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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-38046

**ICC Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

(State or other jurisdiction of  
incorporation or organization)

**225 20th Street, Rock Island, Illinois**

(Address of principal executive offices)

**81-3359409**

(I.R.S. Employer  
Identification No.)

**61201**

(Zip Code)

**(309) 793-1700**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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   
Non-accelerated filer

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 shares of the registrant's common stock outstanding as of November 9, 2018 was 3,303,279.

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**PART I — FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ICC Holdings, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets**

	As of	
	September 30, 2018 (Unaudited)	December 31, 2017
<b>Assets</b>		
Investments and cash:		
Available for sale securities, at fair value		
Fixed maturity securities (amortized cost - \$89,576,198 at 9/30/2018 and \$87,773,047 at 12/31/2017)	\$ 88,900,450	\$ 89,605,073
Common stocks <sup>1</sup> (cost - \$13,137,108 at 9/30/2018 and \$7,631,180 at 12/31/2017)	13,607,356	8,534,109
Preferred stocks (cost - \$0 at 9/30/2018 and \$3,783,311 at 12/31/2017)	—	3,867,429
Other invested assets	139,200	—
Property held for investment, at cost, net of accumulated depreciation of \$196,793 at 9/30/2018 and \$127,161 at 12/31/2017	3,431,342	3,126,566
Cash and cash equivalents	2,702,706	6,876,519
Total investments and cash	108,781,054	112,009,696
Accrued investment income	659,855	687,453
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$50,000 at 9/30/2018 and 12/31/2017	21,897,081	19,013,262
Ceded unearned premiums	705,753	274,972
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$0 at 9/30/2018 and 12/31/2017	9,479,267	10,029,834
Federal income taxes	1,562,550	922,405
Deferred policy acquisition costs, net	5,503,763	4,592,415
Property and equipment, at cost, net of accumulated depreciation of \$4,965,251 at 9/30/2018 and \$4,896,042 at 12/31/2017	3,492,814	3,503,904
Other assets	1,169,055	1,301,420
<b>Total assets</b>	<b>\$ 153,251,192</b>	<b>\$ 152,335,361</b>
<b>Liabilities and Equity</b>		
Liabilities:		
Unpaid losses and settlement expenses	\$ 54,213,445	\$ 51,074,126
Unearned premiums	30,378,327	26,555,582
Reinsurance balances payable	1,235,806	327,483
Corporate debt	3,487,017	4,339,208
Accrued expenses	3,725,805	4,274,002
Other liabilities	932,368	1,663,415
Total liabilities	93,972,768	88,233,816
Equity:		
Common stock <sup>2</sup>	35,000	35,000
Treasury stock, at cost <sup>3</sup>	(2,999,995)	—
Additional paid-in capital	32,465,078	32,333,290
Accumulated other comprehensive (loss) earnings, net of tax	(162,345)	2,227,069
Retained earnings	33,046,128	32,787,406
Less: Unearned Employee Stock Ownership Plan shares at cost <sup>4</sup>	(3,105,442)	(3,281,220)
Total equity	59,278,424	64,101,545
<b>Total liabilities and equity</b>	<b>\$ 153,251,192</b>	<b>\$ 152,335,361</b>

<sup>1</sup>At September 30, 2018, common stock securities consist primarily of individual common stocks. At December 31, 2017, common stock consisted of exchange trade funds (ETF) made up primarily of Dividends Select and the S&P 500.

<sup>2</sup>Par value \$0.01; authorized: 2018 - 10,000,000 shares and 2017 - 10,000,000 shares; issued: 2018 - 3,500,000 shares and 2017 - 3,500,000 shares; outstanding: 2018 - 2,992,734 and 2017 - 3,171,878 shares.

<sup>3</sup>2018 - 196,721 shares and 2017 - 0 shares

<sup>4</sup>2018 - 310,545 shares and 2017 - 328,122 shares

See accompanying notes to consolidated financial statements.

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**ICC Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Earnings and Comprehensive Earnings (Unaudited)**

	For the Three-Months Ended September 30,	
	2018	2017
Net premiums earned	\$ 12,137,690	\$ 11,191,448
Net investment income	735,683	688,134
Net realized investment gains (losses)	15,029	(1,833)
Other income	74,051	48,667
Consolidated revenues	<u>12,962,453</u>	<u>11,926,416</u>
Losses and settlement expenses	8,611,573	8,063,401
Policy acquisition costs and other operating expenses	4,475,659	4,344,129
Interest expense on debt	32,553	64,810
General corporate expenses	128,803	183,540
Total expenses	<u>13,248,588</u>	<u>12,655,880</u>
Loss before income taxes	(286,135)	(729,464)
Total income tax benefit	(77,569)	(380,681)
Net loss	<u>\$ (208,566)</u>	<u>\$ (348,783)</u>
Other comprehensive earnings, net of tax	213,059	297,680
Comprehensive earnings (loss)	<u>\$ 4,493</u>	<u>\$ (51,103)</u>
Earnings (loss) per share:		
Basic:		
Basic net loss per share	\$ (0.07)	\$ (0.11)
Diluted:		
Diluted net loss per share	\$ (0.07)	\$ (0.11)
Weighted average number of common shares outstanding:		
Basic	3,135,277	3,153,876
Diluted	3,136,764	3,153,876

*See accompanying notes to consolidated financial statements.*

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**ICC Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Earnings and Comprehensive Earnings (Unaudited)**

	For the Nine-Months Ended	
	September 30,	
	2018	2017
Net premiums earned	\$ 34,919,705	\$ 32,740,312
Net investment income	2,124,059	1,849,421
Net realized investment gains	1,087,229	442,945
Other-than-temporary impairment losses	—	(57,316)
Other income	130,222	197,647
Consolidated revenues	38,261,215	35,173,009
Losses and settlement expenses	24,398,009	21,527,043
Policy acquisition costs and other operating expenses	13,089,081	12,799,079
Interest expense on debt	108,335	174,349
General corporate expenses	398,859	451,660
Total expenses	37,994,284	34,952,131
Earnings before income taxes	266,931	220,878
Total income tax expense (benefit)	8,209	(44,260)
Net earnings	\$ 258,722	\$ 265,138
Other comprehensive (loss) earnings, net of tax	(2,389,414)	894,588
Comprehensive (loss) earnings	\$ (2,130,692)	\$ 1,159,726
Earnings per share:		
Basic:		
Basic net earnings per share	\$ 0.08	\$ 0.08
Diluted:		
Diluted net earnings per share	\$ 0.08	\$ 0.08
Weighted average number of common shares outstanding:		
Basic	3,165,239	3,154,992
Diluted	3,166,726	3,154,992

*See accompanying notes to consolidated financial statements.*

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**ICC Holdings, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**

	Nine-Month Periods Ended September 30,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 258,722	\$ 265,138
Adjustments to reconcile net earnings to net cash used in operating activities		
Net realized investment gains	(1,087,229)	(442,945)
Other-than-temporary impairment losses	—	57,316
Depreciation	519,471	628,778
Deferred income tax	4,101	138,384
Amortization of bond premium and discount	239,029	228,760
Stock-based compensation expense	307,566	—
Change in:		
Accrued investment income	27,598	(191,794)
Premiums and reinsurance balances receivable, (net)	(2,883,819)	(739,651)
Ceded unearned premiums	(430,781)	(26,376)
Reinsurance balances payable	908,323	69,210
Reinsurance balances recoverable	550,567	474,459
Deferred policy acquisition costs	(911,348)	(393,189)
Unpaid losses and settlement expenses	3,139,319	(265,388)
Unearned premiums	3,822,745	2,011,562
Accrued expenses	(548,197)	(755,035)
Current federal income tax	(9,086)	(779,648)
Other	(598,682)	343,091
Net cash provided by operating activities	<u>3,308,299</u>	<u>622,672</u>
<b>Cash flows from investing activities:</b>		
Purchases of:		
Fixed maturity securities, available-for-sale	(12,181,365)	(28,002,993)
Common stocks, available-for-sale	(13,932,332)	(5,900,497)
Preferred stocks, available-for-sale	(140,925)	(638,922)
Other invested assets	(39,200)	—
Property held for investment	(374,409)	(710,082)
Property and equipment	(444,603)	(422,364)
Proceeds from sales, maturities and calls of:		
Fixed maturity securities, available-for-sale	10,181,569	5,670,040
Common stocks, available-for-sale	9,367,763	2,154,214
Preferred stocks, available-for-sale	3,927,722	55,199
Property and equipment	5,854	967
Net cash used in investing activities	<u>(3,629,926)</u>	<u>(27,794,438)</u>
<b>Cash flows from financing activities:</b>		
Net proceeds received from issuance of shares of common stock	—	28,981,491
Proceeds from loans	—	3,499,149
Repayments of borrowed funds	(852,191)	(2,831,961)
Purchase of common stock	(2,999,995)	—
Net cash (used in) provided by financing activities	<u>(3,852,186)</u>	<u>29,648,679</u>
Net (decrease) increase in cash and cash equivalents	<u>(4,173,813)</u>	<u>2,476,913</u>
Cash and cash equivalents at beginning of year	6,876,519	4,376,847
Cash and cash equivalents at end of period	<u>\$ 2,702,706</u>	<u>\$ 6,853,760</u>
<b>Supplemental information:</b>		
Federal income tax paid	\$ —	\$ 600,000
Interest paid	140,881	141,098

See accompanying notes to consolidated financial statements.

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*A. DESCRIPTION OF BUSINESS*

ICC Holdings, Inc. is a Pennsylvania corporation that was organized in 2016. As used in this Form 10-Q, references to “the Company,” “we,” “us,” and “our” refer to the consolidated group for the period after the completion of the stock conversion and refer to Illinois Casualty Company (ICC) and its subsidiaries for the period prior to the stock conversion. On a stand-alone basis ICC Holdings, Inc. is referred to as the “Parent Company.” The consolidated group consists of the holding company, ICC Holdings, Inc.; ICC Realty, LLC, a real estate services and holding company; Beverage Insurance Agency, Inc., an inactive insurance agency; Estrella Innovative Solutions, Inc., an outsourcing company; and ICC, an operating insurance company. ICC is an Illinois domiciled company.

ICC Holdings, Inc. was formed so that it could acquire all of the capital stock of ICC in a mutual-to-stock conversion. The plan of conversion was approved by ICC policyholders at a special meeting on March 17, 2017. Simultaneously, surplus notes totaling \$1.65 million were converted into 165,000 shares of the Company’s common stock. The Company’s offering closed on March 24, 2017, and our Employee Stock Ownership Plan (ESOP) purchased 350,000 of the shares in the offering. On March 28, 2017, the Company’s stock began trading on the NASDAQ Capital Market under the “ICCH” ticker. The Company paid \$1.0 million of underwriting fees to Griffin Financial Group, LLC. Proceeds received from the offering, net of offering costs and underwriting fees, was \$28.7 million.

Prior to the conversion on March 24, 2017, the Parent Company did not engage in any operations. Since the conversion, the Parent Company’s primary assets are the outstanding equity of ICC, ICC Realty, LLC, Estrella Innovative Solutions, Inc., Beverage Insurance Agency, Inc., and a portion of the net proceeds from the stock offering completed in connection with the mutual-to-stock conversion. On the effective date of the conversion, ICC became a wholly owned subsidiary of ICC Holdings, Inc. The mutual-to-stock conversion was accounted for as a change in corporate form with the historic basis of ICC’s assets, liabilities, and equity unchanged as a result.

We are a specialty insurance carrier primarily underwriting commercial multi-peril, liquor liability, workers’ compensation, and umbrella liability coverages for the food and beverage industry through our subsidiary insurance company, ICC. ICC writes business in Colorado, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Ohio, and Wisconsin and markets through independent agents. Approximately 28.0% and 31.3% of the premium is written in Illinois for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended, September 30, 2018 and 2017, approximately 29.9% and 34.5% of the premium is written in Illinois, respectively. ICC sold its two wholly-owned subsidiaries, Beverage Insurance Agency, Inc. and Estrella Innovative Solutions, Inc. to ICC Holdings during the second quarter of 2018. ICC sold ICC Realty, LLC to its parent, ICC Holdings, Inc. during the fourth quarter of 2017. The Company operates as a single segment.

*B. PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION*

The unaudited condensed consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting and with the instructions to Form 10-Q. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these unaudited condensed consolidated interim financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K, as amended for the year ended December 31, 2017 (the “2017 10-K”). Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at September 30, 2018, and the results of operations of the Company and its subsidiaries for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the operating results for a full year.

The preparation of the unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated interim financial statements, and the reported amounts of revenue and expenses during the period. These amounts are inherently subject to change and actual results could differ significantly from these estimates.

*C. SIGNIFICANT ACCOUNTING POLICIES*

The Company reported significant accounting policies in the 2017 10-K. The following are new or revised disclosures.

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### STOCK-BASED COMPENSATION

We have compensation plans under which stock-based awards may be granted to our employees as described in *Note 8 – Employee Benefits*. The Company recognizes the fair value of stock-based compensation ratably during each year through a charge to compensation expense and a corresponding entry to equity based on vesting criteria and other pertinent terms of the awards. Stock-based awards are accounted for as equity awards in instances where the awards' vesting are linked to market, performance, or service condition. The Company granted Restricted Stock Units (RSUs) for the first time in February of 2018. Upon vesting of any outstanding RSUs, the Company has the option to elect to pay cash or part cash and part Common Stock in lieu of delivering on shares of Common Stock for vested units. The Company's intention is to settle vested units in Common Stock, and therefore the RSUs are accounted for as equity awards. Equity awards to employees are generally expensed based on the grant date fair value.

### EARNINGS PER SHARE

Basic and diluted earnings per share (EPS) are calculated by dividing earnings available to common shareholders by the weighted average number of common shares outstanding during the period. The denominator for basic and diluted EPS includes ESOP shares committed to be released. Dilutive earnings per share includes the effect of all potentially dilutive instruments, such as restricted stock units (RSUs), outstanding during the period.

### D. PROSPECTIVE ACCOUNTING STANDARDS

For information regarding accounting standards that the Company has not yet adopted, see the "Prospective Accounting Standards" in *Note 1 – Summary of Significant Accounting Policies* in the 2017 10-K/A. The Company maintains its status as an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). We have taken advantage of the extended transition period provided by Section 107 of the JOBS Act. We decided to comply with the effective dates for financial accounting standards applicable to emerging growth companies at a later date in compliance with the requirements in Sections 107(b)(2) and (3) of the JOBS Act. Such decision is irrevocable.

### E. PROPERTY AND EQUIPMENT

Annually, the Company reviews the major asset classes of property and equipment held for impairment. For the periods ended September 30, 2018 and 2017, the Company recognized no impairments. Property and equipment are summarized as follows:

	As of	
	September 30, 2018	December 31, 2017
Automobiles	\$ 626,208	\$ 794,959
Furniture and fixtures	434,352	425,825
Computer equipment and software	3,551,408	3,404,975
Home office	3,846,097	3,774,187
Total cost	8,458,065	8,399,946
Accumulated depreciation	(4,965,251)	(4,896,042)
Net property and equipment	<u>\$ 3,492,814</u>	<u>\$ 3,503,904</u>

### F. COMPREHENSIVE EARNINGS

Comprehensive earnings (loss) include net earnings (loss) plus the change in unrealized gains and losses on available-for-sale investment securities, net of tax. In reporting the components of comprehensive earnings on a net basis in the statement of earnings, the Company used a 21% and a 34% tax rate for the periods ending September 30, 2018 and 2017, respectively.

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The following table illustrates the components of other comprehensive earnings for each period presented in the condensed consolidated interim financial statements.

	Three-Month Periods Ended September 30,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Other comprehensive earnings (loss), net of tax						
Unrealized gains and losses on investments:						
Unrealized holding (losses) gains arising during the period	\$ 284,725	\$ (59,794)	\$ 224,931	\$ 449,199	\$ (152,728)	\$ 296,471
Reclassification adjustment for (gains) losses included in net earnings	(15,029)	3,157	(11,872)	1,833	(624)	1,209
Total other comprehensive (loss) earnings	\$ 269,696	\$ (56,637)	\$ 213,059	\$ 451,031	\$ (153,352)	\$ 297,680

	Nine-Month Periods Ended September 30,					
	2018			2017		
	Pre-tax	Tax	After-tax	Pre-tax	Tax	After-tax
Other comprehensive earnings (loss), net of tax						
Unrealized gains and losses on investments:						
Unrealized holding (losses) gains arising during the period	\$ (1,937,344)	\$ 406,840	\$ (1,530,504)	\$ 1,741,067	\$ (591,963)	\$ 1,149,104
Reclassification adjustment for (gains) losses included in net earnings	(1,087,229)	228,319	(858,910)	(385,629)	131,113	(254,516)
Total other comprehensive (loss) earnings	\$ (3,024,573)	\$ 635,159	\$ (2,389,414)	\$ 1,355,438	\$ (460,850)	\$ 894,588

The following table provides the reclassifications from accumulated other comprehensive earnings for the periods presented:

Details about Accumulated Other Comprehensive Earnings Component	Amounts Reclassified from Accumulated Other Comprehensive Earnings				Affected Line Item in the Statement where Net Earnings is Presented
	Three-Month Periods Ended September 30,		Nine-Month Periods Ended September 30,		
	2018	2017	2018	2017	
Unrealized gains (losses) on AFS investments:					
	\$ (15,029)	\$ 1,833	\$ (1,087,229)	\$ (442,945)	Net realized investment losses (gains)
	—	—	—	57,316	Other-than-temporary impairment losses
	3,157	(624)	228,319	131,113	Income tax (benefit) expense
Total reclassification adjustment, net of tax	\$ (11,872)	\$ 1,209	\$ (858,910)	\$ (254,516)	

## 2. INVESTMENTS

The Company's investments are primarily composed of fixed income debt securities and common and preferred stock equity securities. All of the Company's fixed maturity debt and equity investments are presented as available-for-sale (AFS), which are carried at fair value. When available, quoted market prices are obtained to determine fair value for the Company's investments. If a quoted market price is not available, fair value is estimated using a secondary pricing source or using quoted market prices of similar securities. The Company has no investment securities for which fair value is determined using Level 3 inputs as defined in *Note 3 – Fair Value Disclosures*. Realized gains and losses on disposition of investments are based on specific identification of the investments sold on the settlement date, which does not differ significantly from trade date accounting.

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**Fixed Income Securities - Available-for-Sale**

The following tables are a summary of the proceeds from sales, maturities, and calls of available-for-sale securities and the related gross realized gains and losses.

	For the Three-Months Ended September 30,			
	Proceeds	Gains	Losses	Net realized gain / (Loss)
<b>2018</b>				
Fixed maturity securities	\$ 3,512,293	\$ 45,130	\$ (30,165)	\$ 14,965
Common stocks	533,388	61,330	(60,591)	739
Preferred stocks	66,000	—	(675)	(675)
<b>2017</b>				
Fixed maturity securities	\$ 1,255,443	\$ —	\$ —	\$ —
Common stocks	198,499	—	(2,752)	(2,752)
Preferred stocks	55,199	919	—	919
	For the Nine-Months Ended September 30,			
	Proceeds	Gains	Losses	Net realized gain
<b>2018</b>				
Fixed maturity securities	\$ 10,181,569	\$ 97,917	\$ (56,280)	\$ 41,637
Common stocks	9,367,763	1,164,192	(122,833)	1,041,359
Preferred stocks	3,927,722	86,863	(82,630)	4,233
<b>2017</b>				
Fixed maturity securities	\$ 5,670,040	\$ 29,328	\$ (21)	\$ 29,307
Common stocks	2,154,214	415,472	(2,752)	412,720
Preferred stocks	55,199	919	—	919

The amortized cost and estimated fair value of fixed income securities at September 30, 2018, by contractual maturity, are shown as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 813,225	\$ 821,742
Due after one year through five years	23,865,819	23,769,718
Due after five years through 10 years	11,956,466	12,044,355
Due after 10 years	16,553,033	16,647,419
Asset and mortgage backed securities without a specific due date	36,387,655	35,617,216
Total fixed maturity securities	\$ 89,576,198	\$ 88,900,450

Expected maturities may differ from contractual maturities due to call provisions on some existing securities.

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The following table is a schedule of cost or amortized cost and estimated fair values of investments in fixed income and equity securities as of September 30, 2018 and December 31, 2017:

	Cost or		Gross Unrealized	
	Amortized Cost	Fair Value	Gains	Losses
<b>2018</b>				
Fixed maturity securities:				
U.S. treasury	\$ 1,348,107	\$ 1,319,537	\$ —	\$ (28,570)
MBS/ABS/CMBS	36,387,655	35,617,215	29,751	(800,191)
Corporate	32,701,336	32,652,681	347,244	(395,899)
Municipal	19,139,100	19,311,017	333,420	(161,503)
Total fixed maturity securities	89,576,198	88,900,450	710,415	(1,386,163)
Equity securities:				
Common stocks	13,137,108	13,607,356	1,225,227	(754,979)
Preferred stocks	—	—	—	—
Total equity securities	13,137,108	13,607,356	1,225,227	(754,979)
Total AFS securities	\$ 102,713,306	\$ 102,507,806	\$ 1,935,642	\$ (2,141,142)
<b>2017</b>				
Fixed maturity securities:				
U.S. treasury	\$ 1,346,712	\$ 1,333,725	\$ —	\$ (12,987)
MBS/ABS/CMBS	31,584,141	31,518,662	158,944	(224,423)
Corporate	31,038,526	31,989,174	1,001,906	(51,258)
Municipal	23,803,668	24,763,512	976,872	(17,028)
Total fixed maturity securities	87,773,047	89,605,073	2,137,722	(305,696)
Equity securities:				
Common stocks	7,631,180	8,534,109	920,629	(17,700)
Preferred stocks	3,783,311	3,867,429	132,054	(47,936)
Total equity securities	11,414,491	12,401,538	1,052,683	(65,636)
Total AFS securities	\$ 99,187,538	\$ 102,006,611	\$ 3,190,405	\$ (371,332)

All of the Company's collateralized securities carry an average credit rating of AA+ by one or more major rating agency and continue to pay according to contractual terms. Included within MBS/ABS/CMBS, as defined in *Note 3 – Fair Value Disclosures*, are residential mortgage backed securities with fair values of \$14,060,675 and \$13,517,725 and commercial mortgage backed securities of \$10,103,025 and \$8,469,852 at September 30, 2018 and December 31, 2017, respectively.

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**ANALYSIS**

The following table is also used as part of the impairment analysis and displays the total value of securities that were in an unrealized loss position as of September 30, 2018, and December 31, 2017. The table segregates the securities based on type, noting the fair value, cost (or amortized cost), and unrealized loss on each category of investment as well as in total. The table further classifies the securities based on the length of time they have been in an unrealized loss position.

	September 30, 2018			December 31, 2017		
	< 12 Months	12 Months & Greater	Total	< 12 Months	12 Months & Greater	Total
<b>U.S. treasury</b>						
Fair value	\$ 342,250	\$ 977,287	\$ 1,319,537	\$ 1,038,297	\$ 295,428	\$ 1,333,725
Cost or amortized cost	348,124	999,983	1,348,107	1,046,508	300,204	1,346,712
Unrealized loss	(5,874)	(22,696)	(28,570)	(8,211)	(4,776)	(12,987)
<b>MBS/ABS/CMBS</b>						
Fair value	21,088,559	7,245,861	28,334,420	9,754,119	7,445,071	17,199,190
Cost or amortized cost	21,443,390	7,691,221	29,134,611	9,778,528	7,645,085	17,423,613
Unrealized loss	(354,831)	(445,360)	(800,191)	(24,409)	(200,014)	(224,423)
<b>Corporate</b>						
Fair value	17,985,164	1,498,716	19,483,880	5,583,942	2,023,856	7,607,798
Cost or amortized cost	18,320,100	1,559,679	19,879,779	5,610,093	2,048,963	7,659,056
Unrealized loss	(334,936)	(60,963)	(395,899)	(26,151)	(25,107)	(51,258)
<b>Municipal</b>						
Fair value	8,435,081	829,523	9,264,604	478,019	1,171,520	1,649,539
Cost or amortized cost	8,553,627	872,480	9,426,107	479,904	1,186,663	1,666,567
Unrealized loss	(118,546)	(42,957)	(161,503)	(1,885)	(15,143)	(17,028)
<b>Subtotal, fixed income</b>						
Fair value	47,851,054	10,551,387	58,402,441	16,854,377	10,935,875	27,790,252
Cost or amortized cost	48,665,241	11,123,363	59,788,604	16,915,033	11,180,915	28,095,948
Unrealized loss	(814,187)	(571,976)	(1,386,163)	(60,656)	(245,040)	(305,696)
<b>Common stock</b>						
Fair value	5,618,996	—	5,618,996	637,100	—	637,100
Cost or amortized cost	6,373,975	—	6,373,975	654,800	—	654,800
Unrealized loss	(754,979)	—	(754,979)	(17,700)	—	(17,700)
<b>Preferred stock</b>						
Fair value	—	—	—	842,530	520,710	1,363,240
Cost or amortized cost	—	—	—	870,755	540,421	1,411,176
Unrealized loss	—	—	—	(28,225)	(19,711)	(47,936)
<b>Total</b>						
Fair value	53,470,050	10,551,387	64,021,437	18,334,007	11,456,585	29,790,592
Cost or amortized cost	55,039,216	11,123,363	66,162,579	18,440,588	11,721,336	30,161,924
Unrealized loss	\$ (1,569,166)	\$ (571,976)	\$ (2,141,142)	\$ (106,581)	\$ (264,751)	\$ (371,332)

As of September 30, 2018, the Company held 129 common stock securities in an unrealized loss position. Of these 129 securities, none have been in an unrealized loss position for 12 consecutive months or longer. As of December 31, 2017, the Company held 13 equity securities that were in unrealized loss positions. Of these 13 securities, five were in an unrealized loss position for 12 consecutive months or longer and represented \$19,711 in unrealized losses.

The fixed income portfolio contained 143 securities in an unrealized loss position as of September 30, 2018. Of these 143 securities, 31 have been in an unrealized loss position for 12 consecutive months or longer and represent \$571,976 in unrealized losses. All fixed income securities in the investment portfolio continue to pay the expected coupon payments under the contractual terms of the securities. Credit-related impairments on fixed income securities that we do not plan to sell, and for which we are not more likely than not to be required to sell, are recognized in net earnings. Any non-credit related impairment is recognized in comprehensive earnings. Based on management's analysis, the fixed income portfolio is of a high credit quality and it is believed it will recover the amortized cost basis of the fixed income securities. Management monitors the

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credit quality of the fixed income investments to assess if it is probable that the Company will receive its contractual or estimated cash flows in the form of principal and interest. There were no other-than-temporary impairment losses recognized in net earnings during the first nine months ended September 30, 2018. For the nine months ended, September 30, 2017, the Company recognized in net earnings \$57,316 of other-than-temporary impairment losses on an ETF included in common stock that was impaired during the second quarter of 2017. The securities in an unrealized loss position were not other-than-temporarily impaired at September 30, 2018 and December 31, 2017.

### **Other Invested Assets**

Other invested assets include privately held investments, including membership in the Federal Home Loan Bank of Chicago (FHLBC), which occurred in February 2018. Our investment in FHLBC stock is carried at cost. Due to the nature of our membership in the FHLBC, its carrying amount approximates fair value. As of September 30, 2018, there were no investments pledged as collateral with the FHLBC. There may be investments pledged as collateral with the FHLBC to ensure timely access to the secured lending facility that ownership of FHLBC stock provides. As of and during the three and nine month periods ending September 30, 2018, there were no outstanding borrowings with the FHLBC.

### **3. FAIR VALUE DISCLOSURES**

Fair value is defined as the price in the principal market that would be received for an asset to facilitate an orderly transaction between market participants on the measurement date. The fair value of certain financial instruments is determined based on their underlying characteristics and relevant transactions in the marketplace. GAAP guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance also describes three levels of inputs that may be used to measure fair value.

The following are the levels of the fair value hierarchy and a brief description of the type of valuation inputs that are used to establish each level:

- **Level 1** is applied to valuations based on readily available, unadjusted quoted prices in active markets for identical assets.
- **Level 2** is applied to valuations based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g. interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data.
- **Level 3** is applied to valuations that are derived from techniques in which one or more of the significant inputs are unobservable. Financial assets are classified based upon the lowest level of significant input that is used to determine fair value.

As a part of the process to determine fair value, management utilizes widely recognized, third-party pricing sources to determine fair values. Management has obtained an understanding of the third-party pricing sources' valuation methodologies and inputs. The following is a description of the valuation techniques used for financial assets that are measured at fair value, including the general classification of such assets pursuant to the fair value hierarchy.

**Corporate, Agencies, and Municipal Bonds**—The pricing vendor employs a multi-dimensional model which uses standard inputs including (listed in order of priority for use) benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers and other reference data. The pricing vendor also monitors market indicators, as well as industry and economic events. All bonds valued using these techniques are classified as Level 2. All Corporate, Agencies, and Municipal securities are deemed Level 2.

**Mortgage-backed Securities (MBS)/Collateralized Mortgage Obligations (CMO) and Asset-backed Securities (ABS)**—The pricing vendor evaluation methodology includes principally interest rate movements and new issue data. Evaluation of the tranches (non-volatile, volatile, or credit sensitivity) is based on the pricing vendors' interpretation of accepted modeling and pricing conventions. This information is then used to determine the cash flows for each tranche, benchmark yields, pre-payment assumptions and to incorporate collateral performance. To evaluate CMO volatility, an option adjusted spread model is used in combination with models that simulate interest rate paths to determine market price information. This process allows the pricing vendor to obtain evaluations of a broad universe of securities in a way that reflects changes in yield curve, index rates, implied volatility, mortgage rates, and recent trade activity. MBS/CMO and ABS with corroborated and observable inputs are classified as Level 2. All MBS/CMO and ABS holdings are deemed Level 2.

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**U.S. Treasury Bonds, Common Stocks and Exchange Traded Funds**—U.S. treasury bonds and exchange traded equities have readily observable price levels and are classified as Level 1 (fair value based on quoted market prices). All common stock holdings are deemed Level 1.

**Preferred Stock**—Preferred stocks do not have readily observable prices, but do have quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices and are classified as Level 2. All preferred stock holdings are deemed Level 2.

Due to the relatively short-term nature of cash, cash equivalents, and the mortgage on the home office, their carrying amounts are reasonable estimates of fair value. Reported in *Note 4 – Debt*, the surplus notes, capital lease obligations, and other debt obligations are carried at face value and given that there is no readily available market for these to trade in, management believes that face value accurately reflects fair value. Cash and cash equivalents are classified as Level 1 of the hierarchy.

Assets measured at fair value on a recurring basis as of September 30, 2018, are as summarized below:

	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>AFS securities</b>				
Fixed maturity securities				
U.S. treasury	\$ 1,319,537	\$ —	\$ —	\$ 1,319,537
MBS/ABS/CMBS	—	35,617,215	—	35,617,215
Corporate	—	32,652,681	—	32,652,681
Municipal	—	19,311,017	—	19,311,017
Total fixed maturity securities	1,319,537	87,580,913	—	88,900,450
Equity securities				
Common stocks	13,607,356	—	—	13,607,356
Preferred stocks	—	—	—	—
Total equity securities	13,607,356	—	—	13,607,356
Total AFS securities	\$ 14,926,893	\$ 87,580,913	\$ —	\$ 102,507,806

Assets measured at fair value on a recurring basis as of December 31, 2017, are as summarized below:

	Quoted in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>AFS securities</b>				
Fixed maturity securities				
U.S. treasury	\$ 1,333,725	\$ —	\$ —	\$ 1,333,725
MBS/ABS/CMBS	—	31,518,662	—	31,518,662
Corporate	—	31,989,174	—	31,989,174
Municipal	—	24,763,512	—	24,763,512
Total fixed maturity securities	1,333,725	88,271,348	—	89,605,073
Equity securities				
Common stocks	8,534,109	—	—	8,534,109
Preferred stocks	—	3,867,429	—	3,867,429
Total equity securities	8,534,109	3,867,429	—	12,401,538
Total AFS securities	\$ 9,867,834	\$ 92,138,777	\$ —	\$ 102,006,611

As noted in the previous tables, the Company did not have any assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of September 30, 2018, and December 31, 2017. Additionally, there were no securities transferred in or out of Levels 1 or 2 during the nine-month periods ended September 30, 2018 and 2017.

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### 4. DEBT

As of September 30, 2018 and December 31, 2017, outstanding debt balances totaled \$3,487,017 and \$4,339,208, respectively. The average rate on remaining debt was 3.7% as of September 30, 2018, compared to 3.9% as of December 31, 2017.

Long-term debt consists of the following as of the periods referenced below:

	September 30, 2018	December 31, 2017
Capital lease obligation	\$ —	\$ 805,013
Debt obligation	3,487,017	3,534,195
Total	<u>\$ 3,487,017</u>	<u>\$ 4,339,208</u>

#### Leasehold Obligation

The Company entered into a sale leaseback arrangement in 2016 that was accounted for as a capital lease. Under the agreement, Bofi Federal Bank purchased electronic data processing software, vehicles, and other assets which are leased to the Company. These assets remained on the Company's books due to provisions within the agreement that trigger capital lease accounting. To secure the lowest rate possible of 4.7%, the Company pledged bonds totaling \$923,563 and \$923,766 as of March 31, 2018 and December 31, 2017. There was no gain or loss recognized as part of this transaction. On March 2, 2018 and March 7, 2018, the Company paid \$404,928 and \$346,000, respectively to Bofi. These disbursements were made to pay off the balances of the sale leaseback arrangements. As a result of paying off the leasehold obligations during the first quarter of 2018, the bonds pledged as collateral related to this debt were released in April 2018. Lease payments totaled \$- and \$125,494 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, lease payments totaled \$70,051 and \$376,485, respectively. The outstanding lease obligation was \$0 and \$805,013 at September 30, 2018 and December 31, 2017, respectively.

#### Debt Obligation

ICC Holdings, Inc. secured a loan with American Bank & Trust in March 2017 in the amount of \$3,500,000 and used the proceeds to repay ICC for the money borrowed by the ESOP. The term of the loan is five years bearing interest at 3.65%. The Company pledged stock and \$1.5 million of trust assets as collateral for the loan. Additionally, the Company entered into two debt agreements in 2016 with Bofi Federal Bank; one agreement for \$500,000 and another debt agreement for \$75,000. The terms of the loans were 36 months, but the Company had the option to prepay the \$500,000 loan after 12 months. The Company paid off the remaining balance of the \$500,000 loan in September 2017. The \$75,000 loan was paid off in March 2018. The total balance of the debt agreements at September 30, 2018 and December 31, 2017 was \$3,487,017 and \$3,534,195, respectively.

#### Revolving Line of Credit

We maintain a revolving line of credit with American Bank & Trust, which permits borrowing up to an aggregate principal amount of \$1.75 million. This facility was initially entered into during 2013 and is renewed annually with a current expiration of August 5, 2019. The line of credit is priced at 30 day LIBOR plus 2% with a floor of 3.5%. In order to secure the lowest rate possible, the Company pledged marketable securities not to exceed \$5.0 million in the event the Company draws down on the line of credit. There was no interest paid on the line of credit during the nine months ended September 30, 2018 and no interest paid on the line of credit during the nine months ended September 30, 2017. There are no financial covenants governing this agreement.

[Table of Contents](#)**5. REINSURANCE**

In the ordinary course of business, the Company assumes and cedes premiums and selected insured risks with other insurance companies, known as reinsurance. A large portion of the reinsurance is put into effect under contracts known as treaties and, in some instances, by negotiation on each individual risk (known as facultative reinsurance). In addition, there are several types of treaties including quota share, excess of loss and catastrophe reinsurance contracts that protect against losses over stipulated amounts arising from any one occurrence or event. The arrangements allow the Company to pursue greater diversification of business and serve to limit the maximum net loss to a single event, such as a catastrophe. Through the quantification of exposed policy limits in each region and the extensive use of computer-assisted modeling techniques, management monitors the concentration of risks exposed to catastrophic events.

Through the purchase of reinsurance, the Company also generally limits its net loss on any individual risk to a maximum of \$750,000, although certain treaties contain an annual aggregate deductible before reinsurance applies.

Premiums, written and earned, along with losses and settlement expenses incurred for the periods presented is summarized as follows:

	Three-Month Periods Ended September 30,	
	2018	2017
<b>WRITTEN</b>		
Direct	\$ 16,170,176	\$ 14,117,001
Reinsurance assumed	16,199	114,391
Reinsurance ceded	(2,988,813)	(2,051,977)
Net	<u>\$ 13,197,562</u>	<u>\$ 12,179,415</u>
<b>EARNED</b>		
Direct	\$ 15,088,986	\$ 13,131,193
Reinsurance assumed	17,500	111,311
Reinsurance ceded	(2,968,796)	(2,051,056)
Net	<u>\$ 12,137,690</u>	<u>\$ 11,191,448</u>
<b>LOSS AND SETTLEMENT EXPENSES INCURRED</b>		
Direct	\$ 10,513,847	\$ 11,132,969
Reinsurance assumed	36,653	21,356
Reinsurance ceded	(1,938,927)	(3,090,924)
Net	<u>\$ 8,611,573</u>	<u>\$ 8,063,401</u>
	Nine-Month Periods Ended September 30,	
	2018	2017
<b>WRITTEN</b>		
Direct	\$ 46,582,507	\$ 40,526,640
Reinsurance assumed	108,686	217,776
Reinsurance ceded	(8,379,524)	(6,018,919)
Net	<u>\$ 38,311,669</u>	<u>\$ 34,725,497</u>
<b>EARNED</b>		
Direct	\$ 42,751,784	\$ 38,504,368
Reinsurance assumed	116,663	228,486
Reinsurance ceded	(7,948,742)	(5,992,542)
Net	<u>\$ 34,919,705</u>	<u>\$ 32,740,312</u>
<b>LOSSES AND SETTLEMENT EXPENSES INCURRED</b>		
Direct	\$ 29,111,003	\$ 27,585,807
Reinsurance assumed	71,410	83,814
Reinsurance ceded	(4,784,404)	(6,142,578)
Net	<u>\$ 24,398,009</u>	<u>\$ 21,527,043</u>

[Table of Contents](#)**6. UNPAID LOSSES AND SETTLEMENT EXPENSES**

The following table is a reconciliation of the Company's unpaid losses and settlement expenses:

<i>(In thousands)</i>	For the Nine-Months Ended	
	September 30,	
	2018	2017
Unpaid losses and settlement expense - beginning of the period:		
Gross	\$ 51,074	\$ 52,817
Less: Ceded	10,030	12,115
Net	41,044	40,702
Increase (decrease) in incurred losses and settlement expense:		
Current year	22,587	22,897
Prior years	1,811	(1,370)
Total incurred	24,398	21,527
Deduct: Loss and settlement expense payments for claims incurred:		
Current year	7,511	8,381
Prior years	13,197	12,937
Total paid	20,708	21,318
Net unpaid losses and settlement expense - end of the period	44,734	40,911
Plus: Reinsurance recoverable on unpaid losses	9,479	11,641
Gross unpaid losses and settlement expense - end of the period	\$ 54,213	\$ 52,552

**7. INCOME TAXES**

The Company's effective tax rate for the nine month period ended September 30, 2018, was 3.1%, compared to -20.0% for the same period in 2017. Effective rates are dependent upon components of pretax earnings and the related tax effects.

The Tax Cuts and Jobs Act of 2017 (the Tax Act) lowered the federal corporate tax rate to 21% effective January 1, 2018. We are still analyzing certain aspects of the Tax Act and are refining our calculations of existing current and deferred tax amounts. No material changes were made to the tax effects recorded in 2017. Income tax expense for the three and nine-month periods ended September 30, 2018 and 2017, differed from the amounts computed by applying the U.S. federal tax rate of 21% and 34%, respectively, to pretax income from continuing operations as demonstrated in the following tables:

	For the Three-Months Ended	
	September 30,	
	2018	2017
Provision for income taxes at the statutory federal tax rates	\$ (60,088)	\$ (248,016)
Increase (reduction) in taxes resulting from:		
Dividends received deduction	(8,951)	(9,105)
Tax-exempt interest income	(32,002)	(73,260)
Proration of tax exempt interest and dividends received deduction	10,192	9,664
Officer life insurance, net	3,579	5,794
Nondeductible expenses	12,439	14,089
Prior year true-ups and other	(2,738)	(79,847)
Total	\$ (77,569)	\$ (380,681)

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	For the Nine-Months Ended	
	September 30,	
	2018	2017
Provision for income taxes at the statutory federal tax rates	\$ 56,056	\$ 75,099
Increase (reduction) in taxes resulting from:		
Dividends received deduction	(26,852)	(27,311)
Tax-exempt interest income	(101,894)	(165,241)
Proration of tax exempt interest and dividends received deduction	31,684	26,192
Officer life insurance, net	10,386	16,590
Nondeductible expenses	36,608	31,430
Prior year true-up and other	2,221	(1,019)
Total	\$ 8,209	\$ (44,260)

The Company had historically recorded its deferred tax assets and liabilities using the statutory federal tax rate of 34%. As a result, the Company revalued deferred tax items as of December 31, 2017 to reflect the lower rate as provided for in the Tax Act. The Tax Act provides for a change in the methodology employed to calculate reserves for tax purposes. Beginning January 1, 2018, a higher interest rate assumption and longer payout patterns will be used to discount these reserves. In addition, companies will no longer be able to elect to use their own experience to discount reserves, but will instead be required to use the industry-based tables published by the Internal Revenue Service (IRS) annually; however, the 2018 tables have yet to be released. Consequently, the Company cannot reasonably estimate the impact this would have on deferred taxes at September 30, 2018. Management believes it is more likely than not that all deferred tax assets will be recovered as the result of future operations, which will generate sufficient taxable income to realize the deferred tax asset. In addition, management believes that when these deferred items reverse in future years, taxable income will be taxed at a federal rate of 21%.

As of September 30, 2018 and December 31, 2017, the Company does not have any capital or operating loss carryforwards. Periods still subject to IRS audit include 2014 through current year. There are currently no open tax exams.

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**8. EMPLOYEE BENEFITS**

**ESOP**

In connection with our conversion and public offering, we established an ESOP. The ESOP borrowed from the Company to purchase 350,000 shares in the offering. The issuance of the shares to the ESOP resulted in a contra account established in the equity section of the balance sheet for the unallocated shares at an amount equal to their \$10.00 per share purchase price.

The Company may make discretionary contributions to the ESOP and pay dividends on unallocated shares to the ESOP, the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. No contributions to the ESOP were made during the nine months ended September 30, 2018 and 2017, respectively.

A compensation expense charge is booked monthly during each year for the shares committed to be allocated to participants that year, determined with reference to the fair market value of our stock at the time the commitment to allocate the shares is accrued and recognized. For the nine months ended September 30, 2018, we recognized compensation expense of \$290,247 related to 17,577 shares of our common stock that are committed to be released to participants' accounts at December 31, 2018. Of the 17,577 shares committed to be released, 1,932 shares were committed on September 30, 2018 and had no impact on the weighted average common shares outstanding for the three and nine months ended September 30, 2018. For the nine months ended September 30, 2017, we recognized compensation expense of \$141,328 related to 8,680 shares of our common stock that were committed to be released to participants' accounts at December 31, 2017. Of the 8,680 shares committed to be released at December 31, 2017, 2,389 shares were committed on September 30, 2017 and had no impact on the weighted average common shares outstanding for the three and nine months ended September 30, 2017.

**RESTRICTED STOCK UNITS**

RSUs were granted for the first time in February 2018. RSUs have a grant date value equal to the closing price of the Company's stock on the dates the shares are granted. The RSUs vest 1/3 over three years from the date of grant.

As of September 30, 2018, 11,700 RSUs have been granted at a fair market value of \$15.10. We recognized \$14,844 and \$35,818 of expense on these units in the three and nine months ended September 30, 2018, respectively. Total unrecognized compensation expense relating to outstanding and unvested RSUs was \$140,852 as of September 30, 2018, which will be recognized over the remainder of the three-year vesting period.

**9. RELATED PARTY**

Mr. John R. Klockau, a director of the Company, held two surplus notes from the Company totaling \$1,150,000 which were converted into 115,000 shares of the Company's common stock on March 17, 2017. John R. Klockau received a payment for interest on the surplus notes of \$12,975 during the three months ended March 31, 2017. Additionally, Mr. Klockau is a claims consultant and was paid \$10,560 and \$10,350 as of September 30, 2018 and 2017, respectively, related to his services to the Company.

Mr. Kevin Clinton is a director of the Company and owns more than 10% of the Company's outstanding shares of common stock. On September 7, 2018, the Company repurchased from the Clinton-Flood Purchasers, as previously defined in our final prospectus filed with the SEC on February 13, 2017, which includes Mr. Kevin Clinton 196,721 shares of the Company's common stock at a price of \$15.25 per share. The Clinton-Flood Purchasers received an aggregate payment of \$2,999,995 during the three months ended September 30, 2018 related to the share repurchase. Mr. Clinton was paid \$2,071 and \$805 as of September 30, 2018 and 2017, respectively, for travel reimbursement costs.

Mr. Scott T. Burgess is a director of the Company and a Senior Managing Director of Griffin Financial Group (Griffin). Mr. Burgess was paid \$3,355, and \$2,690 as of September 30, 2018 and 2017, respectively. Griffin was paid \$0 and \$893,240 as of September 30, 2018 and 2017, respectively. Griffin and Stevens & Lee are affiliated. Stevens & Lee is a full-service law firm that was paid \$85,841 and \$46,286 as of September 30, 2018 and 2017, respectively.

**10. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through the date the financial statements were issued.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of ICC Holdings, Inc. ICC Holdings, Inc. and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in ICC Holdings, Inc.'s filings with the Securities and Exchange Commission (SEC) and its reports to shareholders. Generally, the inclusion of the words "anticipates," "believe," "estimate," "expect," "future," "intend," "estimate," "may," "plans," "seek," "will," or the negative of such terms and similar expressions identify statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that ICC Holdings, Inc. expects or anticipates will occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements within the meaning of the Reform Act. The forward-looking statements are and will be based on management's then-current beliefs and assumptions regarding future events and operating performance and on information currently available to management, and are applicable only as of the dates of such statements.

Forward-looking statements involve risks, uncertainties and assumptions, including, among other things, the factors discussed under the heading "Item 1A. Risk Factors" of ICC Holdings, Inc.'s Annual Report on Form 10-K/A and those listed below. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in this Quarterly Report on Form 10-Q and other unforeseen risks. Readers should not put undue reliance on any forward-looking statements. These statements speak only as of the date of this Quarterly Report on Form 10-Q, even if subsequently made available by us on our website or otherwise, and we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

All of these factors are difficult to predict and many are beyond our control. These important factors include those discussed under "Item 1A. Risk Factors" of ICC Holdings, Inc.'s 2017 Annual Report on Form 10-K and those listed below:

- the potential impact of fraud, operational errors, systems malfunctions, or cybersecurity incidents;
- future economic conditions in the markets in which we compete that are less favorable than expected;
- our ability to expand geographically;
- the effects of weather-related and other catastrophic events;
- the effect of legislative, judicial, economic, demographic and regulatory events in the jurisdictions where we do business, especially changes with respect to laws, regulations and judicial decisions relating to liquor liability;
- our ability to enter new markets successfully and capitalize on growth opportunities either through acquisitions or the expansion of our producer network;
- financial market conditions, including, but not limited to, changes in interest rates and the stock markets causing a reduction of investment income or investment gains and a reduction in the value of our investment portfolio;
- heightened competition, including specifically the intensification of price competition, the entry of new competitors and the development of new products by new or existing competitors, resulting in a reduction in the demand for our products;
- the impact of acts of terrorism and acts of war;
- the effects of terrorist related insurance legislation and laws;
- changes in general economic conditions, including inflation, unemployment, interest rates and other factors;
- the cost, availability and collectability of reinsurance;
- estimates and adequacy of loss reserves and trends in loss and settlement expenses;
- changes in the coverage terms selected by insurance customers, including higher limits;
- our inability to obtain regulatory approval of, or to implement, premium rate increases;
- our ability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us;
- the potential impact on our reported net income that could result from the adoption of future auditing or accounting standards issued by the Public Company Accounting Oversight Board or the Financial Accounting Standards Board or other standard-setting bodies;
- unanticipated changes in industry trends and ratings assigned by nationally recognized rating organizations;
- adverse litigation or arbitration results; and
- adverse changes in applicable laws, regulations or rules governing insurance holding companies and insurance companies, and environmental, tax or accounting matters including limitations on premium levels, increases in minimum capital and reserves, and other financial viability requirements, and changes that affect the cost of, or demand for our products.

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Because forward-looking information is subject to various risks and uncertainties, actual results may differ materially from that expressed or implied by the forward-looking information.

All subsequent written and oral forward-looking information attributable to ICC Holdings, Inc. or any person acting on our behalf is expressly qualified in its entirety by the cautionary statement contained or referred to in this section.

In the following discussion and analysis of results of operations and financial condition, certain financial measures may be considered “non-GAAP financial measures” under Securities and Exchange Commission rules. These rules require supplemental explanation and reconciliation, which is provided in this Quarterly Report on Form 10-Q. Management uses the non-GAAP measures “losses and settlement expense ratio”, “expense ratio” and “combined ratio” in its evaluation of business and financial performance. These disclosures have limitations as an analytical tool, should not be viewed as a substitute for net earnings determined in accordance with GAAP, and should not be considered in isolation or as a substitute for analysis of the Company’s results as reported under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Management believes that this non-GAAP supplemental information is helpful in understanding the Company’s ongoing operating results.

### **Overview**

ICC is a regional property and casualty insurance company incorporated in Illinois and focused exclusively on the food and beverage industry. On the effective date of the conversion, ICC became a wholly owned subsidiary of ICC Holdings, Inc. The consolidated financial statements of ICC prior to the conversion became the consolidated financial statements of ICC Holdings, Inc. upon completion of the conversion.

For the nine months ended September 30, 2018, we had direct written premium of \$46,583,000, net premiums earned of \$34,920,000, and net earnings of \$259,000. For the nine months ended September 30, 2017, we had direct premiums written of \$40,527,000, net premiums earned of \$32,740,000, and net earnings of \$265,000. At September 30, 2018, we had total assets of \$153,251,000 and equity of \$59,278,000. At December 31, 2017, we had total assets of \$152,335,000 and equity of \$64,101,000.

We are an “emerging growth company” as defined in the JOBS Act and take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including, but not limited to: not required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act; reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; exemptions from the requirements of holding an annual non-binding advisory vote on executive compensation and nonbinding stockholder approval of any golden parachute payments not previously approved.

In addition, Section 107 of the JOBS Act also provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an “emerging growth company” can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have taken advantage of the extended transition period provided by Section 107 of the JOBS Act. We decided to comply with the effective dates for financial accounting standards applicable to emerging growth companies at a later date in compliance with the requirements in Sections 107(b)(2) and (3) of the JOBS Act. Such decision is irrevocable.

### **Principal Revenue and Expense Items**

We derive our revenue primarily from premiums earned, net investment income and net realized gains (losses) from investments.

#### *Gross and net premiums written*

Gross premiums written is equal to direct and assumed premiums before the effect of ceded reinsurance. Net premiums written is the difference between gross premiums written and premiums ceded or paid to reinsurers (ceded premiums written).

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### *Premiums earned*

Premiums earned is the earned portion of our net premiums written. Gross premiums written include all premiums recorded by an insurance company during a specified policy period. Insurance premiums on property and casualty insurance contracts are recognized in proportion to the underlying risk insured and are earned ratably over the duration of the policies. At the end of each accounting period, the portion of the premiums that is not yet earned is included in unearned premiums and is realized as revenue in subsequent periods over the remaining term of the policy. Our policies typically have a term of twelve months. Thus, for example, for a policy that is written on July 1, 2018, one-half of the premiums would be earned in 2018 and the other half would be earned in 2019.

### *Net investment income and net realized gains (losses) on investments*

We invest our surplus and the funds supporting our insurance liabilities (including unearned premiums and unpaid loss and loss adjustment expenses) in cash, cash equivalents, equities, fixed maturity securities and real estate. Investment income includes interest and dividends earned on invested assets as well as rental income on investment properties. Net realized gains and losses on invested assets are reported separately from net investment income. We recognize realized gains when invested assets are sold for an amount greater than their cost or amortized cost (in the case of fixed maturity securities) and recognize realized losses when investment securities are written down as a result of an other than temporary impairment or sold for an amount less than their cost or amortized cost, as applicable. Our portfolio of investment securities is managed by two independent third parties and managers specializing in the insurance industry.

ICC's expenses consist primarily of:

### *Losses and settlement expense*

Losses and settlement expenses represent the largest expense item and include: (1) claim payments made, (2) estimates for future claim payments and changes in those estimates for prior periods, and (3) costs associated with investigating, defending and adjusting claims.

### *Amortization of deferred policy acquisition costs and other operating expenses*

Expenses incurred to underwrite risks are referred to as policy acquisition expenses. Variable policy acquisition costs consist of commission expenses, premium taxes and certain other underwriting expenses that vary with and are primarily related to the writing and acquisition of new and renewal business. These policy acquisition costs are deferred and amortized over the effective period of the related insurance policies. Fixed policy acquisition costs are expensed as incurred. These costs include salaries, rent, office supplies, and depreciation. Other operating expenses consist primarily of information technology costs, accounting and internal control salaries, as well as audit and legal expenses.

### *Income taxes*

We use the asset and liability method of accounting for income taxes. Deferred income taxes arise from the recognition of temporary differences between financial statement carrying amounts and the tax bases of our assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The effect of a change in tax rates is recognized in the period of the enactment date.

## **Key Financial Measures**

We evaluate our insurance operations by monitoring certain key measures of growth and profitability. In addition to reviewing our financial performance based on results determined in accordance with generally accepted accounting principles in the United States (GAAP), we utilize certain non-GAAP financial measures that we believe are valuable in managing our business and for comparison to our peers. These non-GAAP measures are combined ratio, written premiums, underwriting income, the losses and settlement expense ratio, the expense ratio, the ratio of net written premiums to statutory surplus and return on average equity.

We measure growth by monitoring changes in gross premiums written and net premiums written. We measure underwriting profitability by examining losses and settlement expense, underwriting expense and combined ratios. We also measure profitability by examining underwriting income (loss) and net income (loss).

### *Losses and settlement expense ratio*

The losses and settlement expense ratio is the ratio (expressed as a percentage) of losses and settlement expenses incurred to premiums earned. We measure the losses and settlement expense ratio on an accident year and calendar year loss basis to

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measure underwriting profitability. An accident year losses and settlement expense ratio measures losses and settlement expenses for insured events occurring in a particular year, regardless of when they are reported, as a percentage of premiums earned during that year. A calendar year losses and settlement expense ratio measures losses and settlement expense for insured events occurring during a particular year and the change in loss reserves from prior accident years as a percentage of premiums earned during that year.

### *Expense ratio*

The underwriting expense ratio is the ratio (expressed as a percentage) of amortization of deferred policy acquisition costs and other operating expenses to premiums earned, and measures our operational efficiency in producing, underwriting and administering our insurance business.

### *GAAP combined ratio*

Our GAAP combined ratio is the sum of the losses and settlement expense ratio and the expense ratio and measures our overall underwriting profit. If the GAAP combined ratio is below 100%, we are making an underwriting profit. If our combined ratio is at or above 100%, we are not profitable without investment income and may not be profitable if investment income is insufficient.

### *Net premiums written to statutory surplus ratio*

The net premiums written to statutory surplus ratio represents the ratio of net premiums written, after reinsurance ceded, to statutory surplus. This ratio measures our exposure to pricing errors in our current book of business. The higher the ratio, the greater the impact on surplus should pricing prove inadequate.

### *Underwriting income (loss)*

Underwriting income (loss) measures the pre-tax profitability of our insurance operations. It is derived by subtracting losses and settlement expense, amortization of deferred policy acquisition costs, and other operating expenses from earned premiums. Each of these items is presented as a caption in our statements of operations.

### *Net earnings (loss) and return on average equity*

We use net earnings (loss) to measure our profit and return on average equity to measure our effectiveness in utilizing equity to generate net income. In determining return on average equity for a given year, net earnings (loss) is divided by the average of the beginning and ending equity for that year.

## **Critical Accounting Policies**

The accounting policies and estimates considered by management to be critically important in the preparation and understanding of the Company's financial statements and related disclosures are presented in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

## **Results of Operations**

Our results of operations are influenced by factors affecting the property and casualty insurance industry in general. The operating results of the United States property and casualty insurance industry are subject to significant variations due to competition, weather, catastrophic events, regulation, general economic conditions, judicial trends, fluctuations in interest rates and other changes in the investment environment.

Our premium growth and underwriting results have been, and continue to be, influenced by market conditions. Pricing in the property and casualty insurance industry historically has been cyclical. During a soft market cycle, price competition is more significant than during a hard market cycle and makes it difficult to attract and retain properly priced commercial business. A hard market typically has a positive effect on premium growth.

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*Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017*

The major components of operating revenues and net earnings are as follows:

<i>(In thousands)</i>	For the Nine-Months Ended September 30,	
	2018	2017
<b>Revenues</b>		
Total premiums earned	\$ 34,920	\$ 32,740
Investment income, net of investment expense	2,124	1,849
Realized investment gains, net	1,087	386
Other income	130	198
Total revenues	\$ 38,261	\$ 35,173
<b>Summarized components of net earnings</b>		
Underwriting (loss) <sup>1</sup>	\$ (2,567)	\$ (1,586)
Investment income, net of investment expense	2,124	1,849
Realized investment gains, net	1,087	386
Other income	130	198
General corporate expenses	399	452
Interest expense	108	174
Earnings, before income taxes	267	221
Income tax expense (benefit)	8	(44)
Net earnings	\$ 259	\$ 265
Total other comprehensive (loss) earnings	(2,389)	895
Comprehensive (loss) earnings	\$ (2,130)	\$ 1,160

<sup>1</sup>Calculated by subtracting the sum of losses and settlement expenses (2018 -\$24,398 and 2017 -\$21,527) and policy and acquisition costs and other operating expenses (2018 - \$13,089 and 2017 - \$12,799) from net premiums earned (2018 -\$34,920 and 2017 - \$32,740).

	For the Nine-Months Ended September 30,	
	2018	2017
<b>Non-GAAP Ratios:</b>		
Losses and settlement expense ratio <sup>1</sup>	69.87%	65.75%
Expense ratio <sup>2</sup>	37.48%	39.09%
Combined ratio <sup>3</sup>	107.35%	104.84%

<sup>1</sup>Calculated by dividing losses and settlement expenses by net premiums earned.

<sup>2</sup>Calculated by dividing the sum of policy acquisition costs and other operating expenses by net earned premiums.

<sup>3</sup>The sum of the losses and settlement expense ratio and the expense ratio. A combined ratio of under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

*Premiums*

Direct premiums written grew by \$6,056,000, or 14.9%, to \$46,583,000 for the nine months ended September 30, 2018 from \$40,527,000 for the same period of 2017. Net written premium grew by \$3,587,000, or 10.3%, to \$38,312,000 for the nine months ended September 30, 2018 from \$34,725,000 for the same period in 2017. Net premiums earned grew by \$2,180,000, or 6.7%, in the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to increased organic growth including the impact of recent geographical expansion efforts.

For the nine months ended September 30, 2018, we ceded to reinsurers \$7,949,000 of earned premiums, compared to \$5,993,000 of earned premiums for the nine months ended September 30, 2017. Ceded earned premiums as a percent of direct premiums written was 17.1% in the nine months ended September 30, 2018, and 14.8% in the nine months ended September 30, 2017.

Premiums are earned ratably over the term of the policy whereas written premiums are reflected on the effective date of the policy.

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### *Other Income*

Other income is derived from policies we write and represents additional charges to policyholders for services outside of the premium charge, such as installment billing or policy reinstatement fees. Another component of other income is attributable to sales made by the Company's subsidiary, Estrella Innovative Solutions, Inc. Other income decreased by \$68,000 or 34.3% during the nine months ended September 30, 2018 as compared to the same period of 2017 primarily as a result of an increase in premiums written off.

### *Unpaid Losses and Settlement Expenses*

The following table details our unpaid losses and settlement expenses.

<i>(In thousands)</i>	For the Nine-Months Ended	
	September 30,	
	2018	2017
Unpaid losses and settlement expense - beginning of the period:		
Gross	\$ 51,074	\$ 52,817
Less: Ceded	10,030	12,115
Net	41,044	40,702
Increase (decrease) in incurred losses and settlement expense:		
Current year	22,587	22,897
Prior years	1,811	(1,370)
Total incurred	24,398	21,527
Deduct: Loss and settlement expense payments for claims incurred:		
Current year	7,511	8,381
Prior years	13,197	12,937
Total paid	20,708	21,318
Net unpaid losses and settlement expense - end of the period	44,734	40,911
Plus: Reinsurance recoverable on unpaid losses	9,479	11,641
Gross unpaid losses and settlement expense - end of the period	\$ 54,213	\$ 52,552

Net unpaid losses and settlement expense increased \$3,823,000, or 9.3%, in the nine months ended September 30, 2018 as compared to the same period in 2017. For the nine months ended September 30, 2018 and 2017, we experienced unfavorable development of \$1,811,000 and favorable development of \$1,370,000, respectively. The increase in unfavorable development was primarily driven by the workers compensation and Businessowners Liability lines of business.

### *Losses and Settlement Expenses*

Losses and settlement expenses increased by \$2,871,000, or 13.3%, to \$24,398,000 for the nine months ended September 30, 2018, from \$21,527,000 for the same period in 2017. The increase in losses and settlement expenses for the nine months ended September 30, 2018 is primarily due to weaker Businessowners Liability and Workers Compensation results.

### *Policy Acquisition Costs and Other Operating Expenses and the Expense Ratio*

Policy acquisition costs are costs we incur to issue policies, which include commissions, premium taxes, underwriting reports, and underwriter compensation costs. The Company offsets the direct commissions it pays with ceded commissions it receives from reinsurers. Other operating expenses consist primarily of information technology costs, accounting and internal control salaries, as well as audit and legal expenses. Policy acquisition costs and other operating expenses increased by \$290,000, or 2.3%. The primary driver is an increase in self-funded employee medical expenses of \$405,000 for the nine months ended September 30, 2018 as compared to the same period in 2017.

Our expense ratio is calculated by dividing the sum of policy acquisition costs and operating expenses by net earned premiums. We use the expense ratio to evaluate the operating efficiency of our consolidated operations. Costs that cannot be readily identifiable as a direct cost of a product line remain in Other operating expenses.

Our expense ratio decreased by 161 basis points to 37.48% from 39.09% for the nine months ended September 30, 2018 as compared to 2017.

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### *General Corporate Expenses*

General corporate expenses consist primarily of occupancy costs, such as rent and utilities. These costs are largely fixed and, therefore, do not vary significantly with premium volume but do vary with the Company's changes in properties held for investment. Our general corporate expenses decreased by \$53,000, or 11.7%, during the nine months ended September 30, 2018 as compared to the same period in 2017.

### *Investment Income*

Net investment income increased by \$275,000, or 14.9%, during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily from increases from the available for sale securities portfolio. Average cash and invested assets during the nine months ended September 30, 2018 was \$110,395,000 compared to \$96,154,000 during the same period in 2017, an increase of \$14,241,000, or 14.8%. The increase in the portfolio was primarily due to proceeds from the initial public offering that closed on March 24, 2017.

### *Interest Expense*

Interest expense decreased to \$108,000 for the nine months ended September 30, 2018 from \$174,000 for the same period during 2017. This 37.9% decrease year over year reflects the impact of the Company prepaying the balances of financial sale leaseback transactions, prepaying debt agreements entered into during 2016, as well as the elimination of surplus notes through conversion and redemptions in March 2017. The decrease in interest expense resulting from the early reduction of corporate debt was partially offset by an increase in interest expense on a debt agreement entered into in March 2017. See *Financial Position – Leasehold Obligations* and *Financial Position – Debt Obligations*.

### *Income Tax Expense*

We reported income tax expense of \$8,000 and income tax benefit of \$44,000 for the nine months ended September 30, 2018 and 2017, respectively. The increase in income tax expense in 2018 relates to higher levels of pretax earnings and lower effective tax rates for the nine months ended September 30, 2018 compared to the same period in 2017. Our effective tax rate for the nine months ended September 30, 2018 was 3.1%, compared to -20.0% for the same period in 2017. Effective rates are dependent upon components of pretax earnings and the related tax effects. The effective rate was higher for the nine months ended September 30, 2018 compared to the same period in 2017 primarily due to the decrease in the tax benefit received from tax exempt interest resulting from a decrease in statutory rate as a result of the Tax Act.

The Company has not established a valuation allowance against any of the net deferred tax assets.

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### *Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017*

The major components of operating revenues and net earnings are as follows:

<i>(In thousands)</i>	For the Three-Months Ended	
	September 30,	
	2018	2017
<b>Revenues</b>		
Total premiums earned	\$ 12,138	\$ 11,191
Investment income, net of investment expense	736	688
Realized investment gains, net	15	(2)
Other income	74	48
Total revenues	\$ 12,963	\$ 11,925
<b>Summarized components of net earnings (loss)</b>		
Underwriting (loss) <sup>1</sup>	\$ (950)	\$ (1,216)
Investment income, net of investment expense	736	688
Realized investment gains (losses), net	15	(2)
Other income	74	48
General corporate expenses	128	184
Interest expense	33	65
Loss, before income taxes	(286)	(731)
Income tax benefit	(78)	(381)
Net loss	\$ (208)	\$ (350)
Total other comprehensive earnings	213	298
Comprehensive earnings (loss)	\$ 5	\$ (52)

<sup>1</sup>Calculated by subtracting the sum of losses and settlement expenses (2018 -\$8,612 and 2017 -\$8,062) and policy and acquisition costs and other operating expenses (2018 - \$4,476 and 2017 - \$4,344) from net premiums earned (2018 -\$12,138 and 2017 - \$11,191).

	For the Three-Months Ended September 30,	
	2018	2017
<b>Non-GAAP Ratios:</b>		
Losses and settlement expense ratio <sup>1</sup>	70.95%	72.05%
Expense ratio <sup>2</sup>	36.88%	38.82%
Combined ratio <sup>3</sup>	107.83%	110.87%

<sup>1</sup>Calculated by dividing losses and settlement expenses by net premiums earned.

<sup>2</sup>Calculated by dividing the sum of policy acquisition costs and other operating expenses by net earned premiums.

<sup>3</sup>The sum of the losses and settlement expense ratio and the expense ratio. A combined ratio of under 100% indicates an underwriting profit. A combined ratio over 100% indicates an underwriting loss.

#### *Premiums*

Direct premiums written grew by \$2,054,000, or 14.5%, to \$16,171,000 for the three months ended September 30, 2018 from \$14,117,000 for the same period of 2017. Net written premium grew by \$1,019,000, or 8.4%, to \$13,198,000 for the three months ended September 30, 2018 from \$12,179,000 for the same period in 2017. Net premiums earned grew by \$947,000, or 8.5%, in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily due to increased organic growth including the impact of geographical expansion efforts.

For the three months ended September 30, 2018, we ceded to reinsurers \$2,969,000 of earned premiums, compared to \$2,051,000 of earned premiums for the three months ended September 30, 2017. Ceded earned premiums as a percent of direct premiums written was 18.4% in the three months ended September 30, 2018, and 14.5% in the three months ended September 30, 2017.

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Premiums are earned ratably over the term of the policy whereas written premiums are reflected on the effective date of the policy.

### *Other Income*

Other income is derived from policies we write and represents additional charges to policyholders for services outside of the premium charge, such as installment billing or policy reinstatement fees. Another component of other income is attributable to sales made by the Company's subsidiary, Estrella Innovative Solutions, Inc. Other income increased by \$26,000 or 54.2% during the three months ended September 30, 2018 as compared to the same period of 2017 primarily as a result of third party sales made by the Company's subsidiary, Estrella Innovative Solutions, Inc.

### *Losses and Settlement Expenses*

Losses and settlement expenses increased by \$549,000, or 6.8%, to \$8,612,000 for the three months ended September 30, 2018, from \$8,063,000 for the same period in 2017. The increase in losses and settlement expenses for the three months ended September 30, 2018 is primarily due to weaker Businessowners Liability and Workers Compensation results.

### *Policy Acquisition Costs and Other Operating Expenses and the Expense Ratio*

Policy acquisition costs are costs we incur to issue policies, which include commissions, premium taxes, underwriting reports, and underwriter compensation costs. The Company offsets the direct commissions it pays with ceded commissions it receives from reinsurers. Other operating expenses consist primarily of information technology costs, accounting and internal control salaries, as well as audit and legal expenses. Policy acquisition costs and other operating expenses increased by \$132,000, or 3.0% for the three months ended September 30, 2018 compared to the same period of 2017.

Our expense ratio is calculated by dividing the sum of policy acquisition costs and operating expenses by net earned premiums. We use the expense ratio to evaluate the operating efficiency of our consolidated operations. Costs that cannot be readily identifiable as a direct cost of a product line remain in Corporate and Other.

Our expense ratio decreased by 194 basis points to 36.88% from 38.82% for the three months ended September 30, 2018 as compared to 2017.

### *General Corporate Expenses*

General corporate expenses consist primarily of occupancy costs, such as rent and utilities. These costs are largely fixed and, therefore, do not vary significantly with premium volume but do vary with the Company's changes in properties held for investment. Our general corporate expenses decreased by \$56,000, or 30.4%, in the three months ended September 30, 2018 as compared to the same period in 2017.

### *Investment Income*

Net investment income increased by \$48,000, or 7.0%, during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017, primarily from increases from the available for sale securities portfolio. Average cash and invested assets during the three months ended September 30, 2018 was \$109,378,000 compared to \$113,116,000 during the same period in 2017, a decrease of \$3,738,000, or 3.3%.

### *Interest Expense*

Interest expense decreased to \$33,000 for the three months ended September 30, 2018 from \$65,000 for the same period during 2017. This 49.2% decrease year over year reflects the impact of the Company prepaying the balances of financial sale leaseback transactions, prepaying debt agreements entered into during 2016, as well as the elimination of surplus notes through conversion and redemptions in March 2017. The decrease in interest expense resulting from the early reduction of corporate debt was partially offset by an increase in interest expense on a debt agreement entered into in March 2017. See *Financial Position – Leasehold Obligations* and *Financial Position – Debt Obligations*.

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*Income Tax Expense*

We reported income tax benefit of \$78,000 and \$381,000 for the three months ended September 30, 2018 and 2017, respectively. The decrease in income tax benefit in 2018 relates to a higher level of pretax earnings for the three months ended September 30, 2018 compared to the same period in 2017. Our effective tax rate for the three months ended September 30, 2018 was 27.1%, compared to 52.2% for the same period in 2017. Effective rates are dependent upon components of pretax earnings and the related tax effects.

The Company has not established a valuation allowance against any of the net deferred tax assets.

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**Financial Position**

The major components of our assets and liabilities are as follows:

	As of	
	September 30, 2018 (Unaudited)	December 31, 2017
<i>(In thousands)</i>		
<b>Assets</b>		
Investments and cash:		
Available for sale securities, at fair value		
Fixed maturity securities (amortized cost - \$89,576 at 9/30/2018 and \$87,773 at 12/31/2017)	\$ 88,900	\$ 89,605
Common Stocks (cost - \$13,137 at 9/30/2018 and \$7,631 at 12/31/2017)	13,608	8,534
Preferred Stocks (cost - \$0 at 9/30/2018 and \$3,783 at 12/31/2017)	—	3,867
Other invested assets	139	—
Property held for investment, at cost, net of accumulated depreciation of \$197 at 9/30/2018 and \$127 at 12/31/2017	3,431	3,127
Cash and cash equivalents	2,703	6,877
<b>Total investments and cash</b>	<b>108,781</b>	<b>112,010</b>
Accrued investment income	660	687
Premiums and reinsurance balances receivable, net of allowances for uncollectible amounts of \$50 at 9/30/2018 and 12/31/2017	21,897	19,014
Ceded unearned premiums	706	275
Reinsurance balances recoverable on unpaid losses and settlement expenses, net of allowances for uncollectible amounts of \$0 at 9/30/2018 and 12/31/2017	9,479	10,030
Federal income taxes	1,562	922
Deferred policy acquisition costs, net	5,504	4,592
Property and equipment, at cost, net of accumulated depreciation of \$4,965 at 9/30/2018 and \$4,896 at 12/31/2017	3,493	3,504
Other assets	1,169	1,301
<b>Total assets</b>	<b>\$ 153,251</b>	<b>\$ 152,335</b>
<b>Liabilities and Equity</b>		
Liabilities:		
Unpaid losses and settlement expenses	\$ 54,213	\$ 51,074
Unearned premiums	30,378	26,556
Reinsurance balances payable	1,237	327
Corporate debt	3,487	4,339
Accrued expenses	3,726	4,274
Other liabilities	932	1,664
<b>Total liabilities</b>	<b>93,973</b>	<b>88,234</b>
Equity:		
Common stock <sup>1</sup>	35	35
Treasury stock, at cost <sup>2</sup>	(3,000)	—
Additional paid-in capital	32,465	32,333
Accumulated other comprehensive (loss) earnings, net of tax	(162)	2,227
Retained earnings	33,046	32,787
Less: Unearned ESOP shares at cost (9/30/18 - 310,545 shares and 12/31/17 - 328,122 shares)	(3,106)	(3,281)
<b>Total equity</b>	<b>59,278</b>	<b>64,101</b>
<b>Total liabilities and equity</b>	<b>\$ 153,251</b>	<b>\$ 152,335</b>

<sup>1</sup> Par value \$0.01; authorized: 2018 - 10,000,000 shares and 2017 - 10,000,000 shares; issued: 2018 - 3,500,000 shares and 2017 - 3,500,000 shares; outstanding: 2018 - 2,992,734 and 2017 - 3,171,878 shares.

<sup>2</sup> 2018 - 196,721 shares and 2017 - 0 shares

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*Unpaid Losses and LAE*

Our reserves for unpaid loss and LAE are summarized below:

<i>(In thousands)</i>	As of September 30, 2018	As of December 31, 2017
Case reserves	\$ 22,922	\$ 19,997
IBNR reserves	21,812	21,047
Net unpaid losses and settlement expense	44,734	41,044
Reinsurance recoverable on unpaid loss and settlement expense	9,479	10,030
Reserves for unpaid loss and settlement expense	<u>\$ 54,213</u>	<u>\$ 51,074</u>

Actuarial Ranges

The selection of the ultimate loss is based on information unique to each line of business and accident year and the judgment and expertise of our actuary and management.

The following table provides case and IBNR reserves for losses and loss adjustment expenses as of September 30, 2018 and December 31, 2017.

**As of September 30, 2018**

<i>(In thousands)</i>	Case Reserves	IBNR Reserves	Total Reserves
Commercial liability	\$ 17,171	\$ 16,472	\$ 33,643
Property	2,970	1,173	4,143
Other	2,781	4,167	6,948
Total net reserves	22,922	21,812	44,734
Reinsurance recoverables	4,559	4,920	9,479
Gross reserves	<u>\$ 27,481</u>	<u>\$ 26,732</u>	<u>\$ 54,213</u>

**As of December 31, 2017**

<i>(In thousands)</i>	Case Reserves	IBNR Reserves	Total Reserves	Actuarially Determined Range of Estimates	
				Low	High
Commercial liability	\$ 14,763	\$ 15,384	\$ 30,147		
Property	1,789	4,303	6,092		
Other	3,445	1,360	4,805		
Total net reserves	19,997	21,047	41,044	\$ 36,295	\$ 41,383
Reinsurance recoverables	5,403	4,627	10,030	9,314	12,361
Gross reserves	<u>\$ 25,400</u>	<u>\$ 25,674</u>	<u>\$ 51,074</u>	<u>\$ 45,609</u>	<u>\$ 53,744</u>

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Our actuary determined a range of reasonable reserve estimates which reflect the uncertainty inherent in the loss reserve process. This range does not represent the range of all possible outcomes. We believe that the actuarially-determined ranges represent reasonably likely changes in the loss and settlement expense estimates, however actual results could differ significantly from these estimates. The range was determined by line of business and accident year after a review of the output generated by the various actuarial methods utilized. The actuary reviewed the variance around the select loss reserve estimates for each of the actuarial methods and selected reasonable low and high estimates based on his knowledge and judgment. In making these judgments the actuary typically assumed, based on his experience, that the larger the reserve the less volatility and that property reserves would exhibit less volatility than casualty reserves. In addition, when selecting these low and high estimates, the actuary considered:

- historical industry development experience in our business line;
- historical company development experience;
- the impact of court decisions on insurance coverage issues, which can impact the ultimate cost of settling claims;
- changes in our internal claims processing policies and procedures; and
- trends and risks in claim costs, such as risk that medical cost inflation could increase.

Our actuary is required to exercise a considerable degree of judgment in the evaluation of all of these and other factors in the analysis of our loss and settlement expense reserves, and related range of anticipated losses. Because of the level of uncertainty impacting the estimation process, it is reasonably possible that different actuaries would arrive at different conclusions. The method of determining the reserve range has not changed and the reserve range generated by our actuary is consistent with the observed development of our loss reserves over the last few years.

The width of the range in reserves arises primarily because specific losses may not be known and reported for some period and the ultimate losses paid and loss adjustment expenses incurred with respect to known losses may be larger than currently estimated. The ultimate frequency or severity of these claims can be very different than the assumptions we used in our estimation of ultimate reserves for these exposures.

Specifically, the following factors could impact the frequency and severity of claims, and therefore, the ultimate amount of loss and settlement expense paid:

- the rate of increase in labor costs, medical costs, and material costs that underlie insured risks;
- development of risk associated with our expanding producer relationships and our growth in new states or states where we currently have small market share; and
- impact of changes in laws or regulations.

The estimation process for determining the liability for unpaid loss and settlement expense inherently results in adjustments each year for claims incurred (but not paid) in preceding years. Negative amounts reported for claims incurred related to prior years are a result of claims being settled for amounts less than originally estimated (favorable development). Positive amounts reported for claims incurred related to prior years are a result of claims being settled for amounts greater than originally estimated (unfavorable development). For the nine months ended September 30, 2018 and 2017, we experienced unfavorable development of \$1,811,000 and favorable development of \$1,370,000, respectively.

Potential for variability in our reserves is evidenced by this development. As further illustration of reserve variability, we initially estimated unpaid loss and settlement expense net of reinsurance at the end of 2017 at \$41,044,000. As of September 30, 2018, that reserve was re-estimated at \$42,855,000, which is \$1,811,000, or 4.4%, higher than the initial estimate.

The estimation of our reserves is based on several actuarial methods, each of which incorporates many quantitative assumptions. The judgment of the actuary plays an important role in selecting among various loss development factors and selecting the appropriate method, or combination of methods, to use for a given accident year. The ranges presented above represent the expected variability around the actuarially determined central estimate. The total range around our actuarially determined estimate varies from (6.2)% to 7.0%. As shown in the table below, since 2013 the variance in our originally estimated accident year was (11.3)% deficient to 11.9% redundant as of September 30, 2018.

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**Recent Variabilities of Incurred Losses and Settlement Expense, Net of Reinsurance**

<i>(In thousands)</i>	Accident Year Data				
	2013	2014	2015	2016	2017
As originally estimated	\$ 22,064	\$ 22,267	\$ 24,293	\$ 25,619	\$ 29,801
As estimated at September 30, 2018	22,364	24,782	21,397	24,405	29,828
Net cumulative (deficiency) redundancy	\$ (300)	\$ (2,515)	\$ 2,896	\$ 1,215	\$ (27)
% (deficiency) redundancy	(1.4)%	(11.3)%	11.9%	4.7%	(0.1)%

The table below summarizes the impact on equity, net of tax, from changes in estimates of net unpaid loss and settlement expense:

<i>(In thousands)</i>	December 31,	
	2017	
	Aggregate Loss and Settlement Reserve	Percentage Change in Equity
<b>Reserve Range for Unpaid Losses and Settlement Expense</b>		
Low End	\$ 36,295	4.9%
Recorded	41,044	0.0%
High End	41,383	-0.3%

If the net loss and settlement expense reserves were recorded at the high end of the actuarially-determined range as of December 31, 2017, the loss and settlement expense reserves would increase by \$339,000 before taxes. This increase in reserves would have the effect of decreasing net income and equity as of December 31, 2017 by \$224,000. If the loss and settlement expense reserves were recorded at the low end of the actuarially-determined range, the net loss and settlement expense reserves at December 31, 2017 would be reduced by \$4.7 million with corresponding increases in net income and equity of \$3.1 million.

*Investments*

Our fixed maturity and equity securities investments are classified as available-for-sale and carried at estimated fair value as determined by management based upon quoted market prices or a recognized pricing service at the reporting date for those or similar investments. Changes in unrealized investment gains or losses on our investments, net of applicable income taxes, are reflected directly in equity as a component of comprehensive income (loss) and, accordingly, have no effect on net income (loss). Investment income is recognized when earned, and capital gains and losses are recognized when investments are sold, or other-than-temporarily impaired.

The fair value and unrealized losses for our securities that were temporarily impaired are as follows:

<i>(In thousands)</i>	September 30, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	\$ 342	\$ (6)	\$ 977	\$ (23)	\$ 1,319	\$ (29)
MBS/ABS/CMBS	21,089	(355)	7,246	(445)	28,335	(800)
Corporate	17,985	(335)	1,499	(61)	19,484	(396)
Municipal	8,435	(118)	829	(43)	9,264	(161)
Total fixed maturities	47,851	(814)	10,551	(572)	58,402	(1,386)
Common stocks	5,619	(755)	—	—	5,619	(755)
Preferred stocks	—	—	—	—	—	—
Total temporarily impaired securities	\$ 53,470	\$ (1,569)	\$ 10,551	\$ (572)	\$ 64,021	\$ (2,141)

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	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(In thousands)</i>						
U.S. Treasury	\$ 1,038	\$ (8)	\$ 295	\$ (5)	\$ 1,333	\$ (13)
MBS/ABS/CMBS	9,754	(24)	7,445	(200)	17,199	(224)
Corporate	5,584	(26)	2,024	(25)	7,608	(51)
Municipal	478	(2)	1,172	(15)	1,650	(17)
Total fixed maturities	16,854	(60)	10,936	(245)	27,790	(305)
Common stocks	637	(18)	—	—	637	(18)
Preferred stocks	843	(28)	521	(20)	1,364	(48)
Total temporarily impaired securities	\$ 18,334	\$ (106)	\$ 11,457	\$ (265)	\$ 29,791	\$ (371)

The unrealized losses as of September 30, 2018 and December 31, 2017 were primarily related to increase in interest rates. The overall equity market returns for the quarter were quite strong and our portfolio performed in line with market indices. However, value has underperformed growth overall, which impacted the largest portion of our portfolio. Large banks, to which we are allocated in our value portfolio, suffered in performance during the quarter due to rising rates. Energy firms and tech stocks were also impacted by market dynamics, and trade and cybersecurity concerns. However, they are expected to recover. The portfolio benefitted from a higher weight to large cap stocks, as large cap outperformed small cap over the quarter. The positive equity market returns were largely driven by strong corporate earnings growth, with the second consecutive quarter at 25 percent growth. Positive impacts, driven by elevated levels of business and consumer confidence and aggressive stock buyback activity, offset some of the negative trade headlines. The unrealized losses on fixed maturities as of September 30, 2018 also reflects the increase in interest rates that occurred in the third quarter (5yr Treasury rates up about 20 bps). However, spreads in Corporate bonds tightened about 17 bps during the quarter which helped offset some of the drag from higher interest rates. Fair values of interest rate sensitive instruments may be affected by increases and decreases in prevailing interest rates which generally translate, respectively, into decreases and increases in fair values of fixed maturity investments. The fair values of interest rate sensitive instruments also may be affected by the credit worthiness of the issuer, prepayment options, relative values of other investments, the liquidity of the instrument, and other general market conditions.

We monitor our investment portfolio and review securities that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. When assessing whether the amortized cost basis of the security will be recovered, we compare the present value of the cash flows likely to be collected, based on an evaluation of all available information relevant to the collectability of the security, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as the “credit loss.” If there is a credit loss, the impairment is considered to be other-than-temporary. If we identify that an other-than-temporary impairment loss has occurred, we then determine whether we intend to sell the security, or if it is more likely than not that we will be required to sell the security prior to recovering the amortized cost basis less any current-period credit losses. If we determine that we do not intend to sell, and it is not more likely than not that we will be required to sell the security, the amount of the impairment loss related to the credit loss will be recorded in earnings, and the remaining portion of the other-than-temporary impairment loss will be recognized in other comprehensive income (loss), net of tax. If we determine that we intend to sell the security, or that it is more likely than not that we will be required to sell the security prior to recovering its amortized cost basis less any current-period credit losses, the full amount of the other-than-temporary impairment will be recognized in earnings.

For the nine months ended September 30, 2018, the Company did not take an impairment charge on any of its security holdings. For the nine months ended September 30, 2017, the Company incurred \$57,000 of OTTI losses on an ETF included in common stock that was impaired in the three months ended June 30, 2017 and subsequently sold in the three months ended September 30, 2017. Adverse investment market conditions, or poor operating results of underlying investments, could result in impairment charges in the future.

We use quoted values and other data provided by independent pricing services in our process for determining fair values of our investments. The evaluations of such pricing services represent an exit price and a good faith opinion as to what a buyer in the marketplace would pay for a security in a current sale. This pricing service provides us with one quote per instrument. For fixed maturity securities that have quoted prices in active markets, market quotations are provided. For fixed maturity securities that do not trade on a daily basis, the independent pricing service prepares estimates of fair value using a wide array of observable inputs including relevant market information, benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. The observable market inputs that our independent pricing service utilizes may include (listed in order of priority for use) benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, and other reference data on markets, industry, and the economy. Additionally, the independent pricing service uses an option adjusted spread model to develop prepayment and interest rate scenarios. The pricing service did not use broker quotes in determining fair values of our investments.

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Should the independent pricing service be unable to provide a fair value estimate, we would attempt to obtain a non-binding fair value estimate from a number of broker-dealers and review this estimate in conjunction with a fair value estimate reported by an independent business news service or other sources. In instances where only one broker-dealer provides a fair value for a fixed maturity security, we use that estimate. In instances where we are able to obtain fair value estimates from more than one broker-dealer, we would review the range of estimates and would select the most appropriate value based on the facts and circumstances. Should neither the independent pricing service nor a broker-dealer provide a fair value estimate, we would develop a fair value estimate based on cash flow analyses and other valuation techniques that utilize certain unobservable inputs. Accordingly, we would classify such a security as a Level 3 investment.

The fair value estimates of our investments provided by the independent pricing service at September 30, 2018 and December 31, 2017, respectively, were utilized, among other resources, in reaching a conclusion as to the fair value of our investments.

Management reviews the reasonableness of the pricing provided by the independent pricing service by employing various analytical procedures. We review all securities to identify recent downgrades, significant changes in pricing, and pricing anomalies on individual securities relative to other similar securities. This will include looking for relative consistency across securities in common sectors, durations, and credit ratings. This review will also include all fixed maturity securities rated lower than "A" by Moody's or S&P. If, after this review, management does not believe the pricing for any security is a reasonable estimate of fair value, then it will seek to resolve the discrepancy through discussions with the pricing service. In our review, we did not identify any such discrepancies for the nine months ended September 30, 2018 and 2017 and for the year ended December 31, 2017, and no adjustments were made to the estimates provided by the pricing service. The classification within the fair value hierarchy of Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement, is then confirmed based on the final conclusions from the pricing review.

### *Deferred Policy Acquisition Costs*

Certain acquisition costs consisting of direct and ceded commissions, premium taxes and certain other direct underwriting expenses that vary with and are primarily related to the production of business are deferred and amortized over the effective period of the related insurance policies as the underlying policy premiums are earned. At September 30, 2018 and December 31, 2017, deferred acquisition costs and the related unearned premium reserves were as follows:

(In thousands)	September 30, 2018		December 31, 2017	
Deferred acquisition costs	\$	5,504	\$	4,592
Unearned premium reserves		30,378		26,556

The method followed in computing deferred acquisition costs limits the amount of deferred costs to their estimated realizable value, which gives effect to the premium to be earned, related investment income, loss and loss adjustment expenses, and certain other costs expected to be incurred as the premium is earned. Future changes in estimates, the most significant of which is expected loss and loss adjustment expenses, may require adjustments to deferred policy acquisition costs. If the estimation of net realizable value indicates that the deferred acquisition costs are not recoverable, they would be written off.

### *Income Taxes*

We use the asset and liability method of accounting for income taxes. Deferred income taxes arise from the recognition of temporary differences between financial statement carrying amounts and the tax bases of our assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The effect of a change in tax rates is recognized in the period of the enactment date.

We exercise significant judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments require us to make projections of future taxable income. The judgments and estimates we make in determining our deferred tax assets, which are inherently subjective, are reviewed on a continual basis as regulatory and business factors change. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets.

As of September 30, 2018 and December 31, 2017, we had no material unrecognized tax benefits or accrued interest and penalties. Federal tax years 2014 through current year are open for examination.

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### *Other Assets*

As of September 30, 2018 and December 31, 2017 other assets totaled \$1,169,000 and \$1,301,000, respectively. The other assets balances on the consolidated balance sheets are primarily composed of Corporate Owned Life Insurance asset value as well as prepaid fees.

### *Outstanding Debt*

As of September 30, 2018 and December 31, 2017, outstanding debt balances totaled \$3,487,017 and \$4,339,208, respectively. The average rate on remaining debt was 3.7% as of September 30, 2018, compared to 3.9% as of December 31, 2017. The debt balance as of September 30, 2018 is comprised of debt obligations. The debt balance as of December 31, 2017 was comprised of leasehold obligations and debt obligations.

### Leasehold Obligations

The Company entered into a sale leaseback arrangement in 2016 that was accounted for as a capital lease. Under the agreement, Bofi Federal Bank purchased electronic data processing software, vehicles, and other assets which are leased to the Company. These assets remained on the Company's books due to provisions within the agreement that trigger capital lease accounting. To secure the lowest rate possible of 4.7%, the Company pledged bonds totaling \$923,563 and \$923,766 as of March 31, 2018 and December 31, 2017. There was no gain or loss recognized as part of this transaction. On March 2, 2018 and March 7, 2018, the Company paid \$404,928 and \$346,000, respectively to Bofi. These disbursements were made to pay off the balances of the sale leaseback arrangements. As a result of paying off the leasehold obligations during the first quarter of 2018, the bonds pledged as collateral related to this debt were released in April 2018. Lease payments totaled \$- and \$125,494 for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, lease payments totaled \$70,051 and \$376,485, respectively. The outstanding lease obligation was \$0 and \$805,013 at September 30, 2018 and December 31, 2017, respectively.

### Debt Obligation

ICC Holdings, Inc. secured a loan with American Bank & Trust in March 2017 in the amount of \$3,500,000 and used the proceeds to repay ICC for the money borrowed by the ESOP. The term of the loan is five years bearing interest at 3.65%. The Company pledged stock and \$1.5 million of trust assets as collateral for the loan. Additionally, the Company entered into two debt agreements in 2016 with Bofi Federal Bank; one agreement for \$500,000 and another debt agreement for \$75,000. The terms of the loans were 36 months, but the Company had the option to prepay the \$500,000 loan after 12 months. The Company paid off the remaining balance of the \$500,000 loan in September 2017. The \$75,000 loan was paid off in March of 2018. The total balance of the debt agreements at September 30, 2018 and December 31, 2017 was \$3,487,017 and \$3,534,195, respectively.

### Revolving Line of Credit

We maintain a revolving line of credit with American Bank & Trust, which permits borrowing up to an aggregate principal amount of \$1.75 million. This facility was initially entered into during 2013 and is renewed annually with a current expiration of August 5, 2019. The line of credit is priced at 30 day LIBOR plus 2% with a floor of 3.5%. In order to secure the lowest rate possible, the Company pledged marketable securities not to exceed \$5.0 million in the event the Company draws down on the line of credit. There was no interest paid on the line of credit during the nine months ended September 30, 2018 and no interest paid on the line of credit during the nine months ended September 30, 2017. There are no financial covenants governing this agreement. Financial covenants governing this agreement.

## **ESOP**

In connection with the offering, the ESOP financed the purchase of 10.0% of the common stock issued in the offering for \$3,500,000 with the proceeds of a loan from ICC prior to the expiration of the offering. ICC will make annual contributions to the ESOP sufficient to repay that loan. See *Note 8 – Employee Benefits* of this Form 10-Q as well as the “Management — Benefit Plans and Employment Agreements — Employee Stock Ownership Plan” section of the Company's Annual Report on Form 10-K/A for the year ended December 31, 2017.

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### Stock-based Incentive Plan

Under the ICC Holdings, Inc. 2016 Equity Incentive Plan, we reserved for issuance a total of 490,000 shares of common stock. Of this amount, 350,000 shares of common stock may be granted in the form of restricted stock and stock-settled restricted stock unit awards, and 140,000 shares of common stock may be granted in the form of stock options under the stock-based incentive plan. The grant-date fair value of any common stock used for restricted stock and restricted stock unit awards will represent unearned compensation. As we accrue compensation expense to reflect the vesting of such shares, unearned compensation will be reduced accordingly. We compute compensation expense at the time stock options are awarded based on the fair value of such options on the date they are granted. This compensation expense is recognized over the appropriate service period. Restricted stock units (RSUs) were granted for the first time in February 2018. The RSUs vest 1/3 over three years from the date of grant. See *Note 8 – Employee Benefits* of this Form 10-Q as well as the “Management — Benefit Plans and Employment Agreements” section of the Company’s 2017 Annual Report on Form 10-K/A.

### Liquidity and Capital Resources

We generate sufficient funds from our operations and maintain a high degree of liquidity in our investment portfolio to meet the demands of claim settlements and operating expenses. The primary sources of funds are premium collections, investment earnings and maturing investments. The decrease in cash flows from financing activities during the nine months ended September 30, 2018 compared to the same period in 2017 relates to the 2017 initial public offering and changes in debt and shares outstanding which occurred during the first quarter of 2017.

We maintain investment and reinsurance programs that are intended to provide sufficient funds to meet our obligations without forced sales of investments. We maintain a portion of our investment portfolio in relatively short-term and highly liquid assets to ensure the availability of funds.

Cash flows from continuing operations for the nine months ended September 30, 2018 and 2017 were as follows:

<i>(In thousands)</i>	Nine Months Ended September 30,	
	2018	2017
Net cash provided by operating activities	\$ 3,308	\$ 623
Net cash used in investing activities	(3,630)	(27,794)
Net cash (used in) provided by financing activities	(3,852)	29,649
Net (decrease) increase in cash and cash equivalents	\$ (4,174)	\$ 2,478

ICC Holdings, Inc.’s principal source of liquidity will be dividend payments and other fees received from ICC its other subsidiaries. ICC is restricted by the insurance laws of Illinois as to the amount of dividends or other distributions it may pay to us. Under Illinois law, there is a maximum amount that may be paid by ICC during any twelve-month period. ICC may pay dividends to us after notice to, but without prior approval of the Illinois Department of Insurance in an amount “not to exceed” the greater of (i) 10% of the surplus as regards policyholders of ICC as reported on its most recent annual statement filed with the Illinois Department of Insurance, or (ii) the statutory net income of ICC for the period covered by such annual statement. Dividends in excess of this amount are considered “extraordinary” and are subject to the approval of the Illinois Department of Insurance.

The amount available for payment of dividends from ICC in 2018 without the prior approval of the Illinois Department of Insurance is approximately \$5.1 million based upon the insurance company’s 2017 annual statement. Prior to its payment of any dividend, ICC is required to provide notice of the dividend to the Illinois Department of Insurance. This notice must be provided to the Illinois Department of Insurance 30 days prior to the payment of an extraordinary dividend and 10 days prior to the payment of an ordinary dividend. The Illinois Department of Insurance has the power to limit or prohibit dividend payments if ICC is in violation of any law or regulation. These restrictions or any subsequently imposed restrictions may affect our future liquidity.

Additionally, our insurance company, ICC, became a member of the FHLBC in February 2018. Membership in the Federal Home Loan Bank System provides ICC access to an additional source of liquidity via a secured lending facility. Our membership allows each insurance subsidiary to determine tenor and structure at the time of borrowing. As of and during the nine-month period ended September 30, 2018, there were no outstanding borrowing amounts with the FHLBC.

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The following table summarizes, as of September 30, 2018, our future payments under contractual obligations and estimated claims and claims related payments for continuing operations.

<i>(In thousands)</i>	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Estimated gross loss and settlement expense payments	\$ 54,213	\$ 23,210	\$ 22,154	\$ 5,982	\$ 2,867
Debt obligations	3,937	35	277	3,625	—
Operating lease obligations	111	111	—	—	—
Total	<u>\$ 58,261</u>	<u>\$ 23,356</u>	<u>\$ 22,431</u>	<u>\$ 9,607</u>	<u>\$ 2,867</u>

The timing of the amounts of the gross loss and loss adjustment expense payments is an estimate based on historical experience and the expectations of future payment patterns. However, the timing of these payments may vary from the amounts stated above.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital reserves.

### **Item 3. Quantitative and Qualitative Information about Market Risk**

#### *Market Risk*

Market risk is the risk that we will incur losses due to adverse changes in the fair value of financial instruments. We have exposure to three principal types of market risk through our investment activities: interest rate risk, credit risk and equity risk. Our primary market risk exposure is to changes in interest rates. We have not entered, and do not plan to enter, into any derivative financial instruments for hedging, trading or speculative purposes.

#### *Interest Rate Risk*

Interest rate risk is the risk that we will incur economic losses due to adverse changes in interest rates. Our exposure to interest rate changes primarily results from our significant holdings of fixed rate investments. Fluctuations in interest rates have a direct impact on the fair value of these securities.

The average maturity of the debt securities in our investment portfolio at June 30, 2018, was 6.79 years. Our debt securities investments include U.S. government bonds, securities issued by government agencies, obligations of state and local governments and governmental authorities, and corporate bonds, most of which are exposed to changes in prevailing interest rates and which may experience moderate fluctuations in fair value resulting from changes in interest rates. We carry these investments as available for sale. This allows us to manage our exposure to risks associated with interest rate fluctuations through active review of our investment portfolio by our management and board of directors and consultation with our third party investment manager.

Fluctuations in near-term interest rates could have an impact on our results of operations and cash flows. Certain of these securities may have call features. In a declining interest rate environment these securities may be called by their issuer and replaced with securities bearing lower interest rates. If we are required to sell these securities in a rising interest rate environment we may recognize losses.

As a general matter, we attempt to match the durations of our assets with the durations of our liabilities. Our investment objectives include maintaining adequate liquidity to meet our operational needs, optimizing our after-tax investment income, and our after-tax total return, all of which are subject to our tolerance for risk.

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The table below shows the interest rate sensitivity of our fixed maturity investments measured in terms of fair value (which is equal to the carrying value for all of our investment securities that are subject to interest rate changes):

<b>Hypothetical Change in Interest Rates (In thousands)</b>	<b>September 30, 2018</b>	
	<b>Estimated Change in Fair Value</b>	<b>Fair Value</b>
200 basis point increase	\$ (7,112)	\$ 81,788
100 basis point increase	(3,636)	85,264
No change	—	88,900
100 basis point decrease	3,672	92,572
200 basis point decrease	7,174	96,074

### *Credit Risk*

Credit risk is the potential economic loss principally arising from adverse changes in the financial condition of a specific debt issuer. We address this risk by investing primarily in fixed maturity securities that are rated investment grade and at least 70% of our investment securities must be rated at least “A” by Moody’s or an equivalent rating quality. We also independently, and through our independent third party investment manager, monitor the financial condition of all of the issuers of fixed maturity securities in the portfolio. To limit our exposure to risk, we employ diversification rules that limit the credit exposure to any single issuer or asset class.

### *Equity Risk*

Equity price risk is the risk that we will incur economic losses due to adverse changes in equity prices.

### **Impact of Inflation**

Inflation increases our customers’ needs for property and casualty insurance coverage due to the increase in the value of the property covered and any potential liability exposure. Inflation also increases claims incurred by property and casualty insurers as property repairs, replacements and medical expenses increase. These cost increases reduce profit margins to the extent that rate increases are not implemented on an adequate and timely basis. We establish property and casualty insurance premiums levels before the amount of loss and loss expenses, or the extent to which inflation may impact these expenses, are known. Therefore, we attempt to anticipate the potential impact of inflation when establishing rates. Because inflation has remained relatively low in recent years, financial results have not been significantly affected by it.

### **Item 4. Controls and Procedures**

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. As described in “*Item 1A. Risk Factors. - Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and operating results.*” in the Quarterly Report on Form 10-Q/A for the period ended June 30, 2018, if the Company’s remediation efforts do not prove effective and control deficiencies and material weaknesses persist or occur in the future, the accuracy and timing of our financial reporting may be adversely affected.

### **Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that are designed to ensure that required information is recorded, processed, summarized and reported within the required timeframe as specified in the SEC’s rules and forms of the SEC. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed is accumulated and communicated to the Company’s management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q, we carried out an evaluation under the supervision of and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, as of September 30, 2018, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as of September 30,

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2018, our disclosure controls and procedures were not effective because of the material weakness in the internal control described in this Quarterly Report on Form 10-Q for the period ended September 30, 2018.

During the quarter ended September 30, 2018, we identified and assessed a material weakness relating to the accuracy of estimated contingent commissions as a result of a key report used in our estimation process having incomplete data. The material weakness related to controls in two areas: (1) reviewing the source data for contingent commission for completeness; and (2) monitoring information technology general controls (ITGC) as they relate to event logging and timely reporting of events including changes to business data.

As described in this Quarterly Report on Form 10-Q for the period ended September 30, 2018, we are developing a remediation plan and are in the process of designing and implementing new internal controls in an effort to remediate the material weakness described below. Given the fact that these new internal controls have not been fully implemented we concluded that the material weakness was not remediated as of September 30, 2018.

In light of the material weakness in internal control over financial reporting, we engaged significant resources to perform supplemental procedures prior to filing this Quarterly Report on Form 10-Q. These additional procedures allow us to conclude that, notwithstanding the material weakness in our internal control over financial reporting, the consolidated financial statements included in this report fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

### **Remediation**

We are committed to remediating the material weakness in a timely manner. We have begun to implement and monitor the following actions to accumulate adequate evidence over a reasonable period of time to determine that new or modified processes, procedures, controls and oversight relating to such controls are operating effectively:

- key components of the contingent commission calculation are cross-checked to other financial reports to verify completeness of the data;
- the estimated contingent commissions are also manually recalculated on a test basis to verify the calculations used in the source reports are accurate;
- an automated alert has been tested and implemented to bring attention to job runs that have failed to fully populate source tables; and
- an automated reasonability check has been implemented to compare actual data volume to expected data volume upon a job run's completion.

We are expecting to implement other compensating ITGC controls to add an additional level of monitoring related to database and report changes that impact financial reporting procedures.

### ***Changes in Internal Control over Financial Reporting***

Except for the Company's identification, assessment and development of a remediation plan of the material weakness described above, there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) identified during the third quarter of 2018 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**

There were no material changes to report.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017 and Part II, Item 1A. Risk Factors in our Quarterly Report on Form 10-Q/A for the period ended June 30, 2018, which could materially affect our business, financial condition or future results.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

The following table summarizes repurchases of common stock pursuant to share repurchase programs authorized by the Board of Directors.

**Purchases of Equity Securities**

<b>Period</b>	<b>(a) Total number of shares (or units) purchased</b>	<b>(b) Average price paid per share (or unit)</b>	<b>(c) Total number of shares (or units) purchased as part of publicly announced plans or programs</b>	<b>(d) Maximum number (or approximate dollar value) of shares (or units) that may be purchased under the plans or programs (1) (2)</b>
July 1 – July 30, 2018	—	\$ —	—	\$ 3,000,000
August 1 – August 31, 2018	—	—	—	\$ 6,000,000
September 1 – September 30, 2018	196,721	15.25	196,721	\$ 3,000,005
Total	196,721	\$ 15.25	196,721	

- (1) In September 2017, the Company announced the establishment of a \$3.0 million share repurchase program, with no expiration date.
- (2) In August 2018, the Company announced the establishment of a \$3.0 million share repurchase program, with no expiration date. The authorization is in addition to the existing share repurchase program.

**Item 3. Default Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

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### Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
3.1	<u>Form of Amended and Restated Articles of Incorporation of ICC Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-214081) filed on December 23, 2016)</u>
3.2	<u>Form of Amended and Restated Bylaws of ICC Holdings, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-214081) filed on December 23, 2016)</u>
10.1	<u>Stock Purchase Agreement, dated August 31, 2018, by and between ICC Holdings, Inc. and certain entities and individuals identified on Annex A thereto (incorporated by reference to Exhibit 3 to Amendment No. 1 to the Schedule 13D/A (File No. 000-1701992) filed by R. Kevin Clinton on September 12, 2018).</u>
31.1	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

**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, on November 14, 2018.

ICC HOLDINGS, INC.

By: /s/ Arron K. Sutherland  
Arron K. Sutherland  
President, Chief Executive Officer and Director  
(Principal Executive Officer)

By: /s/ Michael R. Smith  
Michael R. Smith  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## CHIEF EXECUTIVE OFFICER'S 302 CERTIFICATION

I, Arron K. Sutherland, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ICC Holdings, Inc.;
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: November 14, 2018

/s/ Arron K. Sutherland

Arron K. Sutherland

*Chief Executive Officer*

(principal executive officer)

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## CHIEF FINANCIAL OFFICER'S 302 CERTIFICATION

I, Michael R. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ICC Holdings, Inc.;
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: November 14, 2018

/s/ Michael R. Smith

Michael R. Smith

*Chief Financial Officer*

(principal financial officer)

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**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 ICC Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arron K. Sutherland, 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: November 14, 2018

/s/Arron K. Sutherland

Arron K. Sutherland

*Chief Executive Officer*

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**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 ICC Holdings, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael R. Smith, 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: November 14, 2018

/s/ Michael R. Smith

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Michael R. Smith

*Chief Financial Officer*

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