ATLANTIC AMERICAN CORP
Form 10-Q
May 14, 2009

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

FORM 10-Q

|X| Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2009

OR

|_| Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 0-3722

ATLANTIC AMERICAN CORPORATION
Incorporated pursuant to the laws of the State of Georgia

Internal Revenue Service-- Employer Identification No.
58-1027114

Address of Principal Executive Offices:
4370 Peachtree Road, N.E., Atlanta, Georgia 30319
(404) 266-5500

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 |X| No |_|

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

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

Large Accelerated Filer |_| Accelerated Filer |_| Non-Accelerated Filer |_| (Do not check if a smaller reporting company) Smaller Reporting Company |X|

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

The total number of shares of the registrant s Common Stock, $1 par value, outstanding on May 12, 2009, was 22,323,595.

ATLANTIC AMERICAN CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS

	Unaudited March 31, 2009	December 31, 2008
Cash and cash equivalents, including short-term investments of $18,725 and $21,339	$ 23,920	$ 37,321
Investments:		
Fixed maturities (cost: $178,931 and $171,265)	166,577	163,097
Common and non-redeemable preferred stocks (cost: $8,816 and $8,816)	3,754	5,291
Other invested assets (cost: $1,403 and $1,433)	1,403	1,433
Policy and student loans	2,004	2,019
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	175,014	173,116
Receivables:		
Reinsurance	10,111	14,870
Other (net of allowance for doubtful accounts: $541 and $676)	6,743	7,789
Deferred income taxes, net	12,501	10,577
Deferred acquisition costs	19,176	19,160
Other assets	1,648	1,648
Goodwill	2,128	2,128
Total assets	$ 251,241	$ 266,609

LIABILITIES AND SHAREHOLDERS' EQUITY

Insurance reserves and policy funds:		
Future policy benefits	$ 57,227	$ 56,827
Unearned premiums	18,162	19,542
Losses and claims	47,078	52,499
Other policy liabilities	1,513	1,906
Total policy liabilities	123,980	130,774
Accounts payable and accrued expenses	14,137	19,183
Junior subordinated debenture obligations	41,238	41,238
Total liabilities	179,355	191,195
Commitments and contingencies (Note 11)		
Shareholders' equity:		

Preferred stock, $1 par, 4,000,000 shares authorized; Series D preferred, 70,000 shares issued and outstanding; $7,000 redemption value	70	70
Common stock, $1 par, 50,000,000 shares authorized; shares issued: 22,373,900 and 22,373,900; shares outstanding: 22,323,595 and 22,332,087	22,374	22,374
Additional paid-in capital	57,124	57,107
Retained earnings	5,248	5,119
Accumulated other comprehensive loss	(12,867)	(9,200)
Treasury stock, at cost: 50,305 and 41,813 shares	(63)	(56)
Total shareholders' equity	71,886	75,414
Total liabilities and shareholders' equity	$ 251,241	$ 266,609

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

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2009	2008
Revenue:		
Insurance premiums	$ 22,797	$ 23,032
Investment income	2,735	2,690
Realized investment gains, net	13	24
Other income	67	157
Total revenue	25,612	25,903
Benefits and expenses:		
Insurance benefits and losses incurred	14,880	13,918
Commissions and underwriting expenses	7,518	8,309
Interest expense	721	927
Other	2,186	2,028
Total benefits and expenses	25,305	25,182
Income from continuing operations before income taxes	307	721
Income tax expense	51	297
Income from continuing operations	256	424
Loss from discontinued operations, net of tax (Note 3)	-	(2,166)
Net income (loss)	256	(1,742)
Preferred stock dividends	(127)	(428)
Net income (loss) applicable to common stock	$ 129	$ (2,170)
Basic income (loss) per common share:		
Income from continuing operations	$ .01	$ -
Loss from discontinued operations	-	(.10)
Net income (loss) applicable to common shareholders	$ .01	$ (.10)
Diluted income (loss) per common share:		
Income from continuing operations	$ .01	$ -
Loss from discontinued operations	-	(.10)
Net income (loss) applicable to common shareholders	$ .01	$ (.10)

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

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

Three Months Ended March 31, 2009	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2008	$ 70	$ 22,374	$ 57,107	$ 5,119	$ (9,200)	$ (56)	$ 75,414
Comprehensive income (loss):							
Net income				256			256
Increase in unrealized investment losses					(5,722)		(5,722)
Fair value adjustment to derivative financial instrument					81		81
Deferred income tax attributable to other comprehensive loss					1,974		1,974
Total comprehensive loss							(3,411)
Dividends accrued on preferred stock				(127)			(127)
Amortization of unearned compensation			17				17
Purchase of shares for treasury						(7)	(7)
Balance, March 31, 2009	$ 70	$ 22,374	$ 57,124	$ 5,248	$ (12,867)	$ (63)	$ 71,886
Three Months Ended March 31, 2008							
Balance, December 31, 2007	$ 204	$ 21,817	$ 56,414	$ 10,530	$ (1,171)	$ -	$ 87,794
Comprehensive income (loss):							
Net loss				(1,742)			(1,742)
Increase in unrealized investment losses					(1,722)		(1,722)
Fair value adjustment to derivative financial instrument					(665)		(665)
Deferred income tax attributable to other comprehensive loss					835		835
Total comprehensive loss							(3,294)
Dividends accrued on preferred stock				(428)			(428)
Amortization of unearned compensation			17				17
Issuance of shares for employee benefit plans and stock options		40	21				61

Balance, March 31, 2008	$ 204	$ 21,857	$ 56,452	$ 8,360	$ (2,723)	$ -	$ 84,150

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

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in thousands)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 256	$ (1,742)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of deferred acquisition costs	2,745	2,738
Acquisition costs deferred	(2,761)	(2,499)
Realized investment gains	(13)	(24)
Decrease in insurance reserves	(6,794)	(2,988)
Loss from discontinued operations, net	-	2,166
Compensation expense related to share awards	17	17
Depreciation and amortization	54	106
Deferred income tax expense (benefit)	51	(1,280)
Decrease in receivables, net	5,421	240
Decrease in other liabilities	(5,091)	(3,264)
Goodwill impairment	-	260
Other, net	38	(1,472)
Net cash used in continuing operations	(6,077)	(7,742)
Net cash used in discontinued operations	-	(3,424)
Net cash used in operating activities	(6,077)	(11,166)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold, called or matured	34,801	36,926
Investments purchased	(42,030)	(31,019)
Net proceeds from sale of insurance subsidiaries	-	43,392
Additions to property and equipment	(88)	(69)
Net cash (used in) provided by continuing operations	(7,317)	49,230
Net cash used in discontinued operations (net of $35,501 of cash transferred in 2008)	-	(11,996)
Net cash (used in) provided by investing activities	(7,317)	37,234
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of debt	-	(9,000)
Purchase of shares for treasury	(7)	-
Financing of discontinued operations	-	4
Net cash used in continuing operations	(7)	(8,996)
Net cash used in discontinued operations	-	(4)

Net cash used in financing activities	(7)	(9,000)
Net (decrease) increase in cash and cash equivalents	(13,401)	17,068
Cash and cash equivalents at beginning of period		
Continuing operations	37,321	36,909
Discontinued operations	-	15,424
Total	37,321	52,333
Cash and cash equivalents at end of period		
Continuing operations	23,920	69,401
Discontinued operations	-	-
Total	$ 23,920	$ 69,401
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 755	$ 999
Cash paid for income taxes	$ -	$ 2,000

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

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ATLANTIC AMERICAN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2009
(Unaudited; Dollars in thousands, except per share amounts)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Atlantic American Corporation (the Parent) and its subsidiaries (collectively, the Company). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements and the related notes thereto included herein should be read in conjunction with the Company s consolidated financial statements, and the notes thereto, that are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. Operating results for the three month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

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

In March 2008, the Company completed the sale of its regional property and casualty operations, comprised of Association Casualty Insurance Company and Association Risk Management General Agency, Inc. (collectively known as Association Casualty) and Georgia Casualty & Surety Company (Georgia Casualty), to Columbia Mutual Insurance Company (Columbia). Accordingly, the results of operations of Association Casualty and Georgia Casualty have been reflected by the Company as discontinued operations. See Note 3.

Note 2. Impact of Recently Issued Accounting Standards

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FSP FAS 157-4 clarifies that the measurement objective in determining fair value when the volume and level of activity for an asset or liability have significantly decreased is the price that would be received to sell the asset in an orderly transaction between willing market participants under current market conditions, and not the value in a hypothetical active market. FSP FAS 157-4 includes additional factors for determining whether there has been a significant decrease in the volume and level of activity for an asset or liability compared to normal activity for that asset or liability (or similar assets or liabilities) and provides additional guidance in estimating fair value in those instances. FSP FAS 157-4 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence and further requires an entity to disclose any change in valuation techniques, the related inputs, and the effects resulting from its application.

In April 2009, the FASB issued FSP No. FAS 115-2 and No. FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 replaces the existing requirement for debt securities, that in order for an entity to conclude impairment is not other-than-temporary, it must have the intent and ability to hold an impaired security for a period sufficient to allow for recovery in value of the investment. To conclude impairment is not other-than-temporary, FSP FAS 115-2 and FAS 124-2 requires management to assert that it does not have the intent to sell the security and that it is more likely than not it will not have to sell the security before recovery of its cost basis. FSP FAS 115-2 and FAS 124-2 also change the presentation in the financial statements of non-credit related impairment amounts for instruments within its scope. When the entity asserts it does not have the intent to sell the security and it is more likely than not it will not have to sell the security before recovery of its cost basis, only the credit related impairment losses are to be recorded in earnings; non-credit related losses are to be recorded in accumulated other comprehensive income. FSP FAS 115-2 and FAS 124-2 also expand and increase the frequency of existing disclosures about other-than-temporary impairments for debt and equity securities.

FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009, provided both FSPs are adopted concurrently. The Company will adopt both FSPs beginning with the interim period ending on June 30, 2009. The Company has not yet determined the effect of the adoption of these FSPs on the Company s consolidated financial statements, but does not believe it will be material to the results of operations.

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In May 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) SFAS No. 163, Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60 (SFAS 163). The scope of SFAS 163 is limited to financial guarantee insurance (and reinsurance) contracts issued by enterprises that are included within the scope of SFAS 60 and that are not accounted for as derivative instruments. SFAS 163 excludes from its scope insurance contracts that are similar to financial guarantee insurance such as mortgage guaranty insurance and credit insurance on trade receivables. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for certain disclosures about the insurance enterprise s risk-management activities. Except for certain disclosures, earlier application is not permitted. The Company adopted SFAS 163 on January 1, 2009. Adoption of this statement did not have a material impact on the Company s financial condition or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161), an amendment of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS 161 amends and expands disclosures about an entity s derivative and hedging activities with the intent of providing users of financial statements with an enhanced understanding of a) how and why an entity uses derivative instruments, b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures. The Company adopted SFAS 161 on January 1, 2009. Adoption of this statement did not have a material impact on the Company s financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). This statement replaces SFAS No. 141, Business Combinations and establishes the principles and requirements for how the acquirer in a business combination: (a) measures and recognizes the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquired entity, (b) measures and recognizes positive goodwill acquired or a gain from bargain purchase (negative goodwill), and (c) determines the disclosure information that is decision-useful to users of financial statements in evaluating the nature and financial effects of the business combination. SFAS 141(R) further requires all transaction costs for an acquisition to be expensed as incurred rather than capitalized, and changes the measurement date to the date an acquisition closes. In December 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). This statement amends Accounting Research Bulletin No. 51, Consolidated Financial Statements (ARB 51). Noncontrolling interest refers to the minority interest portion of the equity of a subsidiary that is not attributable directly or indirectly to a parent. SFAS 160 establishes accounting and reporting standards that require for-profit entities that prepare consolidated financial statements to (a) present noncontrolling interests as a component of equity, separate from the parent s equity, (b) separately present the amount of consolidated net income attributable to noncontrolling interests in the income statement, (c) consistently account for changes in a parent s ownership interests in a subsidiary in which the parent entity has a controlling financial interest as equity transactions, (d) require an entity to measure at fair value its remaining interest in a subsidiary that is deconsolidated, and (e) require an entity to provide sufficient disclosures that identify and clearly distinguish between interests of the parent and interests of noncontrolling owners. Both SFAS 141(R) and SFAS 160 are effective for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. The Company adopted SFAS 141(R) and SFAS 160 on January 1, 2009. Adoption of these statements did not have a material impact on the Company s financial condition or results of operations.

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Note 3. Discontinued Operations

On March 31, 2008, the Company completed the sale of its regional property and casualty operations comprised of Association Casualty and Georgia Casualty to Columbia for approximately $41,600 in cash. Accordingly, the consolidated financial statements reflect the operating results of Association Casualty and Georgia Casualty as discontinued operations.

The following table provides operating results from the discontinued operations of Association Casualty and Georgia Casualty for the three month period ended March 31, 2008:

	Three Months Ended March 31,
	2008
Revenue:	
Insurance premiums	$ 8,789
Investment income	1,400
Realized investment gains, net	8
Other income	11
Total revenue	10,208
Benefits and expenses:	
Insurance benefits and losses incurred	8,657
Commissions and underwriting expenses	3,800
Total benefits and expenses	12,457
Loss from discontinued operations before taxes	(2,249)
Income tax benefit	(815)
Loss from discontinued operations, net of tax	(1,434)
Loss from sale of discontinued operations, net of tax of $415	(732)
Net loss from discontinued operations	$ (2,166)

Note 4. Segment Information

The Company s operating subsidiaries, American Southern Insurance Company and American Safety Insurance Company (together known as American Southern) and Bankers Fidelity Life Insurance Company (Bankers Fidelity), operate in two principal business units, each focusing on a specific geographic region and/or specific products. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each business unit is managed independently and is evaluated on its individual performance. The following summary sets forth the revenue and pre-tax income (loss) for each business unit for the three month periods ended March 31, 2009 and 2008.

	Three Months Ended March 31,	
Revenues	2009	2008
American Southern	$ 10,252	$ 10,556
Bankers Fidelity	15,242	15,199

Corporate and Other	1,816	2,011
Adjustments and Eliminations	(1,698)	(1,863)
Total Revenue	$ 25,612	$ 25,903

	Three Months Ended March 31,	
Income (loss) before income taxes	2009	2008
American Southern	$ 1,605	$ 2,134
Bankers Fidelity	395	416
Corporate and Other	(1,693)	(1,829)
Consolidated Results	$ 307	$ 721

Note 5. Credit Arrangements

Bank Debt

At March 31, 2009, the Company had a reducing revolving credit facility (the Credit Agreement) with Wachovia Bank, National Association (Wachovia) pursuant to which the Company was able to, subject to the terms and conditions thereof, initially borrow or reborrow up to $15,000 (the Commitment Amount). In accordance with the terms of the Credit Agreement, the Commitment Amount is incrementally reduced every six months and was equal to $13,000 at March 31, 2009. The interest rate on amounts outstanding under the Credit Agreement is, at the option of the Company, equivalent to either (a) the base rate (which equals the higher of the Prime Rate or 0.5% above the Federal Funds Rate, each as defined) or (b) the London Interbank Offered Rate (LIBOR) determined on an interest period of 1-month, 2-months, 3-months or 6-months, plus an Applicable Margin (as defined). The Applicable Margin varies based upon the Company s leverage ratio (funded debt to total capitalization, each as defined) and ranges from 1.75% to 2.50%. Interest on amounts outstanding is payable quarterly. The Credit Agreement requires the Company to comply with certain covenants, including, among others, ratios that relate funded debt to both total capitalization and earnings before interest, taxes, depreciation and amortization, as well as the maintenance of minimum levels of tangible net worth. The Company must also comply with limitations on capital expenditures, certain payments, additional debt obligations, equity repurchases and certain redemptions, as well as minimum risk-based capital levels. Upon the occurrence of an event of default, Wachovia may terminate the Credit Agreement and declare all amounts outstanding due and payable in full. During the three month period ended March 31, 2009, there was no balance outstanding under this Credit Agreement.

Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities (Trust Preferred Securities) representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures (Junior Subordinated Debentures) of Atlantic American; and (iii) engaging in only those activities necessary or incidental thereto.

The financial structure of each of Atlantic American Statutory Trust I and II, as of March 31, 2009 was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES [1] [2]		
Principal amount owed	$ 18,042	$ 23,196
Balance March 31, 2009	18,042	23,196
Balance December 31, 2008	18,042	23,196
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer on or after	December 4, 2007	May 15, 2008
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	$ 1	$ 1
Liquidation value	17,500	22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by[3]	Atlantic American Corporation	Atlantic American Corporation

(1) For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures' respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company's common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.

(2) The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.

(3) The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

Note 6. Derivative Financial Instruments

On February 21, 2006, the Company entered into a zero cost rate collar with Wachovia to hedge future interest payments on a portion of the Junior Subordinated Debentures. The notional amount of the collar was $18,042 with an effective date of March 6, 2006. The collar has a LIBOR floor rate of 4.77% and a LIBOR cap rate of 5.85% and adjusts quarterly on the 4th of each March, June, September and December through termination on March 4, 2013. The Company began making payments to Wachovia under the zero cost rate collar on June 4, 2008. As a result of interest rates remaining below the LIBOR floor rate of 4.77%, these payments to Wachovia under the zero cost rate collar continued throughout 2008 and into 2009. While the Company is exposed to counterparty risk should Wachovia fail to perform, the current level of interest rates, coupled with the current macroeconomic outlook, would indicate that the Company s current exposure is minimal.

The estimated fair value and related carrying value of the Company s interest rate collar at March 31, 2009 was a liability of approximately $2,004.

Note 7. Reconciliation of Other Comprehensive Income (Loss)

	Three Months Ended March 31,	
	2009	2008
Net realized gains on investments included in income from continuing operations	$ 13	$ 24
Net realized gains on investments included in loss from discontinued operations	-	8
Total net realized gains on investments included in net income (loss)	$ 13	$ 32
Other components of comprehensive income (loss):		
Net pre-tax unrealized losses on investments arising during period	$ (5,709)	$ (1,690)
Reclassification adjustment	(13)	(32)
Net pre-tax unrealized losses on investments recognized in other comprehensive loss	(5,722)	(1,722)
Fair value adjustment to derivative financial instrument	81	(665)
Deferred income tax attributable to other comprehensive loss	1,974	835
Change in accumulated other comprehensive loss	(3,667)	(1,552)
Accumulated other comprehensive loss beginning of period	(9,200)	(1,171)
Accumulated other comprehensive loss end of period	$ (12,867)	$ (2,723)

Note 8. Earnings Per Common Share

A reconciliation of the numerator and denominator used in the earnings per common share calculations is as follows:

	Three Months Ended March 31, 2009		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share:			
Income from continuing operations	$ 256	22,297	
Less preferred stock dividends	(127)		
Income from continuing operations applicable to common shareholders	$ 129	22,297	$ .01

	Three Months Ended March 31, 2008		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Income from continuing operations	$ 424	21,812	
Less preferred stock dividends	(428)		
Loss from continuing operations applicable to common shareholders	(4)	21,812	$ -
Diluted Earnings Per Common Share:			
Effect of dilutive stock options		316	
Loss from continuing operations applicable to common shareholders	$ (4)	22,128	$ -

The assumed conversion of the Company s Series D Preferred Stock was excluded from the earnings per common share calculation for the three month periods ended March 31, 2009 and 2008, respectively, since its impact was antidilutive. All outstanding stock options were excluded from the earnings per common share calculation for the three month period ended March 31, 2009 since their impact was antidilutive. The assumed conversion of the Company s Series B Preferred Stock was excluded from the earnings per common share calculation for the three month period ended March 31, 2008 since its impact was antidilutive. On October 28, 2008, the Company redeemed all of the issued and outstanding shares of Series B Preferred Stock at the stated value of $100 per share, for an aggregate payment of $13,400.

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Note 9. Income Taxes

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax expense from continuing operations is as follows:

	Three Months Ended March 31,	
	2009	2008
Federal income tax provision at statutory rate of 35%	$ 107	$ 253
Tax exempt interest and dividends received deductions	(64)	(54)
Non-deductible goodwill	-	91
Loss carryforward from sale of subsidiaries	-	(3,519)
Other permanent differences	8	7
Change in asset valuation allowance due to change in judgment relating to realizability of deferred tax assets	-	3,519
Income tax expense	$ 51	$ 297

The components of the income tax expense from continuing operations were:

	Three Months Ended March 31,	
	2009	2008
Current - Federal	$ -	$ 1,577
Deferred - Federal	51	(1,280)
Total	$ 51	$ 297

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax benefit from discontinued operations is as follows:

	Three Months Ended March 31,
	2008
Federal income tax provision at statutory rate of 35%	$ (1,189)
Tax exempt interest and dividends received deductions	(41)
Income tax benefit	$ (1,230)

The components of the income tax benefit from discontinued operations were:

	Three Months Ended March 31,	
	2008	
Current - Federal	$	(1,577)
Deferred - Federal		347
Total	$	(1,230)

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month period ended March 31, 2009 resulted from the dividends-received deduction (DRD). The current estimated DRD is adjusted as underlying factors change. The actual current year DRD can vary from the estimates based on, but not limited to, amounts of distributions from these investments as well as appropriate levels of taxable income.

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month period ended March 31, 2008 resulted from the DRD and a non-deductible goodwill impairment charge. On March 31, 2008, the Company completed the sale of its regional property and casualty operations to Columbia, which resulted in an estimated loss carryforward benefit of approximately $3.5 million. Since the Company s ability to generate taxable income and utilize available tax planning strategies in the near term is dependent upon various factors, many of which are beyond management s control, management believes that this loss carryforward may not be realized. Accordingly, during the three month period ended March 31, 2008, the Company increased its valuation allowance by $3.5 million to reduce this deferred tax benefit to zero. The Company continues to periodically assess the potential realization of this and all other deferred tax benefits.

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Note 10. Employee Retirement Plans

Effective May 31, 2008, the Company decided to freeze all benefits related to the qualified pension plan, as well as the supplemental executive retirement plan (SERP). The Company intends to terminate the qualified plan pending governmental approval. Upon approval, the Company will distribute the accumulated benefits to its participating employees. The Company intends to terminate the SERP in May 2009 and distribute the accumulated benefits to those employees participating in the SERP.

Effective January 1, 2009, the Company initiated a safe harbor employees savings plan qualified under Section 401(k) of the Internal Revenue Code (the Plan) which replaced the Company s previous 401(k) plan. The Plan will cover all of the Company s employees. Under the Plan, employees may defer up to 50% of their compensation, not to exceed the statutory maximum allowed contribution. The Company s matching contribution is equal to 100% of the first 4% of such contributions.

The following table provides the components of the net periodic benefit cost for all defined benefit pension plans of the Company for the three month period ended March 31, 2008:

	Three Months Ended March 31,
	2008
Service cost	$ 46
Interest cost	84
Expected return on plan assets	(54)
Net amortization	20
Net periodic benefit cost	$ 96

The weighted-average assumptions used to determine the net periodic benefit cost for the three month period ended March 31, 2008 were as follows:

	Three Months Ended March 31,
	2008
Discount rate	5.75%
Expected return on plan assets	7.00%
Projected annual salary increases	4.50%

Note 11. Commitments and Contingencies

From time to time, the Company is involved in various claims and lawsuits incidental to and in the ordinary course of its businesses. In the opinion of management, any such known claims are not expected to have a material effect on the business or financial condition of the Company.

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Note 12. Investments

During the three month period ended March 31, 2009, the carrying value of the Company s investments in fixed maturity securities, non-redeemable preferred stocks and common stocks decreased as a result of numerous macroeconomic factors which impacted significantly all of the United States financial markets. The following table sets forth the carrying value, amortized cost, and net unrealized gains or losses of the Company s investments aggregated by industry type as of March 31, 2009.

	March 31, 2009		
	Carrying Value	Amortized Cost	Unrealized Gains (Losses)
U.S. Treasury and Government Agencies	$ 120,808	$ 120,357	$ 451
Utilities and Telecom	23,986	25,558	(1,572)
Financial Services	18,318	29,629	(11,311)
Diversified Services	3,224	3,787	