

ATLANTIC AMERICAN CORP
Form 10-Q
August 14, 2017

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 June 30, 2017
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., 30319
Atlanta, Georgia
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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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 August 4, 2017 was 20,464,423.

ATLANTIC AMERICAN CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial StatementsATLANTIC AMERICAN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

ASSETS

	Unaudited	
	June 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 12,644	\$ 13,252
Investments:		
Fixed maturities (cost: \$205,923 and \$210,505)	208,477	210,670
Common and non-redeemable preferred stocks (cost: \$10,918 and \$11,453)	19,473	20,257
Other invested assets (cost: \$9,308 and \$9,709)	9,308	9,709
Policy loans	2,130	2,265
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	240,664	244,177
Receivables:		
Reinsurance	15,305	11,703
Insurance premiums and other (net of allowance for doubtful accounts: \$238 and \$280)	24,998	12,581
Deferred income taxes, net	-	160
Deferred acquisition costs	31,256	28,975
Other assets	5,330	5,208
Intangibles	2,544	2,544
Total assets	\$ 332,741	\$ 318,600

LIABILITIES AND SHAREHOLDERS' EQUITY

Insurance reserves and policyholder funds:		
Future policy benefits	\$77,885	\$74,843
Unearned premiums	32,187	23,208
Losses and claims	65,055	62,562
Other policy liabilities	1,653	2,066
Total insurance reserves and policyholder funds	176,780	162,679
Accounts payable and accrued expenses	14,562	16,677
Deferred income taxes, net	125	-
Junior subordinated debenture obligations, net	33,738	33,738
Total liabilities	225,205	213,094

Commitments and contingencies (Note 9)

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: 20,401,760 and 20,446,705	22,401	22,401
Additional paid-in capital	57,123	57,114
Retained earnings	27,904	27,272

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Accumulated other comprehensive income	7,221	5,830
Unearned stock grant compensation	(245)	(428)
Treasury stock, at cost: 1,999,134 and 1,954,189 shares	(6,923)	(6,738)
Total shareholders' equity	107,536	105,506
Total liabilities and shareholders' equity	\$332,741	\$318,600

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

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; Dollars in thousands, except per share data)

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
Revenue:				
Insurance premiums	\$40,120	\$39,122	\$80,902	\$77,580
Investment income	2,085	2,563	4,244	5,070
Realized investment gains, net	1,396	132	2,279	884
Other income	31	37	66	67
Total revenue	43,632	41,854	87,491	83,601
Benefits and expenses:				
Insurance benefits and losses incurred	27,032	26,922	57,029	51,747
Commissions and underwriting expenses	11,010	10,954	21,624	22,781
Interest expense	424	385	833	758
Other expense	2,981	3,236	6,167	6,582
Total benefits and expenses	41,447	41,497	85,653	81,868
Income before income taxes	2,185	357	1,838	1,733
Income tax expense	725	116	599	594
Net income	1,460	241	1,239	1,139
Preferred stock dividends	(100)	(100)	(199)	(199)
Net income applicable to common shareholders	\$1,360	\$141	\$1,040	\$940
Earnings per common share (basic and diluted)	\$.07	\$.01	\$.05	\$.05

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

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

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$1,460	\$241	\$1,239	\$1,139
Other comprehensive income:				
<u>Available-for-sale securities:</u>				
Gross unrealized holding gain arising in the period	176	6,456	4,419	8,712
Related income tax effect	(62)	(2,259)	(1,547)	(3,049)
Less: reclassification adjustment for net realized gains included in net income				
(1)	(1,396)	(132)	(2,279)	(884)
Related income tax effect (2)	489	46	798	309
Total other comprehensive income, net of tax	(793)	4,111	1,391	5,088
Total comprehensive income	\$667	\$4,352	\$2,630	\$6,227

(1) Realized gains on available-for-sale securities recognized in realized investment gains, net on the accompanying condensed consolidated statements of operations.

(2) Income tax effect on reclassification adjustment for net realized gains included in income tax expense on the accompanying condensed consolidated statements of operations.

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

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CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited; Dollars in thousands)

Six Months Ended June 30,	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Grant Compensation	Treasury Stock	Total
2017								
Balance, December 31, 2016	\$ 55	\$22,401	\$57,114	\$27,272	\$ 5,830	\$ (428)	\$(6,738)	\$105,506
Net income	-	-	-	1,239	-	-	-	1,239
Other comprehensive income, net of tax	-	-	-	-	1,391	-	-	1,391
Dividends on common stock	-	-	-	(408)	-	-	-	(408)
Dividends accrued on preferred stock	-	-	-	(199)	-	-	-	(199)
Amortization of unearned compensation	-	-	-	-	-	183	-	183
Purchase of shares for treasury	-	-	-	-	-	-	(191)	(191)
Issuance of shares under stock plans	-	-	9	-	-	-	6	15
Balance, June 30, 2017	\$ 55	\$22,401	\$57,123	\$27,904	\$ 7,221	\$ (245)	\$(6,923)	\$107,536
Six Months Ended June 30, 2016								
Balance, December 31, 2015	\$ 55	\$22,401	\$56,623	\$25,443	\$ 4,584	\$ (273)	\$(6,341)	\$102,492
Net income	-	-	-	1,139	-	-	-	1,139
Other comprehensive income, net of tax	-	-	-	-	5,088	-	-	5,088
Dividends on common stock	-	-	-	(408)	-	-	-	(408)
Dividends accrued on preferred stock	-	-	-	(199)	-	-	-	(199)
Restricted stock grants	-	-	398	-	-	(639)	241	-
Amortization of unearned compensation	-	-	-	-	-	366	-	366
Purchase of shares for treasury	-	-	-	-	-	-	(458)	(458)
Issuance of shares under stock plans	-	-	18	-	-	-	11	29
Balance, June 30, 2016	\$ 55	\$22,401	\$57,039	\$25,975	\$ 9,672	\$ (546)	\$(6,547)	\$108,049

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,239	\$ 1,139
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of deferred acquisition costs	6,076	4,744
Acquisition costs deferred	(8,357)	(5,077)
Realized investment gains, net	(2,279)	(884)
Compensation expense related to share awards	183	366
Depreciation and amortization	793	577
Deferred income tax (benefit) expense	(464)	4
Increase in receivables, net	(14,648)	(6,892)
Increase in insurance reserves	14,101	-
Decrease in other liabilities	(2,314)	(2,009)
Other, net	(90)	19
Net cash used in operating activities	(5,760)	(8,013)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold	37,271	24,313
Proceeds from investments matured, called or redeemed	8,034	7,678
Investments purchased	(39,487)	(24,522)
Additions to property and equipment	(82)	(273)
Net cash provided by investing activities	5,736	7,196
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends on common stock	(408)	(408)
Proceeds from shares issued under stock plans	15	29
Purchase of shares for treasury	(191)	(458)
Net cash used in financing activities	(584)	(837)
Net decrease in cash and cash equivalents	(608)	(1,654)
Cash and cash equivalents at beginning of period	13,252	15,622
Cash and cash equivalents at end of period	\$ 12,644	\$ 13,968
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 827	\$ 751
Cash paid for income taxes	\$ 100	\$ 300

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

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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, 2016. The Company's financial condition and results of operations and cash flows as of and for the three month and six month periods ended June 30, 2017 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, 2017 or for any other future period.

The Company's significant accounting policies have not changed materially from those set out in the Company's 2016 Annual Report.

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

Note 2. Recently Issued Accounting Standards

Adoption of New Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). This guidance applies to all entities that issue share-based payment awards to their employees and is designed to simplify several areas of the accounting for share-based payment transactions, including income tax consequences, forfeitures, classification of awards as either equity or liabilities and related classification on the statement of cash flows. The guidance requires the excess tax benefit or deficiency on vesting or settlement of awards to be recognized in earnings as an income tax benefit or expense, respectively. The Company adopted ASU 2016-09 as of January 1, 2017. Adoption of ASU 2016-09 did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting ("ASU 2016-07"). This guidance eliminates the requirement to retroactively adopt the equity method of accounting when an investment qualifies for the use of the

equity method as a result of an increase in the level of ownership or degree of influence. Under ASU 2016-07, the equity method investor is required to add the cost of acquiring the additional interest in the investee to the current basis of the previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The Company adopted ASU 2016-07 as of January 1, 2017. Adoption of ASU 2016-07 did not have an impact on the Company's consolidated financial statements.

Future Adoption of New Accounting Standards

In March 2017, the FASB issued ASU No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities ("ASU 2017-08"). This guidance shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. Under current GAAP, premiums and discounts on callable securities generally are amortized to the maturity date. ASU 2017-08 is effective for interim and annual reporting periods beginning after December 15, 2018, although earlier adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

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The following tables set forth the carrying value, gross unrealized gains, gross unrealized losses and cost or amortized cost of the Company's investments, aggregated by type and industry, as of June 30, 2017 and December 31, 2016.

Investments were comprised of the following:

	June 30, 2017			
	Carrying 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	\$31,131	\$ 239	\$ 383	\$ 31,275
Obligations of states and political subdivisions	17,907	708	47	17,246
Corporate securities:				
Utilities and telecom	20,235	1,643	34	18,626
Financial services	51,935	2,315	488	50,108
Other business – diversified	42,738	1,007	1,840	43,571
Other consumer – diversified	44,339	561	1,127	44,905
Total corporate securities	159,247	5,526	3,489	157,210
Redeemable preferred stocks:				
Other consumer – diversified	192	-	-	192
Total redeemable preferred stocks	192	-	-	192
Total fixed maturities	208,477	6,473	3,919	205,923
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,340	376	-	