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 June 30, 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 August 12, 2020, was 9,598,155.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Form 10-Q

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

	June 30, 2020 (Unaudited)	December 31, 2019
Assets		
Investment securities:		
Debt securities, at fair value (amortized cost of $141,951 and $129,313, respectively)	$ 146,888	$ 131,000
Equity securities, at fair value (cost of $13,167 and $6,554, respectively)	12,859	7,306
Short-term investments, at fair value	10,869	31,426
Total investments	170,616	169,732
Cash and cash equivalents	4,812	7,464
Premiums and agents' balances receivable, net	22,275	20,168
Receivable from Affiliate	281	313
Reinsurance recoverables on unpaid losses	20,892	22,579
Reinsurance recoverables on paid losses	5,463	5,155
Prepaid reinsurance premiums	4,194	1,250
Deferred policy acquisition costs	11,693	11,906
Other assets	9,787	8,698
Total assets	$ 250,013	$ 247,265
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 106,734	$ 107,246
Unearned premiums	52,120	51,503
Debt	38,842	35,824
Accounts payable and accrued expenses	9,037	9,967
Total liabilities	206,733	204,540
Commitments and contingencies	—	—
Shareholders' equity:		
Common stock, no par value (100,000,000 shares authorized; 9,598,155 and 9,592,861 issued and outstanding, respectively)	92,275	91,816
Accumulated deficit	(52,800)	(49,580)
Accumulated other comprehensive income (loss)	3,805	489
Total shareholders' equity	43,280	42,725
Total liabilities and shareholders' equity	$ 250,013	$ 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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenue				
Premiums				
Gross earned premiums	$ 25,959	25,082	$ 52,012	$ 50,632
Ceded earned premiums	(4,201)	(3,733)	(8,237)	(7,596)
Net earned premiums	21,758	21,349	43,775	43,036
Net investment income	863	1,051	1,817	1,961
Net realized investment gains	245	715	1,173	734
Change in fair value of equity securities	1,576	(915)	(1,510)	350
Other gains	145	—	260	—
Other income	713	581	1,371	1,003
Total revenue	25,300	22,781	46,886	47,084
Expenses				
Losses and loss adjustment expenses, net	11,945	14,382	26,214	28,838
Policy acquisition costs	6,395	6,210	12,698	11,799
Operating expenses	4,859	4,340	9,904	8,663
Interest expense	731	725	1,462	1,435
Total expenses	23,930	25,657	50,278	50,735
Income (loss) before equity earnings in Affiliate and income taxes	1,370	(2,876)	(3,392)	(3,651)
Equity earnings (losses) in Affiliate, net of tax	179	(8)	229	98
Income tax expense	44	—	57	11
Net income (loss)	$ 1,505	$ (2,884)	$ (3,220)	$ (3,564)
Earnings (loss) per common share, basic and diluted	$ 0.16	$ (0.34)	$ (0.34)	$ (0.42)
Weighted average common shares outstanding, basic and diluted	9,595,668	8,370,782	9,594,221	8,411,835

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 June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Net income (loss)	$ 1,505	$ (2,884)	$ (3,220)	$ (3,564)
Other comprehensive income (loss), net of tax:				
Unrealized investment gains (losses):				
Unrealized investment gains (losses) during the period	5,017	1,366	3,702	2,923
Income tax (benefit) expense	—	—	—	—
Unrealized investment gains (losses), net of tax	5,017	1,366	3,702	2,923
Less: reclassification adjustments to:				
Net realized investment gains (losses) included in net income (loss)	2	30	386	(110)
Income tax (benefit) expense	—	—	—	—
Total reclassifications included in net income (loss), net of tax	2	30	386	(110)
Other comprehensive income (loss)	5,015	1,336	3,316	3,033
Total comprehensive income (loss)	$ 6,520	$ (1,548)	$ 96	$ (531)

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 March 31, 2020	**9,592,161**	**$ 92,053**	**$ (54,305)**	**$ (1,210)**	**$ 36,538**
Net income	—	—	1,505	—	1,505
Repurchase of common stock	(4,006)	(14)	—	—	(14)
Restricted stock unit expense	10,000	236	—	—	236
Other comprehensive income	—	—	—	5,015	5,015
Balances at June 30, 2020	**9,598,155**	**$ 92,275**	**$ (52,800)**	**$ 3,805**	**$ 43,280**
Balances at March 31, 2019	**8,353,051**	**$ 86,268**	**$ (42,438)**	**$ (915)**	**$ 42,915**
Net loss	—	—	(2,884)	—	(2,884)
Repurchase of common stock	(17,664)	(98)	—	—	(98)
Issuance of common stock private placement	1,176,471	5,000	—	—	5,000
Restricted stock unit expense	7,692	240	—	—	240
Other comprehensive income	—	—	—	1,336	1,336
Balances at June 30, 2019	**9,519,550**	**$ 91,410**	**$ (45,322)**	**$ 421**	**$ 46,509**

	No Par, Common Stock		Retained Earnings	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	(Accumulated)	Income (Loss)	Equity
Balances at December 31, 2019	**9,592,861**	**$ 91,816**	**$ (49,580)**	**$ 489**	**$ 42,725**
Net income (loss)	—	—	(3,220)	—	(3,220)
Repurchase of common stock	(4,706)	(16)	—	—	(16)
Issuance of common stock private placement	—	—	—	—	—
Restricted stock unit expense	10,000	475	—	—	475
Other comprehensive income	—	0	—	3,316	3,316
Balances at June 30, 2020	**9,598,155**	**92,275**	**(52,800)**	**3,805**	**43,280**
Balances at December 31, 2018	**8,478,202**	**$ 86,533**	**$ (41,758)**	**$ (2,612)**	**$ 42,163**
Net income (loss)	—	—	(3,564)	—	(3,564)
Repurchase of common stock	(142,815)	(608)	—	—	(608)
Issuance of common stock private placement	1,176,471	5,000	—	—	5,000
Restricted stock unit expense, net	7,692	485	—	—	485
Other comprehensive loss	—	—	—	3,033	3,033
Balances at June 30, 2019	**9,519,550**	**91,410**	**(45,322)**	**421**	**46,509**

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)

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash Flows From Operating Activities		
Net income (loss)	$ (3,220)	$ (3,564)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	255	233
Amortization of bond premium and discount, net	301	220
Net realized investment (gains) losses	(1,173)	(734)
Change in fair value of equity securities	1,510	(350)
Restricted stock unit expenses	475	485
Other	(229)	(98)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Premiums and agents' balances and other receivables	(2,075)	(79)
Reinsurance recoverables	1,379	3,514
Prepaid reinsurance premiums	(2,944)	(452)
Deferred policy acquisition costs	213	(291)
Other assets	(202)	(3,743)
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	(512)	5,174
Unearned premiums	617	(1,246)
Accounts payable and other liabilities	1,004	708
Net cash provided by (used in) operating activities	(4,601)	(223)
Cash Flows From Investing Activities		
Purchase of investments	(160,445)	(55,037)
Proceeds from maturities and redemptions of investments	10,476	8,417
Proceeds from sales of investments	149,156	51,102
Purchases of property and equipment	(48)	(23)
Net cash provided by (used in) investing activities	(861)	4,459
Cash Flows From Financing Activities		
Proceeds received from issuance of shares of common stock	—	5,000
Repurchase of common stock	(16)	(608)
Repurchase of senior unsecured notes	(919)	—
Borrowings under debt arrangements	3,745	995
Net cash provided by financing activities	2,810	5,387
Net increase (decrease) in cash	(2,652)	9,623
Cash at beginning of period	7,464	10,792
Cash at end of period	$ 4,812	$ 20,415
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 535	$ 1,269

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 six months ended June 30, 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 of America (“U.S.”). The Company’s corporate headquarters are located in Birmingham, Michigan with additional office facilities in Florida, Michigan 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.

Early Adoption of ASU No. 2019-12

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU No. 2019-12"). The update is intended to simplify the current rules regarding the accounting for income taxes and addresses several technical topics including accounting for franchise taxes, allocating income taxes between a loss in continuing operations and in other categories such as discontinued operations, reporting income taxes for legal entities that are not subject to income taxes, and interim accounting for enacted changes in tax laws. The new standard is effective for fiscal years beginning after December 15, 2020; however, early adoption is permitted. The Company early adopted the provisions of ASU No. 2019-12 on April 1, 2020, which did not have a material impact on its consolidated financial statements and related disclosures.

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 June 30, 2020 and December 31, 2019, were as follows (dollars in thousands):

	June 30, 2020			
	Cost or	Gross Unrealized		Estimated
	Amortized Cost	Gains	Losses	Fair Value
Debt Securities:				
U.S. Government	$ 9,778	$ 292	$ —	$ 10,070
State and local government	19,968	890	(1)	20,857
Corporate debt	47,741	2,712	(147)	50,306
Asset-backed securities	24,951	260	(310)	24,901
Mortgage-backed securities	23,187	590	—	23,777
Commercial mortgage-backed securities	9,941	621	(81)	10,481
Collateralized mortgage obligations	6,385	123	(12)	6,496
Total debt securities available for sale	$ 141,951	$ 5,488	$ (551)	$ 146,888

	December 31, 2019			
	Cost or	Gross Unrealized		Estimated
	Amortized Cost	Gains	Losses	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 (dollars in thousands):

	June 30, 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:									
U.S. Government	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
State and local government	1	175	(1)	—	—	—	1	175	(1)
Corporate debt	3	1,677	(147)	—	—	—	3	1,677	(147)
Asset-backed securities	9	6,626	(118)	13	7,140	(192)	22	13,766	(310)
Mortgage-backed securities				—	—	—	—	—	—
Commercial mortgage-backed securities	1	843	(81)	—	—	—	1	843	(81)
Collateralized mortgage obligations	3	1,130	(12)	—	—	—	3	1,130	(12)
Total debt securities available for sale	**17**	**10,451**	**(359)**	**13**	**7,140**	**(192)**	**30**	**17,591**	**(551)**

	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 and six months ended June 30, 2020 and 2019.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Debt securities	$ 929	$ 998	$ 1,796	$ 1,855
Equity securities	53	35	108	75
Cash, cash equivalents and short-term investments	24	116	143	186
Total investment income	1,006	1,149	2,047	2,116
Investment expenses	(143)	(98)	(230)	(155)
Net investment income	$ 863	$ 1,051	$ 1,817	$ 1,961

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Debt securities:				
Gross realized gains	$ —	$ 204	$ 720	$ 223
Gross realized losses	—	(3)	(4)	(52)
Total debt securities	—	201	716	171
Equity securities:				
Gross realized gains	604	539	948	588
Gross realized losses	(359)	(25)	(491)	(25)
Total equity securities	245	514	457	563
Total net realized investment gains (losses)	$ 245	$ 715	$ 1,173	$ 734

Proceeds from the sales of available-for-sale debt securities were $23.9 million and $10.3 million for the six months ended June 30, 2020 and 2019, respectively. The gross realized gains and losses from the sales of available-for-sale debt securities for the three months ended June 30, 2020, were $3,000 and $0, respectively. The gross realized gains and losses from the sales of available-for-sale debt securities for the six months ended June 30, 2020 were $722,000 and $0, respectively. The gross realized gains and losses from the sales of available-for-sale debt securities for the three months ended June 30, 2019 were $160,000 and $0. The gross realized gains and losses from the sales of available-for-sale debt securities for the six months ended June 30, 2019, were $229,000 and $51,000, respectively.

As of June 30, 2020 and 2019, there were $125,000 and $501,000 of payables from securities purchased, respectively. There were $17,000 and $14,000 of receivables from securities sold as of June 30, 2020 and 2019, 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 June 30, 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	$ 7,571	$ 7,631
Due after one year through five years	45,467	47,594
Due after five years through ten years	16,261	17,503
Due after ten years	8,188	8,505
Securities with contractual maturities	77,487	81,233
Asset-backed securities	24,951	24,901
Mortgage-backed securities	23,187	23,777
Commercial mortgage-backed securities	9,941	10,481
Collateralized mortgage obligations	6,385	6,496
Total debt securities	$ 141,951	$ 146,888

At June 30, 2020 and December 31, 2019, the Insurance Company Subsidiaries had $8.8 million and $8.0 million, respectively, on deposit in trust accounts to meet the deposit requirements of various state insurance departments. At June 30, 2020 and December 31, 2019, the Company had $65.2 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. The Level 2 financial instruments also include our line of credit and our Paycheck Protection Program loan.

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 June 30, 2020 and December 31, 2019 (dollars in thousands):

	June 30, 2020			
	Fair Value Measurements			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Debt Securities:				
U.S. Government	$ 10,070	$ —	$ 10,070	$ —
State and local government	20,857	—	20,857	—
Corporate debt	50,306	—	50,306	—
Asset-backed securities	24,901	—	24,901	—
Mortgage-backed securities	23,777	—	23,777	—
Commercial mortgage-backed securities	10,481	—	10,481	—
Collateralized mortgage obligations	6,496	—	6,496	—
Total debt securities	146,888	—	146,888	—
Equity Securities	12,178	11,895	283	—
Short-term investments	10,869	10,869	—	—
Total marketable investments measured at fair value	$ 169,935	$ 22,764	$ 147,171	$ —
Investments measured at NAV:				
Investment in limited partnership	681			
Total assets measured at fair value	$ 170,616			
Liabilities:				
Senior Unsecured Notes *	$ 20,109	$ —	$ 20,109	$ —
Subordinated Notes *	11,530	—	—	11,530
Line of credit	3,000	—	3,000	—
Paycheck Protection Program loan	2,745	—	2,745	—
Total Liabilities measured at fair value	$ 37,384	$ —	$ 25,854	$ 11,530

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

	December 31, 2019			
	Fair Value Measurements			
	Total	Level 1	Level 2	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 13.3% of the fair value of the total investment portfolio as of June 30, 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 86.3% of the fair value of the total investment portfolio as of June 30, 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 June 30, 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 June 30, 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 June 30, 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 six months ended June 30, 2020 and 2019. The activity in deferred policy acquisition costs, net of reinsurance transactions, is as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Balance at beginning of period	$ 11,508	$ 12,153	$ 11,906	$ 12,011
Deferred policy acquisition costs	6,580	6,359	12,485	12,090
Amortization of policy acquisition costs	(6,395)	(6,210)	(12,698)	(11,799)
Net change	185	149	(213)	291
Balance at end of period	$ 11,693	$ 12,302	$ 11,693	$ 12,302

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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Gross reserves - beginning of period	$ 109,657	$ 93,966	$ 107,246	$ 92,807
Less: reinsurance recoverables on unpaid losses	(22,022)	(24,551)	(22,579)	(29,685)
Plus: deferred gain on ADC	—	3,394		5,677
Net reserves - beginning of period	87,635	72,809	84,667	68,799
Add: incurred losses and LAE, net of reinsurance:				
Current period	8,908	11,994	19,428	24,465
Prior period	3,037	2,388	6,786	4,373
Total net incurred losses and LAE	11,945	14,382	26,214	28,838
Deduct: loss and LAE payments, net of reinsurance:				
Current period	3,044	2,692	3,918	3,742
Prior period	10,694	7,433	21,121	16,829
Total net loss and LAE payments	13,738	10,125	25,039	20,571
Net reserves - end of period	85,842	77,066	85,842	77,066
Plus: reinsurance recoverables on unpaid losses	20,892	21,396	20,892	21,396
Less: deferred gain on ADC	—	(481)	—	(481)
Gross reserves - end of period	$ 106,734	$ 97,981	$ 106,734	$ 97,981

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 June 30, 2020, the Company had ceded to the limit of the ADC and the deferred gain from the ADC had been fully utilized.

The Company’s incurred losses during the three and six months ended June 30, 2020 include prior-year adverse reserve development of $3.0 million and $6.7 million, respectively. These losses are related to the Company’s commercial lines of business.

The Company’s incurred losses during the three and six months ended June 30, 2019, included prior-year adverse reserve development of $2.4 million and $4.4 million, respectively. The reported reserve development was net of the amortization of the deferred gain on the ADC of $3.0 million and $5.2 million for the three and six months ended June 30, 2019, respectively. As of June 30, 2019, there remained $481,000 of deferred gain on the ADC to be recognized in future periods. The adverse development mainly stemmed from commercial liability and Florida homeowners lines of business.

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 40% of specific commercial property risks in excess of $400,000 and 60% in excess of $300,000 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):

	Three Months Ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Written premiums:				
Direct	$ 19,595	$ 14,954	$ 39,225	$ 33,417
Assumed	7,950	10,215	13,404	15,968
Ceded	(4,480)	(3,735)	(8,513)	(7,629)
Net written premiums	$ 23,065	$ 21,434	$ 44,116	$ 41,756
Earned premiums:				
Direct	$ 17,913	$ 17,254	$ 35,371	$ 35,258
Assumed	8,046	7,828	16,641	15,374
Ceded	(4,201)	(3,733)	(8,237)	(7,596)
Net earned premiums	$ 21,758	$ 21,349	$ 43,775	$ 43,036
Losses and LAE:				
Direct	$ 10,739	$ 17,434	$ 23,065	$ 34,232
Assumed	4,347	5,741	9,969	10,255
Ceded	(3,141)	(8,793)	(6,820)	(15,649)
Net Losses and LAE	$ 11,945	$ 14,382	$ 26,214	$ 28,838

7. Debt

The Company's debt is comprised of four instruments: $24.4 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, $10.5 million of privately placed subordinated notes (the “Subordinated Notes”), and a $2.7 million Paycheck Protection Program (PPP) loan issued as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. A summary of the Company's outstanding debt is as follows (dollars in thousands):

	June 30, 2020	December 31, 2019
Senior unsecured notes	$ 23,536	$ 24,288
Subordinated notes	9,561	9,536
Line of credit	3,000	2,000
Paycheck Protection Program loan	2,745	—
Total	$ 38,842	$ 35,824

Senior unsecured notes

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

For the three and six months ended June 30, 2020, the Company repurchased in the public market 9,761 and 36,761 units of the Notes with a face value of $244,000 and $919,000, respectively. The Notes were repurchased at a discount to face value, which resulted in a $145,000 and $260,000 gain on extinguishment for the three and six months ended June 30, 2020, respectively. This gain is reflected in the Consolidated Statement of Operations as Other gains.

Subordinated notes

The Company also has outstanding $10.5 million of Subordinated Notes maturing on September 30, 2038. The Subordinated Notes bear an interest 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.

As of June 30, 2020, the carrying value of the Notes and Subordinated Notes are offset by $845,000 and $939,000 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 financial debt 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 June 30, 2020, the Company was in compliance with all of its financial debt financial covenants.

Line of credit

The Company maintains a $10.0 million line of credit with a national bank (the “Lender”). The line of credit bears interest at the London Interbank rate ("LIBOR") plus 2.75% per annum, payable monthly. The agreement includes several financial debt covenants, including a minimum tangible net worth, a minimum fixed-charge coverage ratio, and minimum statutory risk-based capital levels. As of June 30, 2020, the Company had $3.0 million outstanding on the line of credit, and was in compliance with all of its financial debt covenants. On June 19, 2020, the line of credit was renewed with a maturity of June 18, 2021.

Paycheck Protection Program loan

On April 24, 2020, the Company received a $2,745,000 loan from the line of credit Lender pursuant to the Paycheck Protection Program of the CARES Act administered by the U.S. Small Business Administration. 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 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. This loan may be subject to forgiveness under the CARES Act provisions. No assumptions were made relative to potential forgiveness as of June 30, 2020.

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 June 30, 2020, the Company repurchased 1,698 and 17,664 shares of stock valued at $6,000 and $98,000, respectively, related to the stock repurchase program. For the six months ended June 30, 2020 and 2019, the Company repurchased 2,398 and 142,815 shares of stock valued at $8,000 and $608,000, respectively, related to the stock repurchase program.

For the three months ended June 30, 2020 and 2019, the Company repurchased 2,308 shares of stock valued at $8,000 and $11,000, respectively, related to the vesting of the Company’s restricted stock units. The Company made no repurchases of stock relating to the vesting of restricted stock units during the first quarters of 2020 and 2019. Upon the repurchase of the Company’s shares, the shares remain authorized, but not issued or outstanding.

As of June 30, 2020 and December 31, 2019, the Company had 9,598,155 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):

	Three months ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Balance at beginning of period	$ (1,210)	$ (915)	$ 489	$ (2,612)
Other comprehensive income (loss) before reclassifications	5,017	1,366	3,702	2,923
Less: amounts reclassified from accumulated other comprehensive income (loss)	2	30	386	(110)
Net other comprehensive income (loss)	5,015	1,336	3,316	3,033
Balance at end of period	$ 3,805	$ 421	$ 3,805	$ 421

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):

	Three Months Ended June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Net income (loss)	$ 1,505	$ (2,884)	$ (3,220)	$ (3,564)
Weighted average common shares, basic and diluted*	9,595,668	8,370,782	9,594,221	8,411,835
Earnings (loss) per common share, basic and diluted	$ 0.16	$ (0.34)	$ (0.34)	$ (0.42)

* The nonvested shares of the restricted stock units were anti-dilutive as of June 30, 2020 and 2019. Therefore, the basic and diluted weighted average common shares are equal for the three and six months ended June 30, 2020 and 2019.

11. Stock-based Compensation

On June 30, 2020, the Company issued options to purchase 280,000 shares of the Company's common stock, to certain executive officers and other employees. The right to exercise the options will vest over a five-year period on a straight-line basis. The options have a strike price of $3.81 per share and expire on June 30, 2030. The estimated value of these options is $356,000 which will be expensed ratably over the vesting period. There was no financial statement impact relating to these options as of June 30, 2020.

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 vested	(8)	5.65
Units forfeited	(6)	6.13
Outstanding at June 30, 2019	250	9.08
Units vested	(94)	9.80
Outstanding at December 31, 2019	156	8.45
Units vested	(8)	5.65
Units forfeited	(6)	6.09
Outstanding at June 30, 2020	142	5.37

The Company recorded $475,000 and $485,000 of compensation expense related to the RSUs for the six months ended June 30, 2020 and 2019, respectively. The total compensation cost related to the non-vested portion of the restricted stock units which has not been recognized as of June 30, 2020, was $767,000.

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 California. For the six months ended June 30, 2020 and 2019 gross written premiums attributable to these four states were 51% and 54%, 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 June 30, 2020	**Commercial Lines**	**Personal Lines**	**Total Underwriting**	**Wholesale Agency**	**Corporate**	**Eliminations**	**Total**
Gross written premiums	$ 25,600	$ 1,945	$ 27,545	$ —	$ —	$ —	$ 27,545
Net written premiums	$ 21,377	$ 1,688	$ 23,065	$ —	$ —	$ —	$ 23,065
Net earned premiums	$ 20,105	$ 1,653	$ 21,758	$ —	$ —	$ —	$ 21,758
Other income	82	36	118	2,081	132	(1,618)	713
Segment revenue	20,187	1,689	21,876	2,081	132	(1,618)	22,471
Losses and LAE, net	11,275	670	11,945	—	—	—	11,945
Policy acquisition costs	6,119	506	6,625	1,448	—	(1,678)	6,395
Operating expenses	3,145	272	3,417	736	706	—	4,859
Segment expenses	20,539	1,448	21,987	2,184	706	(1,678)	23,199
Segment gain (loss)	$ (352)	$ 241	$ (111)	$ (103)	$ (574)	$ 60	$ (728)
Investment income					863		863
Net realized investment gains					245		245
Change in fair value of equity securities					1,576		1,576
Other gains					145		145
Interest expense					(731)		(731)
Income (loss) before equity earnings in Affiliate and income taxes	$ (352)	$ 241	$ (111)	$ (103)	$ 1,524	$ 60	$ 1,370

Three months ended June 30, 2019	Commercial Lines		Personal Lines		Total Underwriting		Wholesale Agency		Corporate		Eliminations		Total	
Gross written premiums	$	23,459	$	1,710	$	25,169	$	—	$	—	$	—	$	25,169
Net written premiums	$	20,178	$	1,256	$	21,434	$	—	$	—	$	—	$	21,434
Net earned premiums	$	20,154	$	1,195	$	21,349	$	—	$	—	$	—	$	21,349
Other income		50		45		95		2,575		46		(2,135)		581
Segment revenue		20,204		1,240		21,444		2,575		46		(2,135)		21,930
Losses and LAE, net		12,549		1,833		14,382		—		—		—		14,382
Policy acquisition costs		5,807		345		6,152		1,574		—		(1,516)		6,210
Operating expenses		3,411		276		3,687		535		118		—		4,340
Segment expenses		21,767		2,454		24,221		2,109		118		(1,516)		24,932
Segment gain (loss)	$	(1,563)	$	(1,214)	$	(2,777)	$	466	$	(72)	$	(619)	$	(3,002)
Investment income										1,051		—		1,051
Net realized investment gains										715		—		715
Change in fair value of equity securities										(915)		—		(915)
Other gains										—		—		—
Interest expense										(725)		—		(725)
Income (loss) before equity earnings in Affiliate and income taxes	$	(1,563)	$	(1,214)	$	(2,777)	$	466	$	54	$	(619)	$	(2,876)

Six months ended June 30, 2020	Commercial Lines	Personal Lines	Total Underwriting	Wholesale Agency	Corporate	Eliminations	Total
Gross written premiums	$ 49,044	$ 3,585	$ 52,629	$ —	$ —	$ —	$ 52,629
Net written premiums	$ 41,064	$ 3,052	$ 44,116	$ —	$ —	$ —	$ 44,116
Net earned premiums	$ 40,536	$ 3,239	$ 43,775	$ —	$ —	$ —	$ 43,775
Other income	156	72	228	4,015	163	(3,035)	1,371
Segment revenue	40,692	3,311	44,003	4,015	163	(3,035)	45,146
Losses and LAE, net	24,736	1,478	26,214	—	—	—	26,214
Policy acquisition costs	12,283	995	13,278	2,656	—	(3,236)	12,698
Operating expenses	6,648	547	7,195	1,641	1,068	—	9,904
Segment expenses	43,667	3,020	46,687	4,297	1,068	(3,236)	48,816
Segment gain (loss)	$ (2,975)	$ 291	$ (2,684)	$ (282)	$ (905)	$ 201	$ (3,670)
Investment income					1,817		1,817
Net realized investment gains					1,173		1,173
Change in fair value of equity securities					(1,510)		(1,510)
Other gains					260		260
Interest expense					(1,462)		(1,462)
Income (loss) before equity earnings in Affiliate and income taxes	$ (2,975)	$ 291	$ (2,684)	$ (282)	$ (627)	$ 201	$ (3,392)

Six months ended June 30, 2019	Commercial Lines	Personal Lines	Total Underwriting	Wholesale Agency	Corporate	Eliminations	Total
Gross written premiums	$ 46,043	$ 3,342	$ 49,385	$ —	$ —	$ —	$ 49,385
Net written premiums	$ 39,484	$ 2,272	$ 41,756	$ —	$ —	$ —	$ 41,756
Net earned premiums	$ 40,852	$ 2,184	$ 43,036	$ —	$ —	$ —	$ 43,036
Other income	74	75	149	4,480	132	(3,758)	1,003
Segment revenue	40,926	2,259	43,185	4,480	132	(3,758)	44,039
Losses and LAE, net	25,095	3,743	28,838	—	—	—	28,838
Policy acquisition costs	11,221	755	11,976	2,962	—	(3,139)	11,799
Operating expenses	6,375	541	6,916	1,138	609	—	8,663
Segment expenses	42,691	5,039	47,730	4,100	609	(3,139)	49,300
Segment gain (loss)	$ (1,765)	$ (2,780)	$ (4,545)	$ 380	$ (477)	$ (619)	$ (5,261)
Investment income					1,961	—	1,961
Net realized investment gains					734	—	734
Change in fair value of equity securities					350	—	350
Other gains					—	—	—
Interest expense					(1,435)	—	(1,435)
Income (loss) before equity earnings in Affiliate and income taxes	$ (1,765)	$ (2,780)	$ (4,545)	$ 380	$ 1,133	$ (619)	$ (3,651)

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

For the Periods Ended June 30, 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 $1.5 million reduction in the fair value of our equity portfolio for the six months ended June 30, 2020, due to the stock market reaction to the Pandemic 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.

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 wholesale agency business. Together, the commercial and personal lines refer to "underwriting" operations that take insurance risk, and the wholesale 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 June 30, 2020, there were no material changes to our critical accounting policies and estimating methodologies, 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 net income of $1.5 million, or $0.16 per share, and a net loss of $3.2 million, or $0.34 per share, for three and six months ended June 30, 2020, respectively. The Company reported a net loss of $2.9 million, or $0.34 per share and $3.6 million, or $0.42 per share, for the three and six months ended June 30, 2019, respectively.

Adjusted operating loss, a non-GAAP measure, was $461,000, or $0.05 per share for the three months ended June 30, 2020. Adjusted operating loss was $3.1 million, or $0.33 per share for the six months ended June 30, 2020. Adjusted operating loss was $5.6 million, or $0.67 per share for the three months ended June 30, 2019. Adjusted operating loss was $9.8 million, or $1.17 per share for the six months ended June 30, 2019.

Our underwriting combined ratio was 100.5% and 106.1% for the three and six months ended June 30, 2020, compared to 113.0% and 110.5% for the same periods in 2019, respectively.

Both the commercial and personal lines of business have improved current accident year loss ratios. We believe we are seeing the benefits of an improved mix of business as we have, and continue to, move out of higher loss ratio business and into more profitable areas while continuing to improve underwriting requirements in lines we are retaining.

Commercial lines also experienced low claims activity during the second quarter due to COVID-19. While substantially all businesses maintained their insurance, liability losses were lower as restaurants, bars, and other small businesses were required to limit business or totally shut down for a period of time. This reduced the potential to incur liability losses and contributed to the lower current accident year loss ratio. Potential exposures to COVID-19 losses, on the other hand, were minimal as we include strict exclusions to business interruption coverage related to bacterial or viral causes on most policies and require physical property damage for the business interruption coverage to be effective on all policies. We also do not provide coverage relating to event cancellations, travel insurance or other coverages that could directly generate such losses. We believe we also have limited exposures relating to our workers compensation coverages which are generally companion coverages with our existing commercial policies, which represents a small amount of our overall premiums and does not appear to be heavily exposed to COVID-19-related losses.

Our personal lines also performed much better this quarter as it continues to expand in the historically profitable low-value dwelling area and the wind-exposed and Florida homeowners business, specifically, is becoming insignificant.

Results of Operations For The Three Months Ended June 30, 2020 and 2019

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

Summary of Operating Results

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	$ Change	% Change
Gross written premiums	$ 27,545	$ 25,169	$ 2,376	9.4%
Net written premiums	$ 23,065	$ 21,434	$ 1,631	7.6%
Net earned premiums	$ 21,758	$ 21,349	$ 409	1.9%
Other income	713	581	132	22.7%
Losses and loss adjustment expenses, net	11,945	14,382	(2,437)	(16.9)%
Policy acquisition costs	6,395	6,210	185	3.0%
Operating expenses	4,859	4,340	519	12.0%
Underwriting gain (loss)	(728)	(3,002)	2,274	75.7%
Net investment income	863	1,051	(188)	(17.9)%
Net realized investment gains	245	715	(470)	(65.7)%
Change in fair value of equity securities	1,576	(915)	2,491	*
Other gains	145	—	145	*
Interest expense	731	725	6	0.8%
Income (loss) before equity earnings in Affiliate and income taxes	1,370	(2,876)	4,246	*
Equity earnings (losses) in Affiliate, net of tax	179	(8)	187	*
Income tax expense	44	—	44	*
Net income (loss)	$ 1,505	$ (2,884)	$ 4,389	*
Book value per common share outstanding	$ 4.51	$ 4.89		
Underwriting Ratios:				
Loss ratio (1)	54.6%	67.1%		
Expense ratio (2)	45.9%	45.9%		
Combined ratio (3)	100.5%	113.0%		

(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 June 30, 2020 and 2019 (dollars in thousands):

Summary of Premium Revenue

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	$ Change	% Change
Gross written premiums				
Commercial lines	$ 25,600	$ 23,459	$ 2,141	9.1%
Personal lines	1,945	1,710	235	13.7%
Total	$ 27,545	$ 25,169	$ 2,376	9.4%
Net written premiums				
Commercial lines	$ 21,377	$ 20,178	$ 1,199	5.9%
Personal lines	1,688	1,256	432	34.4%
Total	$ 23,065	$ 21,434	$ 1,631	7.6%
Net earned premiums				
Commercial lines	$ 20,105	$ 20,154	$ (49)	(0.2)%
Personal lines	1,653	1,195	458	38.3%
Total	$ 21,758	$ 21,349	$ 409	1.9%

Gross written premiums increased $2.4 million, or 9.4%, to $27.5 million for the three months ended June 30, 2020, as compared to $25.2 million for the same period in 2019.

Commercial lines gross written premiums increased $2.1 million, or 9.1%, to $25.6 million in the second quarter of 2020, as compared to $23.5 million for the second quarter of 2019. The increase in gross written premiums was attributed to several new small business programs added to our commercial lines, as well as growth in our existing small business programs.

Personal lines gross written premiums increased $235,000, or 13.7%, to $1.9 million in the second quarter of 2020, as compared to $1.7 million for the same period in 2019. The increased gross written premiums were due to a new program added to our low-value dwelling book of business, as well as growth in our existing low-value dwelling programs. These increases were partially offset by a $233,000, or 78.2%, decrease in Florida homeowners premiums.

Net written premiums increased $1.6 million, or 7.6%, to $23.1 million for the three months ended June 30, 2020, as compared to $21.4 million for the same period in 2019. The increase was mostly consistent with the increase in gross written premium for the comparative periods. However, increases in reinsurance rates, effective January 1, 2020, dampened the increase to net written premiums.

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 June 30, 2020, increased $132,000, or 22.7%, to $713,000 as compared to $581,000 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.

Other Gains

Other gains were $145,000 for the three months ended June 30, 2020, compared to $0 for the same period in 2019. The Company repurchased 9,761 units of the Notes during the second quarter of 2020. These repurchases resulted in a gain of $145,000 on extinguishment of the Notes, which was reflected in the Consolidated Statement of Operations as Other gains.

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 June 30, 2020 and 2019 (dollars in thousands).

Three months ended June 30, 2020	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 8,218	$ 690	$ 8,908
Net (favorable) adverse development	3,057	(20)	3,037
Calendar year net losses and LAE	$ 11,275	$ 670	$ 11,945
Accident year loss ratio	40.7%	40.8%	40.7%
Net (favorable) adverse development	15.2%	(1.2)%	13.9%
Calendar year loss ratio	55.9%	39.6%	54.6%

Three months ended June 30, 2019	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 11,089	$ 905	$ 11,994
Net (favorable) adverse development	1,460	928	2,388
Calendar year net losses and LAE	$ 12,549	$ 1,833	$ 14,382
Accident year loss ratio	54.9%	73.0%	55.9%
Net (favorable) adverse development	7.2%	74.8%	11.2%
Calendar year loss ratio	62.1%	147.8%	67.1%

Net losses and LAE decreased by $2.4 million, or 16.9%, for the three months ended June 30, 2020, as compared to the same period in 2019. The calendar year loss ratios were 54.6% and 67.1% for the three months ended June 30, 2020 and 2019, respectively. We believe the improving current accident year loss ratios is a result of an improved mix of business as we have, and continue to, move out of higher loss ratio business and into more profitable areas while continuing to improve underwriting requirements in lines we are retaining. As discussed in the Executive Overview, Commercial lines experienced lower liability claims activity driven by the COVID-19 shut downs. In addition, Personal lines fared well this quarter as the Florida homeowners line is becoming insignificant and growth in the low-value dwelling lines, which have historically performed well, continue to expand.

The Company's incurred losses during the three months ended June 30, 2020, included adverse prior-year reserve development of $3.0 million. The Commercial lines experienced $3.1 million of unfavorable reserve development mostly attributable to small business lines in 2018 and 2017 and prior accident years, most notably in commercial auto lines.

The Company's incurred losses during the three months ended June 30, 2019, included adverse prior-year reserve development of $2.4 million. The Commercial lines experienced $1.5 million of unfavorable reserve development mostly attributable to liability lines in 2017 accident years. Personal lines reserve development was unfavorable by $0.9 million, partly attributable to the Florida homeowners line, and mostly related to the 2016 and 2017 accident years. The reported reserve development is net of the amortization of the deferred gain on the ADC of $2.9 million, of which almost the entire amount favorably impacted the commercial lines. This provided $2.9 million of benefit toward the adverse development for the three months ended June 30, 2019, leaving $481,000 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 June 30,	
	2020	2019
Commercial Lines		
Policy acquisition costs	30.3%	28.7%
Operating expenses	15.5%	16.9%
Total	45.8%	45.6%
Personal Lines		
Policy acquisition costs	30.0%	27.8%
Operating expenses	16.1%	22.3%
Total	46.1%	50.1%
Total Underwriting		
Policy acquisition costs	30.3%	28.7%
Operating expenses	15.6%	17.2%
Total	45.9%	45.9%

Our expense ratio remained flat at 45.9% for the three months ended June 30, 2020 and 2019, respectively.

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 June 30, 2020 and 2019, the percentage of policy acquisition costs to net earned premiums and other underwriting income increased to 30.3% compared to 28.7%, respectively. The acquisition cost ratio was higher mostly due to higher ceded premium rates in 2020 compared to 2019.

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 15.6% and 17.2% for the three months ended June 30, 2020 and 2019, respectively. Slightly higher underwriting revenue and continued reductions in operating expenses from our initiatives helped to lower the percentage.

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 June 30, 2020 and 2019 (dollars in thousands):

Segment Gain (Loss)

	Three Months Ended June 30,		
	2020	2019	$ Change
Commercial Lines	$ (352)	$ (1,563)	$ 1,211
Personal Lines	241	(1,214)	1,455
Total Underwriting	(111)	(2,777)	2,666
Wholesale Agency	(103)	466	(569)
Corporate	(574)	(72)	(502)
Eliminations	60	(619)	679
Total Segment gain (loss)	$ (728)	$ (3,002)	$ 2,274

Results of Operations For The Six Months Ended June 30, 2020 and 2019

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

Summary of Operating Results

	Six months ended June 30, 2020	Six months ended June 30, 2019	$ Change	% Change
Gross written premiums	$ 52,629	$ 49,385	$ 3,244	6.6%
Net written premiums	$ 44,116	$ 41,756	$ 2,360	5.7%
Net earned premiums	$ 43,775	$ 43,036	$ 739	1.7%
Other income	1,371	1,003	368	36.7%
Losses and loss adjustment expenses, net	26,214	28,838	(2,624)	(9.1)%
Policy acquisition costs	12,698	11,799	899	7.6%
Operating expenses	9,904	8,663	1,241	14.3%
Underwriting gain (loss)	(3,670)	(5,261)	1,591	30.2%
Net investment income	1,817	1,961	(144)	(7.3)%
Net realized investment gains	1,173	734	439	59.8%
Change in fair value of equity securities	(1,510)	350	(1,860)	*
Other gains	260	—	260	*
Interest expense	1,462	1,435	27	1.9%
Income (loss) before equity earnings in Affiliate and income taxes	(3,392)	(3,651)	259	*
Equity earnings in Affiliate, net of tax	229	98	131	*
Income tax expense	57	11	46	*
Net income (loss)	$ (3,220)	$ (3,564)	$ 344	*
Book value per common share outstanding	$ 4.51	$ 4.89		
Underwriting Ratios:				
Loss ratio (1)	59.6%	66.8%		
Expense ratio (2)	46.5%	43.7%		
Combined ratio (3)	106.1%	110.5%		

(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 six months ended June 30, 2020 and 2019 (dollars in thousands):

	Six months ended June 30, 2020	Six months ended June 30, 2019	$ Change	% Change
Gross written premiums				
Commercial lines	$ 49,044	$ 46,043	$ 3,001	6.5%
Personal lines	3,585	3,342	243	7.3%
Total	$ 52,629	$ 49,385	$ 3,244	6.6%
Net written premiums				
Commercial lines	$ 41,064	$ 39,484	$ 1,580	4.0%
Personal lines	3,052	2,272	780	34.3%
Total	$ 44,116	$ 41,756	$ 2,360	5.7%
Net earned premiums				
Commercial lines	$ 40,536	$ 40,852	$ (316)	(0.8)%
Personal lines	3,239	2,184	1,055	48.3%
Total	$ 43,775	$ 43,036	$ 739	1.7%

Gross written premiums increased $3.2 million, or 6.6%, to $52.6 million for the six months ended June 30, 2020, as compared to $49.4 million for the same period in 2019.

Commercial lines gross written premiums increased $3.0 million, or 6.5%, to $49.0 million for the six months ended June 30, 2020, as compared to $46.0 million for the same period in 2019. The increase in gross written premiums was attributed to several new small business programs added to our commercial lines book of business in 2020, as well as continued growth in our existing small business programs.

Personal lines gross written premiums increased $243,000, or 7.3%, to $3.6 million for the six months ended June 30, 2020, as compared to $3.3 million for the same period in 2019. The increased gross written premiums were due to a new program added to our low-value dwelling book of business, as well as growth in an existing low-value dwelling program. These increases were partially offset by a $532,000, or 79.6%, decline in Florida homeowners premiums.

Net written premiums increased $2.4 million, or 5.7%, to $44.1 million for the six months ended June 30, 2020, as compared to $41.8 million for the same period in 2019. The increase was consistent with the increase in gross written premium for the comparative periods. However, increases in reinsurance rates, effective January 1, 2020, dampened the increase to net written premiums.

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 six months ended June 30, 2020, increased $368,000, or 36.7%, to $1.4 million as compared to $1.0 million 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.

Other Gains

Other gains were $260,000 for the six months ended June 30, 2020, compared to $0 for the same period in 2019. The Company repurchased 36,761 units of the Notes during the six months ended June 30, 2020. These repurchases resulted in a gain of $260,000 on extinguishment of the Notes, which was reflected in the Consolidated Statement of Operations as Other gains.

Losses and Loss Adjustment Expenses

The tables below detail our losses and loss adjustment expenses and loss ratios in our underwriting business for the six months ended June 30, 2020 and 2019 (dollars in thousands).

Six months ended June 30, 2020	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 17,996	$ 1,432	$ 19,428
Net (favorable) adverse development	6,740	46	6,786
Calendar year net losses and LAE	$ 24,736	$ 1,478	$ 26,214
Accident year loss ratio	44.2%	43.2%	44.2%
Net (favorable) adverse development	16.6%	1.4%	15.4%
Calendar year loss ratio	60.8%	44.6%	59.6%

Six months ended June 30, 2019	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 22,721	$ 1,744	$ 24,465
Net (favorable) adverse development	2,374	1,999	4,373
Calendar year net losses and LAE	$ 25,095	$ 3,743	$ 28,838
Accident year loss ratio	55.5%	77.2%	56.7%
Net (favorable) adverse development	5.8%	88.5%	10.1%
Calendar year loss ratio	61.3%	165.7%	66.8%

Net losses and LAE decreased by $2.6 million, or 9.1%, for the six months ended June 30, 2020, as compared to the same period in 2019. The calendar year loss ratios were 59.6% and 66.8% for the six months ended June 30, 2020 and 2019, respectively.

We believe the improving current accident year loss ratios is a result of an improved mix of business as we have, and continue to, move out of higher loss ratio business and into more profitable areas while continuing to improve underwriting requirements in lines we are retaining. As discussed in the Executive Overview, Commercial lines experienced lower liability claims activity driven by the COVID-19 shut downs. In addition, Personal lines continues to improve as the Florida homeowners line is becoming insignificant and growth in the low-value dwelling lines, which have historically performed well, continue to expand.

The Company's incurred losses during the six months ended June 30, 2020, included adverse prior-year reserve development of $6.8 million. The Commercial lines experienced $6.7 million of unfavorable reserve development for the six months ended June 30, 2020. Of the $6.7 million in adverse development experienced in commercial lines, $5.6 million was incurred in our hospitality programs, while $1.1 million was experienced in our small business programs. The adverse development was mostly attributable to the 2018 and 2017 and prior accident years.

The Company's incurred losses during the six months ended June 30, 2019, included adverse prior-year reserve development of $4.4 million. The Commercial lines experienced $2.4 million of unfavorable reserve development mostly attributable to liability lines in the 2017 accident years. Personal lines was unfavorable by $2.0 million, of which $1.4 million was attributable to the Florida homeowners line, and mostly related to the 2016 and 2017 accident years. The reported reserve development is net of the amortization of the deferred gain on the ADC of $5.2 million, of which almost the entire amount favorably impacted the commercial lines. This provided $5.2 million of benefit toward the adverse development for the six months ended June 30, 2019, leaving $481,000 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.

	Six months ended June 30,	
	2020	2019
Commercial Lines		
Policy acquisition costs	30.2%	27.4%
Operating expenses	16.3%	15.6%
Total	46.5%	43.0%
Personal Lines		
Policy acquisition costs	30.1%	33.4%
Operating expenses	16.5%	24.0%
Total	46.6%	57.4%
Total Underwriting		
Policy acquisition costs	30.2%	27.7%
Operating expenses	16.3%	16.0%
Total	46.5%	43.7%

Our expense ratio increased by 2.8% in the six months ended June 30, 2020, as compared to the same period in 2019.

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 six months ended June 30, 2020 and 2019, the percentage of policy acquisition costs to net earned premiums and other underwriting income increased to 30.2% compared to 27.7%, 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 16.3% and 16.0% for the six months ended June 30, 2020 and 2019, respectively. The Company has made progress in reducing its overhead costs as part of its cost cutting initiatives.

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 six months ended June 30, 2020 and 2019 (dollars in thousands):

	Six months ended June 30,		
	2020	2019	$ Change
Commercial Lines	$ (2,975)	$ (1,765)	$ (1,210)
Personal Lines	291	(2,780)	3,071
Total Underwriting	(2,684)	(4,545)	1,861
Wholesale Agency	(282)	380	(662)
Corporate	(905)	(477)	(428)
Eliminations	201	(619)	820
Total underwriting income (loss)	$ (3,670)	$ (5,261)	$ 1,591

Liquidity and Capital Resources

Sources and Uses of Funds

At June 30, 2020, we had $15.7 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 six months ended June 30, 2020 and 2019.

Cash Flows

Operating Activities. Cash used in operating activities for the six months ended June 30, 2020 was $4.6 million, compared to $0.2 million of cash used in operating activities for the same period in 2019. The $4.4 million increase in cash used in operating activities was primarily due to a $5.2 million increase in cash paid on losses.

Investing Activities. Cash used in investing activities for the six months ended June 30, 2020 was $860,000, as compared to $4.5 million of cash provided by investing activities for the same period in 2019. The $5.4 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 for the first six months of 2020, due to the changing market conditions from the COVID-19 pandemic.

Financing Activities. Cash provided by financing activities for the six months ended June 30, 2020 was $2.8 million, compared to $5.4 million for the same period in 2019. The $2.6 million decrease in cash provided by financing activities was due to no common equity issued by the Company during the first six months of 2020, compared to $5.0 million of common equity issued for the same period in 2019. This $2.6 million decrease in cash was offset by the Company receiving $2.7 million of funds from the PPP loan, and drawing down an additional $1.0 million on its line of credit during the first six months of 2020.

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 $59.8 million and $59.6 million at June 30, 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 June 30,		Six months ended June 30,	
	2020	**2019**	**2020**	**2019**
Net income (loss)	$ 1,505	$ (2,884)	$ (3,220)	$ (3,564)
Exclude:				
Net realized investment gains and other gains, net of tax	390	715	1,433	734
Change in fair value of equity securities, net of tax	1,576	(915)	(1,510)	350
Net decrease (increase) in deferred gain on losses ceded to ADC, net of tax	—	2,913	—	5,196
Adjusted operating income (loss)	**$ (461)**	**$ (5,597)**	**$ (3,143)**	**$ (9,844)**
Weighted average common shares diluted	9,595,668	8,370,782	9,594,221	8,411,835
Diluted income (loss) per common share:				
Net income (loss)	$ 0.16	$ (0.34)	$ (0.34)	$ (0.42)
Exclude:				
Net realized investment gains and other gains, net of tax	0.04	0.09	0.15	0.09
Change in fair value of equity securities, net of tax	0.16	(0.11)	(0.16)	0.04
Net decrease (increase) in deferred gain on losses ceded to ADC, net of tax	—	0.35	—	0.62
Adjusted operating income (loss) per share	**$ (0.04)**	**$ (0.67)**	**$ (0.33)**	**$ (1.17)**

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 June 30, 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 June 30, 2020, the fair value of our investment portfolio, excluding cash and cash equivalents, was $170.6 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 June 30, 2020 and December 31, 2019 was 3.5 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 June 30, 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 June 30, 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	$ 147,534	$ (10,223)	(6.48)%	(23.62)%
100 basis point increase	152,661	(5,096)	(3.23)%	(11.77)%
No change	157,757	—	—	—
100 basis point decrease	160,044	2,287	1.45%	5.29%
200 basis point decrease	160,234	2,477	1.57%	5.72%

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 June 30, 2020, the net amount due to the Company from reinsurers, including prepaid reinsurance premiums, was $30.5 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 June 30, 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 June 30, 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 six months ended June 30, 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 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.

No underwriters were involved in the 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

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Period Ending	Exhibit / Appendix Number	Filing Date
10.25	Amendment to Promissory Note dated as of June 19, 2020 between the Company and The Huntington National Bank				
10.26	Fourth Amendment to Credit Agreement dated as of June 19, 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: August 12, 2020

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Section 2: EX-10.25 (EX-10.25)

Exhibit 10.25

AMENDMENT TO PROMISSORY NOTE

This Amendment to Promissory Note ("**Amendment**") is dated June 19, 2020 (and is effective as of June 19, 2020), and made by and between **CONIFER HOLDINGS, INC.** ("**Borrower**"), and **THE HUNTINGTON NATIONAL BANK** ("**Lender**").

W IT N E S S ET H:

WHEREAS, Borrower has executed and delivered that certain Promissory Note dated as of June 21, 2018, in the original principal amount of Ten Million Dollars ($10,000,000) payable to Lender, as amended (the "**Note**");

WHEREAS, Borrower and Lender desire to amend the Note as set forth herein; NOW, THEREFORE, the parties agree as follows:

1. The Maturity Date of the Note is now June 18, 2021.
2. The definitions of LIBO Rate and Replacement Index in the Note are amended to read as follows: "LIBO Rate" shall mean the rate obtained by dividing: (1) the actual or estimated per annum rate, or the arithmetic mean of the per annum rates, of interest for deposits in U.S. dollars in the London interbank market for the related LIBO Rate Interest Period, as determined by Bank in its discretion based upon reference to information which appears on page LIBOR01, captioned ICE Benchmark Administration Interest Settlement Rates, of the Reuters America Network, a service of Reuters America Inc. (or such other page that may replace that page on that service for the purpose of displaying London interbank offered rates; or, if such service ceases to be available or ceases to be used by Bank, such other reasonably comparable money rate service as Bank may select) or upon information obtained from any other reasonable procedure, as of two Business Days prior to the first day of a LIBO Rate Interest Period; by (2) an amount equal to one minus the stated maximum rate (expressed as a decimal), if any, of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves) that is specified on the first day of each LIBO Rate Interest Period by the Board of Governors of the Federal Reserve System (or any successor agency thereto) for determining the maximum reserve requirement with respect to eurocurrency funding (currently referred to as "Eurocurrency liabilities" in Regulation D of such Board) maintained by a member bank of such System, or any other regulations of any governmental authority having jurisdiction with respect thereto as conclusively determined by Bank. Subject to any maximum or minimum interest rate limitation specified herein or by applicable law, any variable rate of interest on the obligation evidenced hereby shall change automatically, without notice to the Borrower, on the first day of each LIBO Rate Interest Period. The interest rate change will not occur more often than each month. The reference sources for the index used by Bank, as stated in this Note, may quote the index on any given day to as many as 5 places to the right of the decimal point. Therefore, the index value used to calculate the interest rate on and the amount of interest due under this Note will be up to 5 places to the right of the decimal point. Notwithstanding the foregoing, if the LIBO Rate shall be less than one half of one percent (1/2%), such rate shall be deemed to be one half of one percent (1/2%) for purposes of this Note.

"Replacement Index" means the sum of: (x) the alternate index rate (which may be based on the Secured Overnight Financing Rate) that has been selected by Bank and (y) the adjustment factor (which may be a positive or negative value or zero) that has been selected by Bank; provided, that if the Replacement Index is less than one half of one percent (1/2%), it shall be deemed to be one half of one percent (1/2%) for purposes of this Note. In making such selections, Bank shall give due consideration to (i) any selection or recommendation by the Federal Reserve Board and/or the Federal Reserve Bank of New York (or a committee officially endorsed or

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convened thereby) or any successor thereto or (ii) any evolving or then-prevailing market convention for such rate or adjustment."

3. This Amendment may be executed in counterparts, each of which shall constitute an original and all of which shall together constitute one and the same Amendment.

4. Capitalized terms not defined herein shall have the meanings ascribed to them in the Note.

5. Borrower is responsible for all costs incurred by Lender, including, without limitation, reasonable attorneys' fees, with regard to the preparation and execution of this Amendment.

6. The execution of this Amendment shall not be deemed to be a waiver of any Event of Default.

7. This Amendment is not an agreement to any further or other amendment of the Note.

8. Borrower expressly acknowledges and agrees that except as expressly amended by this Amendment, the Note, as amended, remains in full force and effect and is ratified, confirmed and restated.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date set forth above.

All signatures on file

LENDER: BORROWER:

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

By: By:_Andrew R. CraigBrian Roney

Its: Senior Vice President Its: President

By:_ Nicholas Petcoff

Its: Execu
Vice-President

[Signature Page to Amendment to Promissory Note (16786071)]

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Section 3: EX-10.26 (EX-10.26)

Exhibit 10.26

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT ("Amendment"), is made as of the 19th day of June, 2020 (and is effective as of June 19, 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 three Amendments ("Agreement").

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

1. The definition of Revolving Credit Maturity Date in Section 1.1 of the Agreement is amended to read as follows:

"Revolving Credit Maturity Date" shall mean June 18, 2021."

2. Section 2.12 of the Agreement is amended to read as follows:

"2.12 Paydown. Borrower shall reduce to Zero Dollars ($0) the Advances under the Revolving Credit Note for thirty (30) consecutive days during the period beginning on June 18, 2020 and ending June 18, 2021."

3. 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.

4. 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.

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

6. This Amendment shall be effective as of June 19, 2020 upon (a) execution of this Amendment by Borrower and Bank and (b) payment by Borrower to Bank of a non-refundable amendment fee in the amount of $10,000.

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

THE HUNTINGTON NATIONAL BANK

CONIFER HOLDINGS, INC.

All signatures on file

By: By: Andrew R. CraigBrian Roney

Its: Senior Vice President

Its: President

By: Nicholas Petcoff

Its: Execu
Vice-President

[Signature Page to Fourth Amendment to Credit Agreement (16786069)]

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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 June 30, 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: August 12, 2020

/s/ James G. Petcoff

James G. Petcoff

Chief Executive Officer
(principal executive officer)

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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 June 30, 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: August 12, 2020

/s/ Harold J. Meloche

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

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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 June 30, 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: August 12, 2020

/s/ James G. Petcoff

James G. Petcoff
Chief Executive Officer

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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 June 30, 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: August 12, 2020

/s/ Harold J. Meloche

Harold J. Meloche
Chief Financial Officer

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