ATLANTIC AMERICAN CORP
Form 10-K
March 24, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number 0-3722

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

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

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

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

Title of each class	Name of exchange
Common Stock, par value $1.00 per share	**NASDAQ Global Market**

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2016, the last business day of the registrant s most recently completed second fiscal quarter, was $17,132,500. For purposes hereof, beneficial ownership is determined under rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, and the foregoing excludes value ascribed to common stock that may be deemed beneficially owned by the directors and executive officers, and 10% or greater stockholders, of the registrant, some of whom may not be deemed to be affiliates upon judicial determination. On March 20, 2017 there were 20,422,924 shares of the registrant s common stock, par value $1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant s Proxy Statement for the 2017 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant s fiscal year end, have been incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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PART I

Item 1. Business

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the Parent or Company), is a holding company that operates through its subsidiaries in well-defined specialty markets within the life and health and property and casualty insurance industries. The Parent s principal operating subsidiaries are American Southern Insurance Company and American Safety Insurance Company (together known as American Southern) within the property and casualty insurance industry and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as Bankers Fidelity) within the life and health insurance industry. Each of American Southern and Bankers Fidelity is managed separately based upon the type of products it offers, and is evaluated on its individual performance. The Company s strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance marketplace. Each of American Southern and Bankers Fidelity operates with relative autonomy, which structure is designed to allow for quick reaction to market opportunities.

The Parent has no significant business operations of its own and relies on fees, dividends and other distributions from its operating subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of the Parent can be found in the Liquidity and Capital Resources section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Property and Casualty Operations

American Southern comprises the Company s property and casualty operations and its primary product lines are as follows:

Business Automobile Insurance policies provide bodily injury and/or property damage liability coverage, uninsured motorist coverage and physical damage coverage for commercial accounts.

General Liability Insurance policies cover bodily injury and property damage liability for both premises and completed operations exposures for general classes of business.

Surety Bonds are contracts under which one party, the insurance company issuing the surety bond, guarantees to a third party that the primary party will fulfill an obligation in accordance with a contractual agreement. This obligation may involve meeting a contractual commitment, paying a debt or performing certain duties.

American Southern provides tailored business automobile insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets (block accounts) that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are generally such that individual class experience can be determined, which allows for customized policy terms and rates. American Southern is licensed to do business in 32 states and the District of Columbia. While the majority of American Southern s premiums are derived from its automobile lines of business, American Southern also offers inland marine and general liability coverages. Additionally, American Southern directly provides surety bond coverage for school bus transportation and subdivision construction, as well as performance and payment bonds.

The following table summarizes, for the periods indicated, the allocation of American Southern s net earned premiums from each of its principal product lines:

	Year Ended December 31,	
	2016	2015
	(In thousands)	
Automobile liability	$ 28,219	$ 24,786
Automobile physical damage	10,192	13,290
General liability	3,009	3,152
Surety	8,999	9,192
Other lines	3,344	4,088
Total	$ 53,763	$ 54,508

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products. Products offered by Bankers Fidelity include ordinary and term life insurance, Medicare supplement and other accident and health insurance products. Health insurance products, primarily Medicare supplement insurance, accounted for 90% of Bankers Fidelity s net earned premiums in 2016 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2016, 92% were health insurance policies and 8% were life insurance policies.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity s net earned premiums from each of its principal product lines followed by a brief description of the principal products:

	Year Ended December 31,	
	2016	2015
	(In thousands)	
Life insurance	$ 9,974	$ 10,454
Medicare supplement	84,107	81,068
Other accident and health	5,621	4,862
Total health insurance	89,728	85,930
Total	$ 99,702	$ 96,384

Life Insurance products include non-participating individual term and whole life insurance policies with a variety of riders and options. Policy premiums are dependent upon a number of factors, including issue age, level of coverage and selected riders or options.

Medicare Supplement Insurance includes 8 of the 11 standardized Medicare supplement policies created under the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Other Accident and Health Insurance coverages include several policies providing for the payment of standard benefits in connection with the treatment of diagnosed cancer and other critical illnesses, as well as a number of other policies providing nursing facility care, accident expense, hospital indemnity and disability coverages.

Marketing

Property and Casualty Operations

A portion of American Southern s business is marketed through a small number of specialized, experienced independent agents. American Southern s agent selection process is actively managed by internal marketing personnel with oversight from management. Senior management carefully reviews all new programs prior to acceptance. Most of American Southern s agents are paid an up-front commission with the potential for additional commissions by participating in a profit sharing arrangement that is directly linked to the profitability

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of the underlying business. American Southern also solicits business from governmental entities. As an experienced writer of insurance policies for certain governmental programs, the company actively pursues this market on a direct basis. Much of this business is priced by means of competitive bid situations and there can be no assurance with respect to ultimate profitability or that the company can obtain or retain such business at the time of a specific contract renewal.

Life and Health Operations

Bankers Fidelity markets its policies through three distribution channels all of which utilize commissioned, independent agents. The three channels utilized include traditional independent agents, broker-agents typically interested in a specific product of Bankers Fidelity and special market agents who promote workplace, association and/or branded products.

Bankers Fidelity utilizes an agent qualification process and had 5,661 licensed agents as of December 31, 2016. The agents generally concentrate their sales activities in both the accident and health or life insurance product lines. During 2016, approximately 1,527 of the licensed agents wrote policies on behalf of Bankers Fidelity.

Bankers Fidelity, in an effort to motivate all of its licensed agents to market its products, offers the following: competitive products and commission structures, efficient claims service, prompt payment of commissions that vest immediately, simplified policy issuance procedures, periodic sales incentive programs and, as described below, for traditional independent agents, protected sales territories determined based on specific counties and/or zip codes.

In the traditional independent agent arrangement, Bankers Fidelity enters into contractual arrangements with various regional sales directors and general agents responsible for marketing and other sales activities, who may also, in turn, recommend appointment of other independent agents. The standard agreements set forth the commission arrangements and are terminable without cause by either party upon notice. Regional sales directors and general agents receive an override commission on sales made by their sponsored agents. Management believes utilizing experienced agents, as well as independent general agents who recruit and train their own agents, is cost effective. All independent agents are compensated primarily on a commission basis. Using independent agents also enables Bankers Fidelity to effectively expand or contract its sales force without incurring significant expense.

With the traditional independent agents, the company utilizes a lead generation system that rewards qualified agents with leads in accordance with certain production criteria. In addition, a protected territory is established for qualified agents, which entitles them to all leads produced within that territory. The territories are zip code or county based and encompass sufficient geographic territory designed to produce an economically serviceable senior population. The Company believes that offering a lead generation system solves an agent s most important dilemma — prospecting — and allows Bankers Fidelity to build long-term relationships with agents who view Bankers Fidelity as their primary company. In addition, management believes that Bankers Fidelity s product line is less sensitive to competitor pricing and commissions because of the perceived value of the protected territory and the lead generation system. In protected geographical areas, production per agent has historically compared favorably to unprotected areas served by the general brokerage division.

Products of Bankers Fidelity compete directly with products offered by other insurance companies, and agents may represent multiple insurance companies. Broker-agents generally are not interested in developing relationships with any one particular insurance company but are more interested in matching a specific product with the specific needs of their clients. These agents, while a source of business, do not participate in the company s lead generation system, but can qualify for other incentives that Bankers Fidelity offers to its traditional independent agents.

Bankers Fidelity also has a number of agents, some of whom belong to marketing organizations that solicit business from various groups including employers, trade associations and/or other organizations. Depending on the group s needs, these agents may target one specific product or a group of Bankers Fidelity s products to market to a group s members. These agents also do not participate in the company s lead generation system, but can also qualify for other incentives that Bankers Fidelity offers to its traditional independent agents.

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Underwriting

Property and Casualty Operations

American Southern specializes in underwriting various risks that are sufficiently large enough to establish separate class experience, relying upon the underwriting expertise of its agents.

During the course of the policy life, extensive use is made of risk management representatives to assist commercial underwriters in identifying and correcting potential loss exposures and to physically inspect new accounts. The underwriting results from each insured are reviewed on an individual basis periodically. When results are below expectations, management takes corrective action which may include adjusting rates, revising underwriting standards, adjusting commissions paid to agents, and/or altering or declining to renew accounts at expiration.

Life and Health Operations

Bankers Fidelity issues a variety of products that span from the worksite markets to the senior markets for both life and health insurance. Products offered by Bankers Fidelity include life insurance, typically with small face amounts, Medicare supplement and other accident and health insurance. Bankers Fidelity also provides an array of worksite products such as accident, cancer, critical illness, hospital indemnity and life insurance that is offered to employers who are looking to provide coverage for their employees and have the related premiums deducted through payroll deductions.

The majority of the products are underwritten on a non-medical basis using a simplified issue approach by which an application containing a variety of health related questions is submitted. Applications for insurance are reviewed to determine the face amount, age, medical history and any other necessary information. Bankers Fidelity utilizes information obtained directly from the insured, the Medical Information Bureau, prescription utilization reports as well as telephone interviews to determine whether an applicant meets the company s underwriting criteria. Bankers Fidelity may also utilize medical records and investigative services to supplement and substantiate information, as necessary.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see Competition). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company s policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes an automatic call distribution system to ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Frequently, independent adjusters and appraisers are utilized to service claims which require on-site inspections.

Life and Health Operations

Insureds may obtain claim forms by calling the claims department customer service group or through Bankers Fidelity s website. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. With respect to life policies, the claim is entered into Bankers Fidelity s claims system when the proper documentation is received. Properly documented claims are generally paid within five business days of receipt. With regard to Medicare supplement policies, the claim is either directly billed to Bankers Fidelity by the provider or sent electronically through a Medicare clearing house.

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Reserves

The following table sets forth information concerning the Company s reserves for losses and claims and reserves for loss adjustment expenses (LAE) for the periods indicated:

	2016	2015
	(In thousands)	
Balance at January 1	$ 63,870	$ 66,625
Less: Reinsurance recoverable on unpaid losses	(11,741)	(14,302)
Net balance at January 1	52,129	52,323
Incurred related to:		
Current year	103,252	99,447
Prior years[1]	(3,377)	(701)
Total incurred	99,875	98,746
Paid related to:		
Current year	71,980	68,159
Prior years	28,258	30,781
Total paid	100,238	98,940
Net balance at December 31	51,766	52,129
Plus: Reinsurance recoverable on unpaid losses	10,796	11,741
Balance at December 31	$ 62,562	$ 63,870

(1) Prior years' development was primarily the result of better than expected development on prior years reserves for certain lines of business in both the property and casualty and life and health operations. See Note 3 of Notes to Consolidated Financial Statements.

Reserves are set by line of business within each of the subsidiaries. At December 31, 2016, approximately 79% of the reserves related to property and casualty losses and approximately 21% related to life and health losses. The Company s property and casualty operations incur losses which may take extended periods of time to evaluate and settle. Issues with respect to legal liability, actual loss quantification, legal discovery and ultimate subrogation, among other factors, may influence the initial and subsequent estimates of loss. In the property and casualty operations, the Company s general practice is to reserve at the higher end of the determined reasonable range of loss if no other value within the range is determined to be more probable. The Company s life and health operations generally incur losses which are more readily quantified. Medical claims received are recorded in case reserves based on contractual terms using the submitted billings as a basis for determination. Life claims are recorded based on contract value at the time of notification to the Company; although policy reserves related to such contracts have been previously established. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Regular internal periodic reviews are also performed by management to ensure that loss reserves are established and revised timely relative to the receipt of new or additional information. Lines of business for which loss data (e.g. paid losses and case reserves) emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company s long-tail line of business generally consists of its general liability coverage while the short-tail lines of business generally consist of property and automobile coverages.

The Company s actuaries regularly review reserves for both current and prior accident years using the most current claims data. These reviews incorporate a variety of actuarial methods (discussed in Critical Accounting Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

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For long-tail lines of business, the emergence of paid losses and case reserves is less credible in the early periods, and accordingly may not be indicative of ultimate losses. For these lines, methods which incorporate a development pattern assumption are given less weight in calculating incurred but not reported (IBNR) reserves for the early periods of loss emergence because such a low percentage of ultimate losses are reported in that time frame. Accordingly, for any given accident year, the rate at which losses on long-tail lines of business emerge in the early periods is generally not as reliable an indication of ultimate losses as it would be for shorter-tail lines of business. The estimation of reserves for these lines of business in the early periods of loss emergence is therefore largely influenced by statistical analyses and application of prior accident years loss ratios, after considering changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to affect the estimated ultimate losses. For later periods of loss emergence, methods which incorporate a development pattern assumption are given more weight in estimating ultimate losses. For short-tail lines of business, the emergence of paid loss and case reserves is more credible in the early periods and is more likely to be indicative of ultimate losses. The method used to set reserves for these lines of business is based upon utilization of a historical development pattern for reported losses. IBNR reserves for the current year are set as the difference between the estimated fully developed ultimate losses for each year, less the established, related case reserves and cumulative related payments. IBNR reserves for prior accident years are similarly determined, again relying on an indicated, historical development pattern for reported losses.

Based on the results of regular reserve estimate reviews, the Company determines the appropriate reserve adjustment, if any, to record in each period. If necessary, recorded reserve estimates are changed after consideration of numerous factors, including, but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indication in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to recognize changes in estimates to ultimate losses in mature accident years and less volatile lines of business.

Estimating case reserves and ultimate losses involves various considerations which differ according to the line of business. In addition, changes in legislative and regulatory environments may impact loss estimates. General liability claims may have a long pattern of loss emergence. Given the broad nature of potential general liability coverages, investigative time periods may be extended and questions of coverage may exist. Such uncertainties create greater imprecision in estimating required levels of loss reserves. The property and automobile lines of business generally have less variable reserve estimates than other lines. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends. Severity trends can be impacted by changes in internal claim handling and reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels.

The Company s policy is to record reserves for losses and claims in amounts which approximate actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and high end reserve values. The range of estimates developed in connection with the December 31, 2016 actuarial review indicated that reserves could be as much as 16.5% lower or as much as 4.4% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates are expected to be made in future periods. Any such revisions could be material, and may materially adversely affect the Company s financial condition and results of operations in any future period.

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Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and LAE, and which are not discounted. IBNR reserves are also maintained for future development. These loss reserves are estimates, based on known facts and circumstances at a given date, of amounts the Company expects to pay on incurred claims. All balances are reviewed periodically by the Company s independent consulting actuary. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of any lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

American Southern establishes reserves for claims based upon: (a) management s estimate of ultimate liability and claims adjusters evaluations of unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of LAE. If no value is determined to be more probable in estimating a loss after considering all factors, the Company s general practice is to reserve at the higher end of the determined reasonable range of loss. The estimated liability is periodically reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the period in which such changes become known.

The following table sets forth the development of reserves for unpaid losses and claims determined using generally accepted accounting principles of American Southern s insurance lines from 2006 through 2016. Specifically excluded from the table are the life and health division s claims reserves, which are included in the consolidated loss and claims reserves. The top line of the table represents the estimated cumulative amount of losses and LAE for claims arising in all prior years that were unpaid at the balance sheet date for each of the indicated periods, including an estimate of IBNR losses at the applicable date. The amounts represent initial reserve estimates at the respective balance sheet dates for the current and all prior years. The next portion of the table shows the cumulative amounts paid with respect to claims in each succeeding year. The lower portion of the table shows the re-estimated amounts of previously recorded reserves based on experience as of the end of each succeeding year.

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The reserve estimates are modified as more information becomes known about the frequency and severity of claims for individual years. The cumulative redundancy (deficiency) for each year represents the aggregate change in such year s estimates through the end of 2016. Furthermore, the amount of the redundancy (deficiency) for any year represents the cumulative amount of the changes from initial reserve estimates for such year. Operations for any year may be affected, favorably or unfavorably, by the amount of the change in the estimate for such years; however, because such analysis is based on the reserves for unpaid losses and claims, before consideration of reinsurance, the total indicated redundancies (deficiencies) may not ultimately be reflected in the Company s net income. Further, conditions and trends that have affected development of reserves in the past may not necessarily occur in the future and there could be future events or actions that impact future development which have not existed in the past. Accordingly, the accurate prediction of future redundancies (deficiencies) based on the data in the following table is not possible.

	Year Ended December 31,										
	2016	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	
	(Dollars In thousands)										
for nd	**$ 49,556**	$ 51,200	$ 55,017	$ 51,200	$ 52,764	$ 49,478	$ 46,092	$ 42,248	$ 44,928	$ 43,994	$ 4
ive f:											
		22,555	26,289	21,577	25,352	18,959	15,183	10,486	13,627	11,630	1
rs			40,440	37,022	37,128	34,805	25,333	17,462	19,003	21,187	2
ars				45,659	44,473	41,967	34,266	23,231	22,197	23,993	2
rs					48,338	46,715	37,720	29,254	24,016	25,733	3
s						49,129	40,241	31,125	28,898	27,160	3
							41,787	32,488	30,286	31,659	3
ars								33,847	31,462	32,489	3
rs									31,858	33,616	3
rs										33,953	3
s											3
d											

ed

ear	**$ 49,556**	$ 51,200	$ 55,017	$ 51,200	$ 52,764	$ 49,478	$ 46,092	$ 42,248	$ 44,928	$ 43,994	$ 4
		44,638	50,729	47,169	47,639	44,180	39,999	32,563	31,649	33,663	3
s			51,853	49,927	49,966	46,109	38,859	30,562	28,386	29,903	3
ars				50,163	50,142	48,386	39,153	30,288	27,570	29,077	3
s					49,692	49,361	41,339	31,798	28,169	29,162	3
s						50,254	42,273	33,508	30,883	30,156	3
							42,393	34,331	31,696	33,091	3
ars								34,286	32,073	33,804	3
rs									32,269	34,184	3
s										34,278	3
s											3
ve cy cy)		$ 6,562	$ 3,164	$ 1,037	$ 3,072	$ (776)	$ 3,699	$ 7,962	$ 12,659	$ 9,716	$
		12.8 %	5.8 %	2.0 %	5.8 %	-1.6 %	8.0 %	18.8 %	28.2 %	22.1 %	

Note: This analysis is based on reserves for unpaid losses and claims, before consideration of reinsurance; therefore the total indicated redundancy (deficiency) may not ultimately be reflected in the Company s net income.

See Note 3 of Notes to Consolidated Financial Statements for historical loss development data on significant lines of business.

Life and Health Operations

Bankers Fidelity establishes liabilities for future policy benefits to meet projected future obligations under outstanding policies. These reserves are calculated to satisfy policy and contract obligations as they mature. The amount of reserves for insurance policies is calculated using assumptions for interest rates, mortality and

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morbidity rates, expenses, and withdrawals. Reserves are adjusted periodically based on published actuarial tables with modifications to reflect actual experience. The use of significantly different assumptions, or actual results that differ significantly from our estimates, could materially adversely affect our liquidity, results of operations or financial condition. See Note 3 of Notes to Consolidated Financial Statements.

Reinsurance

The Company s insurance subsidiaries from time to time purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or cedes, a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of the policies written by it, and the ceding company will incur a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Property and Casualty Operations

American Southern s basic reinsurance treaties generally cover all claims in excess of specified per occurrence limitations. Limits per occurrence within the reinsurance treaties are as follows: Inland marine and commercial automobile physical damage - $175,000 excess of $75,000 retention; and automobile liability and general liability - excess coverage of $2.0 million less retentions that may vary from $100,000 to $150,000 depending on the account. American Southern maintains a property catastrophe treaty with a $5.7 million limit excess of $300,000 retention. American Southern also issues individual surety bonds with face amounts generally up to $1.5 million, and limited to $5.0 million in aggregate per account, that are not reinsured.

Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its life retention to several primary reinsurers. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is $100,000. At December 31, 2016, $16.1 million of the $263.6 million of life insurance in force at Bankers Fidelity was reinsured under a mix of coinsurance and yearly renewable term agreements. Certain prior year reinsurance agreements also remain in force although they no longer provide reinsurance for new business.

Bankers Fidelity has also entered into a reinsurance contract ceding excess new Medicare supplement business to General Re Life Corporation. Ceding thresholds are set annually. At December 31, 2016, the 2016 retention threshold was $15.0 million of annualized premium; accordingly $11.8 million of the company s $26.8 million of new annualized Medicare supplement premium was ceded to a reinsurer.

Competition

Competition for insurance products is based on many factors including premiums charged, terms and conditions of coverage, service provided, financial ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the organization in the line of business being written.

Property and Casualty Operations

The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies, which have been in business longer than American Southern, offer more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states in which American Southern operates. American Southern attempts to develop strong relationships with its agents and, consequently, believes it is better positioned for new opportunities and programs with those agents.

Life and Health Operations

The life and health insurance business also remains highly competitive and includes a large number of insurance companies, many of which have substantially greater financial resources than Bankers Fidelity or the Company. Bankers Fidelity offers life insurance products, Medicare supplement and other accident and health

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insurance products. Bankers Fidelity believes that its primary competitors are Americo Life, GTL, Lincoln Heritage, Medico, Monumental, Mutual of Omaha, New Era, Standard Life, Transamerica and United Healthcare. Bankers Fidelity competes with these as well as other insurers on the basis of premium rates, policy benefits and service to policyholders. Bankers Fidelity also competes with other insurers to attract and retain the allegiance of its independent agents through commission and sales incentive arrangements, accessibility and marketing assistance, lead programs, reputation, and market expertise. In order to better compete, Bankers Fidelity actively seeks opportunities in niche markets, developing long-term relationships with a select number of independent marketing organizations promoting worksite marketing and selective association endorsements. Bankers Fidelity has a track record of successfully competing in its chosen markets by establishing relationships with independent agents and providing proprietary marketing initiatives as well as providing outstanding service to policyholders. Bankers Fidelity believes that it competes effectively on the bases of policy benefits, services and market segmentation.

Ratings

Ratings of insurance companies are not designed for investors and do not constitute recommendations to buy, sell, or hold any security. Ratings are important measures within the insurance industry, and higher ratings should have a favorable impact on the ability of a company to compete in the marketplace.

Each year A.M. Best Company, Inc. (A.M. Best) publishes Best s Insurance Reports, which includes assessments and ratings of all insurance companies. A.M. Best s ratings, which may be revised quarterly, fall into fifteen categories ranging from A++ (Superior) to F (in liquidation). A.M. Best s ratings are based on a detailed analysis of the statutory financial condition and operations of an insurance company compared to the industry in general.

American Southern. American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company, are each, as of the date of this report, rated A (Excellent) by A.M. Best.

Bankers Fidelity. Bankers Fidelity Life Insurance Company and its wholly-owned subsidiary, Bankers Fidelity Assurance Company, are each, as of the date of this report, rated A- (Excellent) by A.M. Best.

Regulation

In common with all domestic insurance companies, the Company s insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency to be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company s products generally are subject to rate regulation by state insurance commissions, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company s insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commissioners of intercorporate transfers of assets (including payments of dividends by the insurance subsidiaries in excess of specified amounts) within the holding company system.

Most states require that rate schedules and other information be filed with the state s insurance regulatory authority, either directly or through a ratings organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate adjustments; however, the Company cannot provide any assurance that it will not receive any objections to any applications in the future.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 2016, securities with an amortized cost of

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$11.4 million were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Company s insurance subsidiaries.

Virtually all of the states in which the Company s insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred.

NAIC Ratios

The National Association of Insurance Commissioners (the NAIC) was established to, among other things, provide guidelines to assess the financial strength of insurance companies for state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of 13 financial ratios prepared on a statutory basis. The annual statements are submitted to state insurance departments to assist them in monitoring insurance companies in their state and to set forth a desirable range in which companies should fall in each such ratio.

The NAIC suggests that insurance companies which fall outside of the usual range in four or more financial ratios are those most likely to require analysis by state regulators. However, according to the NAIC, it may not be unusual for a financially sound company to have several ratios outside the usual range.

For the year ended December 31, 2016, American Southern and Bankers Fidelity Life Insurance Company were both individually within the NAIC usual range for all 13 financial ratios.

Risk-Based Capital

Risk-based capital (RBC) is a metric used by ratings agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of adjusted capital needed by a company to avoid regulatory action. Authorized Control Level Risk-Based Capital (ACL) is calculated, and if a company s adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2016, the Company s insurance subsidiaries exceeded the RBC regulatory levels.

Investments

Investment income represents a significant portion of the Company s operating and total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company s investments as of the dates indicated.

	December 31,			
	2016		2015	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$ 31,102	12.7 %	$ 22,234	9.4 %
States, municipalities and political subdivisions	17,572	7.2	25,479	10.7

Public utilities	11,216	4.6	8,602	3.6
All other corporate bonds	150,588	61.7	148,563	62.3
Redeemable preferred stock	192	0.1	446	0.2
Total fixed maturities[(1)]	210,670	86.3	205,324	86.2
Common and non-redeemable preferred stocks[(2)]	20,257	8.3	23,131	9.7
Policy loans[(3)]	2,265	0.9	2,200	0.9
Other invested assets[(4)]	9,709	4.0	6,454	2.7
Real estate	38	0.0	38	0.0
Investments in unconsolidated trusts	1,238	0.5	1,238	0.5
Total investments	$ 244,177	100.0 %	$ 238,385	100.0 %

(1) Fixed maturities are carried on the balance sheet at estimated fair value. Certain fixed maturities do not have publicly quoted prices, and are carried at estimated fair value as determined by management. Total adjusted cost of fixed maturities was $210.5 million as of December 31, 2016 and December 31, 2015.

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(2) Equity securities are carried on the balance sheet at estimated fair value. Total adjusted cost of equity securities was $11.5 million as of December 31, 2016 and $11.0 million as of December 31, 2015.

(3) Policy loans are valued at historical cost.

(4) Other invested assets are accounted for using the equity method. Total adjusted cost of other invested assets was $9.7 million as of December 31, 2016 and $6.5 million as of December 31, 2015.

Estimated fair values are determined as discussed in Note 1 of Notes to Consolidated Financial Statements.

Results of the Company s investment portfolio for periods shown were as follows:

	Year Ended December 31,	
	2016	**2015**
	(Dollars in thousands)	
Average investments[1]	$ 243,174	$ 244,316
Net investment income	9,307	9,533
Average yield on investments	3.8 %	3.9 %
Realized investment gains, net	2,595	4,857

(1) Calculated as the average of cash and investment balances (at amortized cost) at the beginning of the year and at the end of each of the succeeding four quarters.

Management s recent investment strategy has been a continued focus on quality, diversification and higher yielding corporate bonds and preferred stocks; but at the same time shortening up on maturities to give recognition to the rise and potential future increases in longer-term interest rates.

Employees

The Company and its subsidiaries employed 164 people at December 31, 2016. Of the 164 people employed at December 31, 2016, 159 were full-time.

Financial Information by Industry Segment

Each of American Southern and Bankers Fidelity operate with relative autonomy and each company is evaluated on its individual performance. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources. See Note 13 of Notes to Consolidated Financial Statements.

Available Information

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other information with the Securities and Exchange Commission (the SEC). The public can read and obtain copies of those materials by visiting the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers like the Company that file electronically with the SEC. The address of the SEC s web site is www.sec.gov. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC by the Company, the Company makes copies available to the public, free of charge, on or through its web site at www.atlam.com. Neither the Company s website, nor the information appearing on the website, is included, incorporated into, or a part of, this report.

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Executive Officers of the Registrant

The table below and the information following the table set forth, for each executive officer of the Company as of December 31, 2016, his name, age, positions with the Company and business experience for the past five years, as well as any prior service to the Company.

Name	Age	Positions with the Company	Director or Officer Since
Hilton H. Howell, Jr.	54	Chairman of the Board, President & CEO	1992
John G. Sample, Jr.	60	Senior Vice President, CFO and Secretary	2002

Officers are elected annually and serve at the discretion of the board of directors.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992 and effective February 24, 2009, began serving as Chairman of the board of directors. He is also a director, and serves as chief executive officer, of Gray Television, Inc.

Mr. Sample has served as Senior Vice President and Chief Financial Officer of the Company since July 2002 and Secretary since May 2010. Prior to joining the Company in July 2002, he had been a partner of Arthur Andersen LLP since 1990. Mr. Sample is also a director of 1st Franklin Financial Corporation and Capital City Bank Group, Inc.

Forward-Looking Statements

Certain of the statements contained or incorporated by reference herein are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Exchange Act of 1933, and Section 21E of the Securities Act of 1934, and include estimates and assumptions related to, among other things, general economic, competitive, operational and legislative developments. Forward-looking statements are subject to changes and uncertainties which are, in many instances, beyond the Company s control and have been made based upon management s current expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management s expectations or that the effect of future developments on the Company will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the occurrence or outcome of various factors. These factors include, among others: significant changes in general economic conditions; unexpected developments in the health care or insurance industries affecting providers or individuals, including the cost or availability of services, or the tax consequences related thereto; disruption to the financial markets; unanticipated increases in the rate, number and amounts of claims outstanding; the possible occurrence of terrorist attacks; the level of performance of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company s statutory capital levels; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers, agents and other producers; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of regulatory developments, including those which could increase the Company s business costs and required capital levels; the Company s ability to distribute its products through distribution channels, both current and future; the uncertain effect of emerging claim and coverage issues; the effect of assessments and other surcharges for guaranty funds and other mandatory pooling arrangements; and risks related to cybersecurity matters, such as breaches of our computer network or the loss of unauthorized access to the data we maintain. Many of such factors are beyond the

Company s ability to control or predict. As a result, the Company s actual financial condition and results of operations could differ materially from those expressed in any forward-looking statements made by the Company. Undue reliance should not be placed upon forward-looking statements. The Company does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, the Company.

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Item 1A. Risk Factors

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K (a smaller reporting company), we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the information required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia, from Delta Life Insurance Company under a lease which continues until either party provides written notice of cancellation at least twelve months in advance of the actual termination date. The lease, which commenced on November 1, 2007, provides for rent adjustments on every fifth anniversary of the commencement date. Under the current terms of the lease, the Company occupies approximately 49,586 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by an affiliate of the Company. The terms of the lease are believed by Company management to be comparable to terms which could be obtained by the Company from unrelated parties for comparable rental property.

American Southern leases space for its office in a building located in Atlanta, Georgia. The lease term expires May 31, 2019. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

The Company believes that its current properties are in good condition, and are sufficient for the operations of its business.

Item 3. Legal Proceedings

From time to time, the Company and its subsidiaries are, and expect to continue to be, involved in various claims and lawsuits arising in the ordinary course of business, both as a liability insurer defending third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Company accounts for such exposures through the establishment of loss and loss adjustment expense reserves. We do not expect that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for probable losses and costs of defense, will be material to the Company s consolidated financial condition, although the results of such litigation could be material to the consolidated results of operations for any given period.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company s common stock is quoted on the Nasdaq Global Market (Symbol: AAME). As of March 20, 2017, there were 2,805 shareholders of record. The following table sets forth, for the periods indicated, the high and low sales prices of the Company s common stock as reported on the Nasdaq Global Market.

Year Ended December 31,	**High**	**Low**
2016		
1st quarter	$ 4.99	$ 3.39
2nd quarter	5.00	3.21
3rd quarter	4.30	3.06
4th quarter	4.65	3.21
2015		
1st quarter	$ 4.08	$ 3.75
2nd quarter	4.00	3.09
3rd quarter	4.05	3.30
4th quarter	5.00	3.76

During each of 2016 and 2015, the Company paid an annual cash dividend of $0.02 per share. In addition, on March 14, 2017, the Company s board of directors declared an annual cash dividend of $0.02 per share that is payable to shareholders of record as of the close of business on April 14, 2017. Payment of dividends in the future will be at the discretion of the Company s board of directors and will depend upon the financial condition, capital requirements, earnings of the Company, any restrictions contained in any agreements by which the Company is bound, as well as other factors as the board of directors may deem relevant. The Company s primary recurring source of cash for the payment of dividends is dividends from its subsidiaries; although as of December 31, 2016, the Parent held unrestricted cash and investment balances of approximately $20.5 million. Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Company by its insurance subsidiaries are subject to certain limitations without the prior approval of the applicable state s Insurance Commissioner. In 2017, dividend payments to the Parent by the insurance subsidiaries in excess of $5.7 million would require prior approval.

Issuer Purchases of Equity Securities

On May 6, 2014, the board of directors of the Company approved a plan that allowed for the repurchase of up to an aggregate of 750,000 shares of the Company s common stock (the Prior Repurchase Plan) on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Such purchases were eligible to be made from time to time in accordance with applicable securities laws and other requirements.

On October 31, 2016, the board of directors of the Company terminated the Prior Repurchase Plan and approved a new plan that allows for the repurchase of up to 750,000 shares of the Company s common stock (the Replacement 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.

The table below sets forth information regarding repurchases by the Company of shares of its common stock under the Prior Repurchase Plan for the period October 1, 2016 through October 30, 2016.

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
October 1 – October 30, 2016	16,450	$ 3.78	16,450	—

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The table below sets forth information regarding repurchases by the Company of shares of its common stock under the Replacement Repurchase Plan for the period October 31, 2016 through December 31, 2016.

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**
October 31, 2016	1,000	$ 4.11	1,000	749,000
November 1 – November 30, 2016	5,114	4.04	5,114	743,886
December 1 – December 31, 2016	11,378	4.02	11,378	732,508
Total	17,492	$ 4.03	17,492	

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 above.

Stock Performance Graph

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the information required by this Item.

Item 6. Selected Financial Data

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the information required by this Item.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following is management s discussion and analysis of the financial condition and results of operations of Atlantic American Corporation (Atlantic American or the Parent) and its subsidiaries (collectively with the Parent, the Company) for the years ended December 31, 2016 and 2015. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

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) in the property and casualty insurance industry, and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as Bankers Fidelity) in the life and health insurance industry. Each operating company is managed separately, offers different products and is evaluated on its individual performance.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America (GAAP) and, in management s belief, conform to general practices within the insurance industry. The following is an explanation of the Company s accounting policies and the resultant estimates considered most significant by management. These accounting policies inherently require significant judgment and assumptions and actual operating results could differ significantly from management s estimates determined using these policies. Atlantic American does not expect that changes in the estimates determined using these policies will have a material effect on the Company s financial condition or liquidity, although changes could have a material effect on its consolidated results of operations.

Unpaid loss and loss adjustment expenses comprised 29% of the Company s total liabilities at December 31, 2016. This liability includes estimates for: 1) unpaid losses on claims reported prior to December 31, 2016, 2) future development on those reported claims, 3) unpaid ultimate losses on claims incurred prior to December 31, 2016 but not yet reported and 4) unpaid loss adjustment expenses for reported and unreported claims incurred prior to December 31, 2016. Quantification of loss estimates for each of these components

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involves a significant degree of judgment and estimates may vary, materially, from period to period. Estimated unpaid losses on reported claims are developed based on historical experience with similar claims by the Company. Development on reported claims, estimates of unpaid ultimate losses on claims incurred prior to December 31, 2016 but not yet reported, and estimates of unpaid loss adjustment expenses are developed based on the Company s historical experience, using actuarial methods to assist in the analysis. The Company s actuaries develop ranges of estimated development on reported and unreported claims as well as loss adjustment expenses using various methods, including the paid-loss development method, the reported-loss development method, the paid Bornhuetter-Ferguson method and the reported Bornhuetter-Ferguson method. Any single method used to estimate ultimate losses has inherent advantages and disadvantages due to the trends and changes affecting the business environment and the Company s administrative policies. Further, external factors, such as legislative changes, medical cost inflation, and others may directly or indirectly impact the relative adequacy of liabilities for unpaid losses and loss adjustment expenses. The Company s approach is to select an estimate of ultimate losses based on comparing results of a variety of reserving methods, as opposed to total reliance on any single method. Unpaid loss and loss adjustment expenses are reviewed periodically for significant lines of business, and when current results differ from the original assumptions used to develop such estimates, the amount of the Company s recorded liability for unpaid loss and loss adjustment expenses is adjusted. In the event the Company s actual reported losses in any period are materially in excess of the previously estimated amounts, such losses, to the extent reinsurance coverage does not exist, could have a material adverse effect on the Company s results of operations.

Future policy benefits comprised 35% of the Company s total liabilities at December 31, 2016. These liabilities relate primarily to life insurance products and are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company s experience. If actual results differ from the initial assumptions, the amount of the Company s recorded liability could require adjustment.

Deferred acquisition costs comprised 9% of the Company s total assets at December 31, 2016. Deferred acquisition costs are commissions, premium taxes, and other costs that vary with and are primarily related to the acquisition of new and renewal business and are generally deferred and amortized. The deferred amounts are recorded as an asset on the balance sheet and amortized to expense in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the related liability for policy benefit reserves. Deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance). Assessments of recoverability for property and casualty and short-duration health insurance are extremely sensitive to the estimates of a subsequent year s projected losses related to the unearned premiums. Projected loss estimates for a current block of business for which unearned premiums remain to be earned may vary significantly from the indicated losses incurred in any previous calendar year.

Receivables are amounts due from reinsurers, insureds and agents, and any sales of investment securities not yet settled, and comprised 8% of the Company s total assets at December 31, 2016. Insured and agent balances are evaluated periodically for collectibility. Annually, the Company performs an analysis of the creditworthiness of the reinsurers with whom the Company contracts using various data sources. Failure of reinsurers to meet their obligations due to insolvencies, disputes or otherwise could result in uncollectible amounts and losses to the Company. Allowances for uncollectible amounts are established, as and when a loss has been determined probable, against the related receivable. Losses are recognized by the Company when determined on a specific account basis and a general provision for loss is made based on the Company s historical experience.

Cash and investments comprised 81% of the Company s total assets at December 31, 2016. Substantially all of the Company s investments are in bonds and common and preferred stocks, the values of which are subject to significant market fluctuations. The Company carries all fixed maturities, which includes bonds and redeemable preferred stocks, and equity securities, which includes common and non-redeemable preferred stocks, as available for sale and, accordingly, at their estimated fair values. The Company owns certain fixed maturities that do not have publicly quoted values, but had an estimated fair value as determined by management of $1.3 million at

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December 31, 2016. Such values inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility than the value of securities with publicly quoted market values. On occasion, the value of an investment may decline to a value below its amortized purchase price and remain at such value for an extended period of time. When an investment s indicated fair value has declined below its cost basis for a period of time, the Company evaluates such investment for an other than temporary impairment. The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. 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. If an other than temporary impairment is deemed to exist, then the Company will write down the amortized cost basis of the investment to its estimated fair value. While any such write down does not impact the reported value of the investment in the Company s balance sheet, it is reflected as a realized investment loss in the Company s consolidated statements of operations in the period incurred.

The Company determines the fair values of certain financial instruments based on the fair value hierarchy established in Accounting Standards Codification (ASC) 820-10-20, *Fair Value Measurements and Disclosures* (ASC 820-10-20). The fair values of fixed maturities and equity securities are largely determined by either independent methods prescribed by the National Association of Insurance Commissioners, which do not differ materially from nationally quoted market prices, when available, or independent broker quotations. See Note 2 and Note 14 of Notes to Consolidated Financial Statements with respect to assets and liabilities carried at fair value and information about the inputs used to value those financial instruments, by hierarchy level, in accordance with ASC 820-10-20.

Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These deferred income taxes are measured by applying currently enacted tax laws and rates. Valuation allowances are recognized to reduce the deferred tax asset to the amount that is deemed more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and tax planning strategies.

Refer to Note 1 of Notes to Consolidated Financial Statements for details regarding the Company s significant accounting policies.

Overall Corporate Results

	Year Ended December 31,	
	2016	**2015**
	(In thousands)	
Revenue		
Property and Casualty:		
American Southern	$ 58,159	$ 59,497
Life and Health:		
Bankers Fidelity	107,505	105,869
Corporate and Other	413	571

Total revenue	$ 166,077	$ 165,937
Income (loss) before income taxes		
Property and Casualty:		
American Southern	$ 7,314	$ 6,642
Life and Health:		
Bankers Fidelity	2,950	6,746
Corporate and Other	(6,740)	(7,680)
Income before income taxes	$ 3,524	$ 5,708
Net income	$ 2,636	$ 4,388

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Management also considers and evaluates performance by analyzing the non-GAAP measure operating income, 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 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 to operating income is as follows:

	Year Ended December 31, 2016	2015
	(In thousands)	
Reconciliation of Non-GAAP Financial Measure		
Net income	$ 2,636	$ 4,388
Income tax expense	888	1,320
Realized investment gains, net	(2,595)	(4,857)
Operating income	$ 929	$ 851

On a consolidated basis, the Company had net income of $2.6 million, or $0.11 per diluted share, in 2016, compared to $4.4 million, or $0.19 per diluted share, in 2015. Operating income increased slightly in 2016 as compared to 2015. The increase in operating income was primarily attributable to increased profitability in the property and casualty operations as well as a decrease in legal and consulting fees of $1.3 million. Offsetting the increase in operating income were higher expenses in the life and health operations associated with the increased level of new business.

Total revenue was $166.1 million in 2016 as compared to $165.9 million in 2015. Premium revenue increased to $153.5 million in 2016 from $150.9 million in 2015. The increase in premium revenue was primarily due to an increase in Medicare supplement business in the life and health operations. Also included in total revenue were net realized investment gains of $2.6 million in 2016 compared to net realized investment gains of $4.9 million in 2015. The magnitude of realized investment gains and losses in any year is a function of the timing of trades of investments relative to the markets themselves as well as the recognition of any other than temporary impairments on investments.

Total expenses were $162.6 million in 2016 as compared to $160.2 million in 2015. As a percentage of premiums, insurance benefits and losses incurred and commissions and underwriting expenses were 96.4% in 2016 and 95.8% in 2015.

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

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UNDERWRITING RESULTS

American Southern

The following table summarizes, for the periods indicated, American Southern s premiums, losses, expenses and underwriting ratios:

	Year Ended December 31, 2016	2015
	(Dollars in thousands)	
Gross written premiums	$ 56,131	$ 60,562
Ceded premiums	(4,654)	(4,951)
Net written premiums	$ 51,477	$ 55,611
Net earned premiums	$ 53,763	$ 54,508
Net losses and loss adjustment expenses	34,408	35,046
Underwriting expenses	16,437	17,809
Underwriting income	$ 2,918	$ 1,653
Loss ratio	64.0 %	64.3 %
Expense ratio	30.6	32.7
Combined ratio	94.6 %	97.0 %

Gross written premiums at American Southern decreased $4.4 million, or 7.3%, during 2016 as compared to 2015. The decrease in gross written premiums was primarily attributable to the cancellation of an agency in the fourth quarter of 2015, a decrease in business from another agency which moved certain business because of geographical coverage limitation imposed by the company and the loss of business due to the inability to obtain adequate pricing relative to the risks. The largest decrease in gross written premiums was in the automobile physical damage line of business. In 2016, automobile physical damage written premiums decreased $4.0 million and property and surety written premiums decreased $2.9 million as compared to 2015. Partially offsetting the decreases in gross written premiums in these lines of business was an increase of $2.6 million in automobile liability business due primarily to premium rate increases on renewal business and a new automobile program. In both 2016 and 2015, American Southern s five principal states in terms of written premiums were Alabama, Florida, Georgia, South Carolina, and Tennessee, which accounted for approximately 80% and 72% of total written premiums for 2016 and 2015, respectively.

Ceded premiums decreased $0.3 million, or 6.0%, during 2016 as compared to 2015. The decrease in ceded premiums was primarily due to the cancellation of a reinsurance agreement specifically reinsuring certain of the company s automobile liability business in one state insurance contract.

The following table summarizes, for the periods indicated, American Southern s net earned premiums by line of business:

	Year Ended December 31, 2016	2015
	(In thousands)	
Automobile liability	$ 28,219	$ 24,786
Automobile physical damage	10,192	13,290

General liability	3,009	3,152
Surety	8,999	9,192
Other lines	3,344	4,088
Total	$ 53,763	$ 54,508

Net earned premiums decreased $0.7 million, or 1.4%, during 2016 as compared to 2015. The decrease in net earned premiums was primarily attributable to the decrease in automobile physical damage earned premiums due to an agency cancellation and decreased business writings from existing agencies discussed previously. 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

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of premium earned by the company. A combined ratio of under 100% represents an underwriting profit while a combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses and loss adjustment expenses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

Net losses and loss adjustment expenses at American Southern decreased $0.6 million, or 1.8%, during 2016 as compared to 2015. As a percentage of premiums, net losses and loss adjustment expenses were 64.0% in 2016 compared to 64.3% in 2015. The slight decrease in the loss ratio was primarily due to more favorable loss experience in the general liability line of business and a $0.5 million loss recovery in the surety line of business. Partially offsetting the decrease in the loss ratio was an increase in automobile liability claims from two of the company s governmental programs.

Underwriting expenses decreased $1.4 million, or 7.7%, during 2016 as compared to 2015. As a percentage of premiums, underwriting expenses were 30.6% in 2016 compared to 32.7% in 2015. The decrease in the expense ratio 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. In 2016, variable commissions at American Southern decreased $1.2 million as compared to 2015 due to decreased premiums, decreased variable commission program participation and unfavorable loss experience from certain accounts subject to variable commissions.

In establishing reserves, American Southern 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. However, as a result, American Southern generally experiences reserve redundancies when analyzing the development of prior year losses in a current period. At December 31, 2016, the range of estimates developed in connection with the loss reserves for American Southern indicated that reserves could be as much as 19.6% lower or as much as 4.4% higher. Development from prior years reserves has historically reduced the current year loss ratio; however, such reduction in the current year loss ratio is generally offset by the reserves established in the current year for current period losses. American Southern s estimated net reserve redundancies for the years ended December 31, 2016 and 2015 were $2.1 million and less than $0.1 million, respectively. To the extent reserve redundancies vary between years, there is an incremental impact on the results of operations of American Southern and the Company. The indicated redundancy in 2016 was $2.1 million more than that in 2015. After considering the impact on contingent commissions and other related accruals, the $2.1 million increase in the redundancy resulted in an estimated increase in income from operations before tax of approximately $1.3 million in 2016 as compared to 2015. Management believes that such differences will continue in future periods but is unable to determine if or when incremental redundancies will increase or decrease, until the underlying losses are ultimately settled.

Contingent commissions, if contractually applicable, are ultimately payable to participating agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. In 2016, approximately 52% of American Southern s earned premium provides for contractual commission arrangements which compensate the company s agents in relation to the loss ratios of the business they write, compared to 60% in 2015. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with American Southern. In periods in which loss reserves reflect favorable development from prior years reserves, there is generally a highly correlated increase in commission expense also related to the prior year business. Accordingly, favorable loss development from prior years, while anticipated to continue in future periods, is not an indicator of significant additional profitability in the current year.

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Bankers Fidelity

The following summarizes, for the periods indicated, Bankers Fidelity s premiums, losses and expenses:

	Year Ended December 31,	
	2016	2015
	(Dollars in thousands)	
Medicare supplement	$ 84,107	$ 81,068
Other health products	5,621	4,862
Life insurance	9,974	10,454
Total earned premiums	99,702	96,384
Insurance benefits and losses	68,789	66,318
Underwriting expenses	35,766	32,805
Total expenses	104,555	99,123
Underwriting loss	$ (4,853)	$ (2,739)
Loss ratio	69.0 %	68.8 %
Expense ratio	35.9	34.0
Combined ratio	104.9 %	102.8 %

Premium revenue at Bankers Fidelity increased $3.3 million, or 3.4%, during 2016 as compared to 2015. Premiums from the Medicare supplement line of business increased $3.0 million, or 3.7%, in 2016 as compared to 2015, due primarily to new business generated from both new and existing producers. Other health product premiums increased $0.8 million, or 15.6%, during 2016 as compared to 2015, primarily as a result of new sales of the company s group health products. Premiums from the life insurance line of business decreased $0.5 million, or 4.6%, in 2016 from 2015 due to the redemption and settlement of existing policy obligations exceeding the level of new sales activity. In both 2016 and 2015, the company s five principal states in terms of premium revenue were Georgia, Indiana, Ohio, Pennsylvania, and Tennessee, which accounted for approximately 42% and 43% of total premiums for 2016 and 2015, respectively. Effective January 1, 2016, Bankers Fidelity entered into a reinsurance agreement to moderate statutory capital requirements related to premium growth in the Medicare supplement line of business. Medicare supplement premiums ceded were approximately $5.3 million in the year ended December 31, 2016.

Benefits and losses increased $2.5 million, or 3.7%, during 2016 as compared to 2015. As a percentage of premiums, benefits and losses were 69.0% in 2016 compared to 68.8% in 2015. The slight increase in the loss ratio was primarily attributable to less favorable loss experience in the Medicare supplement line of business.

Underwriting expenses increased $3.0 million, or 9.0%, during 2016 as compared to 2015. As a percentage of earned premiums, these expenses were 35.9% in 2016 compared to 34.0% in 2015. The increase in the expense ratio was primarily due to increases in compensation expenses including higher utilization of temporary staffing, increased printing costs associated with the new business activity as well as an increase in agency related expenses.

Investment Income and Realized Gains

Investment income decreased $0.2 million, or 2.0%, in 2016 as compared to 2015. The decrease in investment income was primarily attributable to a decrease in the average yield on the Company s investments in fixed maturities.

The Company had net realized investment gains of $2.6 million in 2016 compared to net realized investment gains of $4.9 million in 2015. The net realized investment gains in 2016 and 2015 were attributable to gains of $1.6 million and $3.2 million, respectively, from the sale of property held within the Company s real estate partnership investments as well as gains from the sale of a number of the Company s investments in fixed maturities. Management continually evaluates the Company s investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments. See Note 2 of Notes to Consolidated Financial Statements.

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Interest Expense

Interest expense increased $0.1 million, or 9.3%, in 2016 as compared to 2015 due to an increase during the year in the London Interbank Offered Rate (LIBOR), as the interest rates on the Company s outstanding junior subordinated deferrable interest debentures (Junior Subordinated Debentures) are directly related to LIBOR.

Other Expenses

Other expenses (commissions, underwriting expenses, and other expenses) increased $0.4 million, or 0.6%, in 2016 as compared to 2015. The increase in other expenses was primarily attributable to an increase in commissions, underwriting costs and other agency related expenses in the life and health operations associated with the increased level of new business. Partially offsetting the increase in other expenses was the $1.2 million decrease in variable commission accruals at American Southern due to decreased premiums, decreased variable commission program participation and unfavorable loss experience from certain accounts subject to variable commissions. American Southern s variable commission structure compensates the participating agents in relation to the loss ratios of the business they write. Additionally, legal and consulting fees decreased $1.3 million during 2016. As a percentage of earned premiums, other expenses were 37.7% in 2016 as compared with 38.1% in 2015. The slight decrease in the expense ratio was primarily due to the increase in earned premiums coupled with the decrease in legal and consulting fees.

Income Taxes

The primary differences between the effective tax rate and the federal statutory income tax rate for 2016 and 2015 resulted from the dividends-received deduction (DRD) and the small life insurance company deduction (SLD). The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company s taxable income. The SLD varies in amount and is determined at a rate of 60 percent of the tentative life insurance company taxable income (LICTI). The SLD for any taxable year is reduced (but not below zero) by 15 percent of the tentative LICTI for such taxable year as it exceeds $3.0 million and is ultimately phased out at $15.0 million.

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 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 December 31, 2016, the Parent had approximately $20.5 million of unrestricted cash and investments.

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 December 31, 2016, the Parent s insurance subsidiaries had an aggregate statutory surplus of $74.9 million. Dividends were paid to Atlantic American by its subsidiaries totaling $5.5 million and $6.8 million in 2016 and 2015, respectively.

The Parent provides certain administrative, purchasing and other services to each of its subsidiaries. The amount charged to and paid by the subsidiaries for these services was $7.4 million in each of 2016 and 2015. In addition, the Parent has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of $2.8 million and $2.4 million were paid to the Parent under the tax sharing agreement in 2016 and 2015, respectively. 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.

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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 December 31, 2016, the effective interest rate was 4.98%. 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. 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 December 31, 2016, 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. The Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of $17,722 at December 31, 2016 and 2015. During each of 2016 and 2015, the Company paid Series D Preferred Stock dividends of $0.4 million.

Cash and cash equivalents decreased from $15.6 million at December 31, 2015 to $13.3 million at December 31, 2016. The decrease in cash and cash equivalents during 2016 was primarily attributable to an increased level of investing exceeding normal sales and maturities, additions to property and equipment of $0.4 million, dividends paid on the Company s common stock and Series D Preferred Stock of $0.8 million, and the purchase of shares for treasury for $0.7 million. Partially offsetting the decrease was the net cash provided by operations of $1.3 million during 2016.

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.

New Accounting Pronouncements

See Recently Issued Accounting Standards in Note 1 of Notes to Consolidated Financial Statements.

Impact of Inflation

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, the Company attempts, in establishing its premiums, to anticipate the potential impact of inflation. If, for competitive reasons, premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company s investment portfolio with a corresponding effect on investment income. To date, inflation has not had a material effect on the Company s results of operations in any of the periods presented.

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Off-Balance Sheet Arrangements

In the normal course of business, the Company has structured borrowings that, in accordance with accounting principles generally accepted in the United States of America, are recorded on the Company s balance sheet at an amount that differs from the ultimate contractual obligation. See Note 6 of Notes to Consolidated Financial Statements.

Contractual Obligations

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the table of contractual obligations required by this Item.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the information required by this Item.

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Item 8. Financial Statements and Supplementary Data

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