Section 1: 10-Q (10-Q)

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-37536

Conifer Holdings, Inc.
(Exact name of registrant as specified in its charter)

Michigan	**27-1298795**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
550 West Merrill Street, Suite 200 **Birmingham, Michigan**	**48009**
(Address of principal executive offices)	(Zip code)

(248) 559-0840
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	CNFR	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☑ Emerging growth company ☑

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

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

The number of outstanding shares of the registrant’s common stock, no par value, as of May 11, 2020, was 9,598,155.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Form 10-Q

INDEX

PART 1 - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(dollars in thousands)

		March 31, 2020		December 31, 2019
		(Unaudited)		
Assets				
Investment securities:				
Debt securities, at fair value (amortized cost of $135,281 and $129,313, respectively)	$	135,269	$	131,000
Equity securities, at fair value (cost of $14,125 and $6,554, respectively)		11,790		7,306
Short-term investments, at fair value		27,178		31,426
Total investments		174,237		169,732
Cash and cash equivalents		8,100		7,464
Premiums and agents' balances receivable, net		18,804		20,168
Receivable from Affiliate		—		313
Reinsurance recoverables on unpaid losses		22,022		22,579
Reinsurance recoverables on paid losses		3,746		5,155
Prepaid reinsurance premiums		997		1,250
Deferred policy acquisition costs		11,508		11,906
Other assets		9,598		8,698
Total assets	$	249,012	$	247,265
Liabilities and Shareholders' Equity				
Liabilities:				
Unpaid losses and loss adjustment expenses	$	109,657	$	107,246
Unearned premiums		50,534		51,503
Reinsurance premiums payable		833		—
Debt		36,669		35,824
Accounts payable and accrued expenses		14,781		9,967
Total liabilities		212,474		204,540
Commitments and contingencies		—		—
Shareholders' equity:				
Common stock, no par value (100,000,000 shares authorized; 9,592,161 and 9,592,861 issued and outstanding, respectively)		92,053		91,816
Accumulated deficit		(54,305)		(49,580)
Accumulated other comprehensive income (loss)		(1,210)		489
Total shareholders' equity		36,538		42,725
Total liabilities and shareholders' equity	$	249,012	$	247,265

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (Unaudited)
(dollars in thousands, except per share data)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Revenue		
Premiums		
Gross earned premiums	$ 26,053	$ 25,550
Ceded earned premiums	(4,036)	(3,863)
Net earned premiums	22,017	21,687
Net investment income	954	910
Net realized investment gains	928	19
Change in fair value of equity securities	(3,086)	1,265
Other gains	115	-
Other income	658	422
Total revenue	21,586	24,303
Expenses		
Losses and loss adjustment expenses, net	14,269	14,456
Policy acquisition costs	6,303	5,589
Operating expenses	5,045	4,323
Interest expense	731	710
Total expenses	26,348	25,078
Income (loss) before equity earnings in Affiliate and income taxes	(4,762)	(775)
Equity earnings in Affiliate, net of tax	50	106
Income tax expense	13	11
Net income (loss)	$ (4,725)	$ (680)
Earnings (loss) per common share, basic and diluted	$ (0.49)	$ (0.08)
Weighted average common shares outstanding, basic and diluted	9,592,774	8,453,570

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(dollars in thousands)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net income (loss)	$ (4,725)	$ (680)
Other comprehensive income (loss), net of tax:		
Unrealized investment gains (losses):		
Unrealized investment gains (losses) during the period	(1,315)	1,557
Income tax (benefit) expense	—	—
Unrealized investment gains (losses), net of tax	(1,315)	1,557
Less: reclassification adjustments to:		
Net realized investment gains (losses) included in net income (loss)	384	(140)
Income tax (benefit) expense	—	—
Total reclassifications included in net income (loss), net of tax	384	(140)
Other comprehensive income (loss)	(1,699)	1,697
Total comprehensive income (loss)	$ (6,424)	$ 1,017

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(dollars in thousands)

	No Par, Common Stock		Retained Earnings	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	(Accumulated)	Income (Loss)	Equity
Balances at December 31, 2018	**8,478,202**	**$ 86,533**	**$ (41,758)**	**$ (2,612)**	**$ 42,163**
Net loss	—	—	(680)	—	(680)
Repurchase of common stock	(125,151)	(510)	—	—	(510)
Restricted stock unit expense	—	245	—	—	245
Other comprehensive income	—	—	—	1,697	1,697
Balances at March 31, 2019	**8,353,051**	**$ 86,268**	**$ (42,438)**	**$ (915)**	**$ 42,915**
Balances at December 31, 2019	**9,592,861**	**$ 91,816**	**$ (49,580)**	**$ 489**	**$ 42,725**
Net loss	—	—	(4,725)	—	(4,725)
Repurchase of common stock	(700)	(2)	—	—	(2)
Restricted stock unit expense	—	239	—	—	239
Other comprehensive income	—	—	—	(1,699)	(1,699)
Balances at March 31, 2020	**9,592,161**	**$ 92,053**	**$ (54,305)**	**$ (1,210)**	**$ 36,538**

The accompanying notes are an integral part of the Consolidated Financial Statements.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2020	2019
Cash Flows From Operating Activities		
Net income (loss)	$ (4,725)	$ (680)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	42	39
Amortization of bond premium and discount, net	127	81
Net realized investment (gains) losses	(928)	101
Change in fair value of equity securities	3,086	(1,265)
Restricted stock unit expenses	239	245
Other	(50)	(125)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Premiums and agents' balances and other receivables	1,676	3,866
Reinsurance recoverables	1,966	627
Prepaid reinsurance premiums	253	(1,830)
Deferred policy acquisition costs	398	(142)
Other assets	(756)	(4,145)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	2,411	1,159
Unearned premiums	(969)	(1,333)
Reinsurance premiums payable	833	—
Accounts payable and other liabilities	412	1,202
Net cash provided by (used in) operating activities	4,015	(2,200)
Cash Flows From Investing Activities		
Purchase of investments	(105,045)	(24,797)
Proceeds from maturities and redemptions of investments	6,216	2,929
Proceeds from sales of investments	94,742	23,220
Purchases of property and equipment	(46)	(23)
Net cash provided by (used in) investing activities	(4,133)	1,329
Cash Flows From Financing Activities		
Repurchase of common stock	(2)	(510)
Repurchase of senior unsecured notes	(244)	
Borrowings under debt arrangements	1,000	1,000
Net cash provided by financing activities	754	490
Net increase (decrease) in cash	636	(381)
Cash at beginning of period	7,464	10,792
Cash at end of period	$ 8,100	$ 10,411
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 643	$ 626
Increase (decrease) in net payable for securities	4,404	3,026

The accompanying notes are an integral part of the Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Basis of Presentation and Management Representation

The consolidated financial statements include accounts, after elimination of intercompany accounts and transactions, of Conifer Holdings, Inc. (the "Company" or "Conifer"), its wholly owned subsidiaries, Conifer Insurance Company ("CIC"), White Pine Insurance Company ("WPIC"), Red Cedar Insurance Company ("RCIC"), and Sycamore Insurance Agency, Inc. ("SIA"). CIC, WPIC, and RCIC are collectively referred to as the "Insurance Company Subsidiaries." On a stand-alone basis, Conifer Holdings, Inc. is referred to as the "Parent Company."

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which differ from statutory accounting practices prescribed or permitted for insurance companies by regulatory authorities. The Company has applied the rules and regulations of the United States Securities and Exchange Commission ("SEC") regarding interim financial reporting and therefore the consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting of items of a normal recurring nature, necessary for a fair presentation of the consolidated interim financial statements, have been included.

These consolidated financial statements and the notes thereto should be read in conjunction with the Company's audited consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the SEC.

The results of operations for the three months ended March 31, 2020, are not necessarily indicative of the results expected for the year ended December 31, 2020. Results for interim periods are not necessarily indicative of the results that may be expected for a full year, especially when considering the risks and uncertainties associated with the novel coronavirus ("COVID-19") and the impact it may have on our business, results of operations and financial condition. The COVID-19 pandemic has negatively impacted the U.S. and global economies, lowered equity market valuations, created significant volatility and disruption in the capital markets, dramatically increased unemployment levels and has fueled concerns that it will lead to a global recession. Depending on the duration and severity of the pandemic, we foresee the potential for adverse impacts related to, among other things: (i) sales results; (ii) insurance product margin; (iii) net investment income; (iv) invested assets; (v) regulatory capital; (vi) liabilities for insurance products; (vii) access to capital markets; and (viii) the present value of future profits. The full extent to which COVID-19 will impact our business, results of operations and financial condition remains uncertain.

Business

The Company is engaged in the sale of property and casualty insurance products and has organized its principal operations into three types of insurance businesses: commercial lines, personal lines, and agency business. The Company underwrites a variety of specialty insurance products, including property, general liability, liquor liability, automobile, and homeowners and dwelling policies. The Company markets and sells its insurance products through a network of independent agents, including managing general agents, whereby policies are written in all 50 states in the United States ("U.S."). The Company's corporate headquarters are located in Birmingham, Michigan with additional office facilities in Florida and Pennsylvania.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes the amounts included in the consolidated financial statements reflect management's best estimates and assumptions, actual results may differ from these estimates.

Cash, Cash Equivalents, and Short-term Investments

Cash consists of cash deposits in banks, generally in operating accounts. Cash equivalents consist of money-market funds that are specifically used as overnight investments tied to cash deposit accounts. Short-term investments, consisting of money-market funds, are classified as investments in the consolidated balance sheets as they relate to the Company's investment activities.

Recently Issued Accounting Guidance

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which amends the current methodology and timing for recognizing credit losses. This amendment will replace the current GAAP "incurred loss" methodology for credit losses with a methodology based on expected credit losses. The new guidance will also require expanded consideration of a broader range of reasonable and increased supportable information for the credit loss estimates. This ASU is effective for annual and interim reporting periods beginning after December 15, 2022. Management is currently evaluating the impact of the guidance. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

2. Investments

The cost or amortized cost, gross unrealized gain or loss, and estimated fair value of the investments in securities classified as available for sale at March 31, 2020 and December 31, 2019, were as follows (dollars in thousands):

	March 31, 2020			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
U.S. Government	$ 9,979	$ 308	$ —	$ 10,287
State and local government	17,065	408	(95)	17,378
Corporate debt	43,094	612	(789)	42,917
Asset-backed securities	25,772	26	(936)	24,862
Mortgage-backed securities	23,129	573	(1)	23,701
Commercial mortgage-backed securities	9,959	104	(72)	9,991
Collateralized mortgage obligations	6,283	40	(190)	6,133
Total debt securities available for sale	$ 135,281	$ 2,071	$ (2,083)	$ 135,269

	December 31, 2019			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
U.S. Government	$ 9,392	$ 66	$ (6)	$ 9,452
State and local government	14,388	545	—	14,933
Corporate debt	39,550	865	(21)	40,394
Asset-backed securities	19,549	81	(55)	19,575
Mortgage-backed securities	31,389	238	(112)	31,515
Commercial mortgage-backed securities	9,972	116	(45)	10,043
Collateralized mortgage obligations	5,073	29	(14)	5,088
Total debt securities available for sale	$ 129,313	$ 1,940	$ (253)	$ 131,000

The following table summarizes the aggregate fair value and gross unrealized losses, by security type, of the available-for-sale securities in unrealized loss positions. The table segregates the holdings based on the length of time that individual securities have been in a continuous unrealized loss position, as follows (dollars in thousands):

	March 31, 2020								
	Less than 12 months			Greater than 12 months			Total		
	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
Debt Securities:									
State and local government	17	3,426	(95)	—	—	—	17	3,426	(95)
Corporate debt	36	15,920	(789)	—	—	—	36	15,920	(789)
Asset-backed securities	14	14,969	(535)	13	7,258	(401)	27	22,227	(936)
Mortgage-backed securities	1	995	(1)	—	—	—	1	995	(1)
Commercial mortgage-backed securities	7	4,500	(72)	—	—	—	7	4,500	(72)
Collateralized mortgage obligations	17	3,828	(190)	—	—	—	17	3,828	(190)
Total debt securities available for sale	**92**	**43,638**	**(1,682)**	**13**	**7,258**	**(401)**	**105**	**50,896**	**(2,083)**

	December 31, 2019								
	Less than 12 months			Greater than 12 months			Total		
	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	No. of Issues	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
Debt Securities:									
U.S. Government	—	$ —	$ —	4	$ 1,047	$ (6)	4	$ 1,047	$ (6)
State and local government	—	—	—	—	—	—	—	—	—
Corporate debt	7	3,720	(17)	3	1,697	(4)	10	5,417	(21)
Asset-backed securities	3	2,596	(1)	18	11,836	(54)	21	14,432	(55)
Mortgage-backed securities	3	715	(1)	13	7,812	(111)	16	8,527	(112)
Commercial mortgage-backed securities	6	6,837	(45)	—	—	—	6	6,837	(45)
Collateralized mortgage obligations	8	2,081	(14)	—	—	—	8	2,081	(14)
Total debt securities available for sale	**27**	**$ 15,949**	**$ (78)**	**38**	**$ 22,392**	**$ (175)**	**65**	**$ 38,341**	**$ (253)**

The Company analyzed its investment portfolio in accordance with its other-than-temporary impairment ("OTTI") review procedures and determined the Company did not need to record a credit-related OTTI loss in net income, nor recognize a non-credit related OTTI loss in other comprehensive income for the three months ended March 31, 2020 and 2019.

The Company's sources of net investment income are as follows (dollars in thousands):

	Three Months Ended March 31,	
	2020	**2019**
Debt securities	$ 867	$ 857
Equity securities	55	40
Cash, cash equivalents and short-term investments	119	70
Total investment income	1,041	967
Investment expenses	(87)	(57)
Net investment income	$ 954	$ 910

The following table summarizes the gross realized gains and losses from sales, calls or maturities of available-for-sale debt and equity securities (dollars in thousands):

	Three Months Ended March 31,	
	2020	2019
Debt securities:		
Gross realized gains	$ 720	$ 20
Gross realized losses	(4)	(50)
Total debt securities	716	(30)
Equity securities:		
Gross realized gains	344	49
Gross realized losses	(132)	—
Total equity securities	212	49
Total net realized investment gains (losses)	$ 928	$ 19

Proceeds from the sales of available-for-sale debt securities were $23.2 million and $4.1 million for the three months ended March 31, 2020 and 2019, respectively. The gross realized gains and losses from the sales of available-for-sale debt securities as of March 31, 2020 were $719,000 and $0, respectively. The gross realized gains and losses from the sales of available-for-sale debt securities as of March 31, 2019 were $69,000 and $51,000, respectively.

The Company carries other equity investments that do not have a readily determinable fair value at cost, less impairment or observable changes in price. We review these investments for impairment during each reporting period. There was no impairment or observable changes in price recorded during 2020 related to the Company's equity securities without readily determinable fair value. These investments are a component of Other Assets in the Consolidated Balance Sheets.

The table below summarizes the amortized cost and fair value of available-for-sale debt securities by contractual maturity at March 31, 2020. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 7,652	$ 7,684
Due after one year through five years	40,950	41,392
Due after five years through ten years	15,716	15,619
Due after ten years	5,820	5,887
Securities with contractual maturities	70,138	70,582
Asset-backed securities	25,772	24,862
Mortgage-backed securities	23,129	23,701
Commercial mortgage-backed securities	9,959	9,991
Collateralized mortgage obligations	6,283	6,133
Total debt securities	$ 135,281	$ 135,269

At March 31, 2020 and December 31, 2019, the Insurance Company Subsidiaries had an aggregate of $8.8 million and $8.0 million, respectively, on deposit in trust accounts to meet the deposit requirements of various state insurance departments. At March 31, 2020 and December 31, 2019, the Company had $67.9 million and $58.4 million, respectively, held in trust accounts to meet collateral requirements with other third-party insurers, relating to various fronting arrangements. There are withdrawal and other restrictions on these deposits, including the type of investments that may be held, however, the Company may generally invest in high-grade bonds and short-term investments and earn interest on the funds.

3. Fair Value Measurements

The Company’s financial instruments include assets and liabilities carried at fair value, as well as assets and liabilities carried at cost or amortized cost but disclosed at fair value in these consolidated financial statements. Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principally most advantageous market for the asset or liability in an orderly transaction between market participants. In determining fair value, the Company applies the market approach, which uses prices and other relevant data based on market transactions involving identical or comparable assets and liabilities. The inputs to valuation techniques used to measure fair value are prioritized into a three-level hierarchy. The hierarchy gives the highest priority to quoted prices from sources independent of the reporting entity (“observable inputs”) and the lowest priority to prices determined by the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances ("unobservable inputs"). The fair value hierarchy is as follows:

Level 1—Valuations that are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—Valuations that are based on observable inputs (other than Level 1 prices) such as quoted prices for similar assets or liabilities at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3—Unobservable inputs that are supported by little or no market activity. The unobservable inputs represent the Company's best assumption of how market participants would price the assets or liabilities.

Net Asset Value (NAV)—The fair values of investment company limited partnership investments are based on the capital account balances reported by the investment funds subject to their management review and adjustment. These capital account balances reflect the fair value of the investment funds.

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis, classified by the valuation hierarchy as of March 31, 2020 and December 31, 2019 (dollars in thousands):

	March 31, 2020			
	Fair Value Measurements Using			
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Debt Securities:				
U.S. Government	$ 10,287	$ —	$ 10,287	$ —
State and local government	17,378	—	17,378	—
Corporate debt	42,917	—	42,917	—
Asset-backed securities	24,862	—	24,862	—
Mortgage-backed securities	23,701	—	23,701	—
Commercial mortgage-backed securities	9,991	—	9,991	—
Collateralized mortgage obligations	6,133	—	6,133	—
Total debt securities	135,269	—	135,269	—
Equity Securities	11,091	10,827	264	—
Short-term investments	27,178	27,178	—	—
Total marketable investments measured at fair value	$ 173,538	$ 38,005	$ 135,533	$ —
Investments measured at NAV:				
Investment in limited partnership	699			
Total assets measured at fair value	$ 174,237			
Liabilities:				
Senior Unsecured Notes *	$ 17,038	$ —	$ 17,038	$ —
Subordinated Notes *	11,450	—	—	11,450
Total Liabilities measured at fair value	$ 28,488	$ —	$ 17,038	$ 11,450

* Carried at face value of debt net of unamortized debt issuance costs on the consolidated balance sheet

	December 31, 2019			
	Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Debt Securities:				
U.S. Government	$ 9,452	$ —	$ 9,452	$ —
State and local government	14,933	—	14,933	—
Corporate debt	40,394	—	40,394	—
Asset-backed securities	19,575	—	19,575	—
Mortgage-backed securities	31,515	—	31,515	—
Commercial mortgage-backed securities	10,043	—	10,043	—
Collateralized mortgage obligations	5,088	—	5,088	—
Total debt securities	131,000	—	131,000	—
Equity securities	6,599	6,335	264	—
Short-term investments	31,426	31,426	—	—
Total marketable investments measured at fair value	$ 169,025	$ 37,761	$ 131,264	$ —
Investments measured at NAV:				
Investment in limited partnership	707			
Total assets measured at fair value	$ 169,732			
Liabilities:				
Senior Unsecured Notes *	$ 22,669	$ —	$ 22,669	$ —
Subordinated Notes *	11,222	—	—	11,222
Total Liabilities measured at fair value	$ 33,891	$ —	$ 22,669	$ 11,222

* Carried at face value of debt net of unamortized debt issuance costs on the consolidated balance sheet

Level 1 investments consist of equity securities traded in an active exchange market. The Company uses unadjusted quoted prices for identical instruments to measure fair value. Level 1 also includes money market funds and other interest-bearing deposits at banks, which are reported as short-term investments. The fair value measurements that were based on Level 1 inputs comprise 21.8% of the fair value of the total investment portfolio as of March 31, 2020.

Level 2 investments include debt securities, which consist of U.S. government agency securities, state and local municipal bonds (including those held as restricted securities), corporate debt securities, mortgage-backed and asset-backed securities. The fair value of securities included in the Level 2 category were based on the market values obtained from a third party pricing service that were evaluated using pricing models that vary by asset class and incorporate available trade, bid and other observable market information. The third party pricing service monitors market indicators, as well as industry and economic events. The fair value measurements that were based on Level 2 inputs comprise 77.8% of the fair value of the total investment portfolio as of March 31, 2020.

The Company obtains pricing for each security from independent pricing services, investment managers or consultants to assist in determining fair value for its Level 2 investments. To validate that these quoted prices are reasonable estimates of fair value, the Company performs various quantitative and qualitative procedures, such as (i) evaluation of the underlying methodologies, (ii) analysis of recent sales activity, (iii) analytical review of our fair values against current market prices and (iv) comparison of the pricing services' fair value to other pricing services' fair value for the same investment. No markets for the investments were determined to be inactive at period-ends. Based on these procedures, the Company did not adjust the prices or quotes provided from independent pricing services, investment managers or consultants. The Level 2 financial instruments also include the Company's senior debt. The fair value of the borrowings under the senior revolving credit facility approximates its carrying amount because interest is based on a short-term, variable, market-based rate.

As of March 31, 2020 and 2019, Level 3 is entirely comprised of the Company's subordinated debt. In determining the fair value of the subordinated debt outstanding at March 31, 2020, the security attributes (issue date, maturity, coupon, calls, etc.)

and market rates on September 24, 2018 (the date of issuance) were fed into a valuation model. A lognormal trinomial interest rate lattice was created within the model to compute the option adjusted spread ("OAS") which is the amount, in basis points, of interest rate required to be paid under the debt agreement over the risk-free U.S. Treasury rates. The OAS was then fed back into the model along with the March 31, 2020 and 2019 U.S. Treasury rates. A new lattice was generated and the fair value was computed from the OAS. There were no changes in assumptions of credit risk from the issuance date.

4. Deferred Policy Acquisition Costs

The Company defers costs incurred which are incremental and directly related to the successful acquisition of new or renewal insurance business, net of corresponding amounts of ceded reinsurance commissions. Net deferred policy acquisition costs are amortized and charged to expense in proportion to premium earned over the estimated policy term. The Company anticipates that its deferred policy acquisition costs will be fully recoverable and there were no premium deficiencies for the nine months ended March 31, 2020 and 2019. The activity in deferred policy acquisition costs, net of reinsurance transactions, is as follows (dollars in thousands):

	Three Months Ended March 31,	
	2020	2019
Balance at beginning of period	$ 11,906	$ 12,011
Deferred policy acquisition costs	5,905	5,731
Amortization of policy acquisition costs	(6,303)	(5,589)
Net change	(398)	142
Balance at end of period	$ 11,508	$ 12,153

5. Unpaid Losses and Loss Adjustment Expenses

The Company establishes reserves for unpaid losses and loss adjustment expenses ("LAE") which represent the estimated ultimate cost of all losses incurred that were both reported and unreported (i.e., incurred but not yet reported losses; or "IBNR") and LAE incurred that remain unpaid at the balance sheet date. The Company's reserving process takes into account known facts and interpretations of circumstances and factors including the Company's experience with similar cases, actual claims paid, historical trends involving claim payment patterns and pending levels of unpaid claims, loss management programs, product mix and contractual terms, changes in law and regulation, judicial decisions, and economic conditions. In the normal course of business, the Company may also supplement its claims processes by utilizing third party adjusters, appraisers, engineers, inspectors, and other professionals and information sources to assess and settle catastrophe and non-catastrophe related claims. The effects of inflation are implicitly considered in the reserving process.

Reserves are estimates of unpaid portions of losses that have occurred, including IBNR losses; therefore, the establishment of appropriate reserves is an inherently uncertain and complex process. The ultimate cost of losses may vary materially from recorded amounts, which are based on management's best estimates. The highest degree of uncertainty is associated with reserves for losses incurred in the current reporting period as it contains the greatest proportion of losses that have not been reported or settled. The Company regularly updates its reserve estimates as new information becomes available and as events unfold that may affect the resolution of unsettled claims. Changes in reserve estimates, which may be material, are reported in the results of operations in the period such changes are determined to be needed and recorded.

Management believes that the reserve for losses and LAE, net of reinsurance recoverables, is appropriately established in the aggregate and adequate to cover the ultimate net cost of reported and unreported claims arising from losses which had occurred by the date of the consolidated financial statements based on available facts and in accordance with applicable laws and regulations.

The table below provides the changes in the reserves for losses and LAE, net of reinsurance recoverables, for the periods indicated as follows (dollars in thousands):

	Three Months Ended March 31,	
	2020	2019
Gross reserves - beginning of period	$ 107,246	$ 92,807
Less: reinsurance recoverables on unpaid losses	(22,579)	(29,685)
Plus: deferred gain on ADC	—	5,677
Net reserves - beginning of period	84,667	68,799
Add: incurred losses and LAE, net of reinsurance:		
Current period	10,520	12,472
Prior period	3,749	1,984
Total net incurred losses and LAE	14,269	14,456
Deduct: loss and LAE payments, net of reinsurance:		
Current period	874	1,050
Prior period	10,427	9,396
Total net loss and LAE payments	11,301	10,446
Net reserves - end of period	87,635	72,809
Plus: reinsurance recoverables on unpaid losses	22,022	24,551
Less: deferred gain on ADC	—	(3,394)
Gross reserves - end of period	$ 109,657	$ 93,966

In September 2017, the Company entered into an adverse development cover reinsurance agreement (the "ADC") to cover loss development of up to $17.5 million in excess of stated reserves as of June 30, 2017. The agreement provided up to $17.5 million of reinsurance for adverse net loss reserve development for accident years 2005 through 2016. As of March 31, 2020, the Company has ceded to the limit of the ADC, and the deferred gain from the ADC was fully utilized.

The Company's incurred losses during the three months ended March 31, 2020, include prior-year adverse reserve development of $3.7 million related to the Company's commercial lines of business.

The Company's incurred losses during the three months ended March 31, 2019, include prior-year adverse reserve development of $2.0 million. Of the $2.0 million of adverse development, $913,000 was related to commercial lines, and $1.1 million was related to personal lines. The reported reserve development is net of the amortization of the deferred gain on the ADC of $2.1 million and $137,000 for commercial and personal lines, respectively.

6. Reinsurance

In the normal course of business, the Company participates in reinsurance agreements in order to limit losses that may arise from catastrophes or other individually severe events. The Company primarily ceded all specific commercial property risks in excess of $400,000 in both 2020 and 2019 and primarily ceded all specific commercial liability risks in excess of $400,000 in 2020 and 2019. The Company ceded homeowners specific risks in excess of $300,000 in both 2020 and 2019. A "treaty" is a reinsurance agreement in which coverage is provided for a class of risks and does not require policy by policy underwriting of the reinsurer. "Facultative" reinsurance is where a reinsurer negotiates an individual reinsurance agreement for every policy it will reinsure on a policy by policy basis. A loss is covered under a reinsurance contract if the loss occurs within the effective dates of the agreement notwithstanding when the loss is reported.

Reinsurance does not discharge the direct insurer from liability to its policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers and monitors the concentration of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. To date, the Company has not experienced any significant difficulties in collecting reinsurance recoverables.

The Company assumes written premiums under a few fronting arrangements. The fronting arrangements are with unaffiliated insurers who write on behalf of the Company in markets that require a higher A.M. Best rating than the Company's current rating, where the policies are written in a state where the Company is not licensed or for other strategic reasons.

The following table presents the effects of reinsurance and assumption transactions on written premiums, earned premiums and losses and LAE (dollars in thousands). The ceded written and earned premiums amounts include $63,000 and $250,000 of reinsurance reinstatement costs relating to Hurricane Irma for the three months ended March 31, 2020 and 2019, respectively.

	Three Months Ended March 31,	
	2020	2019
Written premiums:		
Direct	$ 19,629	$ 18,464
Assumed	5,455	5,752
Ceded	(4,033)	(3,894)
Net written premiums	$ 21,051	$ 20,322
Earned premiums:		
Direct	$ 17,458	$ 18,004
Assumed	8,595	7,546
Ceded	(4,036)	(3,863)
Net earned premiums	$ 22,017	$ 21,687
Losses and LAE:		
Direct	$ 12,326	$ 16,799
Assumed	5,458	4,513
Ceded	(3,515)	(6,856)
Net Losses and LAE	$ 14,269	$ 14,456

7. Debt

The Company's debt is comprised of three instruments: $25.1 million of publicly traded senior unsecured notes which were issued in September and October of 2018, a $10.0 million line of credit which commenced in June 2018, and $10.5 million of privately placed subordinated notes (the “Subordinated Notes”). A summary of the Company's outstanding debt is as follows (dollars in thousands):

	March 31, 2020	December 31, 2019
Senior unsecured notes	$ 24,121	$ 24,288
Subordinated notes	9,548	9,536
Line of credit	3,000	2,000
Total	$ 36,669	$ 35,824

In September and October of 2018, the Company issued $25.3 million of public senior unsecured notes (the "Notes"). Maturing on September 30, 2023, the Notes bear interest at a rate of 6.75% per annum, payable quarterly at the end of March, June, September and December. The Company may redeem the Notes, in whole or in part, at face value at any time after September 30, 2021.

Proceeds from the Notes were primarily used to pay down $19.5 million of the Subordinated Notes. During the first quarter of 2020, the Company repurchased 9,761 units of the Notes in the public market with a face value of $244,000. The Notes were repurchased at a discount to face value, which resulted in a $115,000 gain on extinguishment. This gain is reflected in the Consolidated Statement of Operations as Other gains.

Effective September 24, 2018, the Company amended the terms of the Subordinated Notes to reduce the principal value to $10.5 million, change the maturity to September 30, 2038 and modify the call provisions. The amended Subordinated Notes bear interest at a rate of 7.5% per annum until September 30, 2023, and 12.5% thereafter, and allow for four quarterly interest payment deferrals. Interest is payable quarterly at the end of March, June, September and December. Beginning September 30, 2021, the Company may redeem the Subordinated Notes, in whole or in part, for a call premium of $1.1 million. The call premium escalates each quarter to ultimately $1.75 million on September 30, 2023, then steps up to $3.05 million on December 31, 2023, and increases quarterly at a 12.5% per annum rate thereafter. The debt covenants are consistent with the original Subordinated Note terms. The Company paid a $105,000 loan origination fee on the effective date. The company recorded the Subordinated Notes amendment as a debt modification and retained the unamortized debt issuance costs from the original loan which will be amortized over the 20-year life of the amended Subordinated Notes in conjunction with the $105,000 origination fee.

As of March 31, 2020, the carrying value of the Notes and Subordinated Notes are offset by $935,000 and $952,000 of debt issuance costs, respectively. The debt issuance costs will be amortized through interest expense over the life of the loans.

The Subordinated Notes contain various restrictive covenants that relate to the Company’s minimum tangible net worth, minimum fixed-charge coverage ratios, dividend paying capacity, reinsurance retentions, and risk-based capital ratios. At March 31, 2020, the Company was in compliance with all of its debt financial covenants.

On June 21, 2018, the Company entered into a $10.0 million line of credit. The line of credit bears interest at the London Interbank rate ("LIBOR") plus 2.75% per annum, payable monthly. The agreement includes several covenants, including but not limited to a minimum tangible net worth, a minimum fixed-charge coverage ratio, and minimum statutory risk-based capital levels. As of March 31, 2020, the Company had $3.0 million outstanding on the line of credit, and was in compliance with all of its debt financial covenants.

On September 29, 2017, the Company executed $30.0 million of Subordinated Notes. These Subordinated Notes were amended as described, above. These Subordinated Notes had a maturity date of September 29, 2032, bore interest, payable quarterly at a fixed annual rate of 8.0%, and allowed for up to four quarterly interest deferrals. On the fifth and tenth anniversary of the notes, the interest rate reset to 1,250 basis points and 1,500 basis points, respectively, above the 5-year mid-swap rate.

8. Shareholders’ Equity

In June 2019, the Company issued $5.0 million of common equity through a private placement for 1,176,471 shares priced at $4.25 per share. The participants in the private placement consisted of members of the Company's Board of Directors. The Company used the proceeds for growth capital in the Company's specialty core business segments.

On December 5, 2018, the Company's Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to one million shares of the Company's common stock. Shares may be purchased in the open market or through negotiated transactions. The program may be terminated or suspended at any time, at the discretion of the Company. The Company may in the future enter into a Rule 10b5-1 trading plan to effect a portion of the authorized purchases, if criteria set forth in the plan are met. Such a plan would enable the Company to repurchase its shares during periods outside of its normal trading windows, when the Company typically would not be active in the market. The timing of purchases, and the exact number of any shares to be purchased, will depend on market conditions. The repurchase program does not include specific price targets or timetables. For the three months ended March 31, 2020, the Company had repurchased 700 shares of stock valued at approximately $2,000 related to the stock repurchase program. For the year ended December 31, 2019, the Company had repurchased 154,208 shares of stock valued at approximately $638,000 related to the stock repurchase program. For the year ended December 31, 2019, the Company also repurchased 9,319 shares of stock valued at approximately $38,000 related to the vesting of the Company’s restricted stock units. Upon the repurchase of the company’s shares, the shares remain authorized, but not issued or outstanding.

As of March 31, 2020 and December 31, 2019 the Company had 9,592,161 and 9,592,861 issued and outstanding shares of common stock, respectively.

Holders of common stock are entitled to one vote per share and to receive dividends only when and if declared by the board of directors. The holders have no preemptive, conversion or subscription rights.

9. Accumulated Other Comprehensive Income (Loss)

The following table presents changes in accumulated other comprehensive income (loss) for unrealized gains and losses on available-for-sale securities (dollars in thousands):

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Balance at beginning of period	$ 489	$ (2,612)
Other comprehensive income (loss) before reclassifications	(1,315)	1,557
Less: amounts reclassified from accumulated other comprehensive income (loss)	384	(140)
Net other comprehensive income (loss)	(1,699)	1,697
Balance at end of period	$ (1,210)	$ (915)

10. Earnings Per Share

Basic and diluted earnings (loss) per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. The following table presents the calculation of basic and diluted earnings (loss) per common share, as follows (dollars in thousands, except per share amounts):

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Net income (loss)	$ (4,725)	$ (680)
Weighted average common shares, basic and diluted*	9,592,774	8,453,570
Earnings (loss) per common share, basic and diluted	$ (0.49)	$ (0.08)

* The nonvested shares of the restricted stock units were anti-dilutive as of March 31, 2020 and March 31, 2019. Therefore, the basic and diluted weighted average common shares are equal for the three and nine months ended March 31, 2020 and March 31, 2019.

11. Stock-based Compensation

In 2015, the Company issued 390,352 restricted stock units ("RSUs") to executive officers and other employees to be settled in shares of common stock. The total RSUs were valued at $4.1 million on the dates of grant. In 2016, the Company issued 111,281 RSUs to executive officers and other employees valued at $909,000 on the date of grant. In 2018, the Company issued 70,000 RSUs to executive officers and other employees valued at $404,000 on the dates of grant.

The following summarizes our RSU activity (units in thousands):

	Number of Units	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2018	264	$ 8.91
Units forfeited	(1)	9.56
Outstanding at March 31, 2019	263	8.91
Units vested	(102)	9.47
Units forfeited	(5)	6.93
Outstanding at December 31, 2019	156	8.45
Outstanding at March 31, 2020	156	$ 8.45

The Company recorded $239,000 of compensation expense related to the RSUs for the three months ended March 31, 2020. The total compensation cost related to the non-vested portion of the restricted stock units which has not been recognized as of March 31, 2020, was $1.1 million.

12. Commitments and Contingencies

Legal proceedings

The Company and its subsidiaries are subject at times to various claims, lawsuits and proceedings relating principally to alleged errors or omissions in the placement of insurance, claims administration, and other business transactions arising in the ordinary course of business. Where appropriate, the Company vigorously defends such claims, lawsuits and proceedings.
Some of these claims, lawsuits and proceedings seek damages, including consequential, exemplary or punitive damages, in amounts that could, if awarded, be significant. Most of the claims, lawsuits and proceedings arising in the ordinary course of business are covered by the insurance policy at issue. We account for such activity through the establishment of unpaid losses and LAE reserves. In accordance with accounting guidance, if it is probable that a liability has been incurred as of the date of the financial statements and the amount of loss is reasonably estimable; then an accrual for the costs to resolve these claims is recorded by the Company in the accompanying consolidated balance sheets. Periodic expenses related to the defense of such claims are included in the accompanying consolidated statements of operations. On the basis of current information, the Company does not believe that there is a reasonable possibility that any material loss exceeding amounts already accrued, if any, will result from any of the claims, lawsuits and proceedings to which the Company is subject to, either individually, or in the aggregate.

13. Segment Information

The Company is engaged in the sale of property and casualty insurance products and has organized its business model around three classes of insurance businesses: commercial lines, personal lines, and wholesale agency business. Within these three businesses, the Company offers various insurance products and insurance agency services. Such insurance businesses are engaged in underwriting and marketing insurance coverages, and administering claims processing for such policies. The Company views the commercial and personal lines segments as underwriting business (business that takes on insurance underwriting risk). The wholesale agency business provides non-risk bearing revenue through commissions and policy fees. The wholesale agency business increases the product options to the Company's independent retail agents by offering both insurance products from the Insurance Company Subsidiaries as well as products offered by other insurers.

The Company defines its operating segments as components of the business where separate financial information is available and used by the chief operating decision maker in deciding how to allocate resources to its segments and in assessing its performance. In assessing performance of its operating segments, the Company's chief operating decision maker, the Chief Executive Officer, reviews a number of financial measures including gross written premiums, net earned premiums, losses and LAE, net of reinsurance recoveries, and other revenue and expenses. The primary measure used for making decisions about resources to be allocated to an operating segment and assessing its performance is segment underwriting gain or loss which is defined as segment revenues, consisting of net earned premiums and other income, less segment expenses, consisting of losses and LAE, policy acquisition costs and operating expenses of the operating segments. Operating expenses primarily include compensation and related benefits for personnel, policy issuance and claims systems, rent and utilities. The Company markets, distributes and sells its insurance products through its own insurance agencies and a network of independent agents. All of the Company's insurance activities are conducted in the United States with a concentration of activity in Michigan, Florida, Texas and Pennsylvania. For the three months ended March 31, 2020 and 2019 gross written premiums attributable to these four states were 53% and 57%, respectively, of the Company's total gross written premiums.

The Agency business sells insurance products on behalf of the Company's commercial and personal lines businesses as well as to third-party insurers. Certain acquisition costs incurred by the commercial and personal lines businesses are reflected as commission revenue for the Agency business and are eliminated in the Eliminations category.

In addition to the reportable operating segments, the Company maintains a Corporate category to reconcile segment results to the consolidated totals. The Corporate category includes: (i) corporate operating expenses such as salaries and related benefits of the Company's executive management team and finance and information technology personnel, and other corporate headquarters expenses, (ii) interest expense on the Company's debt obligations; (iii) depreciation and amortization on property and equipment, and (iv) all investment income activity. All investment income activity is reported within net investment income, net realized investment gains, and change in fair value of equity securities on the consolidated statements of operations. The Company's assets on the consolidated balance sheet are not allocated to the reportable segments.

The following tables present information by reportable operating segment (dollars in thousands):

Three Months Ended March 31, 2020	Commercial Lines	Personal Lines	Total Underwriting	Wholesale Agency	Corporate	Eliminations	Total
Gross written premiums	$ 23,444	$ 1,640	$ 25,084	$ —	$ —	$ —	$ 25,084
Net written premiums	$ 19,687	$ 1,364	$ 21,051	$ —	$ —	$ —	$ 21,051
Net earned premiums	$ 20,431	$ 1,586	$ 22,017	$ —	$ —	$ —	$ 22,017
Other income	74	36	110	1,934	31	(1,417)	658
Segment revenue	20,505	1,622	22,127	1,934	31	(1,417)	22,675
Losses and loss adjustment expenses, net	13,461	808	14,269	—	—	—	14,269
Policy acquisition costs	6,164	489	6,653	1,208	—	(1,558)	6,303
Operating expenses	3,503	275	3,778	905	362	—	5,045
Segment expenses	23,128	1,572	24,700	2,113	362	(1,558)	25,617
Segment gain (loss)	$ (2,623)	$ 50	$ (2,573)	$ (179)	$ (331)	$ 141	$ (2,942)
Investment income					954		954
Net realized investment gains					928		928
Change in fair value of equity securities					(3,086)		(3,086)
Other gains					115		115
Interest expense					(731)		(731)
Income (loss) before income taxes	$ (2,623)	$ 50	$ (2,573)	$ (179)	$ (2,151)	$ 141	$ (4,762)

Three Months Ended March 31, 2019	Commercial Lines	Personal Lines	Total Underwriting	Wholesale Agency	Corporate	Eliminations	Total
Gross written premiums	$ 22,584	$ 1,632	$ 24,216	$ —	$ —	$ —	$ 24,216
Net written premiums	$ 19,306	$ 1,016	$ 20,322	$ —	$ —	$ —	$ 20,322
Net earned premiums	$ 20,698	$ 989	$ 21,687	$ —	$ —	$ —	$ 21,687
Other income	23	30	53	1,906	86	(1,623)	422
Segment revenue	20,721	1,019	21,740	1,906	86	(1,623)	22,109
Losses and loss adjustment expenses, net	12,545	1,911	14,456	—	—	—	14,456
Policy acquisition costs	5,414	409	5,823	1,389	—	(1,623)	5,589
Operating expenses	2,963	264	3,227	603	493	—	4,323
Segment expenses	20,922	2,584	23,506	1,992	493	(1,623)	24,368
Segment gain (loss)	$ (201)	$ (1,565)	$ (1,766)	$ (86)	$ (407)	$ —	$ (2,259)
Investment income					910		910
Net realized investment gains					19		19
Change in fair value of equity securities					1,265		1,265
Other gains					—		—
Interest expense					(710)		(710)
Income (loss) before income taxes	$ (201)	$ (1,565)	$ (1,766)	$ (86)	$ 1,077	$ —	$ (775)

14. Subsequent Events

On April 24, 2020, Conifer Holdings, Inc. (the "Company") received a $2,744,667 loan from The Huntington National Bank (the "Lender") pursuant to the Paycheck Protection Program of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration ("SBA"). The loan matures on April 24, 2022 and bears interest at a rate of 1.0% per annum. Principal and interest payments are deferred until November 24, 2020, at which point the Company is required to pay the Lender equal monthly payments of principal and interest as necessary to fully amortize by April 24, 2022. The loan may be prepaid by the Company at any time prior to maturity with no prepayment penalties.
The Company intends to use the entire loan amount for qualifying expenses as described in the CARES Act which may allow significant portions of the loan to be forgiven under the CARES Act. The Company amended its $10.0 million line of credit facility with the Lender to incorporate this loan as a reduction of the available line of credit.

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

For the Periods Ended March 31, 2020 and 2019

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Consolidated Financial Statements (Unaudited), related notes and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K, filed on March 12, 2020 with the U. S. Securities and Exchange Commission.

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q, which are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, as Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give current expectations or forecasts of future events or our future financial or operating performance. Words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "seek" and similar terms and phrases, or the negative thereof, may be used to identify forward-looking statements.

The forward-looking statements contained in this report are based on management's good-faith belief and reasonable judgment based on current information. The forward-looking statements are qualified by important factors, risks and uncertainties, many of which are beyond our control, that could cause our actual results to differ materially from those in the forward-looking statements, including those described in our Form 10-K ("Item 1A Risk Factors") filed with the SEC on March 12, 2020 and subsequent reports filed with or furnished to the SEC. Any forward-looking statement made by us in this report speaks only as of the date hereof or as of the date specified herein. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable laws or regulations.

Recent Developments

COVID-19, (the "Pandemic") is causing significant disruption to public health, the global economy, financial markets, and commercial, social and community activity generally. Our exposure to the Pandemic is manifold. The majority of our employees are now working remotely in observance of "shelter-in- place" or "stay-at-home" government orders. We experienced a $3.1 million reduction in the fair value of our equity portfolio due to the stock market reaction to the Pandemic in the first quarter which directly impacted our results of operations. And, a significant portion of our revenues are generated from the hospitality sector of the U.S. economy which has seen unprecedented contraction, at least in the near term, in an effort to mitigate the effects of the Pandemic.

Because the general response to the spread of the Pandemic did not start until mid-March, there was not a significant impact to our financial results as of March 31, 2020, other than to the equity portfolio. We have continued to provide customer service, process new and renewal business, handle claims and otherwise manage all operations even though the vast majority of the staff is working remotely. At this time, however, we are not able to provide additional forward-looking guidance as there is significant uncertainty regarding the ultimate impact of the Pandemic.

Business Overview

We are an insurance holding company that markets and services our product offerings through specialty commercial and specialty personal insurance business lines. Our growth has been significant since our founding in 2009. Currently, we are authorized to write insurance as an excess and surplus lines carrier in 45 states, including the District of Columbia. We are also licensed to write insurance as an admitted carrier in 42 states, including the District of Columbia, and we offer our insurance products in all 50 states.

Our revenues are primarily derived from premiums earned from our insurance operations. We also generate other revenues through investment income and other income which mainly consists of installment fees and policy issuance fees generally related to the policies we write.

Our expenses consist primarily of losses and loss adjustment expenses, agents' commissions, and other underwriting and administrative expenses. We organize our operations into three insurance businesses: commercial insurance lines, personal insurance lines, and agency business. Together, the commercial and personal lines refer to "underwriting" operations that take insurance risk, and the agency business refers to non-risk insurance business.

Through our commercial insurance product lines, we offer coverage for both commercial property and commercial liability. We also offer coverage for commercial automobiles and workers' compensation. Our insurance policies are sold to targeted small and mid-sized businesses on a single or multiple-coverage basis.

Through our personal insurance product lines, we offer homeowners insurance and dwelling fire insurance policies to individuals in several states. Our specialty homeowners insurance product line is primarily comprised of low-value dwelling insurance tailored for owners of lower valued homes, which we offer in Illinois, Indiana and Texas. Due to recent Florida-based industry events, we have been de-emphasizing our Florida homeowners' business and reducing our exposures in that state, as well as other wind-exposed states like Texas and Hawaii.

Through our wholesale agency business segment, we offer commercial and personal lines insurance products for our Insurance Company Subsidiaries as well as third-party insurers. We have expanded the wholesale agency business to develop more non-risk revenue streams, and provide our agents with more insurance product options.

Critical Accounting Policies and Estimates

In certain circumstances, we are required to make estimates and assumptions that affect amounts reported in our consolidated financial statements and related footnotes. We evaluate these estimates and assumptions periodically on an on-going basis based on a variety of factors. There can be no assurance, however, that actual results will not be materially different than our estimates and assumptions, and that reported results of operation will not be affected by accounting adjustments needed to reflect changes in these estimates and assumptions. During the three months ended March 31, 2020, there were no material changes to our critical accounting policies and estimates, which are disclosed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2020.

Executive Overview

The Company reported a net loss of $4.8 million, or $0.49 per share, for three months ended March 31, 2020, compared to a net loss of $680,000, or $0.08 per share for the same period in 2019.

Adjusted operating loss, a non-GAAP measure, was $2.7 million, or $0.28 per share for the three months ended March 31, 2020, compared to an adjusted operating loss of $4.2 million, or $0.50 per share for the same period in 2019.

Our underwriting combined ratio was 111.6% for the three months ended March 31 2020, compared to 108.1% for the same period in 2019.

Results of Operations For The Three Months Ended March 31, 2020 and 2019

The following table summarizes our operating results for the periods indicated (dollars in thousands):

Summary of Operating Results

	Three Months Ended March 31,			
	2020	**2019**	**$ Change**	**% Change**
Gross written premiums	$ 25,084	$ 24,216	$ 868	3.6%
Net written premiums	$ 21,051	$ 20,322	$ 729	3.6%
Net earned premiums	$ 22,017	$ 21,687	$ 330	1.5%
Other income	658	422	236	55.9%
Losses and loss adjustment expenses, net	14,269	14,456	(187)	(1.3)%
Policy acquisition costs	6,303	5,589	714	12.8%
Operating expenses	5,045	4,323	722	16.7%
Underwriting gain (loss)	(2,942)	(2,259)	(683)	30.2%
Net investment income	954	910	44	4.8%
Net realized investment gains	928	19	909	*
Change in fair value of equity securities	(3,086)	1,265	(4,351)	*
Other gains	115	—	115	*
Interest expense	731	710	21	3.0%
Income (loss) before equity earnings in affiliate and income taxes	(4,762)	(775)	(3,987)	*
Equity earnings in Affiliate, net of tax	50	106	(56)	(52.8)%
Income tax expense	13	11	2	18.2%
Net income (loss)	$ (4,725)	$ (680)	$ (4,045)	*
Book value per common share outstanding	$ 3.81	$ 5.14		
Underwriting Ratios:				
Loss ratio (1)	64.5%	66.5%		
Expense ratio (2)	47.1%	41.6%		
Combined ratio (3)	111.6%	108.1%		

(1) The loss ratio is the ratio, expressed as a percentage, of net losses and loss adjustment expenses to net earned premiums and other income from underwriting operations.

(2) The expense ratio is the ratio, expressed as a percentage, of policy acquisition costs and other underwriting expenses to net earned premiums and other income from underwriting operations.

(3) The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

* Percentage change is not meaningful

Premiums

Premiums are earned ratably over the term of the policy, whereas written premiums are reflected on the effective date of the policy. Almost all commercial lines and homeowners products have annual policies, under which premiums are earned evenly over one year. The resulting net earned premiums are impacted by the gross and ceded written premiums, earned ratably over the terms of the policies.

Our premiums are presented below for the three months ended March 31, 2020 and 2019 (dollars in thousands):

Summary of Premium Revenue

	Three Months Ended March 31,			
	2020	2019	$ Change	% Change
Gross written premiums				
Commercial lines	$ 23,444	$ 22,584	$ 860	3.8%
Personal lines	1,640	1,632	8	0.5%
Total	$ 25,084	$ 24,216	$ 868	3.6%
Net written premiums				
Commercial lines	$ 19,687	$ 19,306	$ 381	2.0%
Personal lines	1,364	1,016	348	34.3%
Total	$ 21,051	$ 20,322	$ 729	3.6%
Net earned premiums				
Commercial lines	$ 20,431	$ 20,698	$ (267)	(1.3)%
Personal lines	1,586	989	597	60.4%
Total	$ 22,017	$ 21,687	$ 330	1.5%

Gross written premiums increased $868,000, or 3.6%, to $25.1 million for the three months ended March 31, 2020, as compared to $24.2 million for the same period in 2019.

Commercial lines gross written premiums increased $860,000, or 3.8%, to $23.4 million in the first quarter of 2020, as compared to $22.6 million for the first quarter of 2019. The increased gross written premiums were due to growth in several of our small business programs.

Personal lines gross written premiums remained flat in the first quarter of 2020. Gross written premiums for personal lines were $1.6 million in the first quarter of 2020 and 2019.

Net written premiums increased $729,000, or 3.6%, to $21.1 million for the three months ended March 31, 2020, as compared to $20.3 million for the same period in 2019. The increase was consistent with the increase in gross written premium for the comparative periods.

Other Income

Other income consists primarily of fees charged to policyholders by the Company for services outside of the premium charge, such as installment billings and policy issuance costs. Commission income is also received by the Company's insurance agencies for writing policies for third party insurance companies. Other income for the three months ended March 31, 2020, increased $236,000, or 55.9%, to $658,000 as compared to $422,000 for the same period in 2019. The increase in other income was primarily due to additional commission income in the Agency operations as well as increased fees charged on existing business.

Losses and Loss Adjustment Expenses

The tables below detail our losses and loss adjustment expenses and loss ratios in our underwriting business for the three months ended March 31, 2020 and 2019 (dollars in thousands).

Three Months Ended March 31, 2020	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 9,778	$ 742	$ 10,520
Net (favorable) adverse development	3,683	66	3,749
Calendar year net losses and LAE	$ 13,461	$ 808	$ 14,269
Accident year loss ratio	47.7%	45.8%	47.6%
Net (favorable) adverse development	17.9%	4.0%	16.9%
Calendar year loss ratio	65.6%	49.8%	64.5%

Three Months Ended March 31, 2019	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 11,632	$ 840	$ 12,472
Net (favorable) adverse development	913	1,071	1,984
Calendar year net losses and LAE	$ 12,545	$ 1,911	$ 14,456
Accident year loss ratio	56.1%	82.4%	57.4%
Net (favorable) adverse development	4.4%	105.1%	9.1%
Calendar year loss ratio	60.5%	187.5%	66.5%

Net losses and LAE decreased by $187,000, or 1.3%, for the three months ended March 31, 2020, as compared to the same period in 2019. The calendar year loss ratios were 64.5% and 66.5% for the three months ended March 31, 2020 and 2019, respectively.

The Company's incurred losses during the three months ended March 31, 2020, included adverse prior-year reserve development of $3.7 million. The Commercial lines experienced $3.7 million of unfavorable reserve development mostly attributable to hospitality liability lines in 2018 and 2019 accident years.

The Company's incurred losses during the three months ended March 31, 2019, included adverse prior-year reserve development of $2.0 million. The Commercial lines experienced $0.9 million of unfavorable reserve development mostly attributable to liability lines in 2016 and 2015 accident years. Personal lines was unfavorable by $1.1 million, substantially attributable to the Florida homeowners line, and related to the 2016, 2017, and 2018 accident years. The reported reserve development is net of the amortization of the deferred gain on the ADC of $2.1 million and $137,000 for commercial and personal lines, respectively. This provided $2.3 million of benefit toward the adverse development for the three months ended March 31, 2019, leaving $3.4 million of benefit to be recognized from the ADC in future periods.

Expense Ratio

Our expense ratio is a measure of the efficiency and performance of the commercial and personal lines of business (our risk-bearing underwriting operations). It is calculated by dividing the sum of policy acquisition costs and other underwriting expenses by the sum of net earned premiums and other income of the underwriting business. Costs that cannot be readily identifiable as a direct cost of a segment or product line remain in Corporate for segment reporting purposes. The expense ratio excludes wholesale agency and Corporate expenses.

The table below provides the expense ratio by major component.

	Three Months Ended March 31,	
	2020	2019
Commercial Lines		
Policy acquisition costs	30.1%	26.1%
Operating expenses	17.1%	14.3%
Total	47.2%	40.4%
Personal Lines		
Policy acquisition costs	30.2%	40.2%
Operating expenses	16.9%	25.9%
Total	47.1%	66.1%
Total Underwriting		
Policy acquisition costs	30.0%	26.8%
Operating expenses	17.1%	14.8%
Total	47.1%	41.6%

Our expense ratio increased 5.5 percentage points in the three months ended March 31, 2020, as compared to the same period in 2019. The expense ratio in the first quarter of 2019 was lower than average due to a variety of factors discussed below. In addition, ceded premiums as a percentage of gross earned premiums were slightly higher in the first quarter of 2020 as compared to 2019, which was partially the reason for higher expense ratios.

Policy acquisition costs are costs we incur to issue policies, which include commissions, premium taxes, underwriting reports and underwriter compensation costs. The Company offsets direct commissions with ceded commissions from reinsurers. For the three months ended March 31, 2020 and 2019, the percentage of policy acquisition costs to net earned premiums and other underwriting income increased to 30.0% compared to 26.8%, respectively. In the second quarter of 2019, we began allocating more commission expense to the Underwriting Segment which it paid to the Agency Segment, resulting in a higher underwriting acquisition cost ratio going forward after March 31, 2019. This increase in Underwriting Segment acquisition cost was eliminated on consolidation, but did impact the underwriting expense ratio beginning in the second quarter of 2019 and thereafter. Refer to Note 13 ~ *Segment Information* for further discussion over the Company’s Underwriting Segment and Agency Segment.

Operating expenses consist primarily of employee compensation, information technology and occupancy costs, such as rent and utilities. Operating expenses as a percent of net earned premiums and other income was 17.1% and 14.8% for the three months ended March 31, 2020 and 2019, respectively. There were several operating expense timing differences of incurred costs resulting in a slightly lower-than-normal 2019 first quarter expense ratio while the 2020 first quarter expense ratio is slightly higher than average. We expect the operating expense ratio to track lower in the following quarters as net earned premiums are expected to increase and certain cost reduction efforts continue.

Segment Results

We measure the performance of our consolidated results, in part, based on our underwriting gain or loss. The following table provides the underwriting gain or loss for the three months ended March 31, 2020 and 2019 (dollars in thousands):

Segment Gain (Loss)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	$ Change
Commercial Lines	$ (2,623)	$ (201)	$ (2,422)
Personal Lines	50	(1,565)	1,615
Total Underwriting	(2,573)	(1,766)	(807)
Wholesale Agency	(179)	(86)	(93)
Corporate	(331)	(407)	76
Eliminations	141	—	141
Total Segment gain (loss)	$ (2,942)	$ (2,259)	$ (683)

Liquidity and Capital Resources

Sources and Uses of Funds

At March 31, 2020, we had $35.3 million in cash, cash equivalents and short-term investments. Our principal sources of funds are insurance premiums, investment income, proceeds from maturities and sales of invested assets and installment fees. These funds are primarily used to pay claims, commissions, employee compensation, taxes and other operating expenses, and service debt.

We believe that our existing cash, cash equivalents, short-term investments and investment securities balances will be adequate to meet our capital and liquidity needs and the needs of our subsidiaries on a short-term and long-term basis.

We conduct our business operations primarily through our Insurance Company Subsidiaries. Our ability to service debt, and pay administrative expenses is primarily reliant upon our intercompany service fees paid by the Insurance Company Subsidiaries to the Parent Company for management, administrative, and information technology services provided to the Insurance Company Subsidiaries by the Parent Company. Secondarily, the Parent Company may receive dividends from the Insurance Company Subsidiaries; however, this is not the primary means in which the Parent Company supports its funding as state insurance laws restrict the ability of our Insurance Company Subsidiaries to declare dividends to the Parent Company. Generally, the limitations are based on the greater of statutory net income for the preceding year or 10% of statutory surplus at the end of the preceding year. There were no dividends paid from our Insurance Company Subsidiaries during the three months ended March 31, 2020 and 2019.

Cash Flows

Operating Activities. Cash provided by operating activities for the three months ended March 31, 2020 was $4.0 million, as compared to $2.2 million of cash used in operating activities for the same period in 2019. The $6.2 million increase in cash from operating activities was primarily due to a $5.1 million decrease in cash paid on losses and a $2.4 million increase in net premiums collected.

Investing Activities. Cash used in investing activities for the three months ended March 31, 2020 was $4.1 million, as compared to $1.3 million of cash provided by investing activities for the same period in 2019. The $5.5 million increase in cash used in investing activities was driven by the deployment of additional cash from operations into our investment portfolio. Also, there was significant repositioning of our investment portfolio in the first quarter of 2020, due to the changing market conditions from the COVID-19 pandemic.

Financing Activities. Cash provided by financing activities for the three months ended March 31, 2020 was $754,000, compared to $490,000 for the same period in 2019. The increase in cash was mostly attributed to a reduction in the Company's repurchases of common stock during the first quarter of 2020, compared to the same period in 2019.

Outstanding Debt

In September and October 2018, we issued $25.3 million of public senior unsecured notes (the "Notes"). The Notes mature on September 30, 2023, and bear interest, payable quarterly, at the annual rate of 6.75%. We used a portion of the proceeds from the Notes to pay down $19.5 million of the $30.0 million subordinated notes originally entered into on September 29, 2017 ("Subordinated Notes"). During the first quarter of 2020, the Company repurchased $244,000 of the Notes in the public market.

Effective September 24, 2018, the Subordinated Notes agreement was amended. Under the new terms, the Subordinated Notes carry a principle value of $10.5 million, mature on September 30, 2038, and bear an annual interest rate of 7.5% until September 30, 2023, and 12.5% thereafter. Interest is payable quarterly. Beginning September 30, 2021, the Company may redeem the Subordinated Notes, in whole or in part, or any quarter thereafter, for a call premium of $1.1 million. The call premium escalates quarterly to $1.75 million on September 30, 2023, then steps up to $3.05 million on December 31, 2023, and increases quarterly at a 12.5% per annum rate thereafter. The debt covenants were consistent with the existing Subordinated Note terms. A $105,000 loan origination fee was paid on the effective date.

The carrying value of the Notes and Subordinated Notes are offset by $2.1 million of debt issuance costs that will be amortized through interest expense over the life of the loans. Refer to *Note 7 ~ Debt* of the Notes to the consolidated financial statements, for additional information regarding our outstanding debt.

On June 21, 2018, the Company entered into a $10.0 million line of credit. On June 21, 2019, the Company renewed the $10.0 million line of credit with a maturity date of June 19, 2020. The agreement bears interest at the London Interbank rate ("LIBOR") plus 2.75% per annum, payable monthly. The agreement includes several covenants, including but not limited to a minimum tangible net worth, a minimum fixed-charge coverage ratio, and minimum statutory risk-based capital levels. As of March 31, 2020, the Company had $3.0 million outstanding on the line of credit, and was in compliance with all of its debt financial covenants.

Non-GAAP Financial Measures

Statutory Capital and Surplus

Statutory capital and surplus is a non-GAAP measure. The Company's insurance subsidiaries' aggregate statutory capital and surplus was $57.1 million and $59.6 million at March 31, 2020 and December 31, 2019, respectively.

Adjusted Operating Income and Adjusted Operating Income Per Share

Adjusted operating income and adjusted operating income per share are non-GAAP measures that represent net income allocable to common shareholders excluding net realized investment and other gains, net of tax. Beginning in 2018, the change in fair value of equity securities, net of tax, and the deferred gain on losses ceded to the ADC are also excluded from net income to arrive at adjusted operating income. The most directly comparable financial GAAP measures to adjusted operating income and adjusted operating income per share are net income and net income per share, respectively. Adjusted operating income and adjusted operating income per share are intended as supplemental information and are not meant to replace net income or net income per share. Adjusted operating income and adjusted operating income per share should be read in conjunction with the GAAP financial results. Our definition of adjusted operating income may be different from that used by other companies. The following is a reconciliation of net income (loss) to adjusted operating income (loss) (dollars in thousands), as well as net income (loss) per share to adjusted operating income (loss) per share:

	Three Months Ended March 31,	
	2020	**2019**
Net income (loss)	$ (4,725)	$ (680)
Exclude:		
Net realized investment gains (losses) and other gains, net of tax	1,043	19
Change in fair value of equity securities, net of tax	(3,086)	1,265
Net decrease (increase) in deferred gain on losses ceded to ADC, net of tax	—	2,283
Adjusted operating income (loss)	**$ (2,682)**	**$ (4,247)**
Weighted average common shares diluted	9,592,774	8,453,570
Diluted income (loss) per common share:		
Net income (loss)	$ (0.49)	$ (0.08)
Exclude:		
Net realized investment gains (losses) and other gains, net of tax	0.11	—
Change in fair value of equity securities, net of tax	(0.32)	0.15
Net decrease (increase) in deferred gain on losses ceded to ADC, net of tax	—	0.27
Adjusted operating income (loss) per share	**$ (0.28)**	**$ (0.50)**

We use adjusted operating income and adjusted operating income per share to assess our performance and to evaluate the results of our overall business. We believe these measures provide investors with valuable information relating to our ongoing performance that may be obscured by the net effect of realized gains and losses as a result of our market risk sensitive instruments, which primarily relate to debt securities that are available for sale and not held for trading purposes. The change in fair value of equity securities and realized gains and losses may vary significantly between periods and are generally driven by external economic developments, such as capital market conditions. Adjusted operating income also excludes the deferment of ceded losses related to the ADC ("deferred gain") that are directly related to gross losses reported in the current period. Deferring these ceded losses (while required under GAAP) does not reflect the economics of the reinsurance agreement which allows gross losses subject to the ADC to be offset by ceded losses in that period. Accordingly, adjusted operating income excludes the effect of items that tend to be highly variable from period to period and highlights the results from our ongoing business operations and the underlying loss or profitability of our business. We believe that it is useful for investors to evaluate adjusted operating income and adjusted operating income per share, along with net income and net income per share, when reviewing and evaluating our performance.

Recently Issued Accounting Pronouncements

Refer to Note 1 ~ *Summary of Significant Accounting Policies – Recently Issued Accounting Guidance* of the Notes to the Consolidated Financial Statements for detailed information regarding recently issued accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices such as interest rates, other relevant market rates or price changes. The volatility and liquidity in the markets in which the underlying assets are traded directly influence market risk. The following is a discussion of our primary market risk exposures and how those exposures are currently managed as of March 31, 2020. Our market risk sensitive instruments are primarily related to fixed income securities, which are available-for-sale and not held for trading purposes.

Interest Rate Risk

At March 31, 2020, the fair value of our investment portfolio, excluding cash and cash equivalents, was $174.2 million. Our investment portfolio consists principally of investment-grade, fixed-income securities, all of which are classified as available-for-sale. Accordingly, the primary market risk exposure to our debt securities is interest rate risk. In general, the fair market value of a portfolio of debt securities increases or decreases inversely with changes in market interest rates, while net investment income realized from future investments in debt securities increases or decreases along with interest rates. We attempt to mitigate interest rate risks by investing in securities with varied maturity dates and by managing the duration of our investment portfolio to a defined range of three to four years. The effective duration of our portfolio as of March 31, 2020 and December 31, 2019 was 3.1 and 3.0 years, respectively.

The table below illustrates the sensitivity of the fair value of our debt investments, classified as debt securities and short-term investments, to selected hypothetical changes in interest rates as of March 31, 2020. The selected scenarios are not predictions of future events, but rather illustrate the effect that events may have on the fair value of the debt portfolio and shareholders' equity (dollars in thousands).

Hypothetical Change in Interest Rates As of March 31, 2020	**Estimated Fair Value**	**Estimated Change in Fair Value**	**Hypothetical Percentage Increase (Decrease) in Fair Value**	**Hypothetical Percentage Increase (Decrease) in Shareholders' Equity**
200 basis point increase	$ 152,489	$ (9,958)	(6.13)%	(27.25)%
100 basis point increase	157,395	(5,052)	(3.11)%	(13.83)%
No change	162,447	—	—	—
100 basis point decrease	165,030	2,583	1.59%	7.07%
200 basis point decrease	165,387	2,940	1.81%	8.05%

Credit Risk

An additional exposure to our debt securities portfolio is credit risk. We manage our credit risk by investing only in investment-grade securities. In addition, we comply with applicable statutory requirements which limit the portion of our total investment portfolio that we can invest in any one security.

We are subject to credit risks with respect to our reinsurers. Although a reinsurer is liable for losses to the extent of the coverage which it assumes, our reinsurance contracts do not discharge our insurance companies from primary liability to each policyholder for the full amount of the applicable policy, and consequently our insurance companies remain obligated to pay claims in accordance with the terms of the policies regardless of whether a reinsurer fulfills or defaults on its obligations under the related reinsurance agreement. To mitigate our credit risk to reinsurance companies, we attempt to select financially strong reinsurers with an A.M. Best rating of "A-" or better and continue to evaluate their financial condition throughout the duration of our agreements.

At March 31, 2020, the net amount due to the Company from reinsurers, including prepaid reinsurance premiums, was $26.8 million. We believe all amounts recorded as due from reinsurers are recoverable.

Effects of Inflation

We do not believe that inflation has a material effect on our results of operations, except for the effect that inflation may have on interest rates and claims costs. We consider the effects of inflation in pricing and estimating reserves for unpaid losses and LAE. The actual effects of inflation on our results are not known until claims are ultimately settled. In addition to general price inflation, we are exposed to a long-term upward trend in the cost of judicial awards for damages.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities

Exchange Act of 1934, as amended (the "Exchange Act") as of March 31, 2020. Based on such evaluations, the Chief Executive Officer and Chief Financial Officer have concluded the Company’s disclosure controls and procedures are effective in recording, processing, summarizing, and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, and that information is accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

For the three months ended March 31, 2020, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that have materially affected, or are reasonable likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information required by this item is included under Note 12 ~ *Commitments and Contingencies* of the Notes to the Consolidated Financial Statements of the Company's Form 10-Q for the three months ended March 31, 2020, which is hereby incorporated by reference.

ITEM 1A. RISK FACTORS

The Effects of the COVID-19 Pandemic and its Economic and Societal Impact Could Adversely Impact Our Businesses, Assets and Financial Performance.

COVID-19, (the "Pandemic") is causing significant disruption to public health, the global economy, financial markets, and commercial, social and community activity generally. The pandemic and the economic uncertainty that necessarily follows may have a significant effect on our company's business operations and current and future financial performance. We may experience higher levels of loss and claims activity in certain lines of business and our premiums written and earned may also be adversely affected by a suppression of national and global commercial activity that results in a reduction in insurable assets and other exposure. Financial conditions resulting from the virus have had a negative effect on the value and quality of the assets we hold within our portfolio of invested assets, thereby adversely affecting our investment income and increasing our credit and related risk and restricting our access to capital markets.

Governmental, Regulatory and Judicial Actions in Response to the COVID-19 Pandemic May Adversely Affect Our Financial Performance and Our Ability to Conduct Our Businesses.

Insurance and financial regulators may attempt to impose new obligations on insurers in connection with the pandemic that could materially affect our business or profitability, including any retroactive change to the terms of existing insurance contracts that specifically exclude business interruption losses arising from pandemic. While we cannot be certain of ultimate judicial outcomes, we believe that any retroactive attempt to rewrite the terms of existing contracts would be unconstitutional. In addition, there is a risk that novel litigation theories, in conjunction with a diverse range of potential jury and judicial venues across many jurisdictions, could give rise to unforeseen pandemic related liability.

The Disruption and Other Effects Caused by COVID-19 Could Adversely Impact the Efficiency and Productivity of Our Business Operations.

To protect our employees and in response to the global and regional restrictions on interpersonal contact and travel because of the COVID-19 pandemic, much of our work force is working remotely, placing increased demands on our IT systems. While we have continued to conduct our business effectively, there is no assurance that our ability to continue to function in this new environment will not be adversely affected by an extended period of limited access to our physical facilities or by other developments such as an extended disruption in the telecommunications and internet infrastructure that support our remote work capability.

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

On June 13, 2019, the Company's Board of Directors authorized a private placement stock purchase offering wherein the Company was authorized to sell a maximum of $10.0 million of the Company's common stock, no par value per share, pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506(b) of Regulation D as promulgated under the Securities Act and in accordance with applicable federal securities laws, including Rule 10b5-1 and 10b-18 of the Securities Exchange Act of 1934 as amended. The participants in the private placement consisted mainly of members of the Company's Board of Directors.

Under this private placement offering, the Company issued $5.0 million of common equity consisting of 1,176,471 shares at a price of $4.25 per share on June 28, 2019. The Company's common stock closing market price on the Nasdaq Stock Market on June 28, 2019, was $3.99 per share. The offering was made to accredited investors only. No commissions or other remuneration were paid in connection with the issuance. The actual timing, number and value of shares to be issued under the private placement offering was determined by management in its discretion and depended on a number of factors, including the market price of the Company's stock, general marketing conditions, and other factors. The Company used the proceeds for growth capital in the Company's specialty core commercial business segments.

On December 5, 2018, the Company's Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to one million shares of the Company's common stock. Shares may be purchased in the open market or through negotiated transactions. The program may be terminated or suspended at any time, at the discretion of the

Company. The Company may in the future enter into a Rule 10b5-1 trading plan to effect a portion of the authorized purchases, if criteria set forth in the plan are met. Such a plan would enable the Company to repurchase its shares during periods outside of its normal trading windows, when the Company typically would not be active in the market. The timing of purchases, and the exact number of any shares to be purchased, will depend on market conditions. The repurchase program does not include specific price targets or timetables. For the three months ended March 31, 2020, the Company had repurchased 700 shares of stock valued at approximately $2,000. Upon the repurchase of the Company's shares, the shares remain authorized, but not issued or outstanding.

On September 27, 2017, the Company’s Board of Directors authorized a private placement stock purchase offering wherein the Company was authorized to sell a maximum of $7.0 million of the Company’s common stock, no par value per share, pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506(b) of Regulation D as promulgated under the Securities Act and in accordance with applicable federal securities laws, including Rule 10b5-1 and 10b-18 of the Securities Exchange Act of 1934 as amended. The participants in the private placement consisted mainly of members of the Company’s management team and Board of Directors, including the Company’s Chairman and CEO, James Petcoff.

Under this private placement offering, the Company issued $5.0 million of common equity consisting of 800,000 shares at the price of $6.25 per share on September 28, 2017. The Company’s common stock closing market price on the Nasdaq Stock Market on September 28, 2017, was $6.05 per share. The offering was made to accredited investors only. No commissions or other remuneration were paid in connection with the issuance. The actual timing, number and value of shares to be issued under the private placement offering was determined by management in its discretion and depended on a number of factors, including the market price of the Company’s stock, general marketing conditions, and other factors. The Company used the proceeds from the issuance to strengthen its balance sheet through contributions to the Insurance Company Subsidiaries to support future growth, as well as to cover the cost of the ADC and reserve strengthening.

On February 25, 2016, the Company's Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to $2.1 million of its outstanding common stock. Under this program, management was authorized to repurchase shares at prevailing market prices through open market purchases, privately negotiated transactions, block purchases or otherwise in accordance with applicable federal securities laws, including Rule 10b5-1 and 10b-18 of the Securities Exchange Act of 1934, as amended. The actual timing, number and value of shares repurchased under the program was determined by management in its discretion and depended on a number of factors, including the market price of the Company’s stock, general market conditions, and other factors. Repurchased shares remain authorized but not issued or outstanding, and are available to be reissued in the future.

No underwriters were involved in the foregoing sales of securities. The issuances of the securities described above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering.

ITEM 6. EXHIBITS

		Incorporated by Reference			
Exhibit Number	Exhibit Description	Form	Period Ending	Exhibit / Appendix Number	Filing Date
10.23	Promissory Note – Paycheck Protection Program Loan dated as of April 24, 2020 between the Company and The Huntington National Bank				
10.24	Third Amendment to Credit Agreement dated as of April 24, 2020 between the Company and The Huntington National Bank				
31.1	Section 302 Certification — CEO				
31.2	Section 302 Certification — CFO				
32.1*	Section 906 Certification — CEO				
32.2*	Section 906 Certification — CFO				
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase				
101.DEF	XBRL Taxonomy Extension Definition Linkbase				
101.LAB	XBRL Taxonomy Extension Label Linkbase				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase				

* This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

SIGNATURES

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

CONIFER HOLDINGS, INC.

By: /s/ Harold J. Meloche
Harold J. Meloche
Chief Financial Officer,
Principal Financial Officer,
Principal Accounting Officer

Dated: May 13, 2020

(Back To Top)

Section 2: EX-10.23 (EX-10.23)

Exhibit 10.23

PROMISSORY NOTE
(Paycheck Protection Program Loan)

SBA Loan No. 48220270-08
Principal Amount $2,744,667.00 4/24/2020

FOR VALUE RECEIVED, the undersigned ("Borrower"), with an address of 550 W. Merrill St. #200 Birmingham, MI 48009, promises to pay to the order of The Huntington National Bank ("Lender", which term shall include any holder hereof) at such place as Lender may designate or, in the absence of such designation, at any of Lender's offices, the sum of $2,744,667.00 (the "Principal Sum") together with interest as hereinafter provided, and payable at the time(s) and in the manner(s) hereinafter provided.

INTEREST. Interest will accrue on the unpaid balance of the Principal Sum at the rate of 1.000% per annum and is computed on a simple interest 365/365 basis.

MANNER OF PAYMENT. The Principal Sum and accrued interest shall be repaid in eighteen installments of $153,691.49 beginning on 11/24/2020 and continuing on the same day of each month thereafter, with the final payment due on 4/24/2022 (the "Maturity Date"). Payments include principal and interest. On the Maturity Date, all unpaid principal and all accrued unpaid interest shall be due and payable.

The monthly payment amount specified above is based on the assumption that none of the Principal Sum is forgiven pursuant to Section 1106 of the Coronavirus Aid, Relief, and Economic Security Act (as amended, the "CARES Act"), its implementing regulations and Small Business Administration ("SBA") rules. If only part of the Principal Sum is forgiven in connection with the CARES Act, then after application of such forgiveness amount, the loan evidenced hereby shall be re-amortized and a new monthly payment amount shall be communicated to Borrower. In addition, the initial monthly payments made by Borrower shall be credited first to the interest that has accrued during the initial deferment period on any unforgiven portion of the Principal Sum until all accrued interest is paid.

This Note may be prepaid in full by Borrower at any time without penalty.

LATE CHARGE. If any payment is 11 days or more late, Borrower will be charged 5.00% of the regularly scheduled payment, to the extent permitted under applicable law and SBA rules.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of $15.00 if Borrower makes a payment on the loan and the check or preauthorized charge with which Borrower pays is later dishonored, to the extent permitted under applicable law and the SBA rules.

NO COLLATERAL. The loan evidenced hereby is unsecured and, notwithstanding anything to the contrary therein, is not secured by any existing collateral documents executed by Borrower or any other person in favor of Lender with respect to any other loans or obligations of Borrower.

DEFAULT. Upon the occurrence of any of the following events:

(1) Borrower fails to pay any installment when due hereunder or to perform any obligation of Borrower to Lender;

(2) Borrower fails to furnish true and complete financial statements from time to time on request of Lender;

(3) the death of any individual Borrower;

(4) any representation, warranty, certification or other information given to Lender by Borrower proves to be false, untrue or misleading in any material respect; or

(5) the dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower;

then Lender may, at its option, without further notice or demand, accelerate the maturity of the obligations evidenced hereby, which obligations shall become immediately due and payable. In the event Lender shall institute any action for the enforcement or collection of the obligations evidenced hereby, Borrower agree to pay all costs and expenses of such action, including reasonable attorneys' fees, to the extent permitted by law.

ACKNOWLEDGEMENT; WAIVER AND RELEASE; HOLD HARMLESS.

In connection with all aspects of the loan evidenced by this Note (the "PPP Loan"), Borrower acknowledges and agrees, on behalf of itself and, as applicable, its shareholders, partners, members, officers, managers, directors and affiliates (collectively, together with the Borrower, the "Borrower Parties"), that: (a)(i) this Note is an arm's-length commercial transaction between Borrower, on the one hand, and Lender, on the other hand, (ii) each Borrower Party has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, (iii) each Borrower Party is capable of evaluating, and understands and accepts, the terms, risks and conditions of this Note, the PPP Loan and the Paycheck Protection Loan Borrower Application Form executed and delivered to Lender in connection with this Note (the "Application") and (iv) each Borrower Party has made its own independent determination regarding (A) Borrower's eligibility for the PPP Loan and the maximum permitted amount of the PPL Loan and (B) the ability of the Borrower Parties to make each of the representations, warranties and certifications made in the Application. Borrower hereby represents and warrants to Lender that all information set forth in the Application, all other information provided to Lender, and all representations, warranties and certifications of the Borrower Parties set forth in the Application are true and correct. Lender has no obligation to any Borrower Party with respect to this Note or the PPP Loan except those obligations expressly set forth in this Note. Borrower, on behalf of itself and the other Borrower Parties, hereby waives and releases, and agrees to hold the Lender harmless from, any claims that any Borrower Party may have against Lender with respect to or arising out of this Note, the PPP Loan, the Application and the transactions evidenced thereby, including any breach or alleged breach of agency or fiduciary duty.

ELIGIBILITY FOR LOAN FORGIVENESS. By execution of this Note, Borrower acknowledges the NOTICE REGARDING ABILITY TO APPLY FOR LOAN FORGIVENESS attached hereto and made a part hereof.

AUTHORIZATION. Borrower represents and warrants to Lender that (A) Borrower is duly organized, validly existing, and in good standing under and by virtue of the laws of the state in which Borrower is organized; (B) Borrower is duly authorized to transact business in all other states in which Borrower is doing business, including registering as a foreign entity in any such states if necessary; (C) the execution, delivery, and performance of this Note on behalf of Borrower has been duly authorized and is not in conflict with Borrower's articles of incorporation, articles of organization, partnership agreement, joint venture agreement, bylaws or code of regulations, operating agreement, or other similar agreement; and (D) the person(s) executing this Note has been duly authorized to do so. At least thirty (30) days prior to the occurrence of any of the following events, Borrower shall deliver to Lender written notice of such impending event: (i) change in Borrower's principal place of business or chief executive office or residence (if Borrower is an individual) or (ii) change in Borrower's name, identity, or corporate structure.

WAIVER OF PRESENTMENT. Borrower hereby waives presentment, notice of dishonor, protest, notice of protest, and diligence in bringing suit against any party hereto.

FEES AND EXPENSES. Borrower agrees to pay all costs, expenses (including reasonable attorneys' fees), and disbursements incurred by Lender (a) in all efforts made to enforce payment of the indebtedness represented by this Note, (b) in connection with entering into, modifying, amending, and enforcing this Note and all related agreements, documents and instruments, (c) in defending or prosecuting any actions or proceedings arising out of or relating to Lender's transactions with Borrower under this Note, or (d) in connection with any advice given to Lender with respect to its rights and obligations under this Note and all related agreements.

RIGHT OF SETOFF. To the extent permitted by applicable law, Lender reserves a right of setoff in all Borrower's accounts with Lender (whether checking, savings, or some other account). This includes all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. However, this does not include any IRA or Keogh accounts, or any trust accounts, for which setoff would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on the indebtedness hereunder against any and all such accounts.

WAIVER/AMENDMENT. No waiver of any term or condition of this Note shall be effective unless in writing and signed by the party giving or granting the waiver. No amendment of any term or condition of this Note shall be effective unless in writing and signed by Borrower and Lender. No failure or delay on the part of Lender in exercising any right, power or privilege under this Note, related loan documents or law nor any course of dealing, shall operate as a waiver of such right, power or privilege or preclude any other or further exercise thereof or of any other right, power or privilege.

PREFERENCE. Borrower agrees that, to the extent that Borrower makes a payment or payments to Lender, which payment or payments or proceeds or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to Borrower, Borrower's estate, trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such payment or repayment, the obligations under this Note or the part thereof which has been paid, reduced or satisfied by such amount shall be reinstated and continued in full force and effect as of the date such initial payment, reduction or satisfaction occurred.

IMPORTANT INFORMATION ABOUT PROCEDURES REQUIRED BY THE USA PATRIOT ACT

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each entity or person who opens an account or establishes a relationship with Lender.

What this means: When an entity or person opens an account or establishes a relationship with Lender, Lender may ask for the name, address, date of birth, and other information that will allow Lender to identify the entity or person who opens an account or establishes a relationship with Lender. Lender may also ask to see identifying documents for the entity or person.

WAIVER OF RIGHT TO TRIAL BY JURY. Borrower acknowledges that, as to any and all disputes that may arise between Borrower and Lender, the commercial nature of the transaction out of which this Note arises makes any such dispute unsuitable for trial by jury. Accordingly, Borrower hereby waives any right to trial by jury as to any and all disputes that may arise relating to this Note, or to any of the instruments or documents executed in connection therewith.

SEVERABILITY; GOVERNING LAW. The captions used herein are for reference only and shall not be deemed a part of this Note. If any of the terms or provisions of this Note shall be deemed unenforceable, the enforceability of the remaining terms and provisions shall not be affected. This Note shall be governed by and construed in accordance with the law of the State of Ohio.

PRIOR TO SIGNING THIS NOTE, BORROWER HAS READ AND UNDERSTANDS All THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

Borrower:

Conifer Holdings Inc.

By:__________________________________

Print Name and Title

NOTICE REGARDING ABILITY TO APPLY FOR LOAN FORGIVENESS

You are receiving a Paycheck Protection Program loan extended pursuant to Sections 1102 and 1106 of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), any implementing regulations and U.S. Small Business Administration (the "SBA") rules. Pursuant to Section 1106 of the CARES Act, some or all of the loan may be forgiven subject to satisfaction of certain conditions. You will be required to follow an application process to receive any loan forgiveness.

You will be eligible for forgiveness of the loan only in an amount equal to the sum of the following costs incurred and payments made during the 8-week period beginning on the date the loan is made (the "covered period"):

- Payroll costs (as defined in Section 1102 of the CARES Act)
- Interest on any mortgage obligation incurred prior to February 15, 2020 (does not include prepayment penalties or principal payments)
- Rent under any leasing agreement entered into prior to February 15, 2020
- Utilities for which service began prior to February 15, 2020 (electric, gas, water, transportation, telephone, internet service)

The SBA has stated that at least 75% of the requested forgiveness amount must have been used to fund payroll costs.

In addition, the amount of any loan forgiveness will be reduced based on reductions in wages or the number of full-time equivalent employees compared to certain prior periods. You have until June 30, 2020 to restore your full-time employment and salary levels for any changes made between February 15, 2020 and April 26, 2020.

When you apply for loan forgiveness, the following documentation of use of the loan funds for eligible expenses must be submitted:

- Proof of payment (copies of cancelled checks or evidence of electronic payment, transcript of account, or other documents verifying payment)
- Documentation verifying number of employees and pay rates for the applicable periods, including payroll reports, payroll tax filings reported to the Internal Revenue Service, and State income, payroll, and unemployment insurance filings
- Any other documentation required by SBA rules

Please refer to the CARES Act and SBA rules for complete rules and requirements regarding forgiveness of the loan.

(Back To Top)

Section 3: EX-10.24 (EX-10.24)

Exhibit 10.24

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT ("Amendment"), is made as of the 24th day of April, 2020, by and among CONIFER HOLDINGS, INC. ("Borrower") and THE HUNTINGTON NATIONAL BANK ("Bank").

RECITALS:

A. Borrower and Bank entered into a Credit Agreement dated as of June 21, 2018, as amended by a First Amendment to Credit Agreement dated December 27, 2018 and a Second Amendment to Credit Agreement dated June 20, 2019 (and effective as of June 21, 2019) ("Agreement").

B. Borrower and Bank desire to amend the Agreement, all as set forth below. NOW, THEREFORE, the parties agree as follows:

1. The following definitions are added to Section 1.1 of the Agreement to read as follows:

"CARES Act" means the Coronavirus Aid, Relief, and Economic Securities Act as in effect as of the date of this Amendment (or any amended or successor version that is substantively comparable and not materially more adverse to the interest of the Bank) and any current or future regulations or official interpretations thereto.

"Permitted Purposes" means the "Allowable Uses of Covered Loans" set forth in Section 7(a)(36)(F) of the Small Business Act, as in effect on the date hereof.

"PPP Loan Reserve" shall mean an amount equal to the outstanding principal amount of the SBA PPP Loan.

"SBA" means the U.S. Small Business Administration.

"SBA PPP Loan" means a loan incurred by the Borrower under 15 U.S.C. 636(a)(36) (as added to the Small Business Act by Section 102 of the CARES Act).

"SBA PPP Loan Documents" means the loan agreement by and between the Borrower and Bank, together with each other agreement or document delivered in connection therewith from time to time, pursuant to which Bank agrees to make SBA PPP Loans to the Borrower in the aggregate amount not to exceed $6,160,000 on the terms and conditions set forth therein.

"Small Business Act" means the Small Business Act (15 U.S. Code Chapter 14A – Aid to Small Business) after giving effect to the implementation of the CARES Act, as in effect of the date of this Amendment (or any amended or successor version that is substantively comparable and not materially more adverse to the interest of the Holders) and any current or future regulations or official interpretations thereof."

2. Section 2.3(v) of the Agreement is amended to read as follows:

"(v) after giving effect to such Advance, the aggregate principal amount of the outstanding Advances plus the Letter of Credit Reserve, plus the CC Reserve, plus the PPP Loan Reserve does not exceed the Borrowing Limit; and"

3. Section 2.7 of the Agreement is amended to read as follows:

"2.7 Reduction of Obligations. If at any time and for any reason the aggregate outstanding principal amount of Advances hereunder to Borrower plus the Letter of Credit Reserve plus the CC Reserve, plus the PPP Loan Reserve shall exceed the lesser of (i) the Revolving Credit Commitment and (ii) the Borrowing Limit, then Borrower shall immediately reduce any pending request for an Advance on such day by the amount of such excess and, to the extent any excess remains thereafter, immediately repay an amount of the Obligations equal to such excess. Borrower acknowledges that, in connection with any repayment required hereunder, it shall also be responsible for the reimbursement of any prepayment or other costs required under the terms of the Revolving Credit Note."

4. The following Section 8.17 is added to the Agreement to read as follows: "Section 7.17 SBAPPPLoans. Borrower shall:

(a) comply in all respects with the applicable requirements of the CARES Act;

(b) use all proceeds of the SBA PPP Loan exclusively for Permitted Purposes under the applicable provisions of the CARES Act (the "Applicable Provisions");

(c) use its commercially reasonable efforts to conduct its business in a manner that maximizes the amount of the SBA PPP Loan that may be forgiven under the Applicable Provisions;

(d) maintain all records required to be submitted in connection with the forgiveness of the SBA PPP Loan and all records of the Borrower's utilization of the proceeds of the SBA PPP Loan;

(e) apply for forgiveness of the SBA PPP Loan in accordance with the Applicable Provisions promptly following the first date on which the Borrower may apply for such forgiveness by submitting its application and all related supporting documentation required by the SBA or the lender providing the SBA PPP Loan;

(f) promptly provide Bank with copies of all material correspondence and documentation regarding the SBA PPP Loans, including, without limitation, (i) notification of the application for forgiveness of any SBA PPP Loans incurred by the Borrower and/or the acceptance or failure of any SBA PPP Loans incurred by the Borrower to qualify for forgiveness under the CARES Act; and (ii) such other information regarding the SBA PPP Loans as reasonably requested by Bank from time to time;

(g) provide Bank at least five (5) days' prior written notice of any repayment or prepayment of the SBA PPP Loan."

5. Section 9.1(a) of the Agreement is amended to read as follows:

"(a) the Obligations and any renewals or refinancings thereof and an unsecured SBA PPP Loan in an amount not exceeding $6,160,000."

6. The following Section 9.19 is added to the Agreement to read as follows: "9.19 <u>Amendment</u> <u>of</u> <u>SBA</u> <u>PPP</u> <u>Loans.</u> Borrower will not amend, modify or waive any of its rights under any SBA PPP Loan Document other than to the extent required by the CARES Act or otherwise approved by Bank. Without limitation of the foregoing, Borrower will not modify or waive any of its rights under any SBA PPP Loan Document to the extent any such amendment, modification or waiver could be reasonably expected to be materially adverse to the interests of the Bank."

7. The failure of the Borrower to pay when due any principal or interest for the SBA PPP Loan shall constitute an immediate Event of Default under the Agreement.

8. Borrower hereby represents and warrants that, after giving effect to the amendments contained herein, (a) execution, delivery and performance of this Amendment and any other documents and instruments required under this Amendment or the Agreement are within its corporate powers, have been duly authorized, are not in contravention of law or the terms of such Borrower's Articles of Incorporation or Bylaws and do not require the consent or approval of any governmental body, agency, or authority; and this Amendment and any other documents and instruments required under this Amendment or the Agreement, will be valid and binding in accordance with their terms; (b) the continuing representations and warranties of Borrower set forth in the Agreement are true and correct on and as of the date hereof with the same force and effect as made on and as of the date hereof; (c) except as previously disclosed by Borrower to Bank, no Event of Default (as defined in the Agreement) or condition or event

which, with the giving of notice or the running of time, or both, would constitute an Event of Default under the Agreement, as hereby amended, has occurred and is continuing as of the date hereof.

9. Borrower hereby waives, discharges, and forever releases Bank, Bank's employees, officers, directors, attorneys, stockholders and successors and assigns, from and of any and all claims, causes of action, allegations or assertions that Borrower has or may have had at any time up through and including the date of this Amendment, against any or all of the foregoing, regardless of whether any such claims, causes of action, allegations or assertions arose as a result of Bank's actions or omissions in connection with the Agreement, or any amendments, extensions or modifications thereto, or Bank's administration of debt evidenced by the Agreement or otherwise.

10. Except as expressly provided herein, all of the terms and conditions of the Agreement remain unchanged and in full force and effect.

11. This Amendment shall be effective as of the date hereof upon (a) execution of this Amendment by Borrower and Bank, (b) receipt by Bank of an executed Amendment to Note in form acceptable to Bank, and (c) receipt by Bank of a consent to the SBA PPP Loan from the holders of all Subordinated Debt.

IN WITNESS the due execution hereof as of the day and year first above written.

THE HUNTINGTON NATIONAL BANK **CONIFER HOLDINGS, INC.**

By:_ Andrew R. Craig By: Brian Roney

Its: Senior Vice President Its: President

[Signature Page to Third Amendment to Credit Agreement (16713974)]

(Back To Top)

Section 4: EX-31.1 (EX-31.1)

Exhibit 31.1

CHIEF EXECUTIVE OFFICER'S 302 CERTIFICATION

I, James G. Petcoff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Conifer Holdings, Inc. for the quarterly period ended March 31, 2020;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to

make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 13, 2020

/s/ James G. Petcoff

James G. Petcoff

Chief Executive Officer
(principal executive officer)

(Back To Top)

Section 5: EX-31.2 (EX-31.2)

Exhibit 31.2

CHIEF FINANCIAL OFFICER'S 302 CERTIFICATION

I, Harold J. Meloche, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Conifer Holdings, Inc. for the quarterly period ended March 31, 2020;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 13, 2020

/s/ Harold J. Meloche

Harold J. Meloche
Chief Financial Officer
(principal financial officer)

(Back To Top)

Section 6: EX-32.1 (EX-32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Conifer Holdings, Inc. (the “Company”) on Form 10-Q for the year ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James G. Petcoff, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2020

/s/ James G. Petcoff

James G. Petcoff
Chief Executive Officer

(Back To Top)

Section 7: EX-32.2 (EX-32.2)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Conifer Holdings, Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Harold J. Meloche, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 13, 2020

/s/ Harold J. Meloche

Harold J. Meloche
Chief Financial Officer

(Back To Top)