Restricted stock grants, net of forfeitures	—	(877)	61	(948)
Amortization of unearned compensation	116	84	370	191
Balance, end of period	(350)	(943)	(350)	(943)
Treasury Stock:				
Balance, beginning of period	(7,261)	(8,049)	(7,580)	(7,985)
Restricted stock grants, net of forfeitures	—	505	316	552
Purchase of 0 and 26,210 shares, as of 2020 and 2019, respectively, for treasury	—	—	—	(71)
Net shares acquired related to employee share-based compensation plans	(81)	(23)	(91)	(72)
Issuance of shares under stock plans	1	5	14	14
Balance, end of period	(7,341)	(7,562)	(7,341)	(7,562)
Total shareholders' equity	\$ 128,015	\$ 116,411	\$ 128,015	\$ 116,411
Dividends declared on common stock per share	\$ —	\$ —	\$ —	\$ (.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,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 321	\$ (1,656)
Adjustments to reconcile income (loss) to net cash used in operating activities:		
Additions to acquisition costs, net	(908)	(1,707)
Realized investment gains, net	(432)	(1,565)
Unrealized losses (gains) on equity securities, net	7,831	(2,096)
Distributions received from equity method investees	—	379
Compensation expense related to share awards	370	191
Depreciation and amortization	772	588
Deferred income tax benefit	(2,841)	(596)
Increase in receivables, net	(4,731)	(7,917)
(Decrease) increase in insurance reserves and policyholder funds	(842)	9,276
(Decrease) increase in accounts payable and accrued expenses	(1,752)	3,271
Other, net	1,308	(5,738)
Net cash used in operating activities	(904)	(7,570)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold	8,916	119,929
Proceeds from investments matured, called or redeemed	5,584	5,907
Investments purchased	(17,277)	(94,316)
Additions to property and equipment	(188)	(44)
Net cash (used in) provided by investing activities	(2,965)	31,476
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends on common stock	—	(403)
Proceeds from shares issued under stock plans	7	23
Treasury stock acquired — share repurchase authorization	—	(71)
Treasury stock acquired — net employee share-based compensation	(91)	(72)
Net cash used in financing activities	(84)	(523)
Net (decrease) increase in cash and cash equivalents	(3,953)	23,383
Cash and cash equivalents at beginning of period	12,893	12,630
Cash and cash equivalents at end of period	\$ 8,940	\$ 36,013
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 1,309	\$ 1,644
Cash paid for income taxes	\$ 3,310	\$ 1,625

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, 2019 (the “2019 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, 2020 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, 2020 or for any other future period.

The Company’s significant accounting policies have not changed materially from those set out in the 2019 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.

On March 11, 2020, the World Health Organization declared the Novel Coronavirus (“COVID-19”) outbreak a global pandemic. The impact of COVID-19 and related actions to attempt to control its spread began to impact the Company’s business operations in March 2020, and we expect that the pandemic, actions that have been or will be taken in response to it and its overall impact on the economy, will continue to have an effect on our business operations and our operating results. The Company’s insurance subsidiaries may experience difficulties collecting premiums from some policyholders, and policyholders with financial difficulties may decide not to renew insurance policies with the Company. Although it cannot be predicted with certainty at this time, the Company’s insurance subsidiaries do not expect a direct material impact from the outbreak of COVID-19 in terms of increased claims and losses, but that may change as more information becomes available. In addition, economic uncertainty related to COVID-19 has led to, and may continue to create, increased volatility in the investment markets. The impact of COVID-19 on the economy and on the Company continues to evolve and its future effects are uncertain. The Company continues to monitor the effects and risks of COVID-19 to assess its impact on the Company’s business, financial condition, results of operations, liquidity and capital position.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which is intended to provide fast and direct economic assistance for American workers and families, small businesses, and to preserve jobs in American industries. The CARES Act includes, among other things, provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property. The Company does not qualify as a small business under the CARES Act and therefore did not apply for any of the government loan programs; however, the Company intends to monitor and assess the availability of resources and other benefits that might be available to the Company under the CARES Act and through other programs.

Note 2. Recently Issued Accounting Standards

Adoption of New Accounting Standards

Fair Value Measurement – Changes to the Disclosure Requirements for Fair Value Measurement. In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”). This guidance removes the following disclosure requirements from Topic 820: (1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, (2) the policy for timing of transfers between levels, and (3) the valuation processes for Level 3 fair value measurements. This disclosure also includes the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The Company adopted ASU 2018-13 as of January 1, 2020. The adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

Goodwill. In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 is intended to simplify the evaluation of goodwill. The updated guidance requires recognition and measurement of goodwill impairment based on the excess of the carrying value of the reporting unit compared to its estimated fair value, with the amount of the impairment not to exceed the carrying value of the reporting unit’s goodwill. Under the prior accounting guidance, if the reporting unit’s carrying value exceeds its estimated fair value, the Company allocates the fair value of the reporting unit to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. An impairment loss is then recognized for the excess, if any, of the carrying value of the reporting unit’s goodwill compared to the implied goodwill value. The Company adopted ASU 2017-04 as of January 1, 2020. The adoption of this ASU did not have an impact on the Company’s consolidated financial statements.

Future Adoption of New Accounting Standards

Reference Rate Reform. In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (“ASU 2020-04”). This guidance provides optional expedients and exceptions for applying GAAP to investments, derivatives, or other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. Along with the optional expedients, the amendments include a general principle that permits an entity to consider contract modifications due to reference reform to be an event that does not require contract re-measurement at the modification date or reassessment of a previous accounting determination. Additionally, a company may make a one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that were classified as held to maturity before January 1, 2020. This standard may be elected over time through December 31, 2022 as reference rate reform activities occur. The Company is currently assessing the effect of adopting this guidance on its financial condition and results of operations.

Investments – Equity Securities. In January 2020, the FASB issued ASU No. 2020-01 (“ASU 2020-01”) Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. This update, among others, clarifies the interaction of the accounting for equity securities under Topic 321 and investments under the equity method of accounting in Topic 323 when there is a change in level of ownership or degree of influence. ASU 2020-01 is effective for the Company beginning with the first quarter of 2021 and will be applied prospectively. Early adoption is permitted. This guidance is not expected to have a material impact on the Company’s consolidated financial statements.

For more information regarding other 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 2019 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, 2020 and December 31, 2019.

Fixed maturities were comprised of the following:

	September 30, 2020			
	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	\$ 21,039	\$ 1,598	\$ 21	\$ 19,462
Obligations of states and political subdivisions	11,752	845	—	10,907
Corporate securities:				
Utilities and telecom	31,491	4,404	14	27,101
Financial services	77,366	7,573	149	69,942
Other business – diversified	45,067	4,030	960	41,997
Other consumer – diversified	61,032	7,903	239	53,368
Total corporate securities	214,956	23,910	1,362	192,408
Redeemable preferred stocks:				
Other consumer – diversified	250	58	—	192
Total redeemable preferred stocks	250	58	—	192
Total fixed maturities	\$ 247,997	\$ 26,411	\$ 1,383	\$ 222,969

	December 31, 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	\$ 20,259	\$ 467	\$ 53	\$ 19,845
Obligations of states and political subdivisions	11,940	371	53	11,622
Corporate securities:				
Utilities and telecom	26,648	2,404	32	24,276
Financial services	73,917	4,249	57	69,725
Other business – diversified	41,706	2,335	98	39,469
Other consumer – diversified	57,752	3,702	54	54,104
Total corporate securities	200,023	12,690	241	187,574
Redeemable preferred stocks:				
Other consumer – diversified	250	58	—	192
Total redeemable preferred stocks	250	58	—	192
Total fixed maturities	\$ 232,472	\$ 13,586	\$ 347	\$ 219,233

Bonds having an amortized cost of \$10,444 and \$10,669 and included in the tables above were on deposit with insurance regulatory authorities as of September 30, 2020 and December 31, 2019, respectively, in accordance with statutory requirements.

Equity securities were comprised of the following:

	September 30, 2020			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Financial services	\$ 2,080	\$ 316	\$ 3	\$ 1,767
Other business – diversified	12,243	7,610	—	4,633
Total equity securities	\$ 14,323	\$ 7,926	\$ 3	\$ 6,400

	December 31, 2019			
	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Cost
Equity securities:				
Common and non-redeemable preferred stocks:				
Financial services	\$ 3,159	624	—	2,535
Other business – diversified	19,763	15,130	—	4,633
Total equity securities	\$ 22,922	\$ 15,754	\$ —	\$ 7,168

The carrying value and amortized cost of the Company's investments in fixed maturities at September 30, 2020 and December 31, 2019 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, 2020		December 31, 2019	
	Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
Due in one year or less	\$ 1,040	\$ 1,019	\$ —	\$ —
Due after one year through five years	20,424	19,301	14,664	14,280
Due after five years through ten years	94,670	86,920	77,934	73,521
Due after ten years	122,558	106,788	130,680	122,321
Asset backed securities	9,305	8,941	9,194	9,111
Totals	\$ 247,997	\$ 222,969	\$ 232,472	\$ 219,233

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of September 30, 2020 and December 31, 2019.

	September 30, 2020					
	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	\$ 2,053	\$ 21	\$ —	\$ —	\$ 2,053	\$ 21
Corporate securities	19,743	1,362	—	—	19,743	1,362
Total temporarily impaired securities	<u>\$ 21,796</u>	<u>\$ 1,383</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 21,796</u>	<u>\$ 1,383</u>

	December 31, 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	\$ 3,432	\$ 22	\$ 3,533	\$ 31	\$ 6,965	\$ 53
Obligations of states and political subdivisions	3,106	53	—	—	3,106	53
Corporate securities	23,245	145	2,504	96	25,749	241
Total temporarily impaired securities	<u>\$ 29,783</u>	<u>\$ 220</u>	<u>\$ 6,037</u>	<u>\$ 127</u>	<u>\$ 35,820</u>	<u>\$ 347</u>

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, 2020 and 2019.

As of September 30, 2020 and December 31, 2019, there were twenty and thirty 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 of securities in an unrealized loss position during the nine month period ended September 30, 2020, was primarily attributable to improvement in market values in certain of the Company’s fixed maturity securities as a result of a declining 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, 2020.

The following tables summarize realized investment gains (losses) for the three month and nine month periods ended September 30, 2020 and 2019.

	Three Months Ended September 30, 2020			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 95	\$ 88	\$ —	\$ 183
Losses	—	—	—	—
Realized investment gains, net	<u>\$ 95</u>	<u>\$ 88</u>	<u>\$ —</u>	<u>\$ 183</u>

	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	<u>\$ (538)</u>	<u>\$ 108</u>	<u>\$ —</u>	<u>\$ (430)</u>

	Nine Months Ended September 30, 2020			
	Fixed Maturities	Equity Securities	Other Invested Assets	Total
Gains	\$ 344	\$ 88	\$ —	\$ 432
Losses	—	—	—	—
Realized investment gains, net	\$ 344	\$ 88	\$ —	\$ 432

	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, net	\$ 344	\$ 1,221	\$ —	\$ 1,565

The following table presents the portion of unrealized gains (losses) related to equity securities still held for the three month and nine month periods ended September 30, 2020 and 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net realized and unrealized gains (losses) recognized during the period on equity securities	\$ (643)	\$ 1,052	\$ (7,743)	\$ 3,317
Less: Net realized gains (losses) recognized during the period on equity securities sold during the period	88	108	88	1,221
Unrealized gains (losses) recognized during the reporting period on equity securities, net	\$ (731)	\$ 944	\$ (7,831)	\$ 2,096

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 \$9,097 and \$9,960 as of September 30, 2020 and December 31, 2019, respectively. The Company’s VIE interests, carried as a part of investment in unconsolidated trusts, totaled \$1,238 as of September 30, 2020 and December 31, 2019.

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 \$10,335 and \$11,198, as of September 30, 2020 and December 31, 2019, respectively. As of September 30, 2020 and December 31, 2019, the Company had outstanding commitments totaling \$1,997, whereby the Company is committed to fund these investments and may be called by the partnership 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 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. Treasury securities, 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 models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.
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. With little or no observable market, the determination of fair values uses considerable judgment and represents the Company's best estimate of an amount that could be realized in a market exchange for the asset or liability.

As of September 30, 2020, 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	\$ —	\$ 247,997	\$ —	\$ 247,997
Equity securities	14,180	—	143	14,323
Cash equivalents	7,769	—	—	7,769
Total	<u>\$ 21,949</u>	<u>\$ 247,997</u>	<u>\$ 143</u>	<u>\$ 270,089</u>

As of December 31, 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	\$ —	\$ 232,472	\$ —	\$ 232,472
Equity securities	22,922	—	—	22,922
Cash equivalents	7,173	—	—	7,173
Total	<u>\$ 30,095</u>	<u>\$ 232,472</u>	<u>\$ —</u>	<u>\$ 262,567</u>

The Company does not have any fixed maturities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of September 30, 2020 and December 31, 2019.

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, 2020 and December 31, 2019.

	Level in Fair Value Hierarchy (1)	September 30, 2020		December 31, 2019	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	\$ 8,940	\$ 8,940	\$ 12,893	\$ 12,893
Fixed maturities	(1)	247,997	247,997	232,472	232,472
Equity securities	(1)	14,323	14,323	22,922	22,922
Other invested assets	Level 3	9,097	9,097	9,960	9,960
Policy loans	Level 2	1,964	1,964	2,007	2,007
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	31,901	33,738	35,977

(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.

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, 2020 and 2019 is as follows:

	Nine Months Ended September 30,	
	2020	2019
Beginning liabilities for unpaid losses, claims and loss adjustment expenses, gross	\$ 81,448	\$ 72,612
Less: Reinsurance recoverable on unpaid losses	(18,339)	(14,354)
Beginning liabilities for unpaid losses, claims and loss adjustment expenses, net	<u>63,109</u>	<u>58,258</u>
Incurred related to:		
Current accident year	91,788	103,017
Prior accident year development ⁽¹⁾	(2,740) ⁽²⁾	(629)
Total incurred	<u>89,048</u>	<u>102,388</u>
Paid related to:		
Current accident year	57,676	66,682
Prior accident years	34,435	34,314
Total paid	<u>92,111</u>	<u>100,996</u>
Ending liabilities for unpaid losses, claims and loss adjustment expenses, net	60,046	59,650
Plus: Reinsurance recoverable on unpaid losses	18,111	16,611
Ending liabilities for unpaid losses, claims and loss adjustment expenses, gross	<u>\$ 78,157</u>	<u>\$ 76,261</u>

- (1) In establishing property and casualty reserves, the Company initially reserves for losses at the higher end of the reasonable range if no other value within the range is determined to be more probable. Selection of such an initial loss estimate is an attempt by management to give recognition that initial claims information received generally is not conclusive with respect to legal liability, is generally not comprehensive with respect to magnitude of loss and generally, based on historical experience, will develop more adversely as time passes and more information becomes available. Accordingly, the Company generally experiences reserve redundancies when analyzing the development of prior year losses in a current period.
- (2) Prior years' development was primarily the result of favorable development in the loss and claim reserves for the Medicare supplement line of business in Bankers Fidelity. Rate increases on existing business and the resultant improvement in rate adequacy was more favorable than expected.

Following is a reconciliation of total incurred losses to total insurance benefits and losses incurred:

	Nine Months Ended September 30,	
	2020	2019
Total incurred losses	\$ 89,048	\$ 102,388
Cash surrender value and matured endowments	962	1,020
Benefit reserve changes	(132)	769
Total insurance benefits and losses incurred	<u>\$ 89,878</u>	<u>\$ 104,177</u>

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, 2020 was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES ^{(1) (2)}		
Principal amount owed September 30, 2020	\$ 18,042	\$ 23,196
Less: Treasury debt ⁽³⁾	—	(7,500)
Net balance September 30, 2020	\$ 18,042	\$ 15,696
Net balance December 31, 2019	\$ 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, 2020	
	Income	Weighted Average Shares (In thousands)
		Per Share Amount
<i>Basic Earnings Per Common Share:</i>		
Net income	\$ 1,876	20,438
Less preferred stock dividends	(100)	—
Net income applicable to common shareholders	1,776	\$.09
<i>Diluted Earnings Per Common Share:</i>		
Effect of Series D preferred stock	100	1,378
Net income applicable to common shareholders	\$ 1,876	\$.09

	Three Months Ended September 30, 2019		
	Loss	Weighted Average Shares (In thousands)	Per Share Amount
<i>Basic and Diluted Loss Per Common Share:</i>			
Net loss	\$ (1,392)	20,250	
Less preferred stock dividends	(100)	—	
Net loss applicable to common shareholders	<u>\$ (1,492)</u>	<u>20,250</u>	<u>\$ (.07)</u>

	Nine Months Ended September 30, 2020		
	Income	Weighted Average Shares (In thousands)	Per Share Amount
<i>Basic and Diluted Income Per Common Share:</i>			
Net income	\$ 321	20,450	
Less preferred stock dividends	(299)	—	
Net income applicable to common shareholders	<u>\$ 22</u>	<u>20,450</u>	<u>\$ —</u>

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

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, except for the three month period ended September 30, 2020, 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,	
	2020	2019	2020	2019
Federal income tax provision at statutory rate of 21%	\$ 511	\$ (366)	\$ 102	\$ (430)
Dividends-received deduction	(3)	(6)	(9)	(20)
Other permanent differences	31	41	55	79
Adjustment for prior years' estimates to actual	18	(21)	18	(21)
Income tax expense (benefit)	<u>\$ 557</u>	<u>\$ (352)</u>	<u>\$ 166</u>	<u>\$ (392)</u>

The components of income tax benefit were:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Current – Federal	\$ 705	\$ (368)	\$ 3,007	\$ 204
Deferred – Federal	(148)	16	(2,841)	(596)
Total	<u>\$ 557</u>	<u>\$ (352)</u>	<u>\$ 166</u>	<u>\$ (392)</u>

In addition, the Company determined there were no significant tax implications as a result of the CARES Act.

Note 9. Leases

The Company has identified 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, 2020 and September 30, 2019 was \$507.

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

	Nine Months Ended September 30,	
	2020	2019
Other information on operating leases:		
Cash payments included in the measurement of lease liabilities reported in operating cash flows	\$ 726	\$ 632
Right-of-use assets included in other assets on the condensed consolidated balance sheet	4,997	5,631
Weighted average discount rate	6.8%	6.8%
Weighted average remaining lease term in years	6.1 years	7.1 years

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

	Lease Liability
Remainder of 2020	\$ 251
2021	1,015
2022	1,031
2023	1,048
2024	1,065
Thereafter	2,025
Total undiscounted lease payments	6,435
Less: present value adjustment	1,204
Operating lease liability included in accounts payable and accrued expenses on the condensed consolidated balance sheet	<u>\$ 5,231</u>

As of September 30, 2020, 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.

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. The following sets forth the assets, revenue and income (loss) before income taxes for each business unit as of and for the periods ended 2020 and 2019.

	September 30, 2020	December 31, 2019
Assets		
American Southern	\$ 151,865	\$ 141,524
Bankers Fidelity	221,982	224,122
Corporate and Other	11,105	11,980
Total assets	<u>\$ 384,952</u>	<u>\$ 377,626</u>

Revenues	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
American Southern	\$ 15,649	\$ 14,605	\$ 47,772	\$ 45,580
Bankers Fidelity	30,875	32,311	88,619	97,931
Corporate and Other	(255)	829	(975)	2,379
Total revenue	<u>\$ 46,269</u>	<u>\$ 47,745</u>	<u>\$ 135,416</u>	<u>\$ 145,890</u>

Income (Loss) Before Income Taxes	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
American Southern	\$ 1,857	\$ 471	\$ 4,822	\$ 3,849
Bankers Fidelity	2,765	(1,334)	2,023	(3,828)
Corporate and Other	(2,189)	(881)	(6,358)	(2,069)
Income (loss) before income taxes	<u>\$ 2,433</u>	<u>\$ (1,744)</u>	<u>\$ 487</u>	<u>\$ (2,048)</u>

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.

Note 13. Subsequent Events

Since September 30, 2020, the COVID-19 pandemic continues to cause material disruption to financial markets and the economy. As a result of the pandemic, the Company could experience future losses in its investment portfolio as a result of the weakened and volatile markets. Additionally, the Company can experience increased risk of loss any time unforeseen infectious diseases impact large portions of a population. Specifically, the Company's life and health business could experience significant loss due to increased claims volume arising from COVID-19. The duration and impact of the COVID-19 pandemic is unknown at this time and it is not possible to reliably estimate the impact on the financial condition, operating results or liquidity of the Company and its operating subsidiaries in future periods.

Item 2.

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

Overview

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, 2020. This discussion should be read in conjunction with the unaudited condensed 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, 2019 (the “2019 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.

Recent Events and Outlook

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. In March 2020, the impact of COVID-19 and related actions to attempt to control its spread began to impact our business operations, and we expect that the pandemic, actions that have been or will be taken in response to it and its overall impact on the economy, will continue to have an effect on our business operations and our operating results. See “Expected Impact of COVID-19 on the Company’s Financial Condition and Results of Operations.”

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 2019 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 2019 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, 2020 and the comparable period in 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Insurance premiums, net	\$ 44,978	\$ 45,005	\$ 137,027	\$ 135,256
Net investment income	1,828	2,187	5,717	6,834
Realized investment gains (losses), net	183	(430)	432	1,565
Unrealized gains (losses) on equity securities, net	(731)	944	(7,831)	2,096
Other income	11	39	71	139
Total revenue	<u>46,269</u>	<u>47,745</u>	<u>135,416</u>	<u>145,890</u>
Insurance benefits and losses incurred	29,219	34,719	89,878	104,177
Commissions and underwriting expenses	11,202	11,471	34,682	33,995
Interest expense	363	533	1,253	1,624
Other expense	3,052	2,766	9,116	8,142
Total benefits and expenses	<u>43,836</u>	<u>49,489</u>	<u>134,929</u>	<u>147,938</u>
Income (loss) before income taxes	<u>\$ 2,433</u>	<u>\$ (1,744)</u>	<u>\$ 487</u>	<u>\$ (2,048)</u>
Net income (loss)	<u>\$ 1,876</u>	<u>\$ (1,392)</u>	<u>\$ 321</u>	<u>\$ (1,656)</u>

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 income (loss) for the three month and nine month periods ended September 30, 2020 and the comparable period in 2019 is as follows:

Reconciliation of Non-GAAP Financial Measure	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Net income (loss)	\$ 1,876	\$ (1,392)	\$ 321	\$ (1,656)
Income tax expense (benefit)	557	(352)	166	(392)
Realized investment (gains) losses, net	(183)	430	(432)	(1,565)
Unrealized (gains) losses on equity securities, net	731	(944)	7,831	(2,096)
Non-GAAP operating income (loss)	<u>\$ 2,981</u>	<u>\$ (2,258)</u>	<u>\$ 7,886</u>	<u>\$ (5,709)</u>

On a consolidated basis, the Company had net income of \$1.9 million, or \$0.09 per diluted share, for the three month period ended September 30, 2020, compared to net loss of \$1.4 million, or \$0.07 per diluted share, for the three month period ended September 30, 2019. The Company had net income of \$0.3 million, or \$0.00 per diluted share, for the nine month period ended September 30, 2020, compared to net loss of \$1.7 million, or \$0.10 per diluted share, for the nine month period ended September 30, 2019.

Operating income increased \$5.2 million in the three month period ended September 30, 2020 from the three month period ended September 30, 2019. For the nine month period ended September 30, 2020, operating income increased \$13.6 million over the comparable period in 2019. The increase in operating income was primarily due to favorable loss experience in the life and health operations, resulting from a significant decrease in the number of incurred claims within the Medicare supplement line of business. This decrease in the number of incurred claims was primarily attributable to the Company's individual policy holders being subject to varying degrees of shelter in place orders instituted throughout the United States during 2020 as a result of COVID-19. For the three month period ended September 30, 2020, premium decreased slightly from the comparable period in 2019. For the nine month period ended September 30, 2020, premium revenue increased \$1.8 million, or 1.3%, to \$137.0 million from \$135.3 million in the comparable period in 2019. The increase in premium revenue was primarily attributable to an increase in the automobile physical damage line of business in the property and casualty 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, 2020 and the comparable periods in 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Gross written premiums	\$ 11,574	\$ 9,953	\$ 54,512	\$ 50,228
Ceded premiums	(1,519)	(1,403)	(4,364)	(4,091)
Net written premiums	<u>\$ 10,055</u>	<u>\$ 8,550</u>	<u>\$ 50,148</u>	<u>\$ 46,137</u>
Net earned premiums	\$ 14,770	\$ 14,475	\$ 45,516	\$ 43,035
Insurance benefits and losses incurred	9,131	9,440	28,686	28,346
Commissions and underwriting expenses	4,662	4,696	14,264	13,386
Underwriting income	<u>\$ 977</u>	<u>\$ 339</u>	<u>\$ 2,566</u>	<u>\$ 1,303</u>
Loss ratio	61.8%	65.2%	63.0%	65.9%
Expense ratio	31.6	32.4	31.3	31.1
Combined ratio	<u>93.4%</u>	<u>97.6%</u>	<u>94.3%</u>	<u>97.0%</u>

Gross written premiums at American Southern increased \$1.6 million, or 16.3%, during the three month period ended September 30, 2020 and \$4.3 million, or 8.5%, during the nine month period ended September 30, 2020, from the comparable periods in 2019. 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 a new agency that started in the second half of 2019, as well as increased writings from certain existing agencies.

Ceded premiums increased \$0.1 million, or 8.3%, during the three month period ended September 30, 2020 and \$0.3 million, or 6.7%, during the nine month period ended September 30, 2020, from the comparable periods in 2019. American Southern's ceded premiums are typically determined as a percentage of earned premiums and generally increase or decrease as earned premiums increase or decrease. Also contributing to the increase in ceded premiums in 2020 was 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, 2020 and the comparable periods in 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Automobile liability	\$ 6,804	\$ 7,585	\$ 22,167	\$ 22,422
Automobile physical damage	4,499	3,597	13,519	10,998
General liability	1,008	884	2,747	2,487
Surety	1,417	1,552	4,463	4,847
Other lines	1,042	857	2,620	2,281
Total	<u>\$ 14,770</u>	<u>\$ 14,475</u>	<u>\$ 45,516</u>	<u>\$ 43,035</u>

Net earned premiums increased \$0.3 million, or 2.0%, during the three month period ended September 30, 2020, and increased \$2.5 million, or 5.8%, during the nine month period ended September 30, 2020, over the comparable periods in 2019. The increase in net earned premiums was primarily attributable to an increase in automobile physical damage coverage resulting from the 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).

Insurance benefits and losses incurred at American Southern decreased \$0.3 million, or 3.3%, during the three month period ended September 30, 2020, and increased \$0.3 million, or 1.2%, during the nine month period ended September 30, 2020, over the comparable periods in 2019. As a percentage of earned premiums, net loss and loss adjustment expenses were 61.8% in the three month period ended September 30, 2020, compared to 65.2% in the three month period ended September 30, 2019. For the nine month period ended September 30, 2020, this ratio decreased to 63.0% from 65.9% in the comparable period in 2019. The decrease in the loss ratio during the three month period and nine month periods ended September 30, 2020 was primarily due to a decrease in the severity of claims in the automobile liability line of business. Partially offsetting the decrease in the loss ratio during the three month and nine month periods ended September 30, 2020 was less favorable loss experience in the automobile physical damage line of business due to an increase in frequency of claims from the new agency.

Commissions and underwriting expenses decreased slightly during the three month period ended September 30, 2020, and increased \$0.9 million, or 6.6%, during the nine month period ended September 30, 2020, over the comparable periods in 2019. As a percentage of earned premiums, underwriting expenses were 31.6% in the three month period ended September 30, 2020, compared to 32.4% in the three month period ended September 30, 2019. For the nine month period ended September 30, 2020, this ratio increased to 31.3% from 31.1% in the comparable period in 2019. The decrease in the expense ratio during the three month period ended September 30, 2020 was primarily attributable to an increase in earned premiums coupled with a slight decrease in commissions and underwriting expenses. The increase in the expense ratio during the nine month period ended September 30, 2020 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.

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, 2020 and the comparable periods in 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in thousands)			
Medicare supplement	\$ 43,573	\$ 44,810	\$ 131,675	\$ 133,680
Other health products	2,385	1,953	6,880	5,839
Life insurance	2,256	2,075	7,070	6,371
Gross earned premiums	48,214	48,838	145,625	145,890
Ceded premiums	(18,006)	(18,308)	(54,114)	(53,669)
Net earned premiums	30,208	30,530	91,511	92,221
Insurance benefits and losses incurred	20,088	25,279	61,192	75,831
Commissions and underwriting expenses	8,021	8,365	25,403	25,927
Total expenses	28,109	33,644	86,595	101,758
Underwriting income (loss)	\$ 2,099	\$ (3,114)	\$ 4,916	\$ (9,537)
Loss ratio	66.5%	82.8%	66.9%	82.2%
Expense ratio	26.6	27.4	27.8	28.1
Combined ratio	93.1%	110.2%	94.7%	110.3%

Net earned premium revenue at Bankers Fidelity decreased \$0.3 million, or 1.1%, during the three month period ended September 30, 2020, and \$0.7 million, or 0.8%, during the nine month period ended September 30, 2020, from the comparable periods in 2019. Gross earned premiums from the Medicare supplement line of business decreased \$1.2 million, or 2.8%, during the three month period ended September 30, 2020, and \$2.0 million, or 1.5%, during the nine month period ended September 30, 2020, due primarily to non-renewals exceeding the level of new business writings. Other health product premiums increased \$0.4 million, or 22.1%, during the three month period ended September 30, 2020, and \$1.0 million, or 17.8%, during the nine month period ended September 30, 2020, over the comparable periods in 2019, primarily as a result of new sales of the company's group health products. Gross earned premiums from the life insurance line of business increased \$0.2 million, or 8.7%, during the three month period ended September 30, 2020, and \$0.7 million, or 11.0%, during the nine month period ended September 30, 2020 over the comparable periods in 2019 due to an increase in the group life products premium. Partially offsetting the increase in gross earned premiums from the life insurance line was a decrease in individual life products premium, resulting from the redemption and settlement of existing individual life policy obligations exceeding the level of new individual life sales. Premiums ceded decreased \$0.3 million, or 1.6%, during the three month period ended September 30, 2020 and increased \$0.4 million, or 0.8%, during the nine month period ended September 30, 2020, over the comparable periods in 2019. The decrease in ceded premiums for the three month period ended September 30, 2020 was due to non-renewals exceeding the level of new business writings, as previously discussed. The increase in ceded premiums for the nine month period ended September 30, 2020 was due to an increase in Medicare supplement premiums subject to reinsurance.

Insurance benefits and losses incurred decreased \$5.2 million, or 20.5%, during the three month period ended September 30, 2020, and \$14.6 million, or 19.3%, during the nine month period ended September 30, 2020, from the comparable periods in 2019. As a percentage of earned premiums, benefits and losses were 66.5% in the three month period ended September 30, 2020, compared to 82.8% in the three month period ended September 30, 2019. For the nine month period ended September 30, 2020, this ratio decreased to 66.9% from 82.2% in the comparable period in 2019. The decrease in the loss ratio for the three month and nine month periods ended September 30, 2020 was primarily due to a significantly lower number of claims incurred in the Medicare supplement line of business due to the Company's individual policy holders being subject to varying degrees of shelter in place orders instituted throughout the United States during 2020 as a result of COVID-19. Also contributing to the decrease in the loss ratio was an improvement in rate adequacy in the Medicare supplement line of business as a result of implementation of rate increases on existing business.

Commissions and underwriting expenses decreased \$0.3 million, or 4.1%, during the three month period ended September 30, 2020, and \$0.5 million, or 2.0%, during the nine month period ended September 30, 2020, over the comparable periods in 2019. As a percentage of earned premiums, underwriting expenses were 26.6% in the three month period ended September 30, 2020, compared to 27.4% in the three month period ended September 30, 2019. For the nine month period ended September 30, 2020, this ratio decreased to 27.8% from 28.1% in the comparable period in 2019. The decrease in the expense ratio for the three month and nine month periods ended September 30, 2020 was primarily due to a decrease in agent incentive costs and realization of costs saving initiatives, predominantly related to postage costs.

Net Investment Income and Realized Gains (Losses)

Investment income decreased \$0.4 million, or 16.4%, during the three month period ended September 30, 2020, and \$1.1 million, or 16.3%, during the nine month period ended September 30, 2020, over the comparable periods in 2019. The decrease in investment income was primarily attributable to net losses in the Company's other invested assets.

The Company had net realized investment gains of \$0.2 million during the three month period ended September 30, 2020, compared to net realized investment losses of \$0.4 million during the three month period ended September 30, 2019. The Company had net realized investment gains of \$0.4 million during the nine month period ended September 30, 2020, compared to net realized investment gains of \$1.6 million during the nine month period ended September 30, 2019. The net realized investment gains during the three month and nine month periods ended September 30, 2020 resulted primarily from the disposition of several of the Company's investments in fixed maturity securities. 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

Investments in equity securities are measured at fair value at the end of the reporting period, with any changes in fair value reported in net income during the period, with certain exceptions. The Company recognized net unrealized losses on equity securities of \$0.7 million during the three month period ended September 30, 2020 and unrealized gains on equity securities of \$0.9 million during the three month period ended September 30, 2019. The Company recognized net unrealized losses on equity securities of \$7.8 million during the nine month period ended September 30, 2020 and unrealized gains on equity securities of \$2.1 million during the nine month period ended September 30, 2019. Changes in unrealized gains on equity securities for the applicable periods are primarily the result of fluctuations in the market value of certain of the Company's equity securities.

Interest Expense

Interest expense decreased \$0.2 million, or 31.9%, during the three month period ended September 30, 2020, and \$0.4 million, or 22.8%, during the nine month period ended September 30, 2020, from the comparable periods in 2019. Changes in interest expense were primarily due to a decline 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.

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, 2020, the Parent had approximately \$4.6 million of unrestricted cash and investments.

The Parent's insurance subsidiaries reported statutory net income of \$8.5 million for the nine month period ended September 30, 2020, compared to statutory net loss of \$4.2 million for the nine month period ended September 30, 2019. 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, 2020, American Southern had \$46.4 million of statutory capital and surplus and Bankers Fidelity had \$35.7 million of statutory capital and surplus. In 2020, dividend payments by the Parent's insurance subsidiaries in excess of \$4.6 million would require prior approval. Through September 30, 2020, the Parent received dividends of \$2.7 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, 2020, the effective interest rate was 4.32%. 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, 2020, 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, 2020, 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, 2020, the Company had accrued but unpaid dividends on the Series D Preferred Stock totaling \$0.3 million.

During 2020, Bankers Fidelity Life Insurance Company ("BFLIC") became a member of the Federal Home Loan Bank of Atlanta ("FHLB"), for the primary purpose of enhancing financial flexibility. As a member, BFLIC can obtain access to low-cost funding and also receive dividends on FHLB stock. The membership arrangement established initial credit availability of five percent of statutory admitted assets, or approximately \$8 million. Additional FHLB stock purchases may be required based upon the amount of funds borrowed from the FHLB. BFLIC would be required to post acceptable forms of collateral for any borrowings it makes from the FHLB. To date, BFLIC has not made any borrowings from the FHLB.

Cash and cash equivalents decreased from \$12.9 million at December 31, 2019 to \$8.9 million at September 30, 2020. The decrease in cash and cash equivalents during the nine month period ended September 30, 2020 was primarily attributable to a \$2.8 million decrease resulting from purchases of securities exceeding investment sales and maturity of securities in addition to net cash used in operating activities of \$0.9 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.

Expected Impact of COVID-19 on the Company's Financial Condition and Results of Operations

The duration and impact of the COVID-19 pandemic is unknown at this time and it is not possible for us to reliably estimate the impact on the financial condition, operating results or liquidity of the Company and its operating subsidiaries in future periods. However, we do not currently expect a significant decline in liquidity or operating results as a result of the disruption caused by the ongoing COVID-19 pandemic. To date, the most significant impact of COVID-19 on the Company's financial position has been volatility in the fair value of the Company's fixed maturity and equity investments due to disruption in the financial markets.

We expect that earned premiums could be adversely impacted by a weakened economy leading to a slowdown in new sales and reduced retention of insureds. Additionally, a number of states have issued bulletins that either encourage or require premium leniency such as extension of grace periods or moratoriums on cancellation of policies for non-payment. The Company does not expect a significant reduction or delay in payments and continues to monitor state required actions as they develop.

For the Company's property and casualty operations, the majority of premium revenue is derived from automobile liability and automobile physical damage lines of business written on a multi-year contract basis with state and local governments. Although we cannot predict with certainty at this time, we do not expect a significant level of cancellations or non-renewals of

our property and casualty contracts in the short term but recognize that a prolonged economic slowdown could adversely affect future results. However, it is expected that certain automobile programs may request partial premium refunds as a result of a decline in usage, which the Company will continue to evaluate.

Benefits and losses in our property and casualty operations could be adversely impacted as a result of disruption caused by the COVID-19 pandemic. However, due to the nature of our primary product lines, the impact is not currently expected to be material. Additionally, we expect to see a reduction in frequency and severity of claims in the automobile lines of business as fewer miles are driven and less people are on the roads. As a result, we do not currently expect a material adverse effect on operating results or liquidity in the property and casualty operations.

The majority of premium revenue in our life and health operations are derived from the senior market segment of the population, or those individuals age sixty-five and up, who maintain Medicare supplement and to a lesser extent, whole life insurance policies with the Company. We expect that earned premiums could be adversely impacted by the rise in unemployment and economic slowdown related to the COVID-19 pandemic and individual, business and government responses thereto, which could lead to a decline in new sales and reduced retention of insureds. As a result, we currently anticipate that the life and health operations may experience a marginal decline in earned premiums although the actual impact cannot be predicted with certainty at this time.

Unforeseen infectious diseases that impact large portions of a population can have an adverse impact on mortality and morbidity, and resultant benefits and losses incurred by the Company's life and health operations. Accordingly, the Company does anticipate incurring higher costs, potentially similar to prior influenza seasons, as it relates to life insurance claims. However, with much of the country sheltering in place over an extended period, the Company has experienced lower utilization of certain accident and health benefits, particularly in the Medicare supplement line of business. As a result, and although the actual impact cannot be predicted with certainty at this time, the Company does not expect significant adverse development in total benefits and losses incurred in its life and health operations.

In addition to the information set forth in this report, you should carefully consider the discussions of the COVID-19 pandemic and related economic developments presented in our Annual Report on Form 10-K for the year ended December 31, 2019, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 in other reports we file with the SEC from time to time, all of which could materially affect our business, financial condition or future results.

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 can be made from time to time in accordance with applicable securities laws and other requirements.

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, 2020.

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, 2020	—	\$ —	—	325,129
August 1 – August 31, 2020	—	—	—	325,129
September 1 – September 30, 2020	—	—	—	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 10, 2020

By: /s/ J. Ross Franklin

J. Ross Franklin
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

**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 10, 2020

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

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 10, 2020

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

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, 2020, 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 10, 2020

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

Date: November 10, 2020

/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.
