ATLANTIC AMERICAN CORP
Form 10-Q
August 12, 2014

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014
OR

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

Commission File Number 0-3722

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

Georgia	58-1027114
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4370 Peachtree Road, N.E., Atlanta, Georgia	30319
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 þ

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

The total number of shares of the registrant's Common Stock, $1 par value, outstanding on August 7, 2014 was 20,705,977.

ATLANTIC AMERICAN CORPORATION

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS

	Unaudited June 30, 2014	December 31, 2013
Cash and cash equivalents	$ 27,759	$ 33,102
Investments:		
Fixed maturities (cost: $203,708 and $201,217)	214,294	201,303
Common and non-redeemable preferred stocks (cost: $12,164 and $12,432)	20,259	21,890
Other invested assets (cost: $3,032 and $2,123)	3,032	2,123
Policy loans	2,268	2,369
Real estate	38	38
Investment in unconsolidated trusts	1,238	1,238
Total investments	241,129	228,961
Receivables:		
Reinsurance	16,184	14,314
Insurance premiums and other (net of allowance for doubtful accounts: $322 and $339)	16,413	9,343
Deferred income taxes, net	-	363
Deferred acquisition costs	27,184	27,509
Other assets	5,591	3,245
Intangibles	2,544	2,544
Total assets	$ 336,804	$ 319,381

LIABILITIES AND SHAREHOLDERS' EQUITY

Insurance reserves and policyholder funds:		
Future policy benefits	$ 70,408	$ 69,864
Unearned premiums	32,908	27,415
Losses and claims	67,043	63,018
Other policy liabilities	1,438	2,076
Total insurance reserves and policyholder funds	171,797	162,373
Accounts payable and accrued expenses	14,144	14,843
Deferred income taxes, net	2,988	-
Junior subordinated debenture obligations	41,238	41,238
Total liabilities	230,167	218,454
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred stock, $1 par, 4,000,000 shares authorized; Series D preferred, 65,000 shares issued and outstanding; $6,500 redemption value	65	65
Common stock, $1 par, 50,000,000 shares authorized; shares issued: 22,400,894; shares outstanding: 20,765,840 and 21,117,874	22,401	22,401
Additional paid-in capital	57,239	57,103

Retained earnings	19,777	18,738
Accumulated other comprehensive income	12,143	6,204
Unearned stock grant compensation	(476)	(485)
Treasury stock, at cost: 1,635,054 and 1,283,020 shares	(4,512)	(3,099)
Total shareholders’ equity	106,637	100,927
Total liabilities and shareholders’ equity	$336,804	$319,381

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Insurance premiums	$38,456	$36,373	$76,874	$69,392
Investment income	2,599	2,774	5,197	5,679
Realized investment gains, net	485	5,454	593	6,132
Other income	46	47	82	95
Total revenue	41,586	44,648	82,746	81,298
Benefits and expenses:				
Insurance benefits and losses incurred	27,069	24,999	53,897	48,361
Commissions and underwriting expenses	10,074	10,402	19,981	19,685
Interest expense	434	438	863	1,015
Other expense	3,023	2,746	6,026	5,163
Total benefits and expenses	40,600	38,585	80,767	74,224
Income before income taxes	986	6,063	1,979	7,074
Income tax expense	109	103	282	192
Net income	877	5,960	1,697	6,882
Preferred stock dividends	(118)	(119)	(236)	(246)
Net income applicable to common shareholders	$759	$5,841	$1,461	$6,636
Earnings per common share (basic)	$.04	$.27	$.07	$.31
Earnings per common share (diluted)	$.04	$.26	$.07	$.30

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income	$877	$5,960	$1,697	$6,882
Other comprehensive income (loss):				
Available-for-sale securities:				
Gross unrealized holding gain (loss) arising in the period	8,290	(10,763)	9,730	(13,009)
Related income tax effect	(2,902)	3,767	(3,406)	4,553
Less: reclassification adjustment for net realized gains included in net income [1]	(485)	(5,454)	(593)	(6,132)
Related income tax effect [2]	170	1,909	208	2,146
Net effect on other comprehensive income (loss)	5,073	(10,541)	5,939	(12,442)
Derivative financial instrument:				
Fair value adjustment to derivative financial instrument	-	-	-	141
Related income tax effect	-	-	-	(49)
Net effect on other comprehensive income (loss)	-	-	-	92
Total other comprehensive income (loss), net of tax	5,073	(10,541)	5,939	(12,350)
Total comprehensive income (loss)	$5,950	$(4,581)	$7,636	$(5,468)

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

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

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

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

Six Months Ended June 30, 2014	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Grant Compensation	Treasury Stock	Total
Balance, December 31, 2013	$ 65	$ 22,401	$ 57,103	$ 18,738	$ 6,204	$ (485)	$ (3,099)	$ 100,927
Net income	-	-	-	1,697	-	-	-	1,697
Other comprehensive income, net of tax	-	-	-	-	5,939	-	-	5,939
Dividends on common stock	-	-	-	(422)	-	-	-	(422)
Dividends accrued on preferred stock	-	-	-	(236)	-	-	-	(236)
Restricted stock grants	-	-	101	-	-	(177)	76	-
Amortization of unearned compensation	-	-	-	-	-	186	-	186
Purchase of shares for treasury	-	-	-	-	-	-	(1,513)	(1,513)
Issuance of shares under stock plans	-	-	35	-	-	-	24	59
Balance, June 30, 2014	$ 65	$ 22,401	$ 57,239	$ 19,777	$ 12,143	$ (476)	$ (4,512)	$ 106,637
Six Months Ended June 30, 2013								
Balance, December 31, 2012	$ 70	$ 22,401	$ 57,180	$ 8,621	$ 19,571	$ -	$ (2,107)	$ 105,736
Net income	-	-	-	6,882	-	-	-	6,882
Other comprehensive loss, net of tax	-	-	-	-	(12,350)	-	-	(12,350)
Preferred stock redeemed	(5)	-	(495)	-	-	-	-	(500)
Dividends on common stock	-	-	-	(423)	-	-	-	(423)
Dividends accrued on preferred stock	-	-	-	(246)	-	-	-	(246)
Restricted stock grants	-	-	393	-	-	(704)	311	-
Amortization of unearned compensation	-	-	-	-	-	55	-	55
Purchase of shares for treasury	-	-	-	-	-	-	(520)	(520)
Issuance of shares under stock plans	-	-	10	-	-	-	103	113
Balance, June 30, 2013	$ 65	$ 22,401	$ 57,088	$ 14,834	$ 7,221	$ (649)	$ (2,213)	$ 98,747

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

Table of Contents

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

	Six Months Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$1,697	$6,882
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of deferred acquisition costs	5,484	5,272
Acquisition costs deferred	(5,159)	(6,575)
Realized investment gains, net	(593)	(6,132)
Increase in insurance reserves	9,424	14,203
Compensation expense related to share awards	186	55
Depreciation and amortization	424	297
Deferred income tax expense	153	95
Increase in receivables, net	(8,940)	(15,264)
Decrease in other liabilities	(3,080)	(27)
Other, net	(132)	(54)
Net cash used in operating activities	(536)	(1,248)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold, called or matured	27,200	68,910
Investments purchased	(27,379)	(37,953)
Additions to property and equipment	(2,752)	(233)
Net cash (used in) provided by investing activities	(2,931)	30,724
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of Series D preferred stock	-	(500)
Payment of dividends on common stock	(422)	(423)
Proceeds from shares issued under stock plans	59	113
Purchase of shares for treasury	(1,513)	(520)
Net cash used in financing activities	(1,876)	(1,330)
Net (decrease) increase in cash and cash equivalents	(5,343)	28,146
Cash and cash equivalents at beginning of period	33,102	18,951
Cash and cash equivalents at end of period	$27,759	$47,097
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$866	$1,079
Cash paid for income taxes	$442	$314

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

Table of Contents
ATLANTIC AMERICAN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; Dollars in thousands, except per share amounts)

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Atlantic American Corporation (the “Parent”) and its subsidiaries (collectively with the Parent, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for audited annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements included herein and these related notes should be read in conjunction with the Company’s consolidated financial statements, and the notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. The Company’s financial condition and results of operations as of and for the three month and six month periods ended June 30, 2014 are not necessarily indicative of the financial condition or results of operations that may be expected for the year ending December 31, 2014 or for any other future period.

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

Note 2. Segment Information

The Company’s primary operating subsidiaries, American Southern Insurance Company and American Safety Insurance Company (together known as “American Southern”) and Bankers Fidelity Life Insurance Company and Bankers Fidelity Assurance Company (together known as “Bankers Fidelity”) operate in two principal business units, each focusing on 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 sets forth the revenue and income before income taxes for each business unit for the three month and six month periods ended June 30, 2014 and 2013.

Revenues	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
American Southern	$14,147	$14,747	$28,348	$25,237
Bankers Fidelity	27,293	29,123	54,131	55,061
Corporate and Other	146	778	267	1,000
Total revenue	$41,586	$44,648	$82,746	$81,298

Income Before Income Taxes	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
American Southern	$1,138	$3,177	$2,195	$4,619
Bankers Fidelity	1,134	3,687	2,782	4,724

Corporate and Other	(1,286)	(801)	(2,998)	(2,269)
Income before income taxes	$986	$6,063	$1,979	$7,074

Table of Contents

Note 3. 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 June 30, 2014 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 June 30, 2014	18,042	23,196
Balance December 31, 2013	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	Yes	Yes
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.

Table of Contents

Note 4. 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 June 30, 2014		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share:			
Net income	$877	20,816	
Less preferred stock dividends	(118)	-	
Net income applicable to common shareholders	$759	20,816	$ .04

	Three Months Ended June 30, 2013		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$5,960	21,268	
Less preferred stock dividends	(119)	-	
Net income applicable to common shareholders	5,841	21,268	$ .27
Diluted Earnings Per Common Share:			
Effect of Series D preferred stock	119	1,629	
Net income applicable to common shareholders	$5,960	22,897	$ .26

	Six Months Ended June 30, 2014		
	Income	Shares (In thousands)	Per Share Amount
Basic and Diluted Earnings Per Common Share:			
Net income	$1,697	20,944	
Less preferred stock dividends	(236)	-	
Net income applicable to common shareholders	$1,461	20,944	$ .07

	Six Months Ended June 30, 2013		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$6,882	21,225	
Less preferred stock dividends	(246)	-	
Net income applicable to common shareholders	6,636	21,225	$ .31
Diluted Earnings Per Common Share:			
Effect of dilutive stock options	-	38	
Effect of Series D preferred stock	246	1,629	
Net income applicable to common shareholders	$6,882	22,892	$ .30

The assumed conversion of the Company’s Series D preferred stock was excluded from the earnings per common share calculation for the three month and six month periods ended June 30, 2014 since its impact would have been antidilutive.

Table of Contents

Note 5. Income Taxes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Federal income tax provision at statutory rate of 35%	$345	$2,122	$693	$2,476
Dividends-received deduction	(30)	(41)	(61)	(78)
Small life insurance company deduction	(45)	(78)	(161)	(78)
Other permanent differences	9	9	19	18
Change in asset valuation allowance due to change in judgment relating to realizability of deferred tax assets	(170)	(1,909)	(208)	(2,146)
Income tax expense	$109	$103	$282	$192

The components of income tax expense were:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Current - Federal	$66	$95	$129	$97
Deferred - Federal	213	1,917	361	2,241
Change in deferred tax asset valuation allowance	(170)	(1,909)	(208)	(2,146)
Total	$109	$103	$282	$192

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and six month periods ended June 30, 2014 and 2013 resulted from the dividends-received deduction (“DRD”), the small life insurance company deduction (“SLD”) and the change in deferred tax asset valuation allowance. The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company’s taxable income. The SLD varies in amount and is determined at a rate of 60 percent of the tentative life insurance company taxable income (“LICTI”). The SLD for any taxable year is reduced (but not below zero) by 15 percent of the tentative LICTI for such taxable year as it exceeds $3,000 and is ultimately phased out at $15,000. The change in deferred tax asset valuation allowance was due to the unanticipated utilization of certain capital loss carryforward benefits that had been previously reduced to zero through an existing valuation allowance reserve.

Note 6. Commitments and Contingencies

From time to time, the Company is, and expects to continue to be, 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 financial condition or results of operations of the Company.

Table of Contents

Note 7. Investments

The following tables set forth the carrying value, gross unrealized gains, gross unrealized losses and amortized cost of the Company's investments, aggregated by type and industry, as of June 30, 2014 and December 31, 2013.

Investments were comprised of the following:

	June 30, 2014			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$24,599	$ 751	$ 31	$23,879
Obligations of states and political subdivisions	8,062	845	-	7,217
Corporate securities:				
Utilities and telecom	14,881	2,254	-	12,627
Financial services	58,119	3,810	91	54,400
Other business – diversified	73,884	3,201	536	71,219
Other consumer – diversified	33,947	1,046	673	33,574
Total corporate securities	180,831	10,311	1,300	171,820
Redeemable preferred stocks:				
Financial services	610	10	-	600
Other consumer – diversified	192	-	-	192
Total redeemable preferred stocks	802	10	-	792
Total fixed maturities	214,294	11,917	1,331	203,708
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,468	504	-	964
Financial services	6,025	617	131	5,539
Other business – diversified	190	143	-	47
Other consumer – diversified	12,576	6,962	-	5,614
Total equity securities	20,259	8,226	131	12,164
Other invested assets	3,032	-	-	3,032
Policy loans	2,268	-	-	2,268
Real estate	38	-	-	38
Investments in unconsolidated trusts	1,238	-	-	1,238
Total investments	$241,129	$ 20,143	$ 1,462	$222,448

Table of Contents

	December 31, 2013			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed maturities:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$17,240	$ 576	$ 210	$16,874
Obligations of states and political subdivisions	7,611	402	17	7,226
Corporate securities:				
Utilities and telecom	16,532	1,353	7	15,186
Financial services	50,531	1,736	320	49,115
Other business – diversified	70,326	870	2,906	72,362
Other consumer – diversified	36,712	391	1,745	38,066
Total corporate securities	174,101	4,350	4,978	174,729
Redeemable preferred stocks:				
Financial services	2,159	4	41	2,196
Other consumer – diversified	192	-	-	192
Total redeemable preferred stocks	2,351	4	41	2,388
Total fixed maturities	201,303	5,332	5,246	201,217
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,474	510	-	964
Financial services	5,761	514	560	5,807
Other business – diversified	178	131	-	47
Other consumer – diversified	14,477	8,863	-	5,614
Total equity securities	21,890	10,018	560	12,432
Other invested assets	2,123	-	-	2,123
Policy loans	2,369	-	-	2,369
Real estate	38	-	-	38
Investments in unconsolidated trusts	1,238	-	-	1,238
Total investments	$228,961	$ 15,350	$ 5,806	$219,417

The carrying value and amortized cost of the Company's investments in fixed maturities at June 30, 2014 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

	June 30, 2014	
	Carrying Value	Amortized Cost
Due in one year or less	$1,000	$999
Due after one year through five years	17,060	16,074
Due after five years through ten years	118,208	112,762
Due after ten years	64,584	60,897
Varying maturities	13,442	12,976
Totals	$214,294	$203,708

Table of Contents

The following table sets forth the carrying value, amortized cost, and net unrealized gains (losses) of the Company's investments aggregated by industry as of June 30, 2014 and December 31, 2013.

	June 30, 2014			December 31, 2013		
	Carrying Value	Amortized Cost	Unrealized Gains	Carrying Value	Amortized Cost	Unrealized Gains (Losses)
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$24,599	$23,879	$ 720	$17,240	$16,874	$ 366
Obligations of states and political subdivisions	8,062	7,217	845	7,611	7,226	385
Utilities and telecom	16,349	13,591	2,758	18,006	16,150	1,856
Financial services	64,754	60,539	4,215	58,451	57,118	1,333
Other business – diversified	74,074	71,266	2,808	70,504	72,409	(1,905)
Other consumer – diversified	46,715	39,380	7,335	51,381	43,872	7,509
Other investments	6,576	6,576	-	5,768	5,768	-
Investments	$241,129	$222,448	$ 18,681	$228,961	$219,417	$ 9,544

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of June 30, 2014 and December 31, 2013.

	June 30, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$1,277	$ 1	$2,695	$ 30	$3,972	$ 31
Corporate securities	8,699	111	20,635	1,189	29,334	1,300
Common and non-redeemable preferred stocks	-	-	2,869	131	2,869	131
Total temporarily impaired securities	$9,976	$ 112	$26,199	$ 1,350	$36,175	$ 1,462

Table of Contents

	December 31, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$8,326	$ 210	$-	$ -	$8,326	$ 210
Obligations of states and political subdivisions	1,018	17	-	-	1,018	17
Corporate securities	92,049	3,714	6,938	1,264	98,987	4,978
Redeemable preferred stocks	704	41	-	-	704	41
Common and non-redeemable preferred stocks	3,724	560	-	-	3,724	560
Total temporarily impaired securities	$105,821	$ 4,542	$6,938	$ 1,264	$112,759	$ 5,806

The evaluation for an other than temporary impairment is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold these securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status.

As of June 30, 2014, securities in an unrealized loss position primarily included certain of the Company's investments in fixed maturities within the other diversified business, other diversified consumer and financial services sectors. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of June 30, 2014.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

Level 1	Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's financial instruments valued using Level 1 criteria include cash equivalents and exchange traded common stocks.
Level 2	Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include substantially all of its fixed maturities, which consist of U.S. Treasury securities and U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements using Level 2 criteria, the Company utilizes various external pricing sources.
Level 3	Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. The Company's financial instruments valued using Level 3 criteria

consist of a limited number of fixed maturities. As of June 30, 2014 and December 31, 2013, the value of the Company's fixed maturities valued using Level 3 criteria was $2,117 and $1,991, respectively. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

Table of Contents

As of June 30, 2014, financial instruments carried at fair value were measured on a recurring basis as summarized below:

Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs