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, 2024

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.)
3001 West Big Beaver Road, Suite 200 **Troy, Michigan**	**48084**
(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
9.75% Senior Notes due 2028	CNFRZ	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, a 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 13, 2024, was 12,222,881.

CONIFER HOLDINGS, INC. AND SUBSIDIARIES

Form 10-Q

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

	June 30, 2024 (Unaudited)	December 31, 2023
Assets		
Investment securities:		
Debt securities, at fair value (amortized cost of $132,889 and $135,370, respectively)	$ 119,371	$ 122,113
Equity securities, at fair value (cost of $1,844 and $2,385, respectively)	1,660	2,354
Short-term investments, at fair value	23,339	20,838
Total investments	144,370	145,305
Cash and cash equivalents	9,697	11,125
Premiums and agents' balances receivable, net	30,583	29,369
Receivable from Affiliate	1,174	1,047
Reinsurance recoverables on unpaid losses	74,358	70,807
Reinsurance recoverables on paid losses	8,614	12,619
Prepaid reinsurance premiums	13,494	28,908
Deferred policy acquisition costs	4,606	6,285
Other assets	6,038	6,339
Total assets	$ 292,934	$ 311,804
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 174,786	$ 174,612
Unearned premiums	44,820	65,150
Reinsurance premiums payable	1,408	246
Debt	24,832	25,061
Funds held under reinsurance agreements	23,602	24,550
Premiums payable to other insureds	19,299	13,986
Accounts payable and accrued expenses	5,352	5,310
Total liabilities	294,099	308,915
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value (10,000,000 shares authorized; 1,000 issued and outstanding, respectively)	6,000	6,000
Common stock, no par value (100,000,000 shares authorized; 12,222,881 issued and outstanding, respectively)	98,170	98,100
Accumulated deficit	(90,559)	(86,683)
Accumulated other comprehensive income (loss)	(14,776)	(14,528)
Total shareholders' equity	(1,165)	2,889
Total liabilities and shareholders' equity	$ 292,934	$ 311,804

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, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Revenue and Other Income				
Premiums				
Gross earned premiums	$ 29,381	36,013	$ 63,613	$ 70,307
Ceded earned premiums	(12,715)	(12,830)	(30,060)	(25,172)
Net earned premiums	16,666	23,183	33,553	45,135
Net investment income	1,505	1,354	3,057	2,661
Net realized investment gains (losses)	(118)	—	(118)	—
Change in fair value of equity securities	(196)	(12)	(153)	682
Agency commission income	8,831	211	13,167	641
Other income	160	187	420	383
Total revenue and other income	26,848	24,923	49,926	49,502
Expenses				
Losses and loss adjustment expenses, net	15,281	19,319	25,801	33,032
Policy acquisition costs	10,480	4,413	17,493	9,134
Operating expenses	4,256	5,114	8,751	9,393
Interest expense	869	820	1,746	1,506
Total expenses	30,886	29,666	53,791	53,065
Income (loss) before equity earnings in Affiliate and income taxes	(4,038)	(4,743)	(3,865)	(3,563)
Equity earnings (loss) in Affiliate, net of tax	228	4	286	(175)
Income tax expense (benefit)	(18)	—	(18)	—
Net income (loss)	$ (3,792)	$ (4,739)	$ (3,561)	$ (3,738)
Preferred stock dividends	158	—	315	—
Net income (loss) allocable to common shareholders	$ (3,950)	$ (4,739)	$ (3,876)	$ (3,738)
Earnings (loss) per common share, basic and diluted	$ (0.32)	$ (0.39)	$ (0.32)	$ (0.31)
Weighted average common shares outstanding, basic and diluted	12,222,881	12,220,331	12,222,881	12,218,102

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, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net income (loss)	$ (3,792)	$ (4,739)	$ (3,561)	$ (3,738)
Other comprehensive income (loss), net of tax:				
Unrealized investment gains (losses):				
Unrealized investment gains (losses) during the period	188	(741)	(248)	1,545
Income tax (benefit) expense	—	—	—	—
Unrealized investment gains (losses), net of tax	188	(741)	(248)	1,545
Less: reclassification adjustments to:				
Net realized investment gains (losses) included in net income (loss)	—	—	—	—
Income tax (benefit) expense	—	—	—	—
Total reclassifications included in net income (loss), net of tax	—	—	—	—
Other comprehensive income (loss)	188	(741)	(248)	1,545
Total comprehensive income (loss)	$ (3,604)	$ (5,480)	$ (3,809)	$ (2,193)

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, Preferred Stock		No Par, Common Stock		Accumulated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders'
	Shares	Amount	Shares	Amount	Deficit		Equity
Balances at March 31, 2024	**1,000**	**6,000**	**12,222,881**	**$ 98,132**	**$ (86,609)**	**$ (14,964)**	**$ 2,559**
Net income (loss)	—	—	—	—	(3,792)	—	(3,792)
Stock-based compensation expense	—	—	—	38	—	—	38
Dividends on preferred stock	—	—	—	—	(158)	—	(158)
Other comprehensive income (loss)	—	—	—	—	—	188	188
Balances at June 30, 2024	**1,000**	**6,000**	**12,222,881**	**$ 98,170**	**$ (90,559)**	**$ (14,776)**	**$ (1,165)**
Balances at March 31, 2023			**12,215,849**	**$ 97,968**	**$ (59,759)**	**$ (15,917)**	**$ 22,292**
Net income (loss)			—	—	(4,739)	—	(4,739)
Repurchase of common stock			(1,968)	(3)	—	—	(3)
Stock-based compensation expense			9,000	48	—	—	48
Other comprehensive income (loss)			—	—	—	(741)	(741)
Balances at June 30, 2023	**—**	**—**	**12,222,881**	**$ 98,013**	**$ (64,498)**	**$ (16,658)**	**$ 16,857**

	No Par, Common Stock		No Par, Common Stock		Accumulated	Accumulated Other Comprehensive Income (Loss)	Total Shareholders'
	Shares	Amount	Shares	Amount	Deficit		Equity
Balances at December 31, 2023	**1,000**	**6,000**	**12,222,881**	**$ 98,100**	**$ (86,683)**	**$ (14,528)**	**$ 2,889**
Net income (loss)	—	—	—	—	(3,561)	—	(3,561)
Stock-based compensation expense	—	—	—	70	—	—	70
Dividends on preferred stock	—	—	—	—	(315)	—	(315)
Other comprehensive income (loss)	—	—	—	—	—	(248)	(248)
Balances at June 30, 2024	**1,000**	**$ 6,000**	**12,222,881**	**$ 98,170**	**$ (90,559)**	**$ (14,776)**	**$ (1,165)**
Balances at December 31, 2022			**12,215,849**	**$ 97,913**	**$ (60,760)**	**$ (18,203)**	**$ 18,950**
Net income (loss)			—	—	(3,738)	—	(3,738)
Repurchase of common stock			(1,968)	(3)	—	—	(3)
Stock-based compensation expense			9,000	103	—	—	103
Other comprehensive income (loss)			—	—	—	1,545	1,545
Balances at June 30, 2023	**—**	**$ -**	**12,222,881**	**$ 98,013**	**$ (64,498)**	**$ (16,658)**	**$ 16,857**

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

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

	Six Months Ended June 30, 2024	2023
Cash Flows From Operating Activities		
Net income (loss)	$ (3,561)	$ (3,738)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	321	193
Amortization of bond premium and discount, net	(327)	(362)
Net realized investment (gains) losses	118	—
Change in fair value of equity securities	153	(682)
Stock-based compensation expenses	70	103
Equity loss (earnings) in Affiliate, net of tax	(286)	175
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Premiums and agents' balances and other receivables	(1,341)	(3,961)
Reinsurance recoverables	454	26,971
Prepaid reinsurance premiums	15,414	(8,045)
Deferred policy acquisition costs	1,679	790
Other assets	(78)	64
Increase (decrease) in:		
Unpaid losses and loss adjustment expenses	174	(20,535)
Unearned premiums	(20,330)	10,581
Funds held under reinsurance agreements	(948)	(6,086)
Reinsurance premiums payable	1,162	5,879
Premiums payable to other insureds	5,313	—
Accounts payable and other liabilities	61	(2,794)
Net cash provided by (used in) operating activities	(1,952)	(1,447)
Cash Flows From Investing Activities		
Purchase of investments	(97,960)	(120,578)
Proceeds from maturities and redemptions of investments	4,539	5,651
Proceeds from sales of investments	94,779	108,041
Obligation to SSU	—	(934)
Net cash provided by (used in) investing activities	1,358	(7,820)
Cash Flows From Financing Activities		
Repurchase of common stock	—	(3)
Dividends paid to shareholders	(334)	—
Repayment of long-term debt	(500)	—
Net cash provided by (used in) financing activities	(834)	(3)
Net increase (decrease) in cash	(1,428)	(9,270)
Cash at beginning of period	11,125	28,035
Cash at end of period	$ 9,697	$ 18,765
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 1,876	$ 1,506
Income taxes paid (refunded), net	—	(17)

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"), Conifer Insurance Services ("CIS"), which is our managing general agency ("MGA"), formerly known as Sycamore Insurance Agency, Inc. ("Sycamore"), and VSRM, Inc. ("VSRM"). 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." VSRM owns a 50% non-controlling interest in Sycamore Specialty Underwriters, LLC ("SSU" or "Affiliate").

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, 2023, as filed with the SEC.

The results of operations for the six months ended June 30, 2024, are not necessarily indicative of the results expected for the year ended December 31, 2024.

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 almost all 50 states in the United States of America (“U.S.”). The Company has been in the process of strategically shifting from mostly underwriting insurance products (generating revenues through premiums) to mostly producing, or selling, insurance products through its MGA. Utilizing its existing relationships with retail agencies and other agencies, in the first quarter of 2024, the Company began producing business that was directly underwritten by a third-party insurer. By the end of the second quarter, this shift was mostly complete with the expansion of having two third-party insurers to underwrite substantially all of the commercial lines business previously underwritten by the Insurance Company Subsidiaries. The Company is currently actively considering the sale of assets and of business operations in order to raise capital with which to repay debt and improve its financial position. The Company’s corporate headquarters are located in Troy, Michigan with additional office facilities in Florida and Michigan.

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.

Accounting Guidance Not Yet Adopted

In January 2021, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848). This guidance provides optional expedients and exceptions that are intended to ease the burden of updating contracts to contain a new reference rate due to the discontinuation of the London Inter-Bank Offered Rate (LIBOR). This guidance is available immediately and may be implemented in any period prior to the guidance expiration on December 31, 2024. Management does not expect the new guidance to have a material impact on the Company's consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280). This guidance is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses, allowing financial statement users to better understand the components of a segment's profit or loss to assess potential future cash flows for each reportable segment and the entity as a whole. The amendments expand a public entity's segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), clarifying when an entity may report one or more additional measures to assess segment performance, requiring enhanced interim disclosures, providing new disclosure requirements for entities with a single reportable segment, and requiring other new disclosures. ASU 2023-07 is effective for fiscal years beginning after December 31, 2024. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740). ASU 2023-09 requires public business entities to disclose additional information with respect to the reconciliation of the effective tax rate to the statutory rate. Additionally, public business entities will need to disaggregate federal, state and foreign taxes paid in their financial statements. ASU 2023-09 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2024. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements.

Company Liquidity

We conduct our business operations primarily through our Insurance Company Subsidiaries and MGA. Our ability to service debt, and pay administrative expenses has been primarily reliant upon our intercompany service fees paid by the Insurance Company Subsidiaries and MGA to the holding company for management, administrative, and information technology services provided to the Insurance Company Subsidiaries and MGA by the Parent Company. The Parent Company may receive dividends from the Insurance Company Subsidiaries; however, this is not the primary means in which the holding company supports its funding as state insurance laws restrict the ability of our Insurance Company Subsidiaries to declare dividends to the Parent Company, and we do not anticipate any dividends being paid to us from our Insurance Company Subsidiaries during 2024 and 2025. The Parent Company may receive dividends from our MGA without regulatory restrictions.

Due to significant losses in 2023, much of which was attributable to strengthening reserves and severe storm activity affecting the Oklahoma homeowners business, both Insurance Company Subsidiaries lack sufficient capital to continue to underwrite the volume of business they have historically written. Accordingly, in the first quarter of 2024, management implemented a strategic shift in which the Company began utilizing third-party insurers to mostly rely on commission revenues generated by our MGA to fund operations and service debt. Substantially all of our commercial lines business is no longer being written by our Insurance Company Subsidiaries as of June 30, 2024. However, we do plan to continue to write a limited amount of the personal lines on CIC. As of June 30, 2024, the Company no longer expects to write any additional business in WPIC. It is likely that the Company will need to contribute $3.0 million to $5.0 million of more capital into WPIC before the end of the year in order to maintain its licenses. The Company is currently actively considering the sale of assets and of business operations in order to raise capital with which to repay debt and improve its financial position. We expect to fund any needed contributions with existing cash and investments at the Parent Company or through additional cash obtained through the sale of assets or business operations or additional capital raised.

The Company has executed multiple producer agreements that will underwrite a majority of the Company's commercial lines business. We expect to continue to underwrite the existing personal lines business within our Insurance Company Subsidiaries. We believe that our existing cash, cash equivalents, short-term investments and investment securities balances in addition to any proceeds from the sale of any assets or business operations will be adequate to meet our capital and liquidity needs and the needs of our subsidiaries over the next twelve months.

2. Investments

The Company analyzed its investment portfolio in accordance with its credit loss review policy and determined it did not need to record a credit loss for the three and six months ended June 30, 2024. The Company holds only investment grade securities from high credit quality issuers. The gross unrealized losses of $13.6 million as of June 30, 2024, from the Company's available-for-sale securities are due to market conditions and interest rate changes.

The cost or amortized cost, gross unrealized gains or losses, and estimated fair value of the investments in securities classified as available for sale at June 30, 2024 and December 31, 2023 were as follows (dollars in thousands):

	June 30, 2024			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
U.S. Government	$ 5,848	$ —	$ (155)	$ 5,693
State and local government	23,972	—	(3,846)	20,126
Corporate debt	33,708	—	(3,602)	30,106
Asset-backed securities	37,223	126	(347)	37,002
Mortgage-backed securities	25,790	—	(5,162)	20,628
Commercial mortgage-backed securities	3,301	—	(105)	3,196
Collateralized mortgage obligations	3,047	—	(427)	2,620
Total debt securities available for sale	$ 132,889	$ 126	$ (13,644)	$ 119,371

	December 31, 2023			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt Securities:				
U.S. Government	$ 5,405	$ 3	$ (161)	$ 5,247
State and local government	24,274	—	(3,810)	20,464
Corporate debt	34,002	—	(3,507)	30,495
Asset-backed securities	38,289	47	(584)	37,752
Mortgage-backed securities	26,768	—	(4,641)	22,127
Commercial mortgage-backed securities	3,404	—	(160)	3,244
Collateralized mortgage obligations	3,228	—	(444)	2,784
Total debt securities available for sale	$ 135,370	$ 50	$ (13,307)	$ 122,113

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, 2024								
	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	$ 1,769	$ (14)	8	$ 3,614	$ (141)	12	$ 5,383	$ (155)
State and local government	1	193	(7)	114	19,933	(3,839)	115	20,126	(3,846)
Corporate debt	1	92	(8)	64	30,014	(3,594)	65	30,106	(3,602)
Asset-backed securities	1	600	(1)	8	10,801	(346)	9	11,401	(347)
Mortgage-backed securities	—	—	—	67	20,628	(5,162)	67	20,628	(5,162)
Commercial mortgage-backed securities	—	—	—	4	3,196	(105)	4	3,196	(105)
Collateralized mortgage obligations	—	—	—	30	2,620	(427)	30	2,620	(427)
Total debt securities available for sale	**7**	**$ 2,654**	**$ (30)**	**295**	**$ 90,806**	**$ (13,614)**	**302**	**$ 93,460**	**$ (13,644)**

	December 31, 2023								
	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	1	$ 649	$ (7)	9	$ 3,400	$ (154)	10	$ 4,049	$ (161)
State and local government	3	1,193	(7)	113	19,096	(3,803)	116	20,289	(3,810)
Corporate debt	—	—	—	66	30,495	(3,507)	66	30,495	(3,507)
Asset-backed securities	1	1,090	(1)	21	16,270	(583)	22	17,360	(584)
Mortgage-backed securities	4	11	(1)	64	22,116	(4,640)	68	22,127	(4,641)
Commercial mortgage-backed securities	—	—	—	4	3,225	(160)	4	3,225	(160)
Collateralized mortgage obligations	—	—	—	32	2,803	(444)	32	2,803	(444)
Total debt securities available for sale	**9**	**$ 2,943**	**$ (16)**	**309**	**$ 97,405**	**$ (13,291)**	**318**	**$ 100,348**	**$ (13,307)**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Debt securities	$ 1,196	$ 1,026	$ 2,421	$ 1,879
Equity securities	12	7	23	18
Cash, cash equivalents and short-term investments	348	381	725	884
Total investment income	1,556	1,414	3,169	2,781
Investment expenses	(51)	(60)	(112)	(120)
Net investment income	$ 1,505	$ 1,354	$ 3,057	$ 2,661

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,	
	2024	2023	2024	2023
Debt securities:				
Gross realized gains	$ —	$ —	$ —	$ 0
Gross realized losses	—	—	—	—
Total debt securities	—	—	—	—
Equity securities:				
Gross realized gains	$ —	$ —	$ —	$ —
Gross realized losses	(118)	—	(118)	—
Total equity securities	(118)	—	(118)	—
Total net realized investment gains (losses)	$ (118)	$ —	$ (118)	$ —

There were no proceeds from sales of available-for-sale debt securities for the six months ended June 30, 2024 and 2023, respectively.

There were no payables or receivables from securities purchased or sold as of June 30, 2024 and June 30, 2023, respectively.

The Company's gross unrealized gains related to its equity investments were $354,000 and $505,000 as of June 30, 2024 and December 31, 2023, respectively. The Company’s gross unrealized losses related to its equity investments were $537,000 and $535,000 as of June 30, 2024 and December 31, 2023, respectively.

The Company also 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 were no impairments or observable changes in price recorded for the three and six months ended June 30, 2024 and 2023, respectively, related to the Company's other equity investments. These investments are included in Other Assets in the Consolidated Balance Sheets and amounted to $750,000 and $1.4 million as of June 30, 2024 and December 31, 2023, respectively.

The table below summarizes the amortized cost and fair value of available-for-sale debt securities by contractual maturity at June 30, 2024. 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	$ 4,722	$ 4,661
Due after one year through five years	30,953	28,823
Due after five years through ten years	17,183	14,379
Due after ten years	10,670	8,062
Securities with contractual maturities	63,528	55,925
Asset-backed securities	37,223	37,002
Mortgage-backed securities	25,790	20,628
Commercial mortgage-backed securities	3,301	3,196
Collateralized mortgage obligations	3,047	2,620
Total debt securities	$ 132,889	$ 119,371

At June 30, 2024 and December 31, 2023, the Insurance Company Subsidiaries had $8.2 million on deposit in trust accounts to meet the deposit requirements of various state insurance departments. At June 30, 2024 and December 31, 2023, the Company had $123.5 million, respectively, held in trust accounts to meet collateral requirements with other third-party insurers, relating to various fronting arrangements. Approximately $122.8 million of the trust account balances are for collateral of gross unearned premiums and gross loss reserves of the fronted business on the security guard and installation industries ("Security Program") and the quick service restaurant program. 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. As the unearned premiums run off to zero and loss reserves are paid on these programs, the remaining trust balances will be released and available for general use.

3. Fair Value Measurements

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

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

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

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

Net Asset Value (NAV) - The fair values of investment company limited partnership investments and mutual funds 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, classified by the valuation hierarchy as of June 30, 2024 and December 31, 2023 (dollars in thousands):

	June 30, 2024			
		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
Assets:				
Debt Securities:				
U.S. Government	$ 5,693	$ —	$ 5,693	$ —
State and local government	20,126	—	20,126	—
Corporate debt	30,106	—	30,106	—
Asset-backed securities	37,002	—	37,002	—
Mortgage-backed securities	20,628	—	20,628	—
Commercial mortgage-backed securities	3,196	—	3,196	—
Collateralized mortgage obligations	2,620	—	2,620	—
Total debt securities	119,371	—	119,371	—
Equity Securities	357	137	220	—
Short-term investments	23,339	23,339	—	—
Total marketable investments measured at fair value	$ 143,067	$ 23,476	$ 119,591	$ —
Investments measured at NAV:				
Investment in limited partnership	1,303			
Total assets measured at fair value	$ 144,370			
Liabilities:				
Senior unsecured notes *	$ 17,887	$ —	$ 17,887	$ —
Senior secured notes *	9,310	—	—	9,310
Total Liabilities (non-recurring fair value measure)	$ 27,197	$ —	$ 17,887	$ 9,310

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

	December 31, 2023 Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
Assets:				
Debt Securities:				
U.S. Government	$ 5,247	$ —	$ 5,247	$ —
State and local government	20,464	—	20,464	—
Corporate debt	30,495	—	30,495	—
Asset-backed securities	37,752	—	37,752	—
Mortgage-backed securities	22,127	—	22,127	—
Commercial mortgage-backed securities	3,244	—	3,244	—
Collateralized mortgage obligations	2,784	—	2,784	—
Total debt securities	122,113	—	122,113	—
Equity securities	896	139	757	—
Short-term investments	20,838	20,838	—	—
Total marketable investments measured at fair value	$ 143,847	$ 20,977	$ 122,870	$ —
Investments measured at NAV:				
Investment in limited partnership	1,458			
Total assets measured at fair value	$ 145,305			
Liabilities:				
Senior unsecured notes *	$ 11,791	$ —	$ 11,791	$ —
Subordinated notes *	9,965	—	—	9,965
Total Liabilities (non-recurring fair value measure)	$ 21,756	$ —	$ 11,791	$ 9,965

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

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 16% and 15% of the fair value of the total marketable investments measured at fair value as of June 30, 2024 and December 31, 2023, respectively.

Level 2 investments include debt securities and equity 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 84% and 85% of the fair value of the total marketable investments measured at fair value as of June 30, 2024 and December 31, 2023, respectively.

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.

As of June 30, 2024 and December 31, 2023, the fair value of the Senior Secured Notes reported at amortized cost was considered a Level 3 liability in the fair value hierarchy and is entirely comprised of the Company's Senior Secured Notes. In determining the fair value of the Senior Secured Notes outstanding at June 30, 2024 and December 31, 2023, the security attributes (issue date, maturity, coupon, calls, etc.) were entered 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 entered back into the model along with the June 30, 2024 and December 31, 2023 U.S. Treasury rates, respectively. 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.

The Company's policy on recognizing transfers between hierarchies is applied at the end of each reporting period. There were no transfers in or out of Level 3 as of June 30, 2024 and December 31, 2023.

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, 2024 and 2023. 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,	
	2024	2023	2024	2023
Balance at beginning of period	$ 5,663	$ 8,326	$ 6,285	$ 10,290
Deferred policy acquisition costs	414	5,587	6,805	8,344
Amortization of policy acquisition costs	(1,471)	(4,413)	(8,484)	(9,134)
Net change	(1,057)	1,174	(1,679)	(790)
Balance at end of period	$ 4,606	$ 9,500	$ 4,606	$ 9,500

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 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,	
	2024	2023	2024	2023
Gross reserves - beginning of period	$ 175,826	$ 145,362	$ 174,612	$ 165,539
Less: reinsurance recoverables on unpaid losses	(73,807)	(61,101)	(70,807)	(82,651)
Net reserves - beginning of period	102,019	84,261	103,805	82,888
Add: incurred losses and LAE, net of reinsurance:				
Current period	12,481	18,797	23,462	33,723
Prior period	2,800	522	2,339	(691)
Total net incurred losses and LAE	15,281	19,319	25,801	33,032
Deduct: loss and LAE payments, net of reinsurance:				
Current period	7,206	7,454	10,068	9,441
Prior period	9,666	7,627	19,110	17,980
Total net loss and LAE payments	16,872	15,081	29,178	27,421
Net reserves - end of period	100,428	88,499	100,428	88,499
Plus: reinsurance recoverables on unpaid losses	74,358	56,505	74,358	56,505
Gross reserves - end of period	$ 174,786	$ 145,004	$ 174,786	$ 145,004

Net losses and LAE decreased by $4.0 million, or 20.9%, to $15.3 million during the second quarter of 2024, compared to $19.3 million for the same period in 2023. The $6.3 million decrease in current accident year losses during the second quarter of 2024, compared to the same period in 2023, was mostly due to a significant reduction in net earned premiums described above.

The Company's incurred losses during the three months ended June 30, 2024 included prior-year adverse development of $2.8 million. Of the $2.8 million of adverse development experience during the second quarter of 2024, $2.1 million of adverse development was experienced in the Company's commercial lines of business, mostly related to emergence in the commercial liability lines in the Security Program in the 2021 and 2022 accident years. The remainder was attributed to $747,000 of adverse development occurring in the Company's personal lines of business, mostly related to a few high severity claims in the 2023 accident year.

The Company had less-than-expected loss emergence during the second quarter of 2023, and recognized $411,000 of favorable development in its personal lines of business for accident year 2022. The decrease in net losses and LAE was offset by $1.0 million and $4.5 million of current accident year losses in the Company's commercial lines and personal lines losses, respectively, which were a result of storm activity in the southwest during the second quarter of 2023.

As of June 30, 2024, the Company was $9.9 million into the $20.0 million layer provided by the adverse development cover of the LPT.

There was $2.2 million of adverse development relating to 2019 and prior accident years that was covered under the Loss Portfolio Transfer ("LPT") during the second quarter of 2023, resulting in no net development. As of June 30, 2023, the Company was $4.6 million into the $20.0 million layer provided by the adverse development cover of the LPT.

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 ceded primarily all specific commercial liability risks in excess of $400,000 in 2024 and 2023. The Company ceded specific commercial property risks in excess of $400,000 in 2024 and 2023. The Company ceded homeowners specific risks in excess of $400,000 and $300,000 in 2024 and 2023, respectively.

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 minimum A.M. Best rating, or where the policies are written in a state where the Company is not licensed or for other strategic reasons.

On September 30, 2023, the Company entered into a 100% quota share reinsurance agreement with the buyer of the renewal rights of the Security Program. The Company ceded $30.9 million of its gross unearned premiums relating to the Security Program in exchange for a 22% - 27% ceding commission.

On November 1, 2022, the Company entered into a loss portfolio transfer (“LPT”) reinsurance agreement. As of June 30, 2024, the Company has recorded losses through the $5.5 million corridor and $9.9 million into the $20.0 million layer. As of December 31, 2023, the Company recorded losses through the $5.5 million corridor and $9.1 million into the $20.0 million layer.

As of June 30, 2024, the Consolidated Balance Sheets included $3.9 million and $6.0 million of reinsurance recoverables on paid and unpaid losses related to the LPT, respectively. As of December 31, 2023, the Consolidated Balance Sheets included $3.8 million and $10.9 million of reinsurance recoverables on paid and unpaid losses related to the LPT, respectively.

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,	
	2024	2023	2024	2023
Written premiums:				
Direct	$ 19,200	$ 27,183	$ 43,299	$ 51,524
Assumed	(229)	17,491	(15)	29,364
Ceded	(5,724)	(15,346)	(14,646)	(33,218)
Net written premiums	$ 13,247	$ 29,328	$ 28,638	$ 47,670
Earned premiums:				
Direct	$ 24,226	$ 23,597	$ 49,034	$ 46,912
Assumed	5,155	12,416	14,579	23,395
Ceded	(12,715)	(12,830)	(30,060)	(25,172)
Net earned premiums	$ 16,666	$ 23,183	$ 33,553	$ 45,135
Losses and LAE:				
Direct	$ 8,850	$ 24,570	$ 30,832	$ 26,539
Assumed	14,249	4,261	10,985	5,758
Ceded	(7,818)	(9,512)	(16,016)	735
Net Losses and LAE	$ 15,281	$ 19,319	$ 25,801	$ 33,032

7. Debt

As of June 30, 2024, the Company’s debt was comprised of two instruments: $17.9 million of 9.75% public senior unsecured notes (the "New Public Notes") which were issued during the third quarter of 2023, and $9.3 million of privately placed 12.5% senior secured notes ("Senior Secured Notes"), which were issued on September 30, 2023. The New Public Notes have substantially the same terms as the 6.75% public senior unsecured notes (the "Old Public Notes") which matured on September 30, 2023, except for the coupon. A summary of the Company's outstanding debt is as follows (dollars in thousands):

	As of June 30, 2024			As of December 31, 2023		
	Gross Debt	Unamortized Debt Issuance Costs	Net Debt	Gross Debt	Unamortized Debt Issuance Costs	Net Debt
Senior unsecured notes	$ 17,887	$ 1,502	$ 16,385	$ 17,887	$ 1,679	$ 16,208
Senior secured notes	9,250	803	8,447	9,750	897	8,853
Total	$ 27,137	$ 2,305	$ 24,832	$ 27,637	$ 2,576	$ 25,061

New Public Notes

The Company issued $17.9 million of New Public Notes during the third quarter of 2023. The new notes bear an interest rate of 9.75% per annum, payable quarterly at the end of March, June, September and December and mature on September 30, 2028. The Company may redeem the new notes, in whole or in part, at face value at any time after September 30, 2025.

Senior Secured Notes

The Company restructured its subordinated notes to Senior Secured Notes with its lender on September 30, 2023. The Senior Secured Notes mature on September 30, 2028, and bear an interest rate of 12.5% per annum. Interest is payable quarterly at the end of March, June, September, and December. Quarterly principal payments of $250,000 are required starting on December 31, 2023 through September 30, 2028. The Company may redeem the senior secured notes, in whole or in part, for a call premium of $1.8 million less 22% of the interest payment amounts that were paid prior to the date of redemption. The Company accounted for this restructuring as a debt modification because there was no concession made to the lender. The Company had $9.3 million of outstanding Senior Secured Notes as of June 30, 2024.

Debt issuance costs

The Company incurred $173,000 of restructuring costs from the lender related to the Senior Secured Notes. These costs were capitalized as debt issuance costs as of September 30, 2023.

As of June 30, 2024, the carrying value of the New Public Notes and Senior Secured Notes were offset by $1.5 million and $803,000 of capitalized costs, respectively. The debt issuance costs are amortized through interest expense over the life of the loans.

Debt covenants

The Senior Secured 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. The Senior Secured Notes also require that any proceeds the Company receives from asset sales be used to pay down the principal. Debt covenants have been waived for violation of compliance as of December 31, 2023 and any potential future violations through May 31, 2025.

The following table shows the scheduled principal payments of the Company's debt as of June 30, 2024 (dollars in thousands):

Year	Senior unsecured notes	Senior secured notes
2024	500	—
2025	1,000	—
2026	1,000	—
2027	1,000	—
2028	5,750	17,887
Total	$ 9,250	$ 17,887

8. Shareholder’s Equity

Preferred Stock

On December 20, 2023, the Company issued $6.0 million of its newly designated Series A Preferred Stock (the "Preferred Stock"), no par value, through a private placement of 1,000 shares priced at $6,000 per share that matures on June 30, 2026. The Preferred Stock was sold to Clarkston 91 West LLC (the "Purchaser"), an entity affiliated with Gerald and Jeffrey Hakala, members of the Board of Directors of the Company. Preferred Stock shareholders have no voting rights and optional redemption is only in the control of the Company.

The Preferred Stock requires quarterly dividend payments. The Preferred Stock dividend rate is equal to the prime rate of Waterford Bank, N.A. ("Waterford Bank"), or 8.0%, whichever is higher, plus 200 basis points. As of June 30, 2024, this equated to an annualized rate of 10.5%.

The Company has the option to redeem the Preferred Stock at the end of any fiscal quarter, in whole or in part, at a price equal to issue price, plus the amount that would result in a 20.0%, compounded annually, annualized return to the holder (inclusive of the dividends paid), on the portion being redeemed.

On the maturity date, each outstanding share of the Preferred Stock, that has not otherwise been redeemed, shall, without any further action by the holders, automatically convert into 4,000 shares of the Company's common stock, subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the common stock that occur after the initial issue date.

As of June 30, 2024 and December 31, 2023, the Company had 1,000 issued and outstanding shares of Preferred Stock, respectively.

Common Stock

As of June 30, 2024 and December 31, 2023, the Company had 12,222,881 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. Earnings Per Share

Basic and diluted earnings (loss) per share are computed by dividing net income allocable to common shareholders by the weighted average number of common shares outstanding during the period. The dividends on preferred stock are deducted from the net income to arrive at net income allocable to common shareholders. The following table presents the calculation of basic and diluted earnings (loss) per common share, as follows (dollars in thousands, except per share and share amounts):

	Three Months Ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net income (loss)	$ (3,792)	$ (4,739)	$ (3,561)	$ (3,738)
Preferred stock dividends	158	—	$ 315	—
Net income (loss) allocable to common shareholders	$ (3,950)	$ (4,739)	$ (3,876)	$ (3,738)
Weighted average common shares, basic and diluted *	12,222,881	12,220,331	12,222,881	12,218,102
Earnings (loss) per common share, basic and diluted	$ (0.32)	$ (0.39)	$ (0.32)	$ (0.31)

* The preferred shares that may be convertible into a total of 4,000,000 common shares were anti-dilutive and thus did not impact the diluted earnings per share calculation. There were no unvested restricted stock units as of June 30, 2024. The non-vested shares of stock options were anti-dilutive as of June 30, 2024. The non-vested shares of the restricted stock units and stock options were anti-dilutive as of June 30, 2023. Therefore, the basic and diluted weighted average common shares are equal for the three and six months ended June 30, 2024 and 2023.

10. Stock-based Compensation

On March 8, 2022 the Company issued options to purchase 630,000 shares of the Company's common stock to two named executive officers. The right to exercise the options vest over a five-year period on a straight-line basis. The options have a strike price of $4.53 per share and will expire on March 8, 2032. The estimated grant date fair value of these options is $612,000, which is being expensed ratably over the vesting period. A Black Scholes model was used to determine the fair value of the options at the time the options were issued, using the Company’s historical 5-year market price of its stock to determine volatility (equating to 65.04%), an estimated 5-year term to exercise the options, a 5-year risk-free rate of return of 1.8%, and the market price for the Company’s stock of $2.40 per share.

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 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 grant date fair value of these options is $290,000, which is being expensed ratably over the vesting period.

In 2018, the Company issued 70,000 of restricted stock units (“RSUs”) to various employees to be settled in shares of common stock, which were valued at $404,000 on the date of the grant.

The Company recorded $0 and $4,000 of compensation expense related to the RSUs for the three months ended June 30, 2024 and 2023, respectively. The Company recorded $0 and $17,000 of compensation expense related to the RSUs for the six months ended June 30, 2024 and 2023, respectively. There were no unvested RSUs remaining as of June 30, 2024.

The Company recorded $38,000 and $44,000 of compensation expense for the three months ended June 30, 2024 and 2023, respectively, related to the Company's stock options granted. The Company recorded $70,000 and $86,000 of compensation expense for the six months ended June 30, 2024 and 2023, respectively, related to the Company's stock options granted. There were 424,000 options outstanding and unvested as of June 30, 2024, which will generate an estimated future expense of $374,000.

11. 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 financial statements. 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.

12. 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 Texas, Michigan, Oklahoma and Indiana. For the six months ended June 30, 2024 and 2023, gross written premiums attributable to these four states were 85.1% and 47.1%, respectively, of the Company’s total gross written premiums.

The wholesale 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 wholesale agency business and are eliminated in the Eliminations category.

In addition to the reportable segments, the Company maintains a Corporate and Other category to reconcile segment results to the consolidated totals. The Corporate and Other category includes: (i) corporate operating expenses such as salaries and related benefits of the Company’s executive management team, some 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, 2024	Commercial Lines	Personal Lines	Total Underwriting	Wholesale Agency	Corporate	Eliminations	Total
Gross written premiums	$ 6,782	$ 12,189	$ 18,971	$ —	$ —	$ —	$ 18,971
Net written premiums	$ 4,285	$ 8,962	$ 13,247	$ —	$ —	$ —	$ 13,247
Net earned premiums	$ 8,681	$ 7,985	$ 16,666	$ —	$ —	$ —	$ 16,666
Agency commission income	—	—	—	13,688	—	(4,857)	8,831
Other income	19	20	39	83	38	—	160
Segment revenue	8,700	8,005	16,705	13,771	38	(4,857)	25,657
Losses and LAE, net	6,906	8,375	15,281	—	—	—	15,281
Policy acquisition costs	1,155	2,236	3,391	11,005	—	(3,916)	10,480
Operating expenses	1,050	926	1,976	2,046	234	—	4,256
Segment expenses	9,111	11,537	20,648	13,051	234	(3,916)	30,017
Segment gain (loss)	$ (411)	$ (3,532)	$ (3,943)	$ 720	$ (196)	$ (941)	$ (4,360)
Investment income					1,505		1,505
Net realized investment gains (losses)					(118)		(118)
Change in fair value of equity securities					(196)		(196)
Interest expense					(869)		(869)
Income (loss) before equity earnings in Affiliate and income taxes	$ (411)	$ (3,532)	$ (3,943)	$ 720	$ 126	$ (941)	$ (4,038)

Three months ended June 30, 2023	Commercial Lines	Personal Lines	Total Underwriting	Wholesale Agency	Corporate	Eliminations	Total
Gross written premiums	$ 34,761	$ 9,913	$ 44,674	$ —	$ —	$ —	$ 44,674
Net written premiums	$ 20,485	$ 8,843	$ 29,328	$ —	$ —	$ —	$ 29,328
Net earned premiums	$ 17,487	$ 5,696	$ 23,183	$ —	$ —	$ —	$ 23,183
Agency commission income	—	—	—	560	—	(349)	211
Other income	56	23	79	34	74	—	187
Segment revenue	17,543	5,719	23,262	594	74	(349)	23,581
Losses and LAE, net	13,597	5,722	19,319	—	—	—	19,319
Policy acquisition costs	2,966	1,453	4,419	349	—	(355)	4,413
Operating expenses	3,600	792	4,392	365	357	—	5,114
Segment expenses	20,163	7,967	28,130	714	357	(355)	28,846
Segment gain (loss)	$ (2,620)	$ (2,248)	$ (4,868)	$ (120)	$ (283)	$ 6	$ (5,265)
Investment income					1,354		1,354
Change in fair value of equity securities					(12)		(12)
Interest expense					(820)		(820)
Income (loss) before equity earnings in Affiliate and income taxes	$ (2,620)	$ (2,248)	$ (4,868)	$ (120)	$ 239	$ 6	$ (4,743)

Six months ended June 30, 2024	Commercial Lines	Personal Lines	Total Underwriting	Wholesale Agency	Corporate	Eliminations	Total
Gross written premiums	$ 19,544	$ 23,740	$ 43,284	$ —	$ —	$ —	$ 43,284
Net written premiums	$ 12,572	$ 16,066	$ 28,638	$ —	$ —	$ —	$ 28,638
Net earned premiums	$ 17,478	$ 16,075	$ 33,553	$ —	$ —	$ —	$ 33,553
Agency commission income	$ —	$ —	$ —	$ 24,282	$ —	$ (11,115)	$ 13,167
Other income	69	48	117	194	109	—	420
Segment revenue	17,547	16,123	33,670	24,476	109	(11,115)	47,140
Losses and LAE, net	13,672	12,129	25,801	—	—	—	25,801
Policy acquisition costs	2,302	4,249	6,551	20,124	—	(9,182)	17,493
Operating expenses	2,798	1,897	4,695	3,679	377	—	8,751
Segment expenses	18,772	18,275	37,047	23,803	377	(9,182)	52,045
Segment gain (loss)	$ (1,225)	$ (2,152)	$ (3,377)	$ 673	$ (268)	$ (1,933)	$ (4,905)
Investment income					3,057		3,057
Net realized investment gains (losses)					(118)		(118)
Change in fair value of equity securities					(153)		(153)
Interest expense					(1,746)		(1,746)
Income (loss) before equity earnings in Affiliate and income taxes	$ (1,225)	$ (2,152)	$ (3,377)	$ 673	$ 772	$ (1,933)	$ (3,865)

Six months ended June 30, 2023	Commercial Lines	Personal Lines	Total Underwriting	Wholesale Agency	Corporate	Eliminations	Total
Gross written premiums	$ 63,736	$ 17,152	$ 80,888	$ —	$ —	$ —	$ 80,888
Net written premiums	$ 32,726	$ 14,944	$ 47,670	$ —	$ —	$ —	$ 47,670
Net earned premiums	$ 34,610	$ 10,525	$ 45,135	$ —	$ —	$ —	$ 45,135
Agency commission income	$ —	$ —	$ —	$ 1,390	$ —	$ (749)	$ 641
Other income	108	46	154	83	146	—	383
Segment revenue	34,718	10,571	45,289	1,473	146	(749)	46,159
Losses and LAE, net	24,144	8,888	33,032	—	—	—	33,032
Policy acquisition costs	6,162	2,842	9,004	897	—	(767)	9,134
Operating expenses	6,628	1,384	8,012	717	664	—	9,393
Segment expenses	36,934	13,114	50,048	1,614	664	(767)	51,559
Segment gain (loss)	$ (2,216)	$ (2,543)	$ (4,759)	$ (141)	$ (518)	$ 18	$ (5,400)
Investment income					2,661		2,661
Change in fair value of equity securities					682		682
Interest expense					(1,506)		(1,506)
Income (loss) before equity earnings in Affiliate and income taxes	$ (2,216)	$ (2,543)	$ (4,759)	$ (141)	$ 1,319	$ 18	$ (3,563)

13. Subsequent Events

The Company performed an evaluation of subsequent events through the date the financial statements were issued and determined there were no recognized or unrecognized subsequent events that would require an adjustment or additional disclosure in the condensed consolidated financial statements as of June 30, 2024.

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

For the Periods Ended June 30, 2024 and 2023

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 April 1, 2024 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 April 1, 2024 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

Strategic Shift from Premium Revenues to Commission Revenues

In the first and second quarter of 2024, the Company began a strategic shift has reduced premiums revenues from underwriting operations and increased commission revenues from policy production within the MGA. The Company began utilizing two third-party insurers for the underwriting capacity in the first two quarters of 2024. By the third quarter of 2024, we expect that almost all commercial lines business previously underwritten by the Company's Insurance Company Subsidiaries will be written by third-party insurers. The Company expects to continue to directly write the Midwest and Texas homeowners business.

Consideration of Disposal of Assets or Operations

The Company is currently actively considering the sale of assets and of business operations in order to raise capital with which to repay debt and improve its financial position. The Company has not entered into any binding agreements with respect to such asset or operations sale transactions, and there can be no assurance that we will do so or that any given amount of capital will be raised if such transactions occur. Even if a transaction is completed, it ultimately may not deliver the anticipated benefits or enhance stockholder value.

A.M. Best and Kroll

On March 25, 2024, Kroll downgraded the financial strength ratings of CIC and WPIC. Kroll has given CIC an insurance financial strength rating of BB- with a negative outlook. Kroll has given WPIC an insurance financial strength rating of B with a negative outlook. A BB- and a B rating indicates that the insurer's financial condition is low quality. Concurrently, the Company withdrew its participation in the rating process, and shall be non-rated by Kroll going forward.

On March 14, 2024, A.M. Best downgraded the financial strength ratings of CIC and WPIC to C. A rating of C means A.M. Best considers both companies to have a "weak" ability to meet ongoing financial obligations. Concurrently, the Company withdrew its participation in the rating process, and shall be non-rated by A.M. Best going forward.

Business Overview

We are an insurance holding company that markets and services our product offerings through specialty commercial and specialty personal insurance business lines. Currently, we are authorized to write insurance as an excess and surplus lines carrier in 44 states, including the District of Columbia. We are licensed to write insurance as an admitted carrier in 42 states, including the District of Columbia, and we offer our insurance products in almost 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 revenues also include commission income from the Company's MGA, CIS.

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

Through our commercial insurance 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 lines, we offer homeowners insurance and dwelling fire insurance products 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.

Through our MGA, CIS operates through our wholesale agency business segment. Through CIS, we offer commercial and personal lines insurance products for our Insurance Company Subsidiaries as well as third-party insurers. The wholesale agency business segment provides our agents with more insurance product options. In recent periods, the wholesale agency business has become more prominent as substantially all of our commercial lines business is now produced by our MGA and underwritten by third-party insurers.

An advantage of using these third-party insurers is they both have a minimum of an A- A.M. Best rating, which greatly improves our competitive edge in the marketplace.

As we transition to more of a MGA operation, more revenues will be derived from commissions while insurance premiums and investment income will diminish over time. Cash flows from written premiums will decline quickly over the next two quarters and will be almost entirely comprised of the homeowners business by the third quarter of 2024. Concurrently, cash flows from commissions revenues will increase. As claims are settled, claim payments will be funded from the sale of investments within the Insurance Company Subsidiaries. Such claims payments will reduce cash flows provided by operating activities and will be offset by an increase in cash flows from investing activities as the investment portfolio is liquidated over time to fund the claim payments. See the Liquidity and Capital Resources section below for additional details of the impact of the Company's MGA shift.

There will be fewer claim payments as loss reserves run off. Other operating costs and commissions to retail agencies will fluctuate relatively similarly to the premiums produced by the MGA as they did when the premiums were written by the insurance companies. However, certain insurance company specific costs will decrease as the premium volume in the insurance company subsidiaries decreases. As premium volumes decrease, there will be more reliance on MGA revenues to provide the majority of the cash flows needed to cover operating and debt service costs.

The Company is currently actively considering the sale of assets and of business operations in order to raise capital with which to repay debt and improve its financial position. Such sale transactions could significantly impact the Company's sources of revenue going forward.

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 operations will not be affected by accounting adjustments needed to reflect changes in these estimates and assumptions. During the six months ended June 30, 2024, 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 April 1, 2024.

Executive Overview

The Company reported $19.0 million of gross written premiums in the second quarter of 2024, representing a 57.5% decrease as compared to the same period in 2023. Our commercial lines gross written premiums decreased by $28.0 million, or 80.5%, to $6.8 million in the second quarter of 2024, compared to $34.8 million for the same period in 2023. Personal lines gross written premiums increased by $2.3 million, or 23.0%, to $12.2 million in the second quarter of 2024, compared to $9.9 million for the same period in 2023.

The Company reported a net loss allocable to common shareholders of $4.0 million, or $0.32 per share for the three months ended June 30, 2024, compared to a net loss of $4.7 million, or $0.39 per share, for the same period in 2023.

The Company reported a net loss allocable to common shareholders of $3.9 million, or $0.32 per share for the six months ended June 30, 2024, compared to a net loss of $3.7 million, or $0.31 per share for the same period in 2023.

Adjusted operating income per share is a non-GAAP measure that represents net income allocable to common shareholders excluding net realized investment gains or losses and change in fair value of equity securities. Adjusted operating loss was $3.6 million, or $0.30 per share for the three months ended June 30, 2024, compared to $4.7 million or $0.39 for the same period in 2023.

Adjusted operating loss was $3.6 million, or $0.30 per share, for the six months ended June 30, 2024, compared to $4.4 million or $0.36 per share for the same period in 2023.

Our underwriting combined ratio was 123.6% and 120.9% for the three months ended June 30, 2024 and 2023, respectively. Our underwriting combined ratio was 110.0% and 110.5% for the six months ended June 30, 2024 and 2023, respectively.

Results of Operations For The Three Months Ended June 30, 2024 and 2023

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

Summary of Operating Results

	Three Months Ended June 30,			
	2024	2023	$ Change	% Change
Gross written premiums	$ 18,971	$ 44,674	$ (25,703)	(57.5%)
Net written premiums	$ 13,247	$ 29,328	$ (16,081)	(54.8%)
Net earned premiums	$ 16,666	$ 23,183	$ (6,517)	(28.1)%
Agency commission income	8,831	211	8,620	4,085.3%
Other income	160	187	(27)	(14.4%)
Losses and loss adjustment expenses, net	15,281	19,319	(4,038)	(20.9)%
Policy acquisition costs	10,480	4,413	6,067	137.5%
Operating expenses	4,256	5,114	(858)	(16.8)%
Underwriting gain (loss)	(4,360)	(5,265)	905	*
Net investment income	1,505	1,354	151	11.2%
Net realized investment gains (losses)	(118)	—	(118)	*
Change in fair value of equity securities	(196)	(12)	(184)	1,533.3%
Interest expense	869	820	49	6.0%
Income (loss) before equity earnings in Affiliate, net of tax	(4,038)	(4,743)	705	*
Equity earnings (loss) in Affiliate, net of tax	228	4	224	*
Income tax expense (benefit)	(18)	—	(18)	*
Net income (loss)	$ (3,792)	$ (4,739)	$ 947	*
Book value per common share outstanding	$ (0.10)	$ 1.38		
Underwriting Ratios:				
Loss ratio (1)	91.5%	83.0%		
Expense ratio (2)	32.1%	37.9%		
Combined ratio (3)	123.6%	120.9%		

(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, 2024 and 2023 (dollars in thousands):

Summary of Premium Revenue

	Three Months Ended June 30,			
	2024	**2023**	**$ Change**	**% Change**
Gross written premiums				
Commercial lines	$ 6,782	$ 34,761	$ (27,979)	(80.5)%
Personal lines	12,189	9,913	2,276	23.0%
Total	$ 18,971	$ 44,674	$ (25,703)	(57.5)%
Net written premiums				
Commercial lines	$ 4,285	$ 20,485	$ (16,200)	(79.1)%
Personal lines	8,962	8,843	119	1.3%
Total	$ 13,247	$ 29,328	$ (16,081)	(54.8)%
Net earned premiums				
Commercial lines	$ 8,681	$ 17,487	$ (8,806)	(50.4)%
Personal lines	7,985	5,696	2,289	40.2%
Total	$ 16,666	$ 23,183	$ (6,517)	(28.1)%

Gross written premiums decreased $25.7 million, or 57.5%, to $19.0 million for the three months ended June 30, 2024, as compared to $44.7 million for the same period in 2023.

Commercial lines gross written premiums decreased $28.0 million, or 80.5%, to $6.8 million in the second quarter of 2024, as compared to $34.8 million for the second quarter of 2023. There was an $18.6 million decrease in premiums due to the sale of the Security Program in September 2023, as well as continued reductions in certain hospitality lines as we exited less profitable states. The remaining decrease was primarily due to the MGA shifting business from our Insurance Company Subsidiaries to the third-party insurers during the quarter.

Personal lines gross written premiums increased $2.3 million, or 23.0%, to $12.2 million in the second quarter of 2024, as compared to $9.9 million for the same period in 2023. The increase was due to the organic growth in the low-value dwelling book of business in Texas.

Net written premiums decreased $16.1 million, or 54.8%, to $13.2 million for the three months ended June 30, 2024, as compared to $29.3 million for the same period in 2023. Net written premiums declined during the second quarter of 2024 as a result of the Company's reduction in gross written premiums due to its MGA shift, and also due to the sale of the Security Program in September 2023.

Agency Commission Income

Commission income is received by the Company’s insurance agency for writing policies for third-party insurance companies. Agency commission income increased by $8.6 million to $8.8 million during the second quarter of 2024, compared to $211,000 for the same period in 2023. The increase was due to the MGA shift the Company implemented in the beginning of 2024. Additionally, the increase was attributable to the Company's Security Program transaction in September of 2023. As part of the arrangement with the buyer, our MGA was appointed as the producer for this business, for approximately a two-year transition period. During this time our MGA will receive a commission from the buyer, and pay a sub-producer substantially the same commission. This results in higher consolidated Agency Commission Income for the Company. Policy acquisition costs will remain substantially the same amount for the period of this agreement. In the second quarter of 2024, the Company recorded $5.8 million of commission revenue and $5.8 million of commission expense as a result of this arrangement.

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, 2024 and 2023 (dollars in thousands):

Three months ended June 30, 2024	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 4,853	$ 7,628	$ 12,481
Net (favorable) adverse development	2,053	747	2,800
Calendar year net losses and LAE	$ 6,906	$ 8,375	$ 15,281
Accident year loss ratio	55.8 %	95.3 %	74.7 %
Net (favorable) adverse development	23.6 %	9.3 %	16.8 %
Calendar year loss ratio	79.4 %	104.6 %	91.5 %

Three months ended June 30, 2023	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 12,710	$ 6,087	$ 18,797
Net (favorable) adverse development	887	(365)	522
Calendar year net losses and LAE	$ 13,597	$ 5,722	$ 19,319
Accident year loss ratio	72.5 %	106.5 %	80.8 %
Net (favorable) adverse development	5.0 %	(6.4)%	2.2 %
Calendar year loss ratio	77.5 %	100.1 %	83.0 %

Net losses and LAE decreased by $4.0 million, or 20.9%, to $15.3 million during the second quarter of 2024, compared to $19.3 million for the same period in 2023. The $6.3 million decrease in current accident year losses during the first quarter of 2024, compared to the same period in 2023, was mostly due to a significant reduction in net earned premiums described above.

The Company’s incurred losses during the three months ended June 30, 2024 included prior-year adverse development of $2.8 million. Of the $2.8 million of adverse development experience during the second quarter of 2024, $2.1 million of adverse development was experienced in the Company's commercial lines of business, mostly related to emergence in the commercial liability lines in the Security Program in the 2021 and 2022 accident years. The remainder was attributed to $747,000 of adverse development occurring in the Company's personal lines of business, mostly related to a few high severity claims in the 2023 accident year.

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,	
	2024	2023
Commercial Lines		
Policy acquisition costs	13.2 %	16.9 %
Operating expenses	12.1 %	20.5 %
Total	25.3 %	37.4 %
Personal Lines		
Policy acquisition costs	27.9 %	25.4 %
Operating expenses	11.6 %	13.8 %
Total	39.5 %	39.2 %
Total Underwriting		
Policy acquisition costs	20.3 %	19.0 %
Operating expenses	11.8 %	18.9 %
Total	32.1 %	37.9 %

Our expense ratio decreased by 5.8% during the second quarter of 2024, compared to the same period in 2023.

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 ceding commissions from reinsurers. The percentage of policy acquisition costs to net earned premiums decreased by 3.7% in the Company's commercial lines mainly due to the added ceding commissions received from the unearned premium portfolio transaction that occurred on September 30, 2023, as part of the Security Program transaction. The personal lines acquisition costs increased by 2.5% percentage points due to increased commission rates to agents on the homeowners books of business.

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 underwriting income decreased by 7.1% during the second quarter of 2024 to 11.8%, compared to 18.9% for the same period in 2023. The decrease was attributed to the Company shifting its business through its MGA. As a result, operating expenses have increased in the Company's MGA and have decreased in its Insurance Company Subsidiaries.

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, 2024 and 2023 (dollars in thousands):

Segment Gain (Loss)

	Three Months Ended June 30,		
	2024	2023	$ Change
Commercial Lines	$ (411)	$ (2,620)	$ 2,209
Personal Lines	(3,532)	(2,248)	(1,284)
Total Underwriting	(3,943)	(4,868)	925
Wholesale Agency	720	(120)	840
Corporate	(196)	(283)	87
Eliminations *	(941)	6	(947)
Total segment gain (loss)	$ (4,360)	$ (5,265)	$ 905

* Elimination amounts are a result of more intercompany commission revenue being generated in the Wholesale Agency, which is recognized when the premiums are written, while the Insurance Company Subsidiaries recognize the intercompany commission expense when the premiums are earned. This timing difference between two consolidating companies is adjusted through Eliminations.

Results of Operations For The Six Months Ended June 30, 2024 and 2023

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

Summary of Operating Results

	Six months ended June 30, 2024	Six months ended June 30, 2023	$ Change	% Change
Gross written premiums	$ 43,284	$ 80,888	$ (37,604)	(46.5)%
Net written premiums	$ 28,638	$ 47,670	$ (19,032)	(39.9)%
Net earned premiums	$ 33,553	$ 45,135	$ (11,582)	(25.7)%
Agency commission income	13,167	641	12,526	1954.1%
Other income	420	383	37	9.7%
Losses and loss adjustment expenses, net	25,801	33,032	(7,231)	(21.9)%
Policy acquisition costs	17,493	9,134	8,359	91.5%
Operating expenses	8,751	9,393	(642)	(6.8)%
Underwriting gain (loss)	(4,905)	(5,400)	495	9.2%
Net investment income	3,057	2,661	396	14.9%
Net realized investment gains (losses)	(118)	—	(118)	*
Change in fair value of equity securities	(153)	682	(835)	(122.4)%
Interest expense	1,746	1,506	240	15.9%
Income (loss) before equity earnings in Affiliate and income taxes	(3,865)	(3,563)	(302)	*
Equity earnings (loss) in Affiliate, net of tax	286	(175)	461	*
Income tax expense	(18)	—	(18)	*
Net income (loss)	$ (3,561)	$ (3,738)	$ 177	*
Book value per common share outstanding	$ (0.10)	$ 1.38		
Underwriting Ratios:				
Loss ratio (1)	76.6%	72.9%		
Expense ratio (2)	33.4%	37.6%		
Combined ratio (3)	110.0%	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, 2024 and 2023 (dollars in thousands):

	Six months ended June 30, 2024	Six months ended June 30, 2023	$ Change	% Change
Gross written premiums				
Commercial lines	$ 19,544	$ 63,736	$ (44,192)	(69.3)%
Personal lines	23,740	17,152	6,588	38.4%
Total	$ 43,284	$ 80,888	$ (37,604)	(46.5)%
Net written premiums				
Commercial lines	$ 12,572	$ 32,726	$ (20,154)	(61.6)%
Personal lines	16,066	14,944	1,122	7.5%
Total	$ 28,638	$ 47,670	$ (19,032)	(39.9)%
Net earned premiums				
Commercial lines	$ 17,478	$ 34,610	$ (17,132)	(49.5)%
Personal lines	16,075	10,525	5,550	52.7%
Total	$ 33,553	$ 45,135	$ (11,582)	(25.7)%

Gross written premiums decreased $37.6 million, or 46.5%, to $43.3 million for the six months ended June 30, 2024, as compared to $80.9 million for the same period in 2023.

Commercial lines gross written premiums decreased $44.2 million, or 69.3%, to $19.5 million for the six months ended June 30, 2024, as compared to $63.7 million in the same period of 2023. The decrease was attributable to the Company's strategic shift of reducing premium revenue and increasing commission revenue from policy production within the Company's MGA. The Company is now using two third-party insurers to underwrite almost all commercial lines business.

Personal lines gross written premiums increased $6.6 million, or 38.4%, to $23.7 million for the six months ended June 30, 2024, as compared to $17.2 million for the same period in 2023. The increase was due to the organic growth in the low-value dwelling book of business in Texas.

Net written premiums decreased $19.0 million, or 39.9%, to $28.6 million for the six months ended June 30, 2024, as compared to $47.7 million for the same period in 2023. Net written premiums declined during the first six months of 2024 as a result of the Company's reduction in gross written premiums due to its MGA shift, and also due to the sale of the Security Program in September 2023.

Agency Commission Income

Commission income is received by the Company’s insurance agency for writing policies for third-party insurance companies. Agency commission income increased by $12.5 million to $13.2 million for the first six months of 2024, compared to $641,000 for the same period in 2023. The increase was due to the MGA shift the Company implemented in the beginning of 2024. Additionally, the increase was attributable to the Company's Security Program transaction in September of 2023. As part of the arrangement with the buyer, our MGA was appointed as the producer for this business, for approximately a two-year transition period. During this time our MGA will receive a commission from the buyer, and pay a sub-producer substantially the same commission. This results in higher consolidated Agency Commission Income for the Company. Policy acquisition costs will remain substantially the same amount for the period of this agreement. In the second quarter of 2024, the Company recorded $9.4 million of commission revenue and $9.4 million of commission expense as a result of this arrangement.

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, 2024 and 2023 (dollars in thousands):

Six months ended June 30, 2024	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 11,572	$ 11,890	$ 23,462
Net (favorable) adverse development	2,100	239	2,339
Calendar year net losses and LAE	$ 13,672	$ 12,129	$ 25,801
Accident year loss ratio	65.9%	73.8%	69.7%
Net (favorable) adverse development	12.0%	1.4%	6.9%
Calendar year loss ratio	77.9%	75.2%	76.6%

Six months ended June 30, 2023	**Commercial Lines**	**Personal Lines**	**Total**
Accident year net losses and LAE	$ 24,075	$ 9,648	$ 33,723
Net (favorable) adverse development	69	(760)	(691)
Calendar year net losses and LAE	$ 24,144	$ 8,888	$ 33,032
Accident year loss ratio	69.3%	91.3%	74.4%
Net (favorable) adverse development	0.2%	(7.2)%	(1.5)%
Calendar year loss ratio	69.5%	84.1%	72.9%

Net losses and LAE decreased by $7.2 million, or 21.9%, to $25.8 million for the first six months of 2024, compared to $33.0 million for the same period in 2023. The $10.3 million decrease in current accident year losses during the first six months of 2024, compared to the same period in 2023, was mostly due to a significant reduction in net earned premiums described above.

Of the $2.3 million of adverse development experienced during the six months ended June 30, 2024, $2.1 million of adverse development was experienced in the Company's commercial lines of business, mostly related to emergence in the commercial liability lines in the Security Program in the 2021 and 2022 accident years. The remainder was attributed to $239,000 of adverse development occurring in the Company's personal lines of business, mostly related to a few high severity claims in the 2023 accident year.

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,	
	2024	2023
Commercial Lines		
Policy acquisition costs	13.2%	17.7%
Operating expenses	15.9%	19.1%
Total	29.1%	36.8%
Personal Lines		
Policy acquisition costs	26.3%	26.9%
Operating expenses	11.8%	13.1%
Total	38.1%	40.0%
Total Underwriting		
Policy acquisition costs	19.5%	19.9%
Operating expenses	13.9%	17.7%
Total	33.4%	37.6%

Our expense ratio decreased 4.2% during the first six months of 2024, compared to the same period in 2023.

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. The decrease in the policy acquisition cost ratio for commercial lines was due to the ceding commission earned on the unearned premium portfolio transfer of the Security Program that was entered into on September 30, 2024. The impact of this ceding commission will diminish over the next two quarters as it fully earns out and policy acquisition costs will revert to a historically more normal rate after that.

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 underwriting income decreased by 3.8% for the six months ended June 30, 2024 to 13.9%, compared to 17.7% for the same period in 2023. The decrease was attributed to the Company shifting its business through its MGA. As a result, operating expenses have increased in the Company's MGA and have decreased in its Insurance Company Subsidiaries.

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, 2024 and 2023 (dollars in thousands):

Segment Gain (Loss)

	Six months ended June 30,		
	2024	2023	$ Change
Commercial Lines	$ (1,225)	$ (2,216)	$ 991
Personal Lines	(2,152)	(2,543)	391
Total Underwriting	(3,377)	(4,759)	1,382
Wholesale Agency	673	(141)	814
Corporate	(268)	(518)	250
Eliminations	(1,933)	18	(1,951)
Total segment gain (loss)	$ (4,905)	$ (5,400)	$ 495

* Elimination amounts are a result of more intercompany commission revenue being generated in the Wholesale Agency, which is recognized when the premiums are written, while the Insurance Company Subsidiaries recognize the intercompany commission expense when the premiums are earned. This timing difference between two consolidating companies is adjusted through Eliminations.

Liquidity and Capital Resources

Sources and Uses of Funds

At June 30, 2024, the Company had $33.0 million in cash, cash equivalents and short-term investments. Our principal sources of funds are insurance premiums, investment income, commission income from the Company's MGA, 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.

For the next twelve months, based on the capital structure as of June 30, 2024, the Company will be required to make $1.0 million of principal payments on the senior secured notes, $630,000 of preferred dividend payments and approximately $2.9 million of interest on all of the Company's debt instruments, all of which are paid quarterly.

We conduct our business operations primarily through our Insurance Company Subsidiaries and our MGA. Our ability to service debt, and pay administrative expenses is primarily reliant upon our intercompany service fees paid by the Insurance Company Subsidiaries and MGA to the holding company for management, administrative, and information technology services provided to the Insurance Company Subsidiaries and MGA 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 holding 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 for the six months ended June 30, 2024 and 2023. We do not anticipate any dividends being paid to us from our insurance subsidiaries in the near term. The MGA may pay dividends to the Parent without regulatory restrictions.

Due to significant losses in 2023, much of which was attributable to strengthening reserves and severe storm activity affecting the Oklahoma homeowners business, both Insurance Company Subsidiaries lack sufficient capital to continue to underwrite the volume of business they have historically written. Also, both CIC and WPIC fell below critical statutory capital and surplus minimum requirements including the Risk Based Capital (“RBC”) ratio. CIC’s and WPIC’s RBC ratios at December 31, 2023, were 169% and 142%, respectively. The Insurance Company Subsidiaries submitted action plans with the state of domicile insurance regulator on April 1, 2024, to remediate certain statutory capital and surplus regulatory deficiencies. As part of the plan, WPIC will no longer write any business after June 30, 2024, and CIC will only write a small amount of commercial business as well as the homeowners business after June 30, 2024. It is likely that the Company will need to contribute $3.0 million to $5.0 million of more capital into WPIC before the end of the year in order to maintain its licenses. These actions were part of a strategic shift implemented by management to utilize third-party insurers and to mostly rely on commission revenues generated by our MGA to fund operations and service debt.

With the producer agreements currently executed and anticipated proceeds from the potential sale of assets and business operations, the Company expects to be able to generate the needed revenues to meet our obligations as they become due over the next twelve months. Management believes the actions that were executed to implement the planned strategic shift coupled with additional available sources of available liquidity and planned sales of assets and business operations, will be sufficient to enable the Company to meet its obligations for the foreseeable future. In addition, the Company is currently actively considering the sale of assets and of business operations in order to raise capital with which to repay debt and improve its financial position. Such sale transactions could generate funds with which to meet current obligations and could also significantly impact the Company’s sources of revenue going forward.

Our outstanding public debt securities are currently trading at a discount to their face amount. In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, we may, from time to time, purchase such debt for cash, in exchange for common stock, or for a combination of cash and common stock, in open market or privately negotiated transactions. We will evaluate any such transactions in light of then-existing market conditions, taking into account our current liquidity and prospects for future access to capital. The amounts involved in such transactions, individually or in the aggregate, may be material.

We believe that, through our existing cash and investment securities balances, operating cash flows, potential asset or operations sales or capital raises, we will be able to meet our capital and liquidity needs and the needs of our subsidiaries over the next twelve months.

Cash Flows

Operating Activities. Cash used in operating activities for the six months ended June 30, 2024 was $2.0 million compared to cash used in operating activities of $1.4 million for the same period in 2023. The $505,000 increase in cash from used in operating activities was primarily due to a $15.6 million decrease in net premiums collected as the Company continued to reduce premiums written. This was offset by $12.5 million increase in other income received substantially from the Company's agency commission revenue. There was a net decrease in cash paid on losses and acquisition costs of $1.6 million and a net decrease of $1.0 million on cash paid for administrative expenses.

Investing Activities. Cash provided by investing activities for the six months ended June 30, 2024 was $1.4 million, compared to cash used in investing activities of $7.8 million for the same period in 2023. The $9.2 million increase in cash provided by investing activities was driven by a $22.6 million decrease in cash used for the purchases of investments during the period. This amount was offset by a $13.3 million decrease in proceeds from sales of investments during the period.

Financing Activities. Cash used in financing activities for the six months ended June 30, 2024 was $834,000 compared to $3,000 for the same period in 2023. The $831,000 increase in cash used for financing activities was attributable to $334,000 of preferred stock dividends paid during the first six months of 2024. The remaining increase was due to the Company paying $500,000 of principal payments towards the Company's senior secured notes during the first six months of 2024. The Company did not have the Senior Secured Notes or preferred stock dividends during the first six months of 2023.

Statutory Capital and Surplus

Our Insurance Company Subsidiaries are required to file quarterly and annual financial reports with state insurance regulators. These financial reports are prepared using statutory accounting practices promulgated by the Insurance Company Subsidiaries' state of domiciliary, rather than GAAP. The Insurance Company Subsidiaries' aggregate statutory capital and surplus (which is a statutory measure of equity) was $32.6 million and $32.8 million at June 30, 2024 and December 31, 2023, respectively.

Non-GAAP Financial Measures

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 gains or losses, changes in fair value of equity securities and other gains and losses. 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,	
	2024	**2023**	**2024**	**2023**
Net income (loss) allocable to common shareholders	$ (3,950)	$ (4,739)	$ (3,876)	$ (3,738)
Less:				
Net realized investment gains (losses)	(118)	—	(118)	—
Change in fair value of equity securities	(196)	(12)	(153)	682
Impact of income tax expense (benefit) from adjustments *	—	—	—	—
Adjusted operating income (loss)	$ (3,636)	$ (4,727)	$ (3,605)	$ (4,420)
Weighted average common shares diluted	12,222,881	12,220,331	12,222,881	12,218,102
Diluted income (loss) per common share:				
Net income (loss) allocable to common shareholders	$ (0.32)	$ (0.39)	$ (0.32)	$ (0.31)
Less:				
Net realized investment gains (losses)	(0.01)	—	(0.01)	—
Change in fair value of equity securities	(0.01)	—	(0.01)	0.05
Impact of income tax expense (benefit) from adjustments *	—	—	—	—
Adjusted operating income (loss) per share	$ (0.30)	$ (0.39)	$ (0.30)	$ (0.36)

* The Company has recorded a full valuation allowance against its deferred tax assets as of June 30, 2024 and June 30, 2023, respectively. As a result, there were no taxable impacts to adjusted operating income from the adjustments to net income (loss) in the table above after taking into account the use of NOLs and the change in the valuation allowance.

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. 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 results 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, 2024. 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, 2024, the fair value of our investment portfolio, excluding cash and cash equivalents, was $144.4 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, 2024 and December 31, 2023 was 2.6 and 2.9 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, 2024. 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, 2024	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	$ 135,831	$ (6,879)	(4.8)%	(590.4)%
100 basis point increase	139,142	(3,568)	(2.5)%	(306.2)%
No change	142,710	—	—	—
100 basis point decrease	146,520	3,810	2.7%	327.1%
200 basis point decrease	150,545	7,835	5.5%	672.5%

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, 2024, the net amount due to the Company from reinsurers, including prepaid reinsurance premiums, was $95.1 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, 2024. Based on such evaluations, the 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, 2024, 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 reasonably 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 11 ~ *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, 2024, which is hereby incorporated by reference.

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors disclosed in our Annual Report on Form 10-K ("Item 1A Risk Factors") filed with the SEC on April 1, 2024.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION

During the six months ended June 30, 2024, none of the Company's directors or Section 16 officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Conifer securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act or any "non-Rule 10b5-1 trading arrangement" as such term is defined in Item 408(c) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Period Ending	Exhibit / Appendix Number	Filing Date
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	inline XBRL Instance Document				
101.SCH	inline XBRL Taxonomy Extension Schema Document				
104	Cover Page Interactive Date File (embedded within the Inline XBRL document)				

* 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 13, 2024

Exhibit 31.1

CHIEF EXECUTIVE OFFICER'S 302 CERTIFICATION

I, Nicholas J. 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, 2024;

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 13, 2024

/s/ Nicholas J. Petcoff

Nicholas J. Petcoff

Chief Executive Officer
(principal executive officer)

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, 2024;

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 13, 2024

/s/ Harold J. Meloche

Harold J. Meloche

Chief Financial Officer
(principal financial officer)

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 quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Nicholas J. Petcoff, Co-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 13, 2024

/s/ Nicholas J. Petcoff

Nicholas J. Petcoff
Chief Executive Officer

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 Annual Report of Conifer Holdings, Inc. (the “Company”) on Form 10-Q for the year quarter ended June 30, 2024, 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 13, 2024

/s/ Harold J. Meloche

Harold J. Meloche
Chief Financial Officer