SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2001

or

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

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Georgia *(State or other jurisdiction of incorporation or organization)*	**58-1027114** *(I.R.S. employer identification no.)*
4370 Peachtree Road, N.E., Atlanta, Georgia *(Address of principal executive offices)*	**30319** *(Zip code)*

(Registrant's telephone number, including area code):

(404) 266-5500

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $1.00 par value

(Title of class)

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this 10-K or any amendment to this Form 10-K. ☑

The aggregate market value of common stock held by non-affiliates of the registrant as of March 19, 2002, was $13,000,421. On March 19, 2002 there were 21,258,595 shares of the registrant's common stock, par value $1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders, to be held on May 7, 2002, have been incorporated by reference in Items 10, 11, 12 and 13 of Part III of this Form 10-K.

TABLE OF CONTENTS

- PART I
  - Item 1. Business
    - The Company
    - Casualty Operations
    - Bankers Fidelity
    - Marketing
    - Underwriting
    - Policyholder and Claims Services
    - Reserves
    - Reinsurance
    - Competition
    - Rating
    - Regulation
    - NAIC Ratios
    - Risk-Based Capital
    - Investments
    - Employees
    - Financial Information By Industry Segment
    - Executive Officers of the Registrant
    - Forward-Looking Statements
  - Item 2. Properties
  - Item 3. Legal Proceedings
  - Item 4. Submission of Matters to a Vote of Security Holders
- PART II
- Item 5. Market for the Registrant’s Common Equity and Related Shareholder Matters
- Item 6. Selected Financial Data
- Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Overall Corporate Results
- Item 7A. Quantitative and Qualitative Disclosures About Market Risk
  - Item 8. Financial Statements and Supplementary Data
- PART III
- PART IV
- SIGNATURES
- RESTATED AND AMENDED ARTICLES OF INCORPORATION
- THIRD AMENDMENT TO CREDIT AGREEMENT
- SUBSIDIARIES OF THE REGISTRANT
- CONSENT OF ARTHUR ANDERSEN LLP
- LETTER RE: REPRESENTATION OF ARTHUR ANDERSEN LLP

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	2
	The Company	2
	Casualty Operations	2
	Bankers Fidelity	4
	Marketing	5
	Underwriting	6
	Policyholder and Claims Services	7
	Reserves	8
	Reinsurance	11
	Competition	12
	Rating	12
	Regulation	13
	NAIC Ratios	14
	Risk-Based Capital	14
	Investments	15
	Employees	16
	Financial Information by Industry Segment	16
	Executive Officers of the Registrant	16
	Forward-Looking Statements	16
Item 2.	Properties	17
Item 3.	Legal Proceedings	17
Item 4.	Submission of Matters to a Vote of Security Holders	18
	PART II	
Item 5.	Market for the Registrant’s Common Equity and Related Shareholder Matters	18
Item 6.	Selected Financial Data	19
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	31
Item 8.	Financial Statements and Supplementary Data	33
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	59
	PART III	
Item 10.	Directors and Executive Officers of the Registrant	59
Item 11.	Executive Compensation	59
Item 12.	Security Ownership of Certain Beneficial Owners and Management	59
Item 13.	Certain Relationships and Related Transactions	59
	PART IV	
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K	59

PART I

Item 1. *Business*

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the “Parent” or “Company”), is a holding company that operates through its subsidiaries in well-defined specialty markets of the life, health, property and casualty insurance industries. Atlantic American’s principal subsidiaries are American Southern Insurance Company and American Safety Insurance Company (collectively known as “American Southern”), Association Casualty Insurance Company (“ACIC”), Georgia Casualty & Surety Company, (“Georgia Casualty”) and Bankers Fidelity Life Insurance Company (“Bankers Fidelity”).

On July 1, 1999 the Company, for an aggregate price of $33.0 million, acquired 100% of the outstanding stock of Association Casualty Insurance Company (“ACIC”) and its affiliated agency, Association Risk Management General Agency, Inc (“ARMGA”), both of which are domiciled in Texas. The acquisition of both companies was accounted for using the purchase method of accounting. Together ACIC and ARMGA are referred to as Association Casualty.

The Company’s strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance market place. The underwriting function of each of the Company’s subsidiaries operates with relative autonomy, which allows for quick reaction to market opportunities. In addition, the Company seeks to develop and expand cross-selling opportunities and other synergies among its subsidiaries as they arise.

Casualty Operations

The Company’s casualty operations are composed of three distinct entities, American Southern, Association Casualty and Georgia Casualty. The primary products offered by the casualty group are described below, followed by an overview of each company.

Workers’ Compensation Insurance policies provide indemnity and medical benefits to insured workers for injuries sustained in the course of their employment.

Business Automobile Insurance policies provide for bodily injury and/or property damage liability coverage, uninsured motorists coverage, and physical damage coverage to commercial accounts.

General Liability Insurance policies cover bodily injury and property damage liability for both premises and completed operations exposures for general classes of business.

Property Insurance policies provide for payment of losses on real and personal property caused by fire and other multiple perils.

Personal Automobile Insurance policies provide for bodily injury and property damage liability coverage, uninsured motorists coverage, and physical damage coverage for individuals.

American Southern. American Southern provides tailored fleet automobile and long-haul physical damage insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets (“block accounts”) that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are such that individual class experience generally can be determined, which allows for customized policy terms and rates. American Southern produces business in 18 of the 24 states in the Southeast and Midwest in which it is authorized to conduct business. Additionally, American Southern provides personal automobile insurance to the members of the Carolina Motor Club, an AAA affiliate. While the majority of American Southern’s premiums are derived from auto liability and auto physical damage, American Southern also provides property, general liability and surety coverage.

The following table summarizes, for the periods indicated, the allocation of American Southern's net earned premiums for each of its principal product lines:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
			(In thousands)		
Automobile Liability	$23,677	$22,795	$24,573	$23,396	$30,909
Automobile Physical Damage	8,732	7,397	6,112	4,288	4,508
General Liability	3,161	3,536	4,302	4,291	3,116
Property	3,386	3,383	3,118	2,970	3,206
Surety	67	61	61	57	60
Total	$39,023	$37,172	$38,166	$35,002	$41,799

Georgia Casualty. Georgia Casualty is a property-casualty insurance company providing workers' compensation, property, general liability, automobile, umbrella, inland marine and mechanical breakdown coverage to businesses throughout the Southeastern United States.

Georgia Casualty's primary marketing focus is toward small to middle market accounts with low to moderate hazard grades, ranging from $15,000 to $250,000 in written premium. In addition to the wide range of commercial products available, Georgia Casualty offers customized products for nine classes of business, including, but not limited to, light manufacturing, restaurants, golf clubs and artisan contractors. These products, along with innovative risk management services and exceptional claims handling, are offered through an exclusive network of independent agents.

Georgia Casualty is licensed to do business in thirteen states. Its principal marketing territories include Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina and Tennessee.

The following table summarizes, for the periods indicated, the allocation of Georgia Casualty's net earned premiums for each of its principal product lines:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
			(In thousands)		
Workers' Compensation	$10,744	$16,741	$13,157	$14,344	$12,841
Business Automobile	5,412	4,918	2,876	3,750	4,031
General Liability	2,610	2,531	1,251	1,619	1,387
Property	6,813	4,386	2,119	2,100	1,657
Total	$25,579	$28,576	$19,403	$21,813	$19,916

Association Casualty. Association Casualty is a property-casualty insurance company that has historically specialized in workers' compensation insurance in the state of Texas. During 2000, Association Casualty began offering general liability, property, automobile, and other commercial coverages to complement its existing book of business and continued these efforts in 2001.

Association Casualty is licensed to do business in eight states. Currently, its principal marketing territory is Texas.

Association Casualty had net earned premiums of $25.7 million, of which 88.6% was workers' compensation business during 2001 compared to 94.7% during the same period for 2000.

The following table summarizes, for the periods indicated, the allocation of Association Casualty's net earned premiums for each of its principal product lines since its acquisition by the Company.

	Year Ended December 31,		
	2001	2000	1999(1)
		(In thousands)	
Workers' Compensation	$22,784	$19,051	$8,158
Business Automobile	671	64	—
General Liability	117	5	—
Property	1,001	81	—
Group Accident and Health	1,138	909	340
Total	$25,711	$20,110	$8,498

(1) Includes results for the period July 1, 1999 through December 31, 1999.

Bankers Fidelity

Bankers Fidelity, which constitutes the life and health operations of the Company, offers a variety of life and supplemental health products with a focus on the senior markets. Products offered by Bankers Fidelity include: ordinary life, Medicare supplement, cancer, and other supplemental health insurance products. Health business, primarily Medicare supplement, accounted for 74.5% of Bankers Fidelity's net premiums in 2001. Life insurance, including both whole and term life insurance policies, accounted for 25.5% of Bankers Fidelity's premiums in 2001. In terms of the number of policies written in 2001, 48% were life policies and 52% were health policies.

The following table summarizes, for the periods indicated, the allocation of Bankers Fidelity's net premiums earned for each of its principal product lines followed by a brief description of the principal products:

	Year Ended December 31,				
	2001	2000	1999	1998	1997
			(In thousands)		
Life Insurance	$14,096	$13,445	$12,499	$11,748	$10,453
Medicare Supplement	38,268	31,295	25,822	19,743	12,534
Cancer, Accident and Other Health	2,912	2,899	3,206	2,986	3,980
Total Accident and Health	41,180	34,194	29,028	22,729	16,514
Total Life and Accident and Health	$55,276	$47,639	$41,527	$34,477	$26,967

Life Products. Bankers Fidelity offers non-participating individual term and whole life insurance policies with a variety of riders and options.

Medicare Supplement. Bankers Fidelity currently markets 7 of the 10 standardized Medicare supplement policies created under the Omnibus Budget Reconciliation Act of 1990 ("OBRA 1990"), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

Cancer, Accident & Other Health Coverages. Bankers Fidelity offers several policies providing for payment of benefits in connection with the treatment of diagnosed cancer, as well as a number of other policies including convalescent care, accident expense, hospital/surgical and disability.

Marketing

Casualty Operations

American Southern. American Southern's business is marketed through a small number of specialized, experienced independent agents. Most of American Southern's agents are paid a moderate up-front commission with the potential for additional commission by participating in a profit sharing arrangement that is directly linked to the profitability of the business generated. In addition, a significant portion (approximately 40.3% of total written premium in 2001) of American Southern's premiums are assumed from third parties. In arrangements similar to those with its agents, the premium assumed from some of these parties is adjusted based upon the profitability of the assumed business. During 1998, American Southern formed American Auto Club Insurance Agency, LLC in a 50/50 joint venture with the AAA of the Carolinas motor club to market personal automobile insurance to the members of the automobile club. The program, which began writing business in 1999, had gross written premiums of approximately $6.1 million during 2001.

Association Casualty. Association Casualty is represented by a field force of approximately 110 independent agents for the sale and distribution of its insurance products. Each agency is a party to a standard agency contract that sets forth the commission structure and other terms and can be terminated by either party. Association Casualty also offers a contingent profit sharing arrangement that allows the most profitable agents to earn additional commissions when specific loss experience and premium growth goals are achieved. Marketing efforts are handled by an experienced staff of insurance professionals.

Georgia Casualty. Georgia Casualty is represented by a field force of approximately 75 independent agents for the sale and distribution of its insurance products. Each agency is a party to a standard agency contract that sets forth the commission structure and other terms and can be terminated by either party upon thirty days written notice. Georgia Casualty also offers a contingent profit-sharing arrangement that allows the most profitable agents to earn additional commissions when specific loss experience and premium growth goals are achieved. Marketing efforts, directed by experienced marketing professionals, are complemented by the underwriting, risk management, and audit staffs of Georgia Casualty, who are available to assist agents in the presentation of all insurance products and services to their insureds.

Bankers Fidelity

Bankers Fidelity markets its policies through commissioned, independent agents. In general, Bankers Fidelity enters contractual arrangements with general agents who, in turn, contract with independent agents. The standard agreements set forth the commission arrangements and are terminable by either party upon thirty days written notice. General agents receive an override commission on sales made by agents contracted by them. Management believes utilizing direct writing, experienced agents, as well as independent general agents who recruit and train their own agents, is cost effective. All independent agents are compensated on a pure commission basis. Using independent agents also enables Bankers Fidelity to expand or contract their sales forces at any time without incurring significant additional expense.

Bankers Fidelity has implemented a selective agent qualification process and had 2,533 licensed agents in 2001. The agents concentrate their sales activities in either the accident and health or life insurance product lines. During 2001, a total of 1,314 agents wrote policies on behalf of Bankers Fidelity.

Products of Bankers Fidelity compete directly with products offered by other insurance companies, as agents may represent several insurance companies. Bankers Fidelity, in an effort to motivate agents to market their products, offers the following agency services: a unique lead system, competitive products and commission structures, efficient claims service, prompt payment of commissions, simplified policy issue procedures, periodic sales incentive programs and, in some cases, protected sales territories consisting of counties and/or zip codes.

The company utilizes a distribution sales system which is centered around a lead generation plan that rewards qualified agents with leads in accordance with monthly production goals. In addition, a protected territory is established for each qualified agent, which entitles them to all leads produced within that territory. The territories are zip code or county based and encompass enough physical territory to produce a minimum senior population of 12,000. In addition, Bankers Fidelity recruits at a general agent level rather than at a managing general agent level in an effort to reduce commission expenses further.

The Company believes this distribution system solves an agent's most important dilemma — prospecting — and allows Bankers Fidelity to build long-term relationships with individual producers who view Bankers Fidelity as their primary company. In addition, management believes that Bankers Fidelity's product line is less sensitive to competitor pricing and commissions because of the perceived value of the protected territory and the lead generation plan. Through the implementation of this distribution channel, production per agent contracted increased substantially when compared to Bankers Fidelity's general brokerage division.

Underwriting

Casualty Operations

American Southern specializes in the handling of block accounts such as states and municipalities that generally are sufficiently large to establish separate class experience, relying upon the underwriting expertise of its agents. In contrast, Georgia Casualty and Association Casualty underwrite the majority of their accounts in-house.

During the course of the policy year, extensive use is made of risk management representatives to assist underwriters in identifying and correcting potential loss exposures and to pre-inspect the majority of the new accounts that are underwritten. The results of each product line are reviewed on a stand-alone basis. When the results are below expectations, management takes appropriate corrective action which may include raising rates, reviewing underwriting standards, reducing commissions paid to agents, altering or declining to renew accounts at expiration, and/or terminating agencies with an unprofitable book of business.

American Southern also acts as a reinsurer with respect to all of the risks associated with certain automobile policies issued by state administrative agencies, naming the state and various local governmental entities as insureds. Premiums written from such policies constituted $20.4 million of American Southern's gross premiums written in 2001. For 2001, premiums assumed of $20.4 million, include a single state contract of $14.1 million. These contracts are periodically subject to competitive renewal quotes and the loss of a significant contract could have a material adverse effect on the business or financial condition of the Company. (See Note 9 of Notes to Consolidated Financial Statements.)

Bankers Fidelity

Bankers Fidelity issues a variety of products for both health and life, which includes Medicare Supplement and mainly senior life products typically with small face amounts of not less than $1,000 and up. The majority of its products are 'Yes' or 'No' applications which are underwritten on a non-medical basis. Bankers Fidelity offers products to all age groups, but primarily to the senior market. For life products other than the senior market, the company may require medical information such as medical examinations subject to age and face amount based on published guidelines. For example, such medical information is ordered for all applicants regardless of age and face amounts of $50,000 and above. For face amounts of $5,000 to $49,999 medical information is ordered only for ages 51 and above. Approximately, 95% of the net premiums earned for both health and life insurance sold during 2001 were derived from insurance written below Bankers Fidelity's medical limits. For the senior market, Bankers Fidelity issues products primarily on an accept-or-reject basis with face amounts up to $30,000 for ages 45-70, $20,000 for ages 71-80 and $10,000 for ages 81-85. Banker's Fidelity retains a maximum amount of $50,000 with respect to any individual life (see "Reinsurance").

Applications for insurance are reviewed to determine the face amount, age, and medical history. Depending upon this information and information obtained from the Medical Information Bureau (M.I.B.) report, paramedical requirements, medical records, and, where indicated, special tests are ordered. If deemed necessary, Bankers Fidelity may use investigative services to supplement and substantiate information. For certain limited coverages, Bankers Fidelity has adopted simplified policy issue procedures by which an application containing a variety of Yes/No health related questions is submitted. For these plans, a M.I.B. report is always ordered, however, paramedical requirements and medical records are not ordered in most cases. Presently, approximately 10-15% of all applications for individuals under age 80 are verified by telephone interview with the client. For ages 80 and above, 100% of applications are verified by telephone interview.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see “Competition”). Additionally, the Company believes that its insureds are particularly sensitive to claim processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company’s policyholder and claims services include expeditious disposition of service requests by providing toll-free access to all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes a state-of-the-art automatic call distribution system to insure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

The Company supports a Customer Awareness Program as the basis for its customer service philosophy. All personnel are required to attend customer service classes. Hours have been expanded in all service areas to serve customers and agents in all time zones.

Casualty Operations

American Southern, Association Casualty, and Georgia Casualty control their claims costs by utilizing an in-house staff of claim supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, the claims department conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, records the claim. The casualty companies frequently utilize independent adjusters and appraisers to service claims which require on-site inspections.

Bankers Fidelity

Insureds obtain claim forms by calling the claims department customer service group. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. With respect to life policies, the claim is entered into Bankers Fidelity’s claims system when the proper documentation is received. Properly documented claims are generally paid within three to nine business days of receipt.

Reserves

The following table sets forth information concerning the Company's reserves for losses and claims and reserves for loss adjustment expenses ("LAE") for the periods indicated:

	(In thousands)		
	2001	2000	1999
Balance at January 1	$133,220	$126,556	$ 86,768
Less: Reinsurance recoverables	(38,851)	(38,759)	(22,625)
Net balance at January 1	94,369	87,797	64,143
Incurred related to:			
Current year	108,068	102,336	79,328
Prior years	(2,415)	(6,085)	(2,427)
Total incurred	105,653	96,251	76,901
Paid related to:			
Current year	59,506	54,313	44,623
Prior years	44,730	35,366	28,558
Total paid	104,236	89,679	73,181
Reserves acquired due to acquisition	—	—	19,934
Net balance at December 31	95,786	94,369	87,797
Plus: Reinsurance recoverables	47,729	38,851	38,759
Balance at December 31	$143,515	$133,220	$126,556

Casualty Operations

Atlantic American's casualty operations maintain loss reserves representing estimates of amounts necessary for payment of losses and LAE. The casualty operations also maintain incurred but not reported reserves and bulk reserves for future development. These loss reserves are estimates, based on known facts and circumstances at a given point in time, of amounts the insurer expects to pay on incurred claims. All balances are reviewed annually by qualified independent actuaries and quarterly by in-house actuaries. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis of cost trends and reviews of historical reserve results.

The casualty operations establish reserves for claims based upon: (a) management's estimate of ultimate liability and claim adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of incurred but not reported claims based on past experience, and (c) estimates of LAE. The estimated liability is continually reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the year in which such changes become known.

The table on the following page sets forth the development of balance sheet reserves for unpaid losses and LAE for the casualty operations' insurance lines for 1991 through 2001, including periods prior to the Company's ownership of American Southern and Association Casualty. The top line of the table represents the estimated amount of losses and LAE for claims arising in all prior years that were unpaid at the balance sheet date for each of the indicated periods, including an estimate of losses that have been incurred but not yet reported. The amounts represent initial reserve estimates at the respective balance sheet dates for the current and all prior years. The next portion of the table shows the cumulative amounts paid with respect to claims in each succeeding year. The lower portion of the table shows the reestimated amounts of previously recorded reserves based on experience as of the end of each succeeding year.

The reserve estimates are modified as more information becomes known about the frequency and severity of claims for individual years. The “cumulative redundancy or deficiency” for each year represents the aggregate change in such year’s estimates through the end of 2001. In evaluating this information, it should be noted that the amount of the redundancy or deficiency for any year represents the cumulative amount of the changes from initial reserve estimates for such year. Operations for any one year are only affected, favorably or unfavorably, by the amount of the change in the estimate for such year. Conditions and trends that have affected development of the reserves in the past may not necessarily occur in the future. Accordingly, it is inappropriate to predict future redundancies or deficiencies based on the data in this table.

Table of Contents

	Year Ended December 31,										
	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
	(in thousands)										
Statutory reserve for losses and LAE	$88,709	$88,247	$82,867	$78,320	$78,444	$74,115	$70,470	$65,970	$64,211	$59,720	$59,354
Cumulative paid as of:											
One year later		37,970	30,278	26,454	24,247	25,445	29,538	18,133	24,247	22,478	24,964
Two years later			46,489	40,491	35,534	34,409	39,084	34,485	30,754	34,055	36,123
Three years later				49,341	42,513	39,579	43,597	39,091	42,480	36,757	42,980
Four years later					47,412	43,171	46,334	40,885	45,530	46,676	44,153
Five years later						45,393	48,555	42,551	46,805	49,082	53,079
Six years later							49,958	44,244	48,012	50,206	55,146
Seven years later								45,412	49,419	51,244	56,069
Eight years later									50,399	52,483	57,014
Nine years later										53,418	58,136
Ten years later											59,011
Ultimate losses and LAE											
Reestimated as of:											
End of Year	$88,709	88,247	82,867	78,320	78,444	74,115	70,470	65,970	64,211	59,720	59,354
One year later		85,694	77,347	74,985	68,338	67,772	70,778	56,945	61,054	58,371	61,705
Two years later			74,370	71,453	65,374	60,257	65,716	59,266	54,329	56,072	60,324
Three years later				70,278	63,674	58,693	61,121	57,047	60,145	50,916	59,397
Four years later					62,764	58,442	61,085	53,995	60,381	60,701	55,503
Five years later						57,800	61,030	54,732	58,217	61,685	65,761
Six years later							60,709	55,339	59,280	60,606	66,822
Seven years later								55,317	60,027	61,796	65,696
Eight years later									60,074	62,845	66,604
Nine years later										62,971	67,974
Ten years later											68,289
Cumulative redundancy (deficiency)		$ 2,553	$ 8,497	$ 8,042	$15,680	$16,315	$ 9,761	$10,653	$ 4,137	$ (3,251)	$ (8,935)
		2.9%	10.3%	10.3%	20.0%	22.0%	13.9%	16.1%	6.4%	-5.4%	-15.1%

Bankers Fidelity

Bankers Fidelity establishes future policy benefits reserves to meet future obligations under outstanding policies. These reserves are calculated to satisfy policy and contract obligations as they mature. The amount of reserves for insurance policies is calculated using assumptions for interest rates, mortality and morbidity rates, expenses, and withdrawals. Reserves are adjusted periodically based on published actuarial tables with some modification to reflect actual experience (see Note 3 of Notes to Consolidated Financial Statements).

Reinsurance

The insurance subsidiaries purchase reinsurance from unaffiliated insurers and reinsurers to reduce their liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or “cedes,” a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of policies written by it, and the ceding company incurs a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Casualty Operations

American Southern. The limits of risks retained by American Southern vary by type of policy and insured, and amounts in excess of such limits are reinsured. The largest net amount insured in any one risk is $100,000. Reinsurance is generally maintained as follows: for fire, inland marine, and commercial automobile physical damage, recovery of losses over $40,000 up to $90,000. Net retentions for third party losses are generally over $35,000 up to $100,000. Catastrophe coverage for all lines except third party liability is for 95% of $6.6 million over $400,000.

Association Casualty. Association Casualty retains a maximum amount of $250,000 per occurrence on workers’ compensation up to $20.0 million. Limits per occurrence within the treaties are as follows: Automobile and general liability — $2.0 million excess $150,000 retention; Property — $3.0 million excess $100,000 retention. The property lines of coverage are protected with an excess of loss treaty which affords recovery for property losses in excess of $3.0 million up to a maximum of $5.0 million.

Georgia Casualty. Georgia Casualty’s basic treaties cover all claims in excess of $200,000 per occurrence. Limits per occurrence within the treaties and excess of the retention are as follows: Workers’ compensation statutory limits; Property per location — $10.0 million; Excess of policy and extra contractual obligations — $10.0 million; Liability — $6.0 million; Surety — $3.0 million; and Auto liability — $1.0 million. Georgia Casualty maintains a property catastrophe treaty with a $7.15 million limit excess of a $350,000 retention. In 2001, Georgia Casualty entered into a quota share reinsurance program to cover 40% of the first $200,000 of occurrence losses and the first $350,000 of catastrophe losses on policies written after January 1, 2001.

Bankers Fidelity

Bankers Fidelity has entered into reinsurance contracts ceding the excess of their retention to several primary reinsurers. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is $50,000. At December 31, 2001, Bankers Fidelity’s reinsured annualized premiums totaled $29.9 million of the $305.9 million of life insurance then in force, generally under yearly renewable term agreements. Certain reinsurance agreements that are no longer active for new business remain in force.

Competition

Casualty Operations

American Southern. The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies which have been in business longer than American Southern have available more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states where American Southern operates.

Association Casualty. As a writer of workers' compensation insurance, Association Casualty's biggest competition comes from carriers that can provide insureds with all of their commercial insurance needs. In addition, the State of Texas operates a state workers' compensation fund that competes directly with the carriers in the state. Association Casualty counters these competitive issues by offering high quality service. Additionally, Association Casualty began writing additional commercial coverages in 2000 in an effort to make itself more competitive and has continued to diversify its book of business in 2001.

Georgia Casualty. Georgia Casualty's insurance business is highly competitive. The competition can be placed in four categories: (1) companies with higher A.M. Best ratings, (2) alternative workers' compensation markets, (3) self-insured funds, and (4) insurance companies that actively solicit monoline workers' compensation accounts. Georgia Casualty's efforts are directed in the following three general categories where the company has the best opportunity to control exposures and claims: (1) manufacturing, (2) artisan contractors, and (3) service industries. Management believes that Georgia Casualty's keys to being competitive in these areas are maintaining strong underwriting standards, risk management programs, writing workers' compensation coverages as part of the total insurance package, maintaining and expanding its loyal network of agents and development of new agents in key territories. In addition, Georgia Casualty offers quality customer service to its agents and insureds, and provides rehabilitation, medical management, and claims management services to its insureds. Georgia Casualty believes that it will continue to be competitive in the marketplace based on its current strategies and services.

Bankers Fidelity

The life and health insurance business is highly competitive and includes a large number of insurance companies, many of which have substantially greater financial resources. Bankers Fidelity believes that the primary competitors are the Blue Cross/ Blue Shield companies, AARP, the Prudential Insurance Company of America, Conseco, American Travellers, Kanawha Life, American Heritage, Bankers Life and Casualty Company, United American Insurance Corporation, and Standard Life of Oklahoma. Bankers Fidelity competes with other insurers on the basis of premium rates, policy benefits, and service to policyholders. Bankers Fidelity also competes with other insurers to attract and retain the allegiance of its independent agents through commission arrangements, accessibility and marketing assistance, lead programs, reputation, and market expertise. Bankers Fidelity believes that it competes effectively on the basis of policy benefits, services, and market expertise.

Rating

The following ratings are not designed for investors and do not constitute recommendations to buy, sell, or hold any security. Ratings are important in the insurance industry, and improved ratings should have a favorable impact on the ability of the companies to compete in the marketplace.

In 1999, for the first time, Atlantic American Corporation and its subsidiaries underwent a rating and review process by Standard & Poor's. As a result of the review, each of the Company's insurance subsidiaries was assigned a single "A-" counterparty credit and financial strength rating. This rating was affirmed in 2000 and now includes Association Casualty.

On November 1, 2000 these ratings were placed on CreditWatch with negative implications. On March 14, 2001, Standard & Poor's removed the Company from CreditWatch and lowered its counterparty credit rating and financial strength rating to “BBB+”/ Neg and “BBB+”, respectively from a single “A-”. Currently, these ratings remain unchanged.

Each year A.M. Best Company, Inc. publishes Best’s Insurance Reports (“Best’s”), which include assessments and ratings of all insurance companies. Best’s ratings, which may be revised quarterly, fall into fifteen categories ranging from A++ (Superior) to F (in liquidation). Best’s ratings are based on an analysis of the financial condition and operations of an insurance company compared to the industry in general.

American Southern. American Southern and its wholly-owned subsidiary, American Safety Insurance Company, are each currently rated “A-” (Excellent) by A.M. Best.

Association Casualty. Association Casualty maintains a rating of “A-” (Excellent) by A.M. Best.

Georgia Casualty. Georgia Casualty maintains an A.M. Best’s rating of “B++” (Very Good).

Bankers Fidelity. Bankers Fidelity maintains an A.M. Best’s rating of “B++” (Very Good).

Regulation

In common with all domestic insurance companies, the Company’s insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissions. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency which must be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company’s products generally are subject to rate regulation by state insurance commissions, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company’s insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commission of intercorporate transfers of assets (including payments of dividends in excess of specified amounts by the insurance subsidiaries) within the holding company system.

Most states require that rate schedules and other information be filed with the state’s insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate increases.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 2001, $15.9 million of securities were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of Bankers Fidelity and the Casualty Operations.

Virtually all of the states in which the Company’s insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The occurrence and amount of such assessments has increased in recent years. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred. For the last five years, the amount incurred by the Company was not material.

NAIC Ratios

The National Association of Insurance Commissioners (the “NAIC”) was established to provide guidelines to assess the financial strength of insurance companies for state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of 13 financial ratios prepared on a statutory basis. The annual statements are submitted to state insurance departments to assist them in monitoring insurance companies in their states and to set forth a desirable range in which companies should fall in each such ratio.

The NAIC suggests that insurance companies which fall outside of the “usual” range in four or more financial ratios are those most likely to require analysis by state regulators. However, according to the NAIC, it may not be unusual for a financially sound company to have several ratios outside the “usual” range, and in normal years the NAIC expects 15% of the companies it tests to be outside the “usual” range in four or more categories.

For the year ended December 31, 2001, American Southern, Bankers Fidelity, and Georgia Casualty were within the NAIC “usual” range for all 13 financial ratios. Association Casualty was outside the “usual” range on two ratios, the change in net writings and the two-year overall operating ratio. The change in the net writings variance resulted primarily from a change in the methodology used by Association Casualty to recognize written premiums. During the fourth quarter of 2000, Association Casualty began recognizing written premiums on an annualized basis instead of using the installment method. Significant premium rate increases during 2001 also contributed to the change in the net writings variance. The two year overall operating ratio was outside the “usual” range primarily due to adverse development on prior year losses.

Risk-Based Capital

Risk-based capital (“RBC”) is used by rating agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of Adjusted Capital needed by a company to avoid regulatory action. “Authorized Control Level Risk-Based Capital” (“ACL”) is calculated; if a company’s adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2001, all of the Company’s insurance subsidiaries exceeded the RBC regulatory levels.

Investments

Investment income represents a significant portion of the Company's total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company's investments as of the dates indicated.

	December 31,					
	2001		2000		1999	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Fixed maturities:						
Bonds:						
U.S. Government agencies and authorities	$ 81,440	34.2%	$117,564	50.9%	$106,816	48.3%
States, municipalities and political subdivisions	4,317	1.8	4,088	1.8	4,078	1.8
Public utilities	4,229	1.8	3,671	1.6	2,009	0.9
Convertibles and bonds with warrants attached	—	NIL	—	NIL	—	NIL
All other corporate bonds	42,124	17.7	32,721	14.2	21,015	9.5
Certificates of deposit	1,360	0.6	1,360	0.6	3,082	1.4
Total fixed maturities(1)	133,470	56.1	159,404	69.1	137,000	61.9
Common and preferred stocks(2)	54,628	22.9	43,945	19.0	48,684	22.0
Mortgage, policy and student loans(3)	6,134	2.6	6,636	2.9	7,394	3.3
Other invested assets(4)	4,854	2.0	5,862	2.5	5,717	2.6
Real estate	46	NIL	46	NIL	46	NIL
Short-term investments(5)	39,151	16.4	15,013	6.5	22,471	10.2
Total investments	$238,283	100.0%	$230,906	100.0%	$221,312	100.0%

(1) Fixed maturities are carried on the balance sheet at market value. Total cost of fixed maturities was $132.2 million as of December 31, 2001, $160.6 million as of December 31, 2000, and $143.2 million as of December 31, 1999.

(2) Equity securities are valued at market. Total cost of equity securities was $41.7 million as of December 31, 2001, $32.1 million as of December 31, 2000, and $31.2 million as of December 31, 1999.

(3) Mortgage loans and policy and student loans are valued at historical cost.

(4) Investments in other invested assets which are traded are valued at estimated market value and those in which the Company has significant influence are accounted for using the equity method. Total cost of other invested assets was $5.1 million as of December 31, 2001, $6.0 million as of December 31, 2000 and $4.9 million as of December 31, 1999.

(5) Short-term investments are valued at cost, which approximates market value.

Results of the investment portfolio for periods shown were as follows:

	Year Ended December 31,		
	2001	2000	1999
	(Dollars in thousands)		
Average investments(1)	$227,922	$222,369	$205,387
Net investment income	14,141	15,320	12,434
Average yield on investments	6.20%	6.89%	6.05%
Realized investment gains, net	1,708	1,922	2,831

(1) Calculated as the average of the balances at the beginning of the year and at the end of each of the succeeding four quarters. Management's investment strategy is an increased investment in short and medium maturity bonds and common and preferred stocks.

Employees

The Company and its subsidiaries employed 264 people at December 31, 2001.

Financial Information By Industry Segment

The Company's primary insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance. American Southern, Association Casualty, and Georgia Casualty operate in the Property and Casualty insurance market, while Bankers Fidelity operates in the Life and Health insurance market. All segments derive revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than those in the corporate and other segment are from external sources. (See Note 15 of Notes to Consolidated Financial Statements.)

Executive Officers of the Registrant

The table below and the information following the table set forth, for each executive officer of the Company as of March 1, 2002, his name, age, positions with the Company, principal occupation, and business experience for the past five years and prior service with the Company (based upon information supplied by each of them).

Name	Age	Position with the Company	Director or Officer Since
J. Mack Robinson	78	Chairman of the Board	1974
Hilton H. Howell, Jr.	39	Director, President & CEO	1992

Officers are elected annually and serve at the discretion of the Board of Directors.

Mr. Robinson has served as Director and Chairman of the Board since 1974 and served as President and Chief Executive Officer of the Company from September 1988 to May 1995. In addition, Mr. Robinson is a Director of Bull Run Corporation and Gray Communications Systems, Inc.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992. Mr. Howell is the son-in-law of Mr. Robinson. He is also a Director of Bull Run Corporation and Gray Communications Systems, Inc.

Forward-Looking Statements

Certain of the statements and subject matters contained herein that are not based upon historical or current facts deal with or may be impacted by potential future circumstances and developments, and should be considered forward-looking and subject to various risks and uncertainties. Such forward-looking statements are made based upon management's belief, as well as assumptions made by and information currently available to management pursuant to "safe harbor" provisions of the Private Securities Litigation

Reform Act of 1995. Such statements, and the discussion of such subject areas, involve, and therefore are qualified by, the inherent risks and uncertainties surrounding future expectations generally, and may materially differ from the Company's actual future experience involving any one or more of such subject areas. The Company has attempted to identify, in context, certain of the factors that it currently believes may cause actual future experience and results to differ from current expectations. The Company's operations and results also may be subject to the effect of other risks and uncertainties in addition to the relevant qualifying factors identified elsewhere herein, including, but not limited to, locality and seasonality in the industries to which the Company offers its products, the impact of competitive products and pricing, unanticipated increases in the rate and number of claims outstanding, volatility in the capital markets that may have an impact on the Company's investment portfolio, the uncertainty of general economic conditions, and other risks and uncertainties identified from time to time in the Company's periodic reports filed with the Securities and Exchange Commission. Many of such factors are beyond the Company's ability to control or predict. As a result, the Company's actual financial condition, results of operations and stock price could differ materially from those expressed in any forward-looking statements made by the Company. Undue reliance should not be placed upon forward-looking statements contained herein. The Company does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, the Company.

Item 2. *Properties*

Owned Properties. The Company owns two parcels of unimproved property consisting of a total of approximately seven acres located in Fulton and Washington Counties, Georgia. At December 31, 2001, the aggregate book value of such properties was approximately $46,000.

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia, from Delta Life Insurance Company, under leases which expire at various times from May 31, 2002 to July 31, 2005. Under the current terms of the leases, the Company occupies approximately 65,489 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by J. Mack Robinson, Chairman of the Board of Directors and the largest shareholder of the Company. The terms of the leases are believed by Company management to be comparable to terms which could be obtained by the Company from unrelated parties for comparable rental property.

American Southern leases space for its offices in a building located in Atlanta, Georgia. The lease term expires January 31, 2010. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

Association Casualty leases space for its principal offices in a building located in Austin, Texas. The lease term expires December 31, 2005. Under the terms of the lease, Association Casualty occupies 18,913 square feet.

SIA, Inc. leases space for its principal offices in a building located in Stone Mountain, Georgia. The lease term expires December 31, 2003. Under the terms of the lease, SIA, Inc. occupies 1,787 square feet.

Item 3. *Legal Proceedings*

Litigation

During 2000, American Southern renewed one of its larger accounts. Although this contract was renewed through a competitive bidding process, one of the parties bidding for this particular contract contested the award of this business to American Southern and filed a claim to obtain the nullification of the contract. During the fourth quarter of 2000, American Southern received an unfavorable judgment relating to this litigation and has appealed the ruling. The contract, which accounts for approximately 10% of annualized premium revenue, is to remain in effect pending appeal. While management at this time cannot predict the potential outcome in this case, or quantify the actual impact of an adverse decision, it may have a material impact on the future results of operations of the Company.

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

Item 4. *Submission of Matters to a Vote of Security Holders*

There were no matters submitted to a vote of the Company's shareholders during the quarter ended December 31, 2001.

PART II

Item 5. *Market for the Registrant's Common Equity and Related Shareholder Matters*

The Company's common stock is quoted on the Nasdaq National Market (Symbol: AAME). As of March 19, 2002, there were 4,886 shareholders of record. The following table sets forth for the periods indicated the high and low sale prices of the Company's common stock as reported on the Nasdaq National Market.

Year Ending December 31	High	Low
2001		
1st quarter	$2.06	$1.63
2nd quarter	2.06	1.00
3rd quarter	2.31	0.75
4th quarter	3.10	1.00
2000		
1st quarter	$2.94	$2.25
2nd quarter	3.38	2.50
3rd quarter	2.75	1.75
4th quarter	2.50	1.75

The Company has not paid dividends to its common shareholders since the fourth quarter of 1988. Payment of dividends in the future will be at the discretion of the Company's Board of Directors and will depend upon the financial condition, capital requirements, and earnings of the Company as well as other factors as the Board of Directors may deem relevant. The Company's primary sources of cash for the payment of dividends are dividends from its subsidiaries. Under the insurance code of the state of jurisdiction under which each insurance subsidiary operates, cumulative dividend payments to the Parent by its insurance subsidiaries are limited to the greater of 10% of accumulated statutory earnings or statutory net income before recognizing realized investment gains of the insurance subsidiaries without the prior approval of the Insurance Commissioner. The Company's principal insurance subsidiaries had the following accumulated statutory earnings as of December 31, 2001: Georgia Casualty — $14.5 million, American Southern — $33.7 million, Association Casualty — $13.7 million, Bankers Fidelity Life — $22.7 million. The Company has elected to retain its earnings to grow its business and does not anticipate paying cash dividends on its common stock in the foreseeable future.

Item 6. ***Selected Financial Data***

	2001	2000	1999	1998	1997
	(Dollars in thousands, except per share data)				
Insurance premiums	$145,589	$133,497	$107,594	$ 91,292	$ 88,682
Investment income	14,317	15,552	12,724	11,499	11,256
Other income	1,694	1,287	1,172	366	201
Realized investment gains, net	1,708	1,922	2,831	2,909	1,076
Total revenue	163,308	152,258	124,321	106,066	101,215
Insurance benefits and losses incurred	106,896	97,628	78,162	60,845	61,018
Other expenses	52,159	49,874	42,237	36,518	32,026
Total benefits and expenses	159,055	147,502	120,399	97,363	93,044
Income from continuing operations before provision for income taxes	4,253	4,756	3,922	8,703	8,171
Income tax provision (benefit)	656	1,124	(6,988)	145	138
Income from continuing operations	3,597	3,632	10,910	8,558	8,033
Net income	$ 3,597	$ 3,632	$ 10,910	$ 8,558	$ 8,033
Basic net income per common share:					
Income from continuing operations	$ .10	$ .12	$ .48	$ .37	$ .35
Net income	$ .10	$ .12	$ .48	$ .37	$ .35
Diluted net income per common share:					
Income from continuing operations	$ .10	$ .12	$ .46	$ .37	$ .35
Net income	$ .10	$ .12	$ .46	$ .37	$ .35
Book value per common share	$ 3.37	$ 3.18	$ 3.12	$ 3.60	$ 3.27
Common shares outstanding	21,246	21,157	21,027	19,120	18,907
Total assets	$412,019	$375,777	$351,144	$273,131	$271,860
Total long-term debt	$ 44,000	$ 46,500	$ 51,000	$ 23,600	$ 27,600
Total debt	$ 44,000	$ 46,500	$ 51,000	$ 26,000	$ 28,600
Total shareholders' equity	$ 87,526	$ 83,240	$ 78,948	$ 82,217	$ 78,183

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following is management's discussion and analysis of the financial condition and results of operations of Atlantic American Corporation ("Atlantic American" or the "Company") and its subsidiaries for each of the three years in the periods ended December 31, 2001, 2000 and 1999. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

Atlantic American is an insurance holding company whose operations are conducted through a group of regional insurance companies: American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern"); Association Casualty Insurance Company and Association Risk Management General Agency, Inc. (together known as "Association Casualty"); Georgia Casualty & Surety Company ("Georgia Casualty"); and Bankers Fidelity Life Insurance Company ("Bankers Fidelity"). Each operating company is managed separately based upon the geographic location or the type of products it underwrites.

Significant Accounting Policies

The accounting and reporting policies of Atlantic American Corporation and its subsidiaries are in accordance with accounting principles generally accepted in the United States and, in management's belief, conform to general practices within the insurance industry. The following is an explanation of the Company's accounting policies considered most significant by management. These accounting policies inherently require estimation and actual results could differ from these estimates. Atlantic American does not expect that changes in the estimates determined under these policies would have a material effect on the Company's financial condition or liquidity, although changes could have a material effect on its consolidated results of operations.

Reinsurance receivables are amounts due from reinsurers and comprise 12% of the Company's total assets at December 31, 2001. Allowances for uncollectible amounts are established against reinsurance receivables owed to the Company under reinsurance contracts, if appropriate. Failure of reinsurers to meet their obligations due to insolvencies or disputes could result in uncollectible amounts and losses to the Company.

Deferred income taxes comprise less than 1% of the Company's total assets at December 31, 2001. Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws. Valuation allowances are recognized to reduce the deferred tax assets to the amount that is more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income.

Deferred acquisition costs comprise 6% of the Company's total assets at December 31, 2001. Deferred acquisition costs are commissions, allowances, premium taxes, and other costs that vary with and are primarily related to the acquisition of new and renewal business and are generally deferred and amortized. The deferred amounts are recorded as an asset on the balance sheet and amortized to income in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. The deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance).

Unpaid claims and claim adjustment expenses comprise 44% of the Company's total liabilities at December 31, 2001. This obligation includes estimates for both reported claims not yet paid, and claims incurred but not yet reported. Unpaid claims and claim adjustment expense reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss, along with anticipated future development. Inflation and other factors which may affect claims payments are implicitly reflected in the reserving process through analysis of cost trends and reviews of historical reserve results. Estimates of incurred but not reported claims is based on past experience. If actual results differ from these assumptions, the amount of the Company's recorded liability for unpaid claims and claim adjustment expenses could require adjustment.

Future policy benefits comprise 14% of the Company's total liabilities at December 31, 2001. These liabilities relate to life insurance products, and are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company's experience. If actual results differ from these assumptions, the amount of the Company's recorded liability could require adjustment.

Please refer to Note 1 of "Notes to Consolidated Financial Statements" for details regarding all of the Company's significant accounting policies.

Overall Corporate Results

Revenues	2001	2000	1999
		(Dollars in thousands)	
Property and Casualty:			
American Southern	$ 43,779	$ 42,487	$ 42,926
Association Casualty	29,668	23,290	9,844
Georgia Casualty	28,515	32,048	23,214
Total property and casualty	101,962	97,825	75,984
Life and Health:			
Bankers Fidelity	60,244	53,587	47,511
Corporate and Other	1,102	846	826
Total Revenues	$163,308	$152,258	$124,321
Income before taxes			
Property and Casualty:			
American Southern	$ 6,796	$ 6,130	$ 6,336
Association Casualty	(2,925)	256	301
Georgia Casualty	2,106	(1,084)	(1,271)
Total property and casualty	5,977	5,302	5,366
Life and Health:			
Bankers Fidelity	3,370	4,371	3,982
Corporate and Other	(5,094)	(4,917)	(5,426)
Total income before taxes	$ 4,253	$ 4,756	$ 3,922

On a consolidated basis the Company's net income for 2001 was $3.6 million or $.10 per diluted share. Net income was $3.6 million ($.12 per diluted share) in 2000 and $10.9 million ($.46 per diluted share) in 1999. In 1999, net income was favorably impacted by a $7.0 million deferred tax benefit related primarily to a reduction in the Company's valuation allowance that had previously been established against its net deferred tax asset as compared to a benefit of $0.5 million in 2000 and $0.8 million in 2001. Pre-tax income decreased from $4.8 million in 2000 to $4.3 million in 2001. The decline in pre-tax income for 2001 was due primarily to unsatisfactory underwriting results in Association Casualty related to adverse development on prior year losses. Excluding Association Casualty, all of the Company's operating units reported profitable results.

A more detailed analysis of the individual operating entities and other corporate activities is provided in the following discussion.

Underwriting Results

American Southern

The following table summarizes American Southern's premiums and underwriting ratios (dollars in thousands):

	2001	2000	1999
Gross written premiums	$45,490	$47,643	$44,070
Ceded premiums	(5,931)	(4,603)	(5,540)
Net written premiums	$39,559	$43,040	$38,530
Net earned premiums	$39,023	$37,172	$38,166
Net losses and loss adjustment expenses	26,069	26,185	26,934
Underwriting expenses	10,914	10,172	9,656
Underwriting income	$ 2,040	$ 815	$ 1,576
Loss ratio	66.8%	70.4%	70.6%
Expense ratio	28.0%	27.4%	25.3%
Combined ratio	94.8%	97.8%	95.9%

Gross written premiums at American Southern decreased $2.2 million during 2001 primarily as a result of the loss of one of its state contracts. The loss of this particular contract will result in a reduction in annualized premium revenue of approximately $4.0 million. In addition, the American Auto Club Insurance Agency (the "Agency") produced lower than expected gross written premiums during 2001. The Agency is a joint venture between American Southern and the AAA of the Carolinas motor club. American Southern holds a 50% interest in the joint venture and underwrites the majority of the standard automobile business written by the Agency. The Agency was formed in 1998 to market personal automobile insurance to members of the auto club. This program, which began writing business in 1999, had gross written premiums of approximately $6.1 million for 2001, a decrease of $1.1 million or 15.3% from 2000.

Ceded premiums at American Southern increased $1.3 million or 28.9% during 2001. The increase in ceded premiums is due to several factors. First, the rates charged by reinsurance companies increased approximately 10% over 2000. In addition, American Southern's premiums are ceded on an earned basis as opposed to on a written basis, which results in an increase in ceded premiums when earned premiums increase. Lastly, the company collected $0.4 million in penalty premiums from a specific reinsurance agreement (the "Reinsurance Agreement") and remitted them to the reinsurer. The Reinsurance Agreement is related to certain program business and provides for additional penalty premiums based on losses. During 2000, there were no penalty premiums collected by American Southern and, as a result, ceded premiums increased in 2001 over ceded premiums in 2000.

Gross written premiums at American Southern increased $3.6 million in 2000 as compared to 1999 principally as a result of business produced by the Agency. The decrease in ceded premiums of $0.9 million during 2000 was primarily due to the Reinsurance Agreement. In 1999, American Southern collected $0.8 million in penalty premiums and remitted them to the reinsurer. As mentioned previously, there were no penalty premiums collected in 2000 which resulted in the decrease in ceded premiums during 2000 as compared to 1999.

In 2001, net earned premiums increased by 5.0% or $1.9 million. The increase in net earned premiums was primarily attributable to the higher gross written premium in 2000.

In addition to the business written through the joint venture, American Southern produces much of its business through contracts with various states and municipalities, some of which represent significant amounts of revenue for the company. These contracts are periodically subject to competitive renewal quotes and the loss of a significant contract could have a material adverse effect on the business or financial condition of American Southern and of the Company. In an effort to increase the number of programs underwritten by American Southern and to insulate it from the loss of any one program, American Southern is continually evaluating new underwriting programs. There can be no assurance, however, that new programs or new accounts will offset lost business resulting from non-renewals of accounts.

During 2000, American Southern renewed one of its larger accounts. Although this contract was renewed through a competitive bidding process, one of the parties bidding for this particular contract contested the award of this business to American Southern and filed a claim to obtain the nullification of the contract. During the fourth quarter of 2000, American Southern received an unfavorable judgment and has appealed the ruling. The contract, which accounts for approximately 10% of annualized premium revenue, is to remain in effect pending appeal. While management at this time cannot predict the potential outcome in this case, or quantify the actual impact of an adverse decision, an adverse outcome may have a material adverse affect on the company's financial position or results of operations.

The following table summarizes, for the periods indicated, American Southern's earned premiums by line of business (dollars in thousands):

	2001	2000	1999
Automobile liability	$23,677	$22,795	$24,573
Automobile physical damage	8,732	7,397	6,112
General liability	3,161	3,536	4,302
Property	3,386	3,383	3,118
Surety	67	61	61
Total earned premium	$39,023	$37,172	$38,166

The performance of an insurance company is often measured by the combined ratio. The combined ratio represents the percentage of losses and other expenses that are incurred for each dollar of premium earned by the company. A combined ratio of under 100% represents an underwriting profit while a combined ratio of over 100% indicates an underwriting loss. The combined ratio is divided into two components, the loss ratio (the ratio of losses incurred to premiums earned) and the expense ratio (the ratio of expenses incurred to premiums earned).

The combined ratio for American Southern decreased from 97.8% in 2000 to a combined ratio of 94.8% in 2001. The loss ratio decreased from 70.4% in 2000 to 66.8% in 2001. During 2001, American Southern released approximately $1.4 million of redundant reserves related to certain program business that favorably impacted the loss ratio for 2001. The expense ratio for 2001 is up to 28.0% from 27.4% in 2000. The combined ratio for American Southern for 2000 was 97.8%, up slightly from the 1999 combined ratio of 95.9%. The loss ratio decreased slightly to 70.4% in 2000 from 70.6% in 1999. The decrease in the loss ratio was the result of lower than anticipated losses on the personal auto line of business. The expense ratio for 2000 was 27.4% compared to 25.3% in 1999. The increase in the expense ratio in 2001 and 2000 is a direct result of American Southern's business structure. The majority of American Southern's business is structured in such a way that the agents are rewarded or penalized based upon the loss ratio of the business they submit to the company. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with the company. As a result of this arrangement, in periods where losses and the loss ratio decrease, commission and underwriting expenses increase.

Association Casualty

The following table summarizes Association Casualty's premiums and losses (dollars in thousands):

	2001	2000	1999(1)
Gross written premiums	$34,648	$24,967	$9,299
Ceded premiums	(3,692)	(2,314)	(775)
Net written premiums	$30,956	$22,653	$8,524
Net earned premiums	$25,711	$20,110	$8,498
Net losses and loss adjustment expenses	23,613	15,799	6,380
Underwriting expenses	8,155(2)	6,410(2)	2,751(2)
Underwriting loss	$ (6,057)	$ (2,099)	$ (633)
Loss ratio	91.8%	78.5%	75.1%
Expense ratio	31.7%(2)	31.9%(2)	32.4%(2)
Combined ratio	123.5%	110.4%	107.5%

(1) Includes results for the period July 1, 1999 through December 31, 1999.

(2) Excludes the interest expense on an intercompany surplus note associated with the acquisition of Association Casualty.

Gross written premiums at Association Casualty increased $9.7 million or 38.8% during 2001. During the fourth quarter of 2000, the company began recognizing written premiums on an annualized basis instead of using the installment method resulting in a significant increase in gross written premiums. The impact to earned premiums was not significant. In addition, Association Casualty is aggressively increasing rates on renewal business, in some cases up to 30%. The company has also added premium related to commercial lines other than workers' compensation such as general liability, property, and other commercial coverage to compliment its existing book of business. While Association Casualty currently writes predominately workers' compensation insurance in the state of Texas, the company intends to market itself as a complete commercial lines carrier.

In 2000, Association Casualty began increasing the rates it was charging for renewal business and was successful in attracting new business. As a result of these efforts, the company was able to increase gross written premiums. The company also added approximately $0.7 million of written premiums for general liability, property, and business automobile.

In 2001, the company had net earned premiums of $25.7 million of which 88.6% was workers' compensation business compared to 94.7% during 2000 as illustrated in the following table.

The following table summarizes, for the periods indicated, Association Casualty's earned premiums by line of business (dollars in thousands):

	2001	2000	1999(1)
Workers' compensation	$22,784	$19,051	$8,158
Business automobile	671	64	-
General liability	117	5	-
Property	1,001	81	-
Group accident and health	1,138	909	340
Total earned premium	$25,711	$20,110	$8,498

(1) Includes results for the period July 1, 1999 through December 31, 1999

The combined ratio for Association Casualty increased to 123.5% in 2001 from a combined ratio of 110.4% in 2000. The loss ratio increased to 91.8% in 2001 from 78.5% in 2000. The primary reason for the increase can be attributable to adverse development on prior year losses, specifically accident year 2000. Additionally, current year losses were reviewed and increased to levels deemed more appropriate by management. The company continues to be adversely impacted by the liberal interpretation of the workers' compensation laws in the state of Texas. As the law has matured, factors such as "life time medical" and the "impairment rating" structure have become significant in contributing to the increased medical cost. To help mitigate these costs and achieve an underwriting profit, Association Casualty continues to increase pricing and improve underwriting criteria. The expense ratio decreased from 31.9% in 2000 to 31.7% in 2001. The decline in the expense ratio is primarily attributable to the increase in earned premiums and only a moderate increase in fixed expenses.

The combined ratio for Association Casualty during 2000 of 110.4% was higher than is desired by management. The higher than expected losses in 2000 were largely due to negative development stemming from second and third surgeries on previously closed claims as well as a continuing rise in medical costs. Expenses as a percentage of earned premiums declined slightly, primarily as a result of the increase in earned premiums and only a moderate increase in fixed expenses.

Georgia Casualty

The following table summarizes Georgia Casualty's premiums and losses (dollars in thousands):

	2001	2000	1999
Gross written premiums	$ 40,966	$35,031	$26,798
Ceded premiums	(15,702)	(3,925)	(5,928)
Net written premiums	$ 25,264	$31,106	$20,870
Net earned premiums	$ 25,579	$28,576	$19,403
Net losses and loss adjustment expenses	17,644	22,192	16,535
Underwriting expenses	8,765	10,940	7,950
Underwriting loss	$ (830)	$ (4,556)	$ (5,082)
Loss ratio	69.0%	77.7%	85.2%
Expense ratio	34.3%	38.3%	41.0%
Combined ratio	103.3%	116.0%	126.2%

Gross written premiums at Georgia Casualty increased 16.9% or $5.9 million in 2001. The increase in gross written premiums is mostly attributable to significant rate increases, new business with established agents in addition to the added premiums by new agency appointments. The increase in ceded premiums of $11.8 million during 2001 is the result of a 40% quota share reinsurance agreement that the company put into place in 2001 to allow for premium growth and surplus protection.

During 2000, gross written premiums increased 30.7% or $8.2 million. The increase in premiums in 2000 from 1999 was due to aggressive rate increases on its new and renewal business in addition to the new management team at Georgia Casualty increasing the agency force through its relationships in the insurance industry. The decline in ceded premiums during 2000 compared to 1999 was the result of the discontinuation of the stop-loss reinsurance agreement that the company put into place in 1999.

The following table summarizes, for the periods indicated, Georgia Casualty's earned premiums by line of business (dollars in thousands):

	2001	2000	1999
Workers' compensation	$10,744	$16,741	$13,157
Business automobile	5,412	4,918	2,876
General liability	2,610	2,531	1,251
Property	6,813	4,386	2,119
Total earned premium	$25,579	$28,576	$19,403

Net earned premiums declined 10.5% or $3.0 million during 2001 primarily due to the quota share reinsurance agreement discussed previously. As presented in the table above, Georgia Casualty continues to diversify its book of business into commercial lines other that workers' compensation, repositioning the company as a one-stop commercial lines carrier. Furthermore, the company is attempting to spread its geographical exposure by reducing its concentration in Georgia and expanding in its other key southeastern states.

The combined ratio for Georgia Casualty decreased from 116.0% in 2000 to 103.3% in 2001. The loss ratio declined from 77.7% in 2000 to 69.0% in 2001. During 2000, in an effort to strengthen loss reserves and better position the company to capitalize on market opportunities, a comprehensive review of all loss reserves and open claims was performed. These initiatives resulted in reserve increases and consequently, an unusually high loss ratio which accounts for the decline in the loss ratio during 2001. In addition, the decrease is also attributable to the company's strict adherence to underwriting discipline and premium rate increases. The expense ratio decreased from 38.3% in 2000 to 34.3% in 2001 primarily as a result of the ceding commission the company is receiving from the quota share contract put into place during 2001.

The combined ratio for Georgia Casualty for 2000 decreased to 116.0% from 126.2% in 1999. The loss ratio declined from 85.2% in 1999 to 77.7% in 2000. The primary reason for the decline was the complete elimination during the latter part of 1999 of two underwriting programs, the performance of which was substandard. In addition, the company benefited in 2000 from the increased premium rates that began during 1999. Also, the mix of business that Georgia Casualty underwrites had changed from one of higher hazards to low and moderate hazards.

The expense ratio decreased from 41.0% in 1999 to 38.3% in 2000. The decline in the expense ratio was primarily attributable to the increase in earned premiums associated with the new growth and only a moderate increase in fixed expenses.

Bankers Fidelity

The following summarizes Bankers Fidelity's premiums and operating results (dollars in thousands):

Premiums

	2001	2000	1999
Medicare supplement	$38,268	$31,295	$25,822
Other health products	2,912	2,899	3,206
Life insurance	14,096	13,445	12,499
Total premiums	55,276	47,639	41,527
Investment income	4,420	5,003	4,763
Total premiums and investment income	$59,696	$52,642	$46,290

Operating Expenses

	2001	2000	1999
Insurance benefits and losses	$39,570	$33,452	$28,313
Commissions and underwriting expenses	17,304	15,764	15,216
Total expenses	$56,874	$49,216	$43,529

Premium revenue at Bankers Fidelity for 2001 increased 16.0% or $7.6 million over 2000 results. The most significant increase in premiums arose in the Medicare supplement line of business, which increased 22.3% during 2001. Bankers Fidelity has continued to expand its market presence throughout the Southeast, mid-Atlantic Region, especially in Pennsylvania, and in the Western Region. In 2001, the company added additional Medicare supplemental premium for Pennsylvania of approximately $3.3 million. In addition, during 2000 and 2001, Bankers Fidelity implemented rate increases on the Medicare supplement product, in some cases up to 30%, which are reflected in the current year increases for premium revenues.

For the year 2000, premium revenue at Bankers Fidelity increased 14.7%, or $6.1 million over 1999 results. The most significant increase in premiums during 2000 was in the Medicare supplement line of business. The increase in premium revenue from 1999 to 2000 was primarily due to the expansion of the company's market presence in the Mid-Atlantic and Western regions in addition to significant rate increases.

The increase in both "benefits and losses" and "commissions and other expenses" is primarily attributable to the increase in new business. As a percentage of premiums, benefits and losses were 71.6% in 2001 compared to 70.2% in 2000. The increase is primarily due to continued aging of the life business and higher medical trends than expected for the health business. Additionally, the company continues to implement rate increases on the Medicare supplement line of business to help to mitigate the impact of higher medical costs.

Insurance benefits and losses at Bankers Fidelity increased 18.2% or $5.1 million during 2000. The increase in benefits and losses from 1999 to 2000 was directly attributable to the increase in new business.

The company has been successful in keeping operating costs lower, while continuing to add new business. As a percentage of premiums, commissions and underwriting expenses were 31.3% in 2001 compared to 33.1% in 2000 and 36.6% in 1999.

Investment Income and Realized Gains

Investment income for 2001 of $14.3 million decreased $1.2 million or 7.9% from 2000. The decrease in investment income is primarily attributable to falling interest rates. The decline in interest rates resulted in several of the Company's higher yielding callable fixed income securities to be redeemed by the issuers prior to maturity. The proceeds received from the early redemption of these fixed income securities was reinvested at a lower yield. In addition, during 2001, the carrying value of the Company's investment in the joint venture with the AAA of the Carolinas, was reduced by $0.2 million to reflect lower than expected premium production and higher expenses. Also contributing to the decrease in 2001 was a significant gain in a real estate partnership the Company benefited from during 2000. The investment, which is accounted for under the equity method, sold several pieces of property resulting in income of approximately $0.4 million.

Investment income increased 22.2% or $2.8 million in 2000 from 1999. The inclusion of the operating results of Association Casualty is responsible for $1.5 million of this increase. The Company also benefited from a significant gain in a real estate partnership discussed previously. This investment generated income of approximately $0.6 million during 2000. The remaining increase in investment income in 2000 as compared to 1999 was the result of the Company shifting securities from short-term to longer-term securities to take advantage of the higher long-term interest rates in the first half of 2000.

Realized investment gains decreased from $1.9 million in 2000 to $1.7 million in 2001. Management is continually evaluating the Company's investment portfolio and will periodically divest appreciated investments as deemed appropriate.

Interest Expense

Interest expense decreased from $4.4 million in 2000 to $3.2 million in 2001. In conjunction with the acquisition of Association Casualty in 1999, the Company entered into a $30.0 million revolving credit facility with Wachovia Bank, N.A. ("Wachovia"). During 2000, and in the first nine months of 2001, the Company paid down $7.0 million on the revolver, leaving $19.0 million outstanding under this facility. This debt, coupled with the $25.0 million in variable rate demand bonds issued during the second quarter of 1999, the proceeds of which were used to pay down the Company's prior credit facility, bring the total debt to $44.0 million at December 31, 2001, down from $50.0 million at the end of 2000. In addition, the base interest rate in 2001, LIBOR, decreased from prevailing LIBOR rates in 2000. The interest rate on a portion of the revolver and the bonds is variable and is tied to LIBOR. The reduction in debt, along with decreasing interest rates accounts for the decrease in 2001. On March 21, 2001, the Company entered into an interest rate swap agreement for a notional principal amount of $15.0 million with Wachovia to hedge its interest rate risk on a portion of the outstanding borrowings under the revolving credit facility. The interest rate swap was effective on April 2, 2001 and matures on June 30, 2004. The Company has agreed to pay a fixed rate of 5.1% and receive 3-month LIBOR until maturity.

Other Expenses

Other expenses (commissions, underwriting expenses, and other expenses) increased $3.5 million or 7.6% in 2001. The increase in other expenses is due to the following items: First, beginning in the fourth quarter of 2000, Association Casualty began recognizing written premiums on an annualized basis instead of using the installment method thus increasing commissions and premium taxes in conjunction with written premiums. In 2001, Association Casualty also experienced an increase in overall operating expenses as it sought to diversify into commercial lines of business other than workers' compensation. In addition, Bankers Fidelity's commissions have increased significantly as a result of additional new business. Lastly, during 2000, the bad debt reserve was reduced by $0.5 million due to improvements as to the collectibility of certain receivables. Partially offsetting this increase in other expenses was a significant reduction in commission expense American Southern pays on one of its larger accounts in addition to the ceding commission Georgia Casualty is receiving from the quota share contract. On a consolidated basis, as a percentage of earned premiums, other expenses decreased from 34.1% in 2000 to 33.6% in 2001.

The increase in other expenses in 2000 as compared to 1999 was primarily attributable to the inclusion of the operating results of Association Casualty.

Liquidity and Capital Resources

The major cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. The Company's primary sources of cash are written premiums, investment income and the sale and maturity of invested assets. In addition, the Company has additional borrowing capacity under its revolving credit facility. The Company believes that, within each subsidiary, total invested assets will be sufficient to satisfy all policy liabilities. Cash flows at the parent company are derived from dividends, management fees, and tax sharing payments from the subsidiaries. The cash needs of the parent company are for the payment of operating expenses, the acquisition of capital assets and debt service requirements.

Dividend payments to the Company by its insurance subsidiaries are subject to annual limitations and are restricted to the greater of 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2001, the Company's insurance subsidiaries had statutory surplus of $84.7 million.

The Company provides certain administrative, purchasing and other services for each of its subsidiaries. The amount charged to and paid by the subsidiaries was $8.4 million, $7.6 million, and $6.7 million in 2001, 2000, and 1999, respectively. In addition, the Company has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of $1.3 million, $1.0 million and $2.0 million was paid to the Company under the tax sharing agreement in 2001, 2000, and 1999, respectively. Dividends were paid to Atlantic American by one of its subsidiaries totaling $4.6 million in 2001, and $3.6 million in 2000 and 1999. As a result of the Company's tax loss carryforwards, which totaled approximately $30.0 million at December 31, 2001, it is anticipated that the tax sharing agreement will provide the Company with additional funds with which to meet its cash flow obligations.

The Company is a party to a five-year revolving credit facility ("the Revolving Credit Facility") with Wachovia that provides for borrowings up to $30.0 million. The interest rate on the borrowings under this facility may be fixed, at the Company's option, for a period of one, three, six or twelve months and is based upon the London Interbank Offered Rate ("LIBOR") plus an applicable margin, 2.50% at December 31, 2001. The margin varies based upon the Company's leverage ratio (debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined under the facility agreements) and ranges from 1.75% to 3.75%. Interest on the Revolving Credit Facility is currently payable quarterly. The Revolving Credit Facility provides for the payment of all of the outstanding principal balance at June 30, 2004 with no required principal payments prior to that time. The interest rate including the applicable margin on this facility at December 31, 2001 and 2000 was 6.35% and 9.12%, respectively.

The Company also has outstanding $25.0 million of Series 1999, Variable Rate Demand Bonds (the "Bonds") due July 1, 2009 issued through a private placement. The Bonds, which are redeemable at the Company's option, pay a variable interest rate that approximates 30-day LIBOR. The Bonds are backed by a letter of credit issued by Wachovia Bank, N.A., which is automatically renewable on a monthly basis until thirteen months after such time as Wachovia gives the Company notice of its option not to renew the letter of credit. The Bonds are subject to mandatory redemption upon termination of the letter of credit, if an alternative letter of credit facility is not secured. The Company expects that it would be able to replace the letter of credit facility within the prescribed period if Wachovia should give notice of its intention not to renew the existing facility. The cost of the letter of credit and its associated fees are 2.50% making the effective rate on the Bonds LIBOR plus 2.50% at December 31, 2001. The interest on the Bonds is payable monthly and the letter of credit fees are payable quarterly. The interest rate on the Bonds, along with the related fees, at December 31, 2001 and 2000 was 4.63% and 9.15%, respectively. The Bonds do not require the repayment of any principal prior to maturity, except as provided above.

The Company is required, under both instruments, to maintain certain covenants including, among others, ratios that relate funded debt to total capitalization and interest coverage. The Company must also comply with limitations on capital expenditures and additional debt obligations.

Effective December 31, 2001, the Revolving Credit Facility and letter of credit were both amended by Wachovia. The amendment establishes new covenants pertaining to ratios related to interest coverage and eliminates funded debt to EBITDA except for use in determining the applicable margin. In addition, the Company is required to consolidate the Revolving Credit Facility and the Bonds into a term loan ("Term Loan"), effective on April 2, 2002, which will mature June 30, 2004. The Company has notified the holders of the Bonds that they will be redeemed as of April 2, 2002. The Company must repay the principal of the Term Loan in annual installments in the amount of $2.0 million on or before December 31 of 2002 and 2003, together with one final installment at maturity in 2004. As of December 31, 2001, the Company was in compliance with all debt covenants, as revised on December 31, 2001.

The Company intends to repay its obligations under the Term Loan using dividend and tax sharing payments from its subsidiaries. In addition, the Company believes that, if necessary, at maturity, the Term Loan can be refinanced with the current lender, although there can be no assurance of the terms or conditions of such a refinancing.

The Company also has outstanding $15.9 million of preferred stock issued to affiliates. The preferred stock accrues a dividend of 9.0% per year, and at December 31, 2001 the Company had accrued but unpaid dividends on the preferred stock totaling $7.2 million. Net cash provided by operating activities totaled $15.8 million in 2001, $16.7 million in 2000 and $5.4 million in 1999. Cash and short-term investments at December 31, 2001 were $68.8 million and are believed to be more than sufficient to meet the Company’s near-term needs.

The Company believes that the cash flows it receives from its subsidiaries and, if needed, additional borrowings from banks and affiliates of the Company, will enable the Company to meet its liquidity requirements for the foreseeable future. Management is not aware of any current recommendations by regulatory authorities which, if implemented, would have a material adverse effect on the Company’s liquidity, capital resources or operations.

In 1999, the NAIC completed a process to codify statutory accounting practices for certain insurance enterprises (“Codification”). The Company adopted Codification on January 1, 2001. The cumulative effect of this accounting change increased statutory surplus by approximately $1.4 million. The most significant increase to statutory surplus was the recognition of deferred taxes. The Codification did not impact the Company’s financial statements prepared in accordance with generally accepted accounting principles in the United States.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”). SFAS No. 133 requires the recognition of the fair value of all derivative instruments on the balance sheet and establishes specific accounting methods for hedges. The Company adopted SFAS No. 133 and the corresponding amendments under SFAS No. 138 on January 1, 2001. The adoption did not have a material effect on the Company’s financial condition or results of operations.

In June 2001, the FASB issued SFAS No. 141, “Business Combinations” and SFAS No. 142, “Goodwill and Other Intangible Assets”. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other tangible assets arising from business combinations completed after June 30, 2001. SFAS No. 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the statement. Other intangible assets will continue to be amortized over their remaining useful lives. As of December 31, 2001, the Company had unamortized goodwill of $18.8 million all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was $0.8 million, $0.8 million, and $0.6 million for the years ended December 31, 2001, 2000, and 1999, respectively. The Company will adopt SFAS No. 142 on January 1, 2002. Goodwill shall be tested for impairment using the two-step process prescribed in SFAS No. 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Any impairment loss that is required to be recognized when adopting SFAS No. 142 will be reflected as a cumulative effect of change in accounting principle during the first quarter of 2002. The impact of adopting SFAS No. 142 on the Company’s financial statements has not yet been determined; however, it could have a material impact on the Company’s results of operations in 2002.

In August 2001, SFAS No. 143, “Accounting for Asset Retirement Obligations” (effective for fiscal periods commencing after June 15, 2002) and SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets” (effective for fiscal periods commencing after December 15, 2001) were issued. SFAS No. 143 requires that entities recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The statement superseded SFAS 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of” and among other factors, establishes criteria beyond that previously specified in Statement 121 to determine when a long-lived asset is to be considered as held for sale. The Company believes that the adoption of SFAS No. 143 and SFAS No. 144 will not have significant impact on the Company's financial statements.

Impact of Inflation

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, the Company attempts, in establishing its premiums, to anticipate the potential impact of inflation. If, for competitive reasons premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on investment income.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate and Market Risk

Due to the nature of the Company's business it is exposed to both interest rate and market risk. Changes in interest rates, which represent the largest risk factor affecting the Company, may result in changes in the fair value of the Company's investments, cash flows and interest income and expense. To mitigate this risk, the Company invests in high quality bonds and avoids investing in securities that are directly linked to loans or mortgages.

The Company is also subject to risk from changes in equity prices. Atlantic American owned $14.4 million of common stock of Wachovia Corporation at December 31, 2001. A 10% decrease in the share price of the common stock of Wachovia Corporation would result in a decrease of approximately $0.9 million to shareholders' equity.

The interest rate on the Company's debt is tied to LIBOR. During 2001, the Company entered into an interest rate swap agreement with Wachovia Bank, N.A. to hedge its interest rate risk on a portion of the outstanding borrowings under the revolving credit facility. (See Note 7 of Notes to Consolidated Financial Statements). A 100 basis point increase in the LIBOR would result in an additional $0.3 million in interest expense.

The table below summarizes the estimated fair values that might result from changes in interest rates of the Company's bond portfolio:

	+200bp	+100bp	Fair value	-100bp	-200bp
			(Dollars in thousands)		
December 31, 2001	$122,347	$128,168	$133,470	$138,642	$141,788
December 31, 2000	$148,749	$154,357	$159,404	$163,215	$166,020

The Company is also subject to risk from changes in equity prices. The table below summarizes the effect that a change in share price would have on the value of the Company's equity portfolio, including the Company's single largest equity holding.

	+20%	+10%	Fair Value	-10%	-20%
			(Dollars in thousands)		
December 31, 2001					
Investment in Wachovia Corporation	$17,220	$15,785	$14,350	$12,915	$11,480
Other equity holdings	48,334	44,306	40,278	36,250	32,222
Total equity holdings	$65,554	$60,091	$54,628	$49,165	$43,702
December 31, 2000					
Investment in Wachovia Corporation	$17,005	$15,588	$14,171	$12,754	$11,337
Other equity holdings	35,729	32,751	29,774	26,797	23,819
Total equity holdings	$52,734	$48,339	$43,945	$39,551	$35,156

The interest rate on the Company's debt is variable and tied to LIBOR. The table below summarizes the effect that changes in interest rates would have on the Company's interest expense. The impact of the changes in interest rates at December 31, 2001 includes the impact of the interest rate swap agreement the Company entered into on March 21, 2001, discussed previously.

	Interest Expense			Interest Expense?	
	+200bp	+100bp	Debt	-100bp	-200bp
			(Dollars in thousands)		
December 31, 2001	$580	$290	$44,000	$(290)	$(580)
December 31, 2000	$930	$465	$46,500	$(465)	$(930)

Deferred Taxes

At December 31, 2001, the Company had a net deferred tax asset of $2.3 million, comprised of a deferred tax asset of $19.7 million, a deferred tax liability of $11.8 million and a valuation allowance of $5.6 million. The valuation allowance was established against deferred tax assets relating to net operating loss carryforwards that might not be realized.

Until the end of 1999, the Company established a full valuation allowance against these deferred income tax benefits as they were not considered realizable from expected future reversals of existing taxable temporary differences. The Company believed that it was more likely than not that the net deferred income tax benefits would not be realized through future taxable income prior to the expiration dates of net operating loss carryforwards. However, with the acquisition of Association Casualty and several years of profitability, the Company believes it is now more likely than not that a portion of its net deferred income tax benefits relating to net operating loss carryforwards scheduled to expire between 2006 and 2010 will be realized based on future taxable income. Management also can and would implement tax-planning strategies to prevent these carryforwards from expiring. As of December 31, 2001, a valuation allowance has been established for deferred income tax benefits relating primarily to net operating loss carryforwards scheduled to expire between 2002 and 2003. Since the Company's ability to generate taxable income from operations and utilize available tax-planning strategies in the near term is dependent upon various factors, many of which are beyond management's control, management believes that it is more likely than not that the deferred income tax benefits relating to these carryforwards will not be realized. However, realization of the remaining deferred income tax benefits will be assessed periodically based on the Company's current and anticipated results of operations and amounts could increase or decrease in the near term if estimates of future taxable income change. The Company has a formal tax-sharing agreement and files a consolidated income tax return with its subsidiaries.

Table of Contents

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO FINANCIAL STATEMENTS

	Page
ATLANTIC AMERICAN CORPORATION	
Independent Auditor’s Report	34
Consolidated Balance Sheets as of December 31, 2001 and 2000	35
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2001	36
Consolidated Statements of Shareholders’ Equity for each of the three years in the period ended December 31, 2001	37
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2001	38
Notes to Consolidated Financial Statements	39

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Atlantic American Corporation:

We have audited the accompanying consolidated balance sheets of **ATLANTIC AMERICAN CORPORATION** (a Georgia corporation) and subsidiaries (the “Company”) as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements and the schedules referred to below are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantic American Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedules I, II, III, IV and VI listed in Part IV, Item 14 are presented for purposes of complying with the Securities and Exchange Commission’s rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Atlanta, Georgia

March 25, 2002

ATLANTIC AMERICAN CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2001	December 31, 2000
	(Dollars in thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents, including short-term investments of $39,151 and $15,013 in 2001 and 2000, respectively	$ 68,846	$ 31,914
Investments	199,132	215,893
Receivables:		
Reinsurance	48,946	39,088
Other, net of allowance for doubtful accounts of $1,119 and $1,269 in 2001 and 2000, respectively	39,055	37,261
Deferred income taxes, net	2,294	3,839
Deferred acquisition costs	24,681	23,398
Other assets	10,241	4,886
Goodwill, net of amortization of $802 and $798 in 2001 and 2000, respectively	18,824	19,498
Total assets	$412,019	$375,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds	$243,199	$225,164
Accounts payable and accrued expenses	37,294	20,873
Debt payable	44,000	46,500
Total liabilities	324,493	292,537
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, $1 par, 4,000,000 shares authorized;		
Series B preferred, 134,000 shares issued and outstanding, $13,400 redemption value	134	134
Series C preferred, 25,000 shares issued and outstanding, $2,500 redemption value	25	25
Common stock, $1 par, 30,000,000 shares authorized; 21,412,138 shares issued in 2001 and 2000 and 21,245,711 shares outstanding in 2001 and 21,157,250 shares outstanding in 2000	21,412	21,412
Additional paid-in capital	56,606	56,997
Retained earnings (deficit)	1,097	(1,248)
Accumulated other comprehensive income	8,748	6,820
Treasury stock, at cost, 166,427 shares in 2001 and 254,888 shares in 2000	(496)	(900)
Total shareholders' equity	87,526	83,240
Total liabilities and shareholders' equity	$412,019	$375,777

The accompanying notes are an integral part of these consolidated balance sheets.

ATLANTIC AMERICAN CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2001	2000	1999
		(Dollars in thousands, except per share data)	
Revenue:			
Insurance premiums	$145,589	$133,497	$107,594
Investment income	14,317	15,552	12,724
Other income	1,694	1,287	1,172
Realized investment gains, net	1,708	1,922	2,831
Total revenue	163,308	152,258	124,321
Benefits and expenses:			
Insurance benefits and losses incurred	106,896	97,628	78,162
Commissions and underwriting expenses	37,317	36,677	29,713
Interest expense	3,234	4,408	2,819
Other	11,608	8,789	9,705
Total benefits and expenses	159,055	147,502	120,399
Income before income tax provision (benefit)	4,253	4,756	3,922
Income tax provision (benefit)	656	1,124	(6,988)
Net income before preferred stock dividends	3,597	3,632	10,910
Preferred stock dividends	(1,431)	(1,206)	(1,206)
Net income applicable to common stock	$ 2,166	$ 2,426	$ 9,704
Basic earnings per common share	$ .10	$ .12	$ .48
Diluted earnings per common share	$ .10	$ .12	$ .46

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

ATLANTIC AMERICAN CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total
	(Dollars in thousands, except share data)						
Balance, December 31, 1998	$134	$19,406	$50,406	$(15,213)	$ 28,786	$(1,302)	$ 82,217
Comprehensive loss:							
Net income	—	—	—	10,910	—	—	10,910
Decrease in unrealized investment gains	—	—	—	—	(16,731)	—	(16,731)
Deferred income tax attributable to other comprehensive loss	—	—	—	—	(4,219)	—	(4,219)
Total comprehensive loss							(10,040)
Dividends accrued on preferred stock	—	—	(1,206)	—	—	—	(1,206)
Purchase of 213,392 shares for treasury	—	—	—	—	—	(779)	(779)
Issuance of 113,608 shares for employee benefit plans and stock options	—	—	—	(255)	—	528	273
Issuance of 2,006,385 shares for acquisition of Association Casualty Insurance Company	—	2,006	6,477	—	—	—	8,483
Balance, December 31, 1999	134	21,412	55,677	(4,558)	7,836	(1,553)	78,948
Comprehensive income:							
Net income	—	—	—	3,632	—	—	3,632
Decrease in unrealized investment gains	—	—	—	—	(1,563)	—	(1,563)
Deferred income tax benefit attributable to other comprehensive loss	—	—	—	—	547	—	547
Total comprehensive income							2,616
Issuance of 25,000 shares of preferred stock	25	—	2,475	—	—	—	2,500
Dividends accrued on preferred stock	—	—	(1,206)	—	—	—	(1,206)
Compensation expense related to stock grants	—	—	51	—	—	—	51
Purchase of 33,206 shares for treasury	—	—	—	—	—	(79)	(79)
Issuance of 163,670 shares for employee benefit plans and stock options	—	—	—	(322)	—	732	410
Balance, December 31, 2000	159	21,412	56,997	(1,248)	6,820	(900)	83,240
Comprehensive income:							
Net income	—	—	—	3,597	—	—	3,597
Increase in unrealized investment gains	—	—	—	—	3,498	—	3,498
Fair value adjustment to interest rate swap	—	—	—	—	(532)	—	(532)
Deferred income tax expense attributable to other comprehensive income	—	—	—	—	(1,038)	—	(1,038)
Total comprehensive income	—	—	—	—	—	—	5,525
Dividends accrued on preferred stock	—	—	(436)	(995)	—	—	(1,431)
Compensation expense related to stock grants	—	—	45	—	—	—	45
Purchase of 5,999 shares for treasury	—	—	—	—	—	(11)	(11)
Issuance of 94,460 shares for employee benefit plans and stock options	—	—	—	(257)	—	415	158
Balance, December 31, 2001	$159	$21,412	$56,606	$ 1,097	$ 8,748	$ (496)	$ 87,526

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

ATLANTIC AMERICAN CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	2000	1999
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income	$ 3,597	$ 3,632	$ 10,910
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs	16,892	15,804	11,947
Acquisition costs deferred	(18,175)	(18,804)	(14,003)
Realized investment gains, net	(1,708)	(1,922)	(2,831)
Increase in insurance reserves and policyholder funds	18,035	20,019	14,036
Compensation expense related to stock grants	45	51	—
Depreciation and amortization	1,680	1,744	1,435
Deferred income tax expense (benefit)	507	1,007	(6,997)
Increase in receivables, net	(12,402)	(8,584)	(8,404)
Increase in other liabilities	12,681	3,617	73
Other, net	(5,305)	142	(768)
Net cash provided by operating activities	15,847	16,706	5,398
Cash flows from investing activities:			
Proceeds from investments sold	39,122	3,447	8,482
Proceeds from investments matured, called or redeemed	94,098	11,877	35,594
Investments purchased	(109,249)	(31,290)	(53,211)
Additions to property and equipment	(930)	(619)	(829)
Acquisition of American Independent, net of $1,946 cash acquired	—	—	198
Acquisition of Association Casualty, net of $6,270 cash acquired	(128)	(94)	(18,205)
Net cash provided by (used in) investing activities	22,913	(16,679)	(27,971)
Cash flows from financing activities:			
Proceeds from issuance of bank financing	—	—	51,000
Proceeds from issuance of Series C Preferred Stock	750	1,750	—
Preferred stock dividends	(225)	—	—
Proceeds from exercise of stock options	158	410	273
Purchase of treasury shares	(11)	(79)	(779)
Repayments of debt	(2,500)	(4,500)	(26,000)
Net cash (used in) provided by financing activities	(1,828)	(2,419)	24,494
Net increase (decrease) in cash and cash equivalents	36,932	(2,392)	1,921
Cash and cash equivalents at beginning of year	31,914	34,306	32,385
Cash and cash equivalents at end of year	$ 68,846	$ 31,914	$ 34,306
Supplemental cash flow information:			
Cash paid for interest	$ 3,394	$ 4,170	$ 2,510
Cash paid for income taxes	$ 176	$ 166	$ 131

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001, 2000 and 1999
(Dollars in thousands, except share and per share data)

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") which, as to insurance companies, differ from the statutory accounting practices prescribed or permitted by regulatory authorities. These financial statements include the accounts of Atlantic American Corporation (the "Company") and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

At December 31, 2001, the Company had five insurance subsidiaries, including Bankers Fidelity Life Insurance Company ("Bankers Fidelity"), American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company (together known as "American Southern"), Association Casualty Insurance Company ("ACIC") and Georgia Casualty & Surety Company ("Georgia Casualty"), in addition to two non-risk bearing subsidiaries, Association Risk Management General Agency, Inc. ("ARMGA") and Self-Insurance Administrators, Inc. ("SIA, Inc."). ACIC and ARMGA (together known as "Association Casualty") were acquired on July 1, 1999. The results of operations of Association Casualty are included in the consolidated results of operations since the date of acquisition.

Premium Revenue and Cost Recognition

Life insurance premiums are recognized as revenues when due, whereas accident and health premiums are recognized over the premium paying period. Benefits and expenses are associated with premiums as they are earned so as to result in recognition of profits over the lives of the contracts. This association is accomplished by the provision of a future policy benefits reserve and the deferral and subsequent amortization of the costs of acquiring business, "deferred policy acquisition costs" (principally commissions, premium taxes, advertising and other expenses of issuing policies). Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. The deferred policy acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance).

Property and casualty insurance premiums are recognized as revenue ratably over the contract period. The Company provides for insurance benefits and losses on accident, health, and casualty claims based upon estimates of projected ultimate losses.

Goodwill

Goodwill is amortized over a period of fifteen to forty years using the straight-line method. The Company periodically evaluates whether events and circumstances have occurred that indicate that the remaining estimated useful life of goodwill may warrant revision. Should factors indicate that goodwill be evaluated for possible impairment, the Company will compare the recoverability of goodwill to a projection of the acquired companies' undiscounted cash flow over the estimated remaining life of the goodwill in assessing whether the goodwill is recoverable. (See Impact of Recently Issued Accounting Standards provided below).

Investments

All of the Company's debt and equity securities are classified as available for sale and are carried at market value. Mortgage loans, policy and student loans, and real estate are carried at historical cost. Other invested assets are comprised of investments in limited partnerships, limited liability companies, and real estate joint ventures; those which are publicly traded are carried at estimated market value and those for which the Company has the ability to exercise significant influence ("equity investees") are accounted for using the equity method. If the value of a common stock, preferred stock, other invested asset, or publicly traded bond declines below its cost or amortized cost, and the decline is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated net realizable value, which becomes the new cost basis. Premiums and discounts related to investments are amortized or accreted over the life of the related investment as an adjustment to yield using the effective interest method. Dividends and interest income are recognized when earned or declared.

The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of invested assets, are accounted for as a direct increase (decrease) in accumulated other comprehensive income in shareholders' equity, net of deferred tax and, accordingly, have no effect on net income.

Income Taxes

Deferred income taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates as those changes are enacted. The provision for income taxes represents the total amount of income taxes due related to the current year, plus the change in deferred taxes during the year.

Earnings Per Common Share

Basic earnings per common share are based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are based on the weighted average number of common shares outstanding during each period, plus common shares calculated for stock options outstanding using the treasury stock method and assumed conversion of the Series B and C Preferred Stock, if dilutive. Unless otherwise indicated, earnings per common share amounts are presented on a diluted basis.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and investments in short-term, highly liquid securities which have original maturities of three months or less from date of purchase.

Impact of Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 requires the recognition of the fair value of all derivative instruments on the balance sheet and establishes specific accounting methods for hedges. The Company adopted SFAS No. 133 and the corresponding amendments under SFAS No. 138 on January 1, 2001. The adoption did not have a material effect on the Company's financial condition or results of operations.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other tangible assets arising from business combinations completed after June 30, 2001. SFAS No. 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Under the new rules, goodwill (and intangible assets deemed to have indefinite lives) will no longer be amortized but will be subject to annual impairment tests in accordance with the statement. Other intangible assets will continue to be amortized over their remaining useful lives. As of December 31, 2001, the Company had unamortized goodwill of $18,824 all of which will be subject to the transition provisions of SFAS No. 142. Amortization expense related to goodwill was $802, $798, and $604 for the years ended December 31, 2001, 2000, and 1999, respectively. The Company will adopt SFAS No. 142 on January 1, 2002. Goodwill shall be tested for impairment using the two-step process prescribed in SFAS No. 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Any impairment loss that is required to be recognized when adopting SFAS No. 142 will be reflected as a cumulative effect of change in accounting principle during the first quarter of 2002. The impact of adopting SFAS No. 142 on the Company's financial statements has not yet been determined; however, it could have a material impact on the Company's results of operations in 2002.

In August 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" (effective for fiscal periods commencing after June 15, 2002) and SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (effective for fiscal periods commencing after December 15, 2001) were issued. SFAS No. 143 requires that entities recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. The statement superseded SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" and among other factors, establishes criteria beyond that previously specified in Statement 121 to determine when a long-lived asset is to be considered as held for sale. The Company believes that the adoption of SFAS No. 143 and SFAS No. 144 will not have significant impact on the Company's financial statements.

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

Table of Contents

Note 2. Investments

Investments are comprised of the following:

	2001			
	Market Value	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Amortized Cost**
Bonds:				
U. S. Treasury Securities and Obligations of U. S. Government Corporations and Agencies	**$ 72,875**	**$ 1,164**	**$ 136**	**$ 71,847**
Obligations of states and political subdivisions	**4,317**	**71**	**57**	**4,303**
Corporate securities	**47,713**	**790**	**802**	**47,725**
Mortgage-backed securities (government guaranteed)	**8,565**	**198**	**—**	**8,367**
	133,470	**2,223**	**995**	**132,242**
Common and preferred stocks	**54,628**	**14,640**	**1,670**	**41,658**
Other invested assets	**4,854**	**—**	**208**	**5,062**
Mortgage loans (estimated fair value of $4,126)	**3,421**	**—**	**—**	**3,421**
Policy and student loans	**2,713**	**—**	**—**	**2,713**
Real estate	**46**	**—**	**—**	**46**
Investments	**199,132**	**16,863**	**2,873**	**185,142**
Short-term investments	**39,151**	**—**	**—**	**39,151**
Total investments	**$238,283**	**$16,863**	**$2,873**	**$224,293**

	2000			
	Market Value	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Amortized Cost**
Bonds:				
U. S. Treasury Securities and Obligations of U. S. Government Corporations and Agencies	$111,198	$ 608	$1,517	$112,107
Obligations of states and political subdivisions	4,088	37	2	4,053
Corporate securities	37,752	563	921	38,110
Mortgage-backed securities (government guaranteed)	6,366	71	9	6,304
	159,404	1,279	2,449	160,574
Common and preferred stocks	43,945	14,566	2,730	32,109
Other invested assets	5,862	—	174	6,036
Mortgage loans (estimated fair value of $4,040)	3,538	—	—	3,538
Policy and student loans	3,098	—	—	3,098
Real estate	46	—	—	46
Investments	215,893	15,845	5,353	205,401
Short-term investments	15,013	—	—	15,013
Total investments	$230,906	$15,845	$5,353	$220,414

Bonds and cash having an amortized cost of $15,925 and $16,187 were on deposit with insurance regulatory authorities at December 31, 2001 and 2000, respectively, in accordance with statutory requirements.

Table of Contents

The amortized cost and carrying value of bonds and short-term investments at December 31, 2001 by contractual maturity are as follows. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Market Value	Amortized Cost
Due in one year or less	$ 58,033	$ 57,805
Due after one year through five years	36,490	36,167
Due after five years through ten years	31,884	31,199
Due after ten years	30,052	30,341
Varying maturities	16,162	15,881
Totals	$172,621	$171,393

Investment income was earned from the following sources:

	2001	2000	1999
Bonds	$10,530	$10,882	$ 8,447
Common and preferred stocks	2,438	2,470	2,388
Mortgage loans	323	333	352
CDs and commercial paper	1,071	849	933
Other	(45)	1,018	604
Total investment income	14,317	15,552	12,724
Less investment expenses	(176)	(232)	(290)
Net investment income	$14,141	$15,320	$12,434

A summary of realized investment gains (losses) follows:

	2001			
	Stocks	Bonds	Other Invested Assets	Total
Gains	$1,189	$927	$ —	$2,116
Losses	(289)	(27)	(92)	(408)
Total realized investment gains (losses) net	$ 900	$900	$(92)	$1,708

	2000			
	Stocks	Bonds	Other Invested Assets	Total
Gains	$1,907	$ 52	$ —	$1,959
Losses	(11)	(26)	—	(37)
Total realized investment gains (losses) net	$1,896	$ 26	$ —	$1,922

	1999			
	Stocks	Bonds	Other Invested Assets	Total
Gains	$2,526	$ 10	$585	$3,121
Losses	(52)	(238)	—	(290)
Total realized investment gains (losses) net	$2,474	$(228)	$585	$2,831

Proceeds from the sale of common and preferred stocks, bonds and other investments are as follows:

	2001	2000	1999
Common and preferred stocks	$18,194	$2,595	$5,960
Bonds	19,717	—	1,379
Student loans	385	651	519
Other investments	826	201	624
Total proceeds	$39,122	$3,447	$8,482

The Company's investment in the common stock of Wachovia Corporation exceeds 10% of shareholders' equity at December 31, 2001. The carrying value of this investment at December 31, 2001 was $14,350 with a cost basis of $3,579. The Company's bond portfolio included 96% investment grade securities at December 31, 2001 as defined by the National Association of Insurance Commissioners ("NAIC").

Note 3. Insurance Reserves and Policyholder Funds

The following table presents the Company's reserves for life, accident, health and property and casualty losses as well as loss adjustment expenses.

			Amount of Insurance in Force	
	2001	2000	2001	2000
Future policy benefits				
Life insurance policies:				
Ordinary	$ 34,213	$ 31,542	$262,891	$253,721
Mass market	7,102	7,529	13,146	12,250
Individual annuities	843	855	—	—
	42,158	39,926	$276,037	$265,971
Accident and health insurance policies	2,197	2,180		
	44,355	42,106		
Unearned premiums	51,025	45,421		
Losses and claims	143,515	133,220		
Other policy liabilities	4,304	4,417		
Total policy liabilities	$243,199	$225,164		

Annualized premiums for accident and health insurance policies were $44,763 and $39,361 at December 31, 2001 and 2000, respectively.

Future Policy Benefits

Liabilities for life insurance future policy benefits are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company's experience. The interest rates assumed for life, accident and health are generally: (i) 2.5% to 5.5% for issues prior to 1977, (ii) 7% graded to 5.5% for 1977 through 1979 issues, (iii) 9% for 1980 through 1987 issues, and (iv) 5% to 7% for 1988 and later issues.

Loss and Claim Reserves

Loss and claim reserves represent estimates of projected ultimate losses and are based upon: (a) management's estimate of ultimate liability and claim adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of incurred but not reported claims based on past experience, and (c) estimates of loss adjustment expenses. The estimated liability is continually reviewed by management and independent consulting actuaries and updated with changes to the estimated liability recorded in the statement of operations in the year in which such changes are known.

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

	2001	2000
Balance at January 1	$133,220	$126,556
Less: Reinsurance recoverables	(38,851)	(38,759)
Net balance at January 1	94,369	87,797
Incurred related to:		
Current year	108,068	102,336
Prior years	(2,415)	(6,085)
Total incurred	105,653	96,251
Paid related to:		
Current year	59,506	54,313
Prior years	44,730	35,366
Total paid	104,236	89,679
Net balance at December 31	95,786	94,369
Plus: Reinsurance recoverables	47,729	38,851
Balance at December 31	$143,515	$133,220

Following is a reconciliation of total incurred claims to total insurance benefits and losses incurred:

	2001	2000
Total incurred claims	$105,653	$96,251
State residual pool refunds and adjustments to loss portfolio arrangements	(150)	(59)
Cash surrender value and matured endowments	1,393	1,436
Total insurance benefits and losses incurred	$106,896	$97,628

Note 4. Reinsurance

In accordance with general practice in the insurance industry, portions of the life, property and casualty insurance written by the Company are reinsured; however, the Company remains contingently liable with respect to reinsurance ceded should any reinsurer be unable to meet its obligations. Approximately 93% of the reinsurance receivables are due from three reinsurers as of December 31, 2001. Reinsurance receivables of $24,215 are with General Reinsurance Corporation, rated “AAA” by Standard & Poor’s and “A++” (Superior) by A.M. Best, $2,271 are with First Colony Life Insurance Company, rated “AA” by Standard & Poor’s and “A++” (Superior) by A.M. Best, and $19,099 are with Pennsylvania Manufacturers Association Insurance Company, rated “A-” (Excellent) by A.M. Best. Allowances for uncollectible amounts are established against reinsurance receivables, if appropriate. Premiums assumed of $22,708, $25,439, and $24,903 in 2001, 2000, and 1999 respectively, include a state contract with premiums of $14,054, $17,198, and $15,064. The contract premiums represent 9.7%, 12.9% and 14.0% of net premiums earned for the years ended 2001, 2000, and 1999, respectively. The following table reconciles premiums written to premiums earned and summarizes the components of insurance benefits and losses incurred.

	2001	2000	1999
Direct premiums written	$153,743	$130,089	$ 97,909
Plus — premiums assumed	22,708	25,439	24,903
Less — premiums ceded	(25,399)	(10,916)	(13,189)
Net premiums written	151,052	144,612	109,623
Change in unearned premiums	(11,889)	(11,408)	(1,802)
Change in unearned premiums ceded	6,426	293	(227)
Net change in unearned premiums	(5,463)	(11,115)	(2,029)
Net premiums earned	$145,589	$133,497	$107,594
Provision for benefits and losses incurred	$132,724	$107,340	$ 88,848
Reinsurance loss recoveries	(25,828)	(9,712)	(10,686)
Insurance benefits and losses incurred	$106,896	$ 97,628	$ 78,162

Components of reinsurance receivables are as follows:

	2001	2000
Receivable on unpaid losses	$47,729	$38,851
Receivable on paid losses	1,217	237
	$48,946	$39,088

Note 5. Income Taxes

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the provision (benefit) for income taxes is as follows:

	2001	2000	1999
Federal income tax provision at statutory rate of 35%	$1,489	$1,665	$ 1,373
Tax exempt interest and dividends received deductions	(469)	(484)	(400)
Other permanent differences	314	363	—
Change in asset valuation allowance due to:			
Utilization of net operating loss carryforwards	—	—	(973)
Recognition of deferred tax liability relating to unrealized investment gains	—	—	(4,219)
Change in judgment relating to realizability of deferred tax assets	(827)	(537)	(2,778)
State income taxes	81	—	-
Alternative minimum tax	68	117	9
Total provision (benefit) for income taxes	$ 656	$1,124	$(6,988)

Deferred tax liabilities and assets at December 31, 2001 and 2000 are comprised of the following:

	2001	2000
Deferred tax liabilities:		
Deferred acquisition costs	$ (5,506)	$ (5,137)
Net unrealized investment gains	(4,897)	(3,672)
Deferred and uncollected premium	(1,321)	(1,214)
Other	(99)	(374)
Total deferred tax liabilities	(11,823)	(10,397)
Deferred tax assets:		
Net operating loss carryforwards	10,515	11,265
Insurance reserves	8,587	8,946
Bad debts and other	625	462
Total deferred tax assets	19,727	20,673
Asset valuation allowance	(5,610)	(6,437)
Net deferred tax assets	$ 2,294	$ 3,839

The components of the provision (benefit) are:

	2001	2000	1999
Current — Federal	$ 68	$ 117	$ 9
Current — State	81	—	—
Deferred — Federal	507	1,007	(6,997)
Total	$656	$1,124	$(6,988)

At December 31, 2001, the Company had regular federal net operating loss carryforwards of approximately $30,000 expiring generally between 2002 and 2010. Until the end of 1999, the Company established a full valuation allowance against its net deferred income tax benefits as they were not considered realizable from expected future reversals of existing taxable temporary differences. The Company believed that it was more likely than not that the deferred income tax benefits would not be realized through future taxable income prior to the expiration dates of net operating loss carryforwards. However, with the acquisition of Association Casualty and several years of profitability, in the fourth quarter of 1999 the Company determined that it was more likely than not that a portion of its net deferred income tax benefits relating to net operating loss carryforwards scheduled to expire between 2006 and 2010 would be realized based on future taxable income. Management also can and would implement tax-planning strategies to prevent these carryforwards from expiring.

As of December 31, 2001 and 2000, a valuation allowance of $5,610 and $6,437, respectively, has been established for deferred income tax benefits relating primarily to net operating loss carryforwards scheduled to expire between 2002 and 2003 that may not be realized. In 2001 and 2000, respectively, the decrease of $827 and $537 in the valuation allowance is due primarily to the utilization of a portion of these benefits that were previously reserved for. Since the Company’s ability to generate taxable income from operations and utilize available tax-planning strategies in the near term is dependent upon various factors, many of which are beyond management’s control, management believes that it is more likely than not that the remaining deferred income tax benefits relating primarily to the carryforwards scheduled to expire in 2002 and 2003 will not be realized. However, realization of the remaining deferred income tax benefits will be assessed periodically based on the Company’s current and anticipated results of operations and amounts could increase or decrease in the near term if estimates of future taxable income change. The Company has formal tax-sharing agreements and files a consolidated income tax return with its subsidiaries.

Note 6. Credit Arrangements

The Company is a party to a five-year revolving credit facility ("the Revolving Credit Facility") with Wachovia Bank that provides for borrowings up to $30,000. The interest rate on the borrowings under this facility may be fixed, at the Company's option, for a period of one, three, six or twelve months and is based upon the London Interbank Offered Rate ("LIBOR") plus an applicable margin, 2.50% at December 31, 2001. The margin varies based upon the Company's leverage ratio (debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), as defined under the facility agreements) and ranges from 1.75% to 3.75%. Interest on the Revolving Credit Facility is currently payable quarterly. The Revolving Credit Facility provides for the payment of all of the outstanding principal balance at June 30, 2004 with no required principal payments prior to that time. The interest rate including the applicable margin on this facility at December 31, 2001 and 2000 was 6.35% and 9.12%, respectively.

The Company also has outstanding $25,000 of Series 1999, Variable Rate Demand Bonds (the "Bonds") due July 1, 2009 issued through a private placement. The Bonds, which are redeemable at the Company's option, pay a variable interest rate that approximates 30-day LIBOR. The Bonds are backed by a letter of credit issued by Wachovia, which is automatically renewable on a monthly basis until thirteen months after such time as Wachovia gives the Company notice of its option not to renew the letter of credit. The Bonds are subject to mandatory redemption upon termination of the letter of credit, if an alternative letter of credit facility is not secured. The Company expects that it would be able to replace the letter of credit facility within the prescribed period if Wachovia should give notice of its intention not to renew the existing facility. The cost of the letter of credit and its associated fees are 2.50% making the effective rate on the Bonds LIBOR plus 2.50% at December 31, 2001. The interest on the Bonds is payable monthly and the letter of credit fees are payable quarterly. The interest rate on the Bonds, along with the related fees, at December 31, 2001 and 2000 was 4.63% and 9.15%, respectively. The Bonds do not require the repayment of any principal prior to maturity, except as provided above.

The Company is required, under both instruments, to maintain certain covenants including, among others, ratios that relate funded debt to total capitalization and interest coverage. The Company must also comply with limitations on capital expenditures and additional debt obligations.

Effective December 31, 2001, the Revolving Credit Facility and letter of credit were both amended by Wachovia. The amendment establishes new covenants pertaining to ratios related to interest coverage and eliminates funded debt to EBITDA except in determining the applicable margin. In addition, the Company is required to consolidate the Revolving Credit Facility and the Bonds into a term loan ("Term Loan"), effective on April 2, 2002 which will mature June 30, 2004. The Company has notified the holders of the Bonds that they will be redeemed as of April 2, 2002. The Company must repay the principal of the Term Loan in annual installments in the amount of $2,000 on or before December 31 of 2002 and 2003, together with one final installment at maturity in 2004.

Note 7. Derivative Financial Instruments

On March 21, 2001, the Company entered into an interest rate swap agreement with Wachovia to hedge its interest rate risk on a portion of the outstanding borrowings under the revolving credit facility. The interest rate swap was effective on April 2, 2001 and matures on June 30, 2004. The Company has agreed to pay a fixed rate of 5.1% and receive 3-month LIBOR until maturity. The settlement date and the reset date will occur every 90 days following April 2, 2001 until maturity. The following table summarizes the notional amount, fair value and carrying value of the Company's derivative financial instruments at December 31, 2001, as follows:

	Notional Amount	Fair Value	Carrying Value (Liability)
Interest rate swap agreement	$15,000	$(532)	$(532)

Note 8. Acquisitions

On July 1, 1999, the Company acquired 100% of the outstanding stock of ACIC and ARMGA for a combined price of $33,052 with $8,483 of the purchase price paid in the form of common stock of the Company and the remaining $24,569 paid in cash obtained from borrowings under the Revolving Credit Facility. The acquisition of ACIC and ARMGA were accounted for using the purchase method of accounting. Accordingly, the Company has allocated the purchase price of the companies based on the fair value of the assets acquired and liabilities assumed and their results of operations are included in the consolidated results of operations since the date of acquisition.

The following summarizes the Company's proforma unaudited results of operations for the year ended December 31, 1999 assuming the purchase of ACIC and ARMGA had been consummated as of January 1, 1999.

	Consolidated 1999
Revenue	$136,459
Net income	9,656
Per common share data:	
Basic earnings per common share	.40
Diluted earnings per common share	.39

This proforma financial information has been prepared for informational purposes only and is not necessarily indicative of the results of operations had the transaction been consummated on January 1, 1999, nor is it indicative of results of operations that may be obtained in the future.

Note 9. Commitments and Contingencies

Litigation

During 2000, American Southern renewed one of its larger accounts. Although this contract was renewed through a competitive bidding process, one of the parties bidding for this particular contract contested the award of this business to American Southern and filed a claim to obtain the nullification of the contract. During the fourth quarter of 2000, American Southern received an unfavorable judgment relating to this litigation and has appealed the ruling. The contract, which accounts for approximately 10% of annualized premium revenue, is to remain in effect pending appeal. While management at this time cannot predict the potential outcome in this case, or quantify the actual impact of an adverse decision, it may have a material impact on the future results of operations of the Company.

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

Operating Lease Commitments

The Company's rental expense, including common area charges, for operating leases was $1,732, $1,534, and $1,271 in 2001, 2000, and 1999 respectively. The Company's future minimum lease obligations under non-cancelable operating leases are as follows:

Year Ending December 31,	
2002	$1,381
2003	1,310
2004	1,312
2005	1,181
2006	491
Thereafter	1,789
Total	$7,464

Note 10. Employee Benefit Plans

Stock Options

In accordance with the Company's 1992 Incentive Plan, the Board of Directors may grant up to 1,800,000 stock options or share awards. The Board of Directors may grant: (a) incentive stock options within the meaning of Section 422 of the Internal Revenue Code; (b) non-qualified stock options; (c) performance units; (d) awards of restricted shares of the Company's common stock and other stock unit awards; (e) deferred shares of common stock; or (f) all or any combination of the foregoing to officers and key employees. Options granted under this plan expire five or ten years from the date of grant. Vesting occurs at 50% upon issuance of an option, and the remaining portion is vested at 25% increments in each of the following two years. In accordance with the Company's 1996 Director Stock Option Plan, a maximum of 200,000 stock options may be granted that fully vest six months after the grant date. As of December 31, 2001, an aggregate of sixty-six employees, officers and directors held options under the two plans.

A summary of the status of the Company's stock option plans at December 31, 2001 and 2000, is as follows:

	2001		2000	
	Shares	**Weighted Avg. Exercise Price**	**Shares**	**Weighted Avg. Exercise Price**
Options outstanding, beginning of year	1,024,000	$3.43	1,170,000	$3.34
Options granted	572,000	1.26	12,000	3.18
Options exercised	—	—	(120,000)	2.50
Options canceled or expired	(321,000)	2.75	(38,000)	3.63
Options outstanding, end of year	1,275,000	2.63	1,024,000	3.43
Options exercisable	991,250	3.02	992,125	3.41
Options available for future grant	194,150		435,150	

The Company does not recognize compensation for stock options cost since the option price approximates fair value on the date of grant. If compensation cost had been recognized, the Company's net income and earnings per share would have been as follows:

	2001	2000	1999
Net income:			
As reported	$3,597	$3,632	$10,910
Pro forma	3,398	3,480	10,477
Basic earnings per common share:			
As reported	$ .10	$ .12	$ .48
Pro forma	.09	.11	.46
Diluted earnings per common share:			
As reported	$ .10	$ .12	$ .46
Pro forma	.09	.11	.44

The resulting pro forma compensation cost may not be representative of that to be expected in future years.

	Outstanding			Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$1.00 to $1.50	562,500	9.79	$1.25	281,250	$1.25
$1.51 to $2.00	9,500	4.31	$1.86	8,250	$1.88
$2.51 to $3.00	12,000	2.09	$2.82	12,000	$2.82
$3.01 to $3.50	37,500	<1.00	$3.22	37,500	$3.22
$3.51 to $4.00	637,500	1.56	$3.77	636,250	$3.77
$4.01 to $4.50	11,000	1.87	$4.27	11,000	$4.27
$4.51 to $5.00	5,000	1.57	$4.94	5,000	$4.94
	1,275,000			991,250	

The weighted average fair value of options granted is estimated on the date of grant using the Black-Scholes option pricing model and was $.95 and $1.63 for grants in 2001 and 2000, respectively. Fair value determinations were based on expected dividend yields of zero, expected lives of 5 or 10 years, risk free interest rates of 4.49% and 4.99%, and expected volatility of 64.99% and 52.77%, for the years ended December 31, 2001 and 2000, respectively.

401(k) Plan

The Company initiated an employees' savings plan under Section 401(k) of the Internal Revenue Code in May 1995. The plan covers substantially all of the Company's employees, except employees of American Southern and Association Casualty. Under the plan, employees generally may elect to contribute up to 16% of their compensation to the plan. The Company makes a matching contribution to each employee in an amount equal to 50% of the first 6% of such contributions. The Company's matching contribution is in Company stock and with a value of approximately $159, $155, and $133 in 2001, 2000, and 1999, respectively. Association Casualty has a comparable savings plan covering substantially all of its employees.

Defined Benefit Pension Plans

The Company has two defined benefit pension plans covering the employees of American Southern. The Company's general funding policy is to contribute annually the maximum amount that can be deducted for income tax purposes.

Net periodic pension cost for American Southern's qualified and non-qualified defined benefit plans for the years ended December 31, 2001, 2000, and 1999 included the following components:

	2001	2000	1999
Service cost	$ 136	$ 119	$ 134
Interest cost	263	239	232
Expected return on plan assets	(192)	(209)	(219)
Net amortization	35	2	(27)
	$ 242	$ 151	$ 120

The following assumptions were used to measure the projected benefit obligation for the benefit plans at December 31, 2001, 2000, and 1999:

	2001	2000	1999
Discount rate to determine the projected benefit obligation	7.00%	7.00%	8.00%
Expected long-term rate of return on plan assets used to determine net periodic pension cost	8.00%	8.00%	8.00%
Projected annual salary increases	4.50%	4.50%	4.50%

The following table sets forth the benefit plans' funded status at December 31, 2001 and 2000:

	2001	2000
Change in Benefit Obligation		
Net benefit obligation at beginning of year	$ 3,792	$ 2,923
Service cost	136	119
Interest cost	263	239
Actuarial loss (gain)	73	614
Gross benefits paid	(47)	(103)
Net benefit obligation at end of year	$ 4,217	$ 3,792
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ 2,485	$ 2,676
Employer contributions	173	11
Actual return on plan assets	(428)	(99)
Gross benefits paid	(47)	(103)
Fair value of plan assets at end of year	$ 2,183	$ 2,485
Funded Status of Plan		
Funded status at end of year	$(2,034)	$(1,307)
Unrecognized net actuarial loss	1,382	721
Unrecognized prior service cost	(5)	(4)
Unrecognized net transition obligation	3	5
Net amount recognized at end of year	$ (654)	$ (585)

	2001	2000
Amounts recognized in the statement of financial position consist of:		
Prepaid benefit cost	$ —	$ —
Accrued benefit cost	(654)	(585)
Additional minimum liability	(85)	(116)
Net amount recognized at end of year	$(739)	$(701)

Included in the above is one plan which is unfunded. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for this plan were $921, $701, and $0, respectively, as of December 31, 2001 and $905, $653, and $0, respectively, as of December 31, 2000.

Note 11. Preferred Stock

The Company has 134,000 shares of Series B Preferred Stock ("Series B Preferred Stock") outstanding, having a stated value of $100 per share. Annual dividends on the Series B Preferred Stock are $9.00 per share and are cumulative. Dividends accrue whether or not declared by the Board of Directors. The Series B Preferred Stock is not currently convertible, but may become convertible into shares of the Company's common stock under certain circumstances. In such event, the Series B Preferred Stock would be convertible into an aggregate of approximately 3,358,000 shares of the common stock at a conversion rate of $3.99 per share. The Series B Preferred Stock is redeemable at the option of the Company. As of December 31, 2001 and 2000, the Company had accrued but unpaid dividends on the Series B Preferred Stock of $7,236 and $6,030, respectively. For all periods in which the Company had an accumulated deficit, dividends on the Series B Preferred Stock were accrued out of additional paid in capital.

The Company has 25,000 shares of Series C Preferred Stock ("Series C Preferred Stock") outstanding, having a stated value of $100 per share. Annual dividends are $9.00 per share and are cumulative. The Series C Preferred Stock is not currently convertible but may become convertible into shares of the Company's common stock under certain circumstances. In such event, the Series C Preferred Stock would be convertible into an aggregate of approximately 627,000 shares of the common stock at a conversion price of $3.99 per share. The Series C Preferred Stock is redeemable at the option of the Company. The Company paid $225 in dividends to the holders of the Series C Preferred Stock during 2001.

Note 12. Earnings Per Common Share

A reconciliation of the numerator and denominator of the earnings per common share calculations are as follows:

	For the Year Ended December 31, 2001		
	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Net income before preferred stock dividends	$ 3,597	21,198	
Less preferred dividends	(1,431)	—	
Net income available to common shareholders	2,166		$.10
Diluted Earnings Per Common Share			
Effect of dilutive stock options	—	160	
Net income available to common shareholders plus assumed conversions	$ 2,166	21,358	$.10

	For the Year Ended December 31, 2000		
	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Net income before preferred stock dividends	$ 3,632	21,044	
Less preferred dividends	(1,206)	—	
Net income available to common shareholders	2,426		$.12
Diluted Earnings Per Common Share			
Effect of dilutive stock options	—	6	
Net income available to common shareholders plus assumed conversions	$ 2,426	21,050	$.12

	For the Year Ended December 31, 1999		
	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Net income before preferred stock dividends	$10,910	20,030	
Less preferred dividends	(1,206)	—	
Net income available to common shareholders	9,704	20,030	$.48
Diluted Earnings Per Common Share			
Effect of dilutive stock options	—	122	
Effect of Series B Preferred Stock	1,206	3,358	
Net income available to common shareholders plus assumed conversions	$10,910	23,510	$.46

Outstanding stock options of 712,500, 804,000, and 748,000 were excluded from the earnings per common share calculation in 2001, 2000 and 1999, respectively, since their impact was antidilutive. The assumed conversion of the Series B and Series C Preferred Stock was excluded from the earnings per common share calculation for 2001 and 2000 since its impact was antidilutive.

Note 13. Statutory Reporting

The assets, liabilities and results of operations have been reported on the basis of GAAP, which varies from statutory accounting practices (“SAP”) prescribed or permitted by insurance regulatory authorities. The principal differences between SAP and GAAP are that under SAP: (i) certain assets that are non-admitted assets are eliminated from the balance sheet; (ii) acquisition costs for policies are expensed as incurred, while they are deferred and amortized over the estimated life of the policies under GAAP; (iii) the provision that is made for deferred income taxes is different than under GAAP; (iv) the timing of establishing certain reserves is different than under GAAP; and (v) valuation allowances are established against investments.

The amount of statutory net income and surplus (shareholders' equity) for the insurance subsidiaries for the years ended December 31 were as follows:

	2001	2000	1999
Life and Health, net income	$ 2,948	$ 2,515	$ 2,866
Property and Casualty, net income	3,539	2,420	3,909
Statutory net income	$ 6,487	$ 4,935	$ 6,775
Life and Health, surplus	$22,739	$23,726	$26,462
Property and Casualty, surplus	61,922	58,206	62,145
Total surplus	$84,661	$81,932	$88,607

Under the insurance code of the state of jurisdiction under which each insurance subsidiary operates, dividend payments to the Company by its insurance subsidiaries are subject to certain limitations without the prior approval of the Insurance Commissioner. The Company received dividends of $7,099 and $6,082 in 2001 and 2000, respectively, from its insurance subsidiaries. In 2002, dividend payments by the insurance subsidiaries in excess of $9,835 would require prior approval.

In 1999, the NAIC completed a process to codify statutory accounting practices for certain insurance enterprises ("Codification"). The Company adopted Codification on January 1, 2001. The cumulative effect of this accounting change increased statutory surplus by approximately $1,432. The most significant increase to statutory surplus was the recognition of deferred taxes. Codification did not impact the Company's financial statements prepared in accordance with GAAP.

Note 14. Related Party and Other Transactions

In the normal course of business and, in management's opinion, at terms comparable to those available from unrelated parties, the Company has engaged in transactions with its Chairman and his affiliates from time to time. These transactions include leasing of office space, investing and financing. A brief description of each of these is discussed below.

The Company leases approximately 65,489 square feet of office and covered garage space from an affiliated company. In the years ended December 31, 2001, 2000, and 1999, the Company paid $961, $904 and $898, respectively, under the leases.

Financing for the Company has been provided through affiliates of the Company or its Chairman, in the form of the Series B Preferred Stock and Series C Preferred Stock. (See note 11).

The Company made mortgage loans in 1999 to finance properties owned by its subsidiary at the time, Leath Furniture, LLC ("Leath"), which is now owned by an affiliate of the Chairman. At December 31, 2001 and 2000, the balance of mortgage loans owed by Leath to various of the Company's insurance subsidiaries was $3,421 and $3,538, respectively. For 2001, 2000, and 1999, interest paid by Leath on the mortgage loans totaled $323, $333, and $352, respectively.

Certain members of management are on the Boards of Directors of Bull Run Corporation ("Bull Run") and Gray Communications Systems, Inc. ("Gray"). At December 31, 2001 and 2000, the Company owned 1,116,667 and 650,000 common shares of Bull Run, respectively, and 354,060 shares of Gray's Series A Common Stock and 6,000 shares of Gray's Series B Common Stock. The Company also owned 350 shares of Gray's Series A Preferred Stock and 2,000 shares of Bull Run's Series A Preferred Stock at December 31, 2001. In addition, the Company held $4,010 in Gray's 10.65% debentures at December 31, 2001 and 2000 that were redeemed in January 2002.

In 1998, Georgia Casualty began assuming workers' compensation premiums from Delta Fire & Casualty Insurance Company which is controlled by certain affiliates of the Company. Premiums assumed and commissions paid in 2001 were $1,554 and $212, respectively, and in 2000 were $2,238 and $288, respectively.

In 1998, American Southern formed the American Auto Insurance Agency (the "Agency") in a joint venture with the AAA of Carolinas motor club to market personal automobile insurance to the members of the automobile club. American Southern holds a 50% interest in the joint venture and underwrites the majority of the standard automobile business written by the Agency. This program, which began writing business in 1999, had gross written premiums of approximately $6,084 and $7,200 in 2001 and 2000, respectively.

Note 15. Segment Information

The Company's primary insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance. American Southern, Association Casualty, and Georgia Casualty operate in the Property and Casualty insurance market, while Bankers Fidelity operates in the Life and Health insurance market. All segments derive revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than those in the corporate and other segment are from external sources. One account at American Southern, with the State of South Carolina, accounted for approximately $14,054, $17,198, and $15,064 of total revenue in 2001, 2000 and 1999, respectively.

	American Southern	Georgia Casualty	Bankers Fidelity	Association Casualty	Corporate & Other	Adjustments & Eliminations	Consolidated
As of December 31, 2001							
Insurance premiums	$ 39,023	$ 25,579	$ 55,276	$25,711	$ —	$ —	$145,589
Investment income, including net realized gains	4,630	2,907	4,968	3,462	945	(887)	16,025
Other income	126	29	—	495	6,978	(5,934)	1,694
Total revenue	43,779	28,515	60,244	29,668	7,923	(6,821)	163,308
Insurance benefits and losses incurred	26,069	17,644	39,570	23,613	—	—	106,896
Expenses deferred	(4,502)	(4,876)	(3,393)	(5,404)	—	—	(18,175)
Amortization expense	4,651	5,122	2,478	6,181	140	—	18,572
Other expenses	10,765	8,519	18,219	8,203	12,877	(6,821)	51,762
Total expenses	36,983	26,409	56,874	32,593	13,017	(6,821)	159,055
Income (loss) before income taxes	$ 6,796	$ 2,106	$ 3,370	$ (2,925)	$ (5,094)	$ —	$ 4,253
Total assets	$110,680	$103,701	$108,604	$90,505	$140,150	$(141,621)	$412,019

	American Southern	Georgia Casualty	Bankers Fidelity	Association Casualty	Corporate & Other	Adjustments & Eliminations	Consolidated
As of December 31, 2000							
Insurance premiums	$ 37,172	$28,576	$ 47,639	$20,110	$ —	$ —	$133,497
Investment income, including net realized gains	5,235	3,445	5,948	2,626	1,103	(883)	17,474
Other income	80	27	—	554	5,774	(5,148)	1,287
Total revenue	42,487	32,048	53,587	23,290	6,877	(6,031)	152,258
Insurance benefits and losses incurred	26,185	22,192	33,452	15,799	—	—	97,628
Expenses deferred	(5,242)	(5,918)	(3,544)	(4,100)	—	—	(18,804)
Amortization expense	5,224	5,699	2,177	4,308	140	—	17,548
Other expenses	10,190	11,159	17,131	7,027	11,654	(6,031)	51,130
Total expenses	36,357	33,132	49,216	23,034	11,794	(6,031)	147,502
Income (loss) before income taxes	$ 6,130	$ (1,084)	$ 4,371	$ 256	$ (4,917)	$ —	$ 4,756
Total assets	$109,592	$77,237	$103,066	$80,918	$137,334	$(132,370)	$375,777

	American Southern	Georgia Casualty	Bankers Fidelity	Association Casualty	Corporate & Other	Adjustments & Eliminations	Consolidated
As of December 31, 1999							
Insurance premiums	$38,166	$19,403	$ 41,527	$ 8,498	$ —	$ —	$107,594
Investment income, including net realized gains	4,587	3,759	5,984	981	656	(412)	15,555
Other income	173	52	—	365	5,573	(4,991)	1,172
Total revenue	42,926	23,214	47,511	9,844	6,229	(5,403)	124,321
Insurance benefits and losses incurred	26,934	16,535	28,313	6,380	—	—	78,162
Expenses deferred	(5,091)	(4,026)	(3,437)	(1,449)	—	—	(14,003)
Amortization expense	5,429	3,893	2,068	1,852	140	—	13,382
Other expenses	9,318	8,083	16,585	2,760	11,515	(5,403)	42,858
Total expenses	36,590	24,485	43,529	9,543	11,655	(5,403)	120,399
Income (loss) before income taxes	$ 6,336	$ (1,271)	$ 3,982	$ 301	$ (5,426)	$ —	$ 3,922
Total assets	$99,421	$70,207	$100,702	$73,912	$137,828	$(130,926)	$351,144

Note 16. Disclosures About Fair Value of Financial Instruments

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts which the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	2001		2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents, including short-term investments	$ 68,846	$ 68,846	$ 31,914	$ 31,914
Bonds	133,470	133,470	159,404	159,404
Common and preferred stocks	54,628	54,628	43,945	43,945
Mortgage loans	3,421	4,126	3,538	4,040
Policy and student loans	2,713	2,713	3,098	3,098
Other invested assets	4,854	4,854	5,862	5,862
Liabilities:				
Debt	44,000	44,000	46,500	46,500

The fair value estimates as of December 31, 2001 and 2000 are based on pertinent information available to management as of the respective dates. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, current estimates of fair value may differ significantly from amounts that might ultimately be realized.

The following describes the methods and assumptions used by the Company in estimating fair values:

Cash and Cash Equivalents, including Short-term Investments

The carrying amount approximates fair value due to the short-term nature of the instruments.

Bonds, Common and Preferred Stocks and Publicly Traded Other Invested Assets

The carrying amount is determined in accordance with methods prescribed by the NAIC, which do not differ materially from nationally quoted market prices.

Non-publicly Traded Invested Assets

The carrying amount approximates fair value.

Mortgage Loans

The fair values are estimated based on quoted market prices for those or similar investments.

Debt Payable

The fair value is estimated based on the quoted market prices for the same or similar issues or on the current rates offered for debt having the same or similar returns and remaining maturities.

Note 17. Reconciliation of Other Comprehensive Income

The Company's comprehensive income consists of net income and unrealized gains and losses on securities available for sale, net of applicable income taxes.

Other than net income, the other components of comprehensive income (loss) for the years ended December 31, 2001, 2000 and 1999 are as follows:

	December 31,		
	2001	2000	1999
Gain on the sale of securities included in net income	$ 1,708	$ 1,922	$ 2,831
Other comprehensive income (loss):			
Net pre-tax unrealized gain (loss) arising during year	$ 5,206	$ 359	$(13,900)
Reclassification adjustment	(1,708)	(1,922)	(2,831)
Net pre-tax unrealized loss recognized in other comprehensive income (loss)	3,498	(1,563)	(16,731)
Fair value adjustment to interest rate swap	(532)	—	—
Deferred income tax (expense) benefit attributable to other comprehensive income (loss)	(1,038)	547	(4,219)
Net unrealized gain (loss) recognized in other comprehensive income (loss)	$ 1,928	$(1,016)	$(20,950)

Note 18. Quarterly Financial Information (Unaudited)

The following table sets forth a summary of the quarterly unaudited results of operations for the two years ended December 31, 2001 and 2000:

	2001				2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$40,221	$41,060	$40,540	$41,487	$36,891	$36,845	$38,658	$39,864
Income (loss):								
Income (loss) before income tax (provision) benefit	$ 1,599	$ 1,029	$ 1,886	$ (261)	$ 1,726	$ 1,075	$ 1,447	$ 508
Income tax (provision) benefit	(609)	(389)	215	127	(574)	(364)	48	(234)
Net income (loss)	$ 990	$ 640	$ 2,101	$ (134)	$ 1,152	$ 711	$ 1,495	$ 274
Per common share data:								
Basic net income (loss) per share	$ .03	$ .01	$ .08	$ (.02)	$ .04	$ .02	$ .06	$ .00
Diluted net income (loss) per share	$ .03	$ .01	$ .08	$ (.02)	$ .04	$ .02	$ .06	$ .00

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

PART III

With the exception of information relating to the Executive Officers of the Company, which is provided in Part I hereof, all information required by Part III (Items 10, 11, 12, and 13) is incorporated by reference to the sections entitled "Election of Directors", "Security Ownership of Management", "Section 16(a) Beneficial Ownership Compliance", "Executive Compensation", and "Certain Relationships and Related Transactions" contained in the Company's definitive proxy statement to be delivered in connection with the Company's Annual Meeting of Shareholders to be held on May 7, 2002.

PART IV

Item 14. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a) *List of documents filed as part of this report:*

Financial Statement Schedules

I	—	Report of Independent Public Accountants included in report under Item 8.
II	—	Condensed financial information of Registrant for the three years ended December 31, 2001
III	—	Supplementary Insurance Information for the three years ended December 31, 2001
IV	—	Reinsurance for the three years ended December 31, 2001
VI	—	Supplemental Information concerning property-casualty insurance operations for the three years ended December 31, 2001

Schedules other than those listed above are omitted as they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

EXHIBITS

3.1	—	Restated and Amended Articles of Incorporation of the registrant
3.2	—	Bylaws of the registrant [incorporated by reference to Exhibit 3.2 to the registrant's Form 10-K for the year ended December 31, 1993].
10.01	—	Lease Contract between registrant and Delta Life Insurance Company dated June 1, 1992 [incorporated by reference to Exhibit 10.11 to the registrant's Form 10-K for the year ended December 31, 1992].
10.02	—	First Amendment to Lease Contract between registrant and Delta Life Insurance Company dated June 1, 1993 [incorporated by reference to Exhibit 10.11.1 to the registrant's Form 10Q for the quarter ended June 30, 1993].
10.03	—	Second Amendment to Lease Contract between registrant and Delta Life Insurance Company dated August 1, 1994 [incorporated by reference to Exhibit 10.11.2 to the registrant's Form 10Q for the quarter ended September 30, 1994].
10.04	—	Lease Agreement between Georgia Casualty & Surety Company and Delta Life Insurance Company dated September 1, 1991 [incorporated by reference to Exhibit 10.12 to the registrant's Form 10-K for the year ended December 31, 1992].
10.05	—	First Amendment to Lease Agreement between Georgia Casualty & Surety Company and Delta Life Insurance Company dated June 1,1992 [incorporated by reference to Exhibit 10.12.1 to the registrant's Form 10-K for the year ended December 31, 1992].
10.06	—	Management Agreement between registrant and Georgia Casualty & Surety Company dated April 1, 1983 [incorporated by reference to Exhibit 10.16 to the registrant's Form 10-K for the year ended December 31, 1986].

10.07*	—	Minutes of Meeting of Board of Directors of registrant held February 25, 1992 adopting registrant's 1992 Incentive Plan together with a copy of that plan, as adopted [incorporated by reference to Exhibit 10.21 to the registrant's Form 10-K for the year ended December 31, 1991].
10.08	—	Loan and Security Agreement dated August 26, 1991, between registrant's three insurance subsidiaries and Leath Furniture, Inc. [incorporated by reference to Exhibit 10.38 to the registrant's Form 10-K for the year ended December 31, 1992].
10.09	—	First amendment to the amended and reissued mortgage note dated January 1, 1992, [incorporated by reference to Exhibit 10.38.1 to the registrant's Form 10-K for the year ended December 31, 1992].
10.10	—	Intercreditor Agreement dated August 26, 1991, between Leath Furniture, Inc., the registrant and the registrant's three insurance subsidiaries [incorporated by reference to Exhibit 10.39 to the registrant's Form 10-K for the year ended December 31, 1992].
10.11	—	Management Agreement between Registrant and Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company dated July 1, 1993 [incorporated by reference to Exhibit 10.41 to the registrant's Form 10-Q for the quarter ended September 30, 1993].
10.12	—	Tax allocation agreement dated January 28, 1994, between registrant and registrant's subsidiaries [incorporated by reference to Exhibit 10.44 to the registrant's Form 10-K for the year ended December 31, 1993].
10.13	—	Acquisition Agreement by and among Atlantic American Corporation, Association Casualty Insurance Company, Association Risk Management General Agency, Inc. and Harold K. Fischer, dated as of April 21, 1999 [incorporated by reference to Exhibit 2.1 to the registrant's Form 8-K dated July 16, 1999].
10.14	—	Indenture of Trust, dated as of June 24, 1999, by and between Atlantic American Corporation and The Bank of New York, as Trustee [incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K dated July 16, 1999].
10.15	—	Reimbursement and Security Agreement, dated as of June 24, 1999, between Atlantic American Corporation and Wachovia Bank of Georgia, N.A. [incorporated by reference to Exhibit 10.3 to the registrant's Form 8-K dated July 16, 1999].
10.16	—	Revolving Credit Facility, dated as of July 1, 1999 between Atlantic American Corporation and Wachovia Bank of Georgia, N.A. [incorporated by reference to Exhibit 10.3 to the registrant's Form 8-K dated July 16, 1999].
10.17	—	First Amendment, dated as of March 24, 2000, to Credit Agreement, dated as of July 1, 1999, between Atlantic American Corporation and Wachovia Bank of Georgia, N.A. [incorporated by reference to Exhibit 10.1 to the registrant's Form 10-Q for the quarter ended June 30, 2000].
10.18	—	Second Amendment, dated February 9, 2001, to Credit Agreement, dated as of July 1, 1999, between Atlantic American Corporation and Wachovia Bank of Georgia, N.A. [Incorporated by reference to Exhibit 10.18 to the registrant's Form 10K for the year ended December 31, 2000].
10.19	—	Third Amendment, date February 22, 2002 to Credit Agreement, dated as of July 1, 1999, between Atlantic American Corporation and Wachovia Bank of Georgia, N.A.
10.20	—	Atlantic American Corporation 1992 Incentive Plan [incorporated by reference to Exhibit 4 to the registrant's Form S-8 filed on November 1, 1999].
10.21	—	Atlantic American Corporation 1996 Director Stock Option Plan [incorporated by reference to Exhibit 4 to the registrant's Form S-8 filed on November 1, 1999].
21.1	—	Subsidiaries of the registrant.
23.1	—	Consent of Arthur Andersen LLP, Independent Public Accountants.
99	—	Letter dated March 27, 2002 regarding representations of Arthur Andersen L.L.P.

* Management contract, compensatory plan or arrangement required to be filed pursuant to, Part IV, Item 14(C) of Form 10-K and Item 601 of Regulation S-K.

(b) *Reports on Form 8-K.*

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

(Registrant) ATLANTIC AMERICAN CORPORATION

By: /s/ HILTON H. HOWELL, JR.

Hilton H. Howell, Jr.
President and Chief Executive Officer

Date: March 29, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ J. MACK ROBINSON J. Mack Robinson	Chairman of the Board	March 29, 2002
/s/ HILTON H. HOWELL, JR. Hilton H. Howell, Jr.	President, Chief Executive Officer and Director (Principal Executive and Financial Officer)	March 29, 2002
/s/ CASEY B. HUDSON Casey B. Hudson	Assistant Vice President and Controller (Principal Accounting Officer)	March 29, 2002
/s/ EDWARD E. ELSON Edward E. Elson	Director	March 29, 2002
/s/ SAMUEL E. HUDGINS Samuel E. Hudgins	Director	March 29, 2002
/s/ D. RAYMOND RIDDLE D. Raymond Riddle	Director	March 29, 2002
/s/ HARRIETT J. ROBINSON Harriett J. Robinson	Director	March 29, 2002
/s/ SCOTT G. THOMPSON Scott G. Thompson	Director	March 29, 2002
/s/ MARK C. WEST Mark C. West	Director	March 29, 2002
/s/ WILLIAM H. WHALEY, M.D. William H. Whaley, M.D.	Director	March 29, 2002

Table of Contents

Signature	Title	Date
/s/ DOM H. WYANT Dom H. Wyant	Director	March 29, 2002
/s/ HAROLD K. FISCHER Harold K. Fischer	Director	March 29, 2002

Table of Contents

SCHEDULE II

ATLANTIC AMERICAN CORPORATION

(Parent Company Only)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEETS

	December 31, 2001	December 31, 2000
	(In thousands)	
ASSETS		
Current assets:		
Cash and short-term investments	$ 517	$ —
Investment in insurance subsidiaries	135,026	131,080
Deferred income taxes, net	773	2,318
Income taxes receivable from subsidiaries	2,041	1,209
Other assets	2,462	2,983
	$140,819	$137,590
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Other payables	$ 9,293	$ 7,850
Total current liabilities	9,293	7,850
Long-term debt	44,000	46,500
Shareholders' equity	87,526	83,240
	$140,819	$137,590

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

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT — (Continued)

STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2001	2000	1999
		(In thousands)	
Revenue			
Fees, rentals and interest income from subsidiaries	$ 5,933	$ 5,148	$ 4,980
Distributed earnings from subsidiaries	7,099	6,382	5,706
Other	1,299	1,094	651
Total revenue	14,331	12,624	11,337
General and administrative expenses	9,318	6,991	8,441
Interest expense	3,234	4,408	2,819
	1,779	1,225	77
Income tax benefit(1)	1,606	1,032	8,963
	3,385	2,257	9,040
Equity in undistributed earnings of consolidated subsidiaries, net	212	1,375	1,870
Net income	$ 3,597	$ 3,632	$10,910

(1) Under the terms of its tax-sharing agreement with its subsidiaries, income tax provisions for the individual companies are computed on a separate company basis. Accordingly, the Company’s income tax benefit results from the utilization of the parent company separate return loss to reduce the consolidated taxable income of the Company and its subsidiaries.

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

Table of Contents

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT — (Continued)

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2001	2000	1999
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,597	$ 3,632	$ 10,910
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment gains	(118)	(270)	(239)
Depreciation and amortization	631	620	599
Compensation expense related to stock grants	45	51	—
Equity in undistributed earnings of consolidated subsidiaries	(212)	(1,375)	(1,870)
Change in intercompany taxes	(832)	(1,212)	(60)
Deferred income tax benefit	507	1,007	(6,997)
(Decrease) increase in other liabilities	(296)	318	798
Other, net	(46)	(734)	186
Net cash provided by operating activities	3,276	2,037	3,327
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investments purchased	—	(47)	—
Acquisition of Association Casualty	(128)	(94)	(24,475)
Capital contribution to Georgia Casualty	—	—	(2,000)
Additions to property and equipment	(803)	(507)	(446)
Net cash used in investing activities	(931)	(648)	(26,921)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of bank financing	—	—	51,000
Preferred stock dividends to affiliated shareholders	(225)	—	—
Purchase of treasury shares	(11)	(79)	(779)
Repayments of short-term debt	—	—	(2,400)
Retirements and payments of long-term debt	(2,500)	(4,500)	(23,600)
Issuance of preferred stocks	750	1,750	—
Proceeds from exercise of stock options	158	410	273
Net cash (used in) provided by financing activities	(1,828)	(2,419)	24,494
Net increase (decrease) in cash	517	(1,030)	900
Cash at beginning of year	—	1,030	130
Cash at end of year	$ 517	$ —	$ 1,030
Supplemental disclosure:			
Cash paid for interest	$ 3,394	$ 4,170	$ 2,510
Cash paid for income taxes	$ 100	$ 166	$ 131
Issuance of stock to acquire Association Casualty	$ —	$ —	$ 8,483

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

SCHEDULE III

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY INSURANCE INFORMATION

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Reserves	Unearned Premiums	Other Policy Claims and Benefits Payable
		(In thousands)		
December 31, 2001:				
Bankers Fidelity	$18,554	$ 51,932	$ 3,219	$2,153
American Southern	2,024	46,235	18,598	2,151
Association Casualty	1,799	38,489	11,590	-0-
Georgia Casualty	2,304	51,214	17,618	-0-
	$24,681	$187,870(1)	$51,025	$4,304
December 31, 2000:				
Bankers Fidelity	$17,333	$ 49,078	$ 3,221	$2,370
American Southern	1,805	48,340	18,063	2,047
Association Casualty	1,929	31,175	11,854	-0-
Georgia Casualty	2,331	46,733	12,283	-0-
	$23,398	$175,326(2)	$45,421	$4,417
December 31, 1999:				
Bankers Fidelity	$15,644	$ 46,427	$ 3,046	$2,120
American Southern	1,401	48,751	12,235	1,795
Association Casualty	1,478	30,000	9,241	288
Georgia Casualty	1,875	41,471	9,771	-0-
	$20,398	$166,649(3)	$34,293	$4,203

(1) Includes future policy benefits of $44,355 and losses and claims of $143,515.

(2) Includes future policy benefits of $42,106 and losses and claims of $133,220.

(3) Includes future policy benefits of $40,093 and losses and claims of $126,556.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY INSURANCE INFORMATION

Segment	Premium Revenue	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses	Casualty Premiums Written
			(In thousands)			
December 31, 2001:						
Bankers Fidelity	$ 55,276	$ 4,318	$ 39,570	$ 2,173	$15,131	$ —
American Southern	39,023	4,590	26,069	4,282	6,632	39,558
Association Casualty	25,711	2,591	23,613	5,534	3,446	30,956
Georgia Casualty	25,579	2,639	17,644	4,903	3,862	25,264
Other	—	3	—	—	6,196	—
	$145,589	$14,141	$106,896	$16,892	$35,267	$95,778
December 31, 2000:						
Bankers Fidelity	$ 47,639	$ 4,886	$ 33,452	$ 1,854	$13,910	$ —
American Southern	37,172	5,205	26,185	4,838	5,334	43,040
Association Casualty	20,110	2,510	15,799	3,650	3,585	22,653
Georgia Casualty	28,576	2,710	22,192	5,462	5,478	31,106
Other	—	9	—	—	5,763	—
	$133,497	$15,320	$ 97,628	$15,804	$34,070	$96,799
December 31, 1999:						
Bankers Fidelity	$ 41,527	$ 4,676	$ 28,313	$ 1,766	$13,450	$ —
American Southern	38,166	4,614	26,934	5,068	4,588	38,530
Association Casualty	8,498	1,045	6,380	1,431	1,732	8,524
Georgia Casualty	19,403	2,095	16,535	3,682	4,268	20,870
Other	—	4	—	—	6,252	—
	$107,594	$12,434	$ 78,162	$11,947	$30,290	$67,924

SCHEDULE IV

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES

REINSURANCE

	Direct Amount	Ceded to Other Companies	Assumed From Other Companies	Net Amounts	Percentage of Amount Assumed to Net
			(In thousands)		
Year ended December 31, 2001:					
Life insurance in force	$305,952	$(29,915)	$ —	$276,037	
Premiums —					
Bankers Fidelity	$ 54,591	$ (72)	$ 757	$ 55,276	1.4%
American Southern	24,101	(5,929)	20,851	39,023	53.4%
Association Casualty	28,626	(2,915)	—	25,711	—
Georgia Casualty	29,746	(10,053)	5,886	25,579	23.0%
Total premiums	$137,064	$(18,969)	$27,494	$145,589	18.9%
Year ended December 31, 2000:					
Life insurance in force	$293,632	$(27,661)	$ —	$265,971	
Premiums —					
Bankers Fidelity	$ 46,792	$ (73)	$ 920	$ 47,639	1.9%
American Southern	21,167	(4,453)	20,458	37,172	55.0%
Association Casualty	22,074	(1,964)	—	20,110	—
Georgia Casualty	29,373	(3,944)	3,147	28,576	11.0%
Total premiums	$119,406	$(10,434)	$24,525	$133,497	18.4%
Year ended December 31, 1999:					
Life insurance in force	$281,565	$(26,790)	$ —	$254,775	
Premiums —					
Bankers Fidelity	$ 41,407	$ (934)	$ 1,054	$ 41,527	2.5%
American Southern	17,158	(5,384)	26,392	38,166	69.2%
Association Casualty	9,273	(775)	—	8,498	—
Georgia Casualty	23,831	(5,966)	1,538	19,403	7.9%
Total premiums	$ 91,669	$(13,059)	$28,984	$107,594	26.9%

SCHEDULE VI

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION CONCERNING

PROPERTY-CASUALTY INSURANCE OPERATIONS

Year Ended	Deferred Policy Acquisition	Reserves	Unearned Premium	Earned Premium	Net Investment Income	Claims and Claim Adjustment Expenses Incurred Related To		Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
						Current Year	Prior Years			
					(In thousands)					
December 31, 2001	$6,127	$135,938	$47,806	$90,313	$ 9,757	70,250	$(2,774)	$14,719	$66,665	$95,778
December 31, 2000	$6,065	$126,248	$42,200	$85,858	$10,425	$69,839	$(5,604)	$13,950	$58,301	$96,798
December 31, 1999	$4,754	$120,222	$31,247	$66,067	$ 7,754	$52,119	$(1,941)	$10,181	$47,194	$67,924

Exhibit 3.1

RESTATED AND AMENDED ARTICLES OF INCORPORATION OF ATLANTIC AMERICAN CORPORATION

ARTICLE I.

The name of the corporation is Atlantic American Corporation.

ARTICLE II.

The corporation is organized pursuant to the Business Corporation Code of the State of Georgia.

ARTICLE III.

The duration of the corporation shall be perpetual.

ARTICLE IV.

The purposes for which the corporation are organized is as follows:

(a) To generally engage in the business of buying, selling or otherwise dealing in notes, accounts, bonds, debentures, securities, choses in action, coupons and other negotiable instruments and evidences of debt, and any and all other forms of real, personal or mixed property; to form, promote, subsidize and assist companies, corporations, syndicates, joint ventures, partnerships and business enterprises of all kinds; to guarantee, become surety upon or endorse the contracts or obligations of any other corporation, individual or business entity, whether purely accommodation or not, and whether the corporation has any direct interest in the subject matter so guaranteed or endorsed; to lend the capital of the corporation and such other funds as it may from time to time lawfully acquire upon such security as may be agreed; and to generally carry on and undertake any business undertaking, transaction or operation commonly carried on in connection with the operation of a general business, industrial, investment, and lending finance operation.

(b) To purchase, acquire, hold, pledge, exchange and otherwise deal in, either alone or in conjunction with others, stocks, bonds, debentures, rights, warrants, and any other kinds or types of securities of any sort or kind of any corporation, association, partnership, syndicate, entity, person or authority, domestic or foreign; to create and issue, whether or not in connection with the issue and sale of any shares of stock or other securities of the corporation, rights or options, entitling the holder thereof to purchase shares of stock or any other security of the corporation on such terms as may be provided, so long as shares of stock with a par value to be received on the exercise of such rights or options shall be paid for at a price at least equal to the par value thereof.

(c) To buy, own, hold, mortgage, lease, encumber, sell, exchange, assign, transfer, acquire by gift, device or otherwise and otherwise to deal in generally real, personal and intangible property of whatsoever kind or sort wherever situated.

(d) Generally to do any and all things necessary, convenient or appropriate which are incidental or connected with any of the business activities mentioned above.

ARTICLE V.

The total number of shares of capital stock of the Corporation shall be 34,000,000, which shall consist of (a) 30,000,000 shares of common stock of the par value of $1.00 per share ("Common Stock"), and (b) 4,000,000 shares of Preferred Stock of the par value of $1.00 per share ("Preferred Stock"), of which Preferred Stock (i) 30,000 shares shall be designated as "Series A Convertible Preferred Stock" having the powers, preferences and rights heretofore designated as part of these Restated Articles of Incorporation, (ii) 134,000 shares shall be designated as "Series B Preferred Stock" having the powers, preferences and rights heretofore designated as part of these Restated Articles of Incorporation, and (iii) 100,000 shares shall be designated as "Series C Preferred Stock" having the powers, preferences and rights set forth in the Statement of Relative Rights and Preferences of the Series C Preferred Stock attached hereto as Exhibit A and made a part of the Corporation's Restated Articles of Incorporation.

The following is a statement fixing certain of the designations and the powers, voting powers, preferences and relative, participating, optional or other rights of the Preferred Stock and the Common Stock of the corporation, and the qualifications, limitations or restrictions thereof, and of the authority with respect thereto expressly granted to the Board of Directors of the corporation to fix any such provisions not fixed hereby:

A. Preferred Stock

The Board of Directors is hereby expressly vested with the authority to adopt a resolution or resolutions providing for the issue of authorized but unissued shares of Preferred Stock, which shares may be issued from time to time in one or more series and in such amounts as may be determined by the Board of Directors in such resolution or resolutions. The powers, voting powers, designations, preferences and relative, participating, optional, or other special rights, if any, of each series of Preferred Stock and the qualifications, limitations or restrictions, if any, of such preferences and/or rights (collectively, the "Series Terms"), shall be such as are stated and expressed in the resolution or resolutions providing the issue of such series of Preferred Stock (the "Series Terms Resolution") adopted by the Board of Directors. The powers of the Board of Directors with respect to the Series Terms of a particular series (any of which powers may by resolution of the Board of Directors be specifically delegated to one or more of its committees, except as prohibited by law) shall be limited to determination of the following:

(1) The number of shares constituting that series and the distinctive designation of that series;

(2) The rate of dividend on the shares of the series, whether such dividends, if any, shall be cumulative, and, if so, the date or dates from which dividends payable on such shares shall accumulate, and the relative rights of priority, if any, of payment of dividends on shares of that series;

(3) Whether that series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights;

(4) Whether that series shall have conversion privileges with respect to shares of any other class or classes of stock or of any other series of any class of stock, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate upon occurrence of such events as the Board of Directors shall determine;

(5) Whether the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including their relative rights of priority, if any, of redemption, the date or dates upon or after which they shall be redeemable, provisions regarding redemption notices, and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(6) Whether that series shall have a sinking fund for the redemption or purchase of shares of that series, and, if so, the terms and amount of such sinking fund; and

(7) The rights of the shares of that series in the event of voluntary or involuntary liquidation of the corporation, and the relative rights of priority, if any, of payment of shares of that series.

Any of the Series Terms, including voting rights, of any series may be dependent upon facts ascertainable outside the Articles of Incorporation and the Series Terms Resolution, provided that the manner in which such facts shall operate upon such Series Terms is clearly and expressly set forth in the Articles of Incorporation or in the Series Terms Resolution.

B. Common Stock

1. Dividends. Subject to the rights of the holders of shares of any series of Preferred Stock set forth in any Series Terms Resolution, the Board of Directors may, in its discretion, out of funds legally available for the payment of dividends and at such times and in such manner as determined by the Board of Directors, declare and pay dividends on the Common Stock of the corporation.

2. Liquidation. In the event of any liquidation, dissolution or winding up of the corporation, whether voluntary or involuntary, after payment or provision for the payment of the debts and other liabilities of the corporation and the payment or setting aside for payment of any preferential amount due to the holders of shares of any series of Preferred Stock, the holders of Common Stock, subject to the rights of the holders of any shares of any class of stock or series ranking on a parity with the Common Stock as to payments or distributions in such event, shall be entitled to receive ratably any and all assets of the corporation remaining to be paid or distributed.

3. Voting Rights. Subject to the rights of the holders of shares of any series of Preferred Stock set forth in any Series Terms Resolution, the holders of the Common Stock of the corporation shall be entitled at all meetings of stockholders to one vote for each share of such stock held by them.

C. Retirement of Shares

Unless otherwise provided in a Series Terms Resolution with respect to a particular series of Preferred Stock, all shares of Preferred Stock redeemed or acquired by the corporation (as a result of conversion or otherwise) shall be retired and restored to the status of authorized but unissued shares.

D. No Preemptive Rights

Unless otherwise provided with respect to a particular series of Preferred Stock in a Series Terms Resolution, no holder of shares of capital stock of the corporation shall have any preemptive or other right, except as such rights are expressly provided by contract, to purchase or subscribe for or receive any shares of any class, or series thereof, of capital stock of the corporation, whether now or hereafter authorized, or any warrants, options, bonds, debentures or other securities convertible into, exchangeable for or carrying any right to purchase any shares of any class, or series thereof, of capital stock of the corporation.

ARTICLE VI.

The principal office of the corporation shall be located in DeKalb County, Georgia.

ARTICLE VII.

A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any appropriation, in violation of his duties, of any business opportunity of the corporation, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for the types of liability set forth in Section 14-2-154 of the Georgia Business Corporation Code, as amended, and its successor provisions, or (iv) for any transaction from which the director derived an improper personal benefit.

ARTICLE VIII.

All shares previously reacquired by the corporation pursuant to the power of the corporation to purchase its own shares conferred generally by law (and not heretofore cancelled by action of the Board of Directors or resold) and all shares hereafter so reacquired shall become treasury shares of the corporation, and shall remain such unless and until resold or cancelled by action of the Board of Directors.

EXHIBIT A

RELATIVE RIGHTS AND PREFERENCES OF THE SERIES A CONVERTIBLE PREFERRED STOCK OF ATLANTIC AMERICAN CORPORATION

Pursuant to authority granted in the Articles of Incorporation, as amended, of the Corporation, the Board of Directors of the Corporation has been authorized to issue in series 4,000,000 shares of the Corporation's Preferred Stock of the par value of $1.00 per share, and to designate by resolution the relative rights and preferences of each series so established. By resolution of the Board of Directors, the Corporation has established a series of such Preferred Stock consisting of 30,000 shares and has designated said series as the "Series A Convertible Preferred Stock."

For the purposes of this statement, "Corporation" shall mean Atlantic American Corporation, a Georgia corporation;

"Board of Directors" shall mean the board of directors of the Corporation;

"Series A Preferred Stock" shall mean the 30,000 shares of Series A Convertible Preferred Stock of the par value of $1.00 per share of the Corporation;

"Common Stock" shall mean the common stock of the par value of $1.00 per share of the Corporation; and

"Original Issue Date" shall mean the date on which the first share of Series A Preferred Stock was originally issued.

The voting powers, preferences, and the relative, participating, optional and other rights granted to and imposed upon the Series A Preferred Stock are as follows:

(a) Dividend Rights. From and after the issuance of the Series A Preferred Stock, the holders of outstanding shares of the Series A Preferred Stock shall be entitled to receive, and shall be paid, when and as declared by the Board of Directors, out of funds legally available therefor, cumulative dividends at the annual rate of Ten Dollars and Fifty Cents ($10.50) per share, payable in arrears quarterly on March 15, June 15, September 15 and December 15 of each year, commencing March 15, 1988, to stockholders of record on a date not more than twenty (20) days prior to the date on which such cash dividends are payable, said dividends to commence accrual on the Original Issue Date. Such dividends shall be prior and in preference to any declaration of payment of any dividend on the Common Stock and any other class or series of capital stock ranking junior to the Series A Preferred Stock in respect of dividends or distributions upon liquidation. Such dividends shall be cumulative and shall accrue whether or not declared by the Board of Directors. No cash dividends shall be paid on the Common Stock or any other junior stock (except stock dividends of Common Stock or any other junior stock), until all dividends accrued on any outstanding shares of the Series A Preferred Stock and all other series of preferred stock ranking on a parity with the Series A Preferred Stock, whether or not declared, have been set apart and fully paid. No accumulation of dividends on the Series A Preferred Stock shall bear interest.

In the event cash dividends are not paid in full on all outstanding shares of the Series A Preferred Stock and any other series of preferred stock ranking on a parity with the Series A Preferred Stock, shares of the Series A Preferred Stock and shares of such other series of preferred stock shall be entitled to proportionate amounts of the funds available for their respective dividend requirements based upon the payments required to be made on the Series A Preferred Stock and each such other series of preferred stock then outstanding.

(b) Liquidation Rights. In the event of liquidation of the Corporation, whether voluntary or involuntary, the holders of shares of the Series A Preferred Stock will be entitled to receive, from the assets of the Corporation available for distribution to stockholders, an amount equal to One Hundred Dollars ($100.00) per share, plus all accrued but unpaid dividends on such shares, whether or not declared, before any distribution shall be made or set apart for holders of Common Stock or any other class or series of capital stock ranking junior to the Series A Preferred Stock in respect of dividends or distributions upon liquidation. The holders of Series A Preferred Stock shall be entitled to no further participation in any remaining assets of the Corporation. If, upon any liquidation of the Corporation, the assets of the Corporation, or proceeds thereof, distributable among the holders of shares of the Series A Preferred Stock and any other class or series of preferred stock ranking on a parity with the Series A Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full. Neither the consolidation or merger of the Corporation with or into any other corporation or corporations, nor the sale or lease of all or substantially all of the assets of the Corporation, shall constitute a liquidation as used in this Section (b).

(c) Voting Rights. Except as required by law or indicated below, the holders of shares of the Series A Preferred Stock shall have no voting rights.

Whenever dividends on the Series A Preferred Stock are in arrears in an amount equal to or exceeding six (6) quarterly dividends, then during the period commencing with such time and ending with the time when all arrears in dividends on the Series A Preferred Stock have been paid and the full dividend on the Series A Preferred Stock for the current quarterly dividend period has been paid or declared and set aside for payment, the holders of the Series A Preferred Stock, voting together as a class, shall be entitled to vote on all matters put to a vote of the stockholders of the Corporation and shall otherwise have voting rights and powers equal to the voting rights and powers of the Common Stock, with each share of Series A Preferred Stock entitling the holder thereof to one (1) vote.

In addition to any other rights provided by law, so long as any shares of the Series A Preferred Stock shall be outstanding, the Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of such outstanding shares of Series A Preferred Stock, voting together as a class, amend or repeal any provision of, or add any provision to, the Corporation's Articles of Incorporation or Bylaws, as amended, or file any certificate of designations, preferences and rights of any series of preferred stock, if such action would materially and adversely affect the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, the Series A Preferred Stock. Nothing herein shall be deemed to restrict the Board of Directors from amending the terms hereof prior to the issuance of any shares of the Series A Preferred Stock.

(d) Conversion. The holders of the Series A Preferred Stock shall have conversion rights as follows:

(1) Right to Convert.

(A) Each share of the Series A Preferred Stock shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Corporation or any transfer agent for the Series A Preferred Stock, into fully paid and nonassessable shares of Common Stock at the initial conversion rate of Sixteen and Six Hundred and Sixty-Seven One Thousandths (16.667) fully paid and nonassessable shares of Common Stock for each share of Series A Preferred Stock, subject, however, to the adjustments described below. The number of shares of Common Stock into which each share of Series A Preferred Stock may be converted is hereinafter referred to as the "Conversion Rate."

(B) No fractional shares of Common Stock shall be issued upon conversion of Series A Preferred Stock and if any shares of Series A Preferred Stock surrendered by a holder, in the aggregate, for conversion would otherwise result in a fractional share of Common Stock, then such fractional share shall be redeemed at the then effective Conversion Price (as hereinafter defined) per share, payable as promptly as possible when funds are legally available therefor.

(C) The right of conversion with respect to shares of Series A Preferred Stock called for redemption shall terminate at the close of business on the fifth business day preceding the date fixed for redemption, or, if not a business day, the next succeeding business day.

(2) Mechanics of Conversion. Before any holder of shares of Series A Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed and accompanied by properly executed stock powers, at the office of the Corporation or of any transfer agent for the Series A Preferred Stock, shall give written notice to the Corporation at such office of the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued if different from the name in which the Series A Preferred Stock being surrendered is registered, as shown on the books and records of the Corporation, and shall pay any applicable transfer tax. Said conversion notice shall also contain such representations as may reasonably be required by the Corporation to the effect that the shares to be received upon conversion are not being acquired and will not be transferred in any way which might violate the then applicable securities laws. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of shares of the Series A Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such

conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series A Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. All certificates issued upon the exercise of the conversion shall contain a legend governing restrictions upon such shares imposed by applicable securities laws.

(3) Adjustment for Subdivisions or Combinations of Common Stock. In the event the Corporation at any time or from time to time after the Original Issue Date effects a subdivision or combination of its outstanding Common Stock into a greater or lesser number of shares without a proportionate and corresponding subdivision or combination of its outstanding Series A Preferred Stock, then and in each such event the Conversion Rate shall be increased or decreased proportionately.

(4) Adjustments for Dividends, Distributions and Common Stock. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common

Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into or entitling the holder thereof to receive additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder of such Common Stock Equivalents for the additional shares of Common Stock, without a proportionate and corresponding dividend or other distribution to holders of Series A Preferred Stock, then and in each such event the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable in payment of such dividend or distribution or upon conversion or exercise of such Common Stock Equivalents shall be deemed, for purposes of this Subsection (d)(4), to be issued and outstanding as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date. In each such event, the Conversion Rate shall be increased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Rate by a fraction,

(A) the numerator of which shall be the total number of shares of Common Stock (x) issued and outstanding or deemed pursuant to the terms hereof to be issued and outstanding (not including any shares described in clause (y) immediately below), immediately prior to the time of such issuance or the close of business on such record date, plus (y) the number of shares of Common Stock issuable in payment of such dividend or distribution or upon conversion or exercise of such Common Stock Equivalents; and

(B) the denominator of which shall be the total number of shares of Common Stock issued and outstanding or deemed to be issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and provided, however, (i) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Rate shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Rate shall be adjusted pursuant to this Subsection (d)(4) as of the time of actual payment of such dividends or distributions; or (ii) if such Common Stock Equivalents provide, with the passage of time or otherwise, for any decrease or increase in the number of shares of Common Stock issuable upon conversion or exercise thereof (or upon the occurrence of a record date with respect thereto), the Conversion Rate computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such decrease or increase becoming effective, be recomputed to reflect such decrease or increase insofar as it affects the rights of conversion or exercise of the Common Stock Equivalents then outstanding; or (iii) upon the expiration of any rights of conversion or exercise under any unexercised Common Stock Equivalents, the Conversion Rate computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if the only additional shares of Common Stock issued were the shares of such stock, if any, actually issued upon the conversion or exercise of such Common Stock Equivalents; or (iv) in the event of issuance of Common Stock Equivalents which expire by their terms not more than sixty (60) days after the date of issuance thereof, no adjustments of the Conversion Rate shall be made until the expiration or exercise of all such Common Stock Equivalents, whereupon such adjustment shall be made in the manner provided in this Subsection (d)(4).

(5) Adjustment of Conversion Rate for Diluting Issues. The amount obtained by dividing One Hundred Dollars ($100.00) by the Conversion Rate shall be called the "Conversion Price." Except as otherwise provided in this Subsection (d)(5), in the event the Corporation after the Original Issue Date sells or issues any Common Stock or Common Stock Equivalents at a per share consideration (as defined below) less than the Conversion Price then in effect for the Series A Preferred Stock, then the Conversion Rate and the Conversion

Price then in effect shall be adjusted as provided in paragraphs (A), (B) and (C) hereof. With respect to the sale or issuance of Common Stock Equivalents which are convertible into or exchangeable for Common Stock without further consideration, the per share consideration shall be determined by dividing the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable with respect to such Common Stock Equivalents into the aggregate consideration received by the Corporation upon the sale or issuance of such Common Stock Equivalents. With respect to the issuance of other Common Stock Equivalents, the per share consideration shall be determined by dividing the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable with respect to such Common Stock Equivalents into the aggregate consideration received by the Corporation upon the sale or issuance of such Common Stock Equivalents plus the total consideration receivable by the Corporation upon the conversion or exercise of such Common Stock Equivalents. The issuance of Common Stock or Common Stock Equivalents for no consideration or for less than $1.00 per share shall be deemed to be an issuance at a per share consideration of $1.00. In connection with the sale or issuance of Common Stock and/or Common Stock Equivalents for noncash consideration, the amount of consideration shall be determined by the Board of Directors. For the purposes of the foregoing, the per share consideration with respect to the sale or issuance of Common Stock or Common Stock Equivalents shall be the price per share received by the Corporation, prior to the payment of any expenses, commissions, discounts and other applicable costs.

As used in this Subsection (d)(5), "Additional Shares of Common Stock" shall mean either shares of Common Stock issued subsequent to the Original Issue Date or, with respect to the issuance of Common Stock Equivalents subsequent to the Original Issue Date, the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable in exchange for, upon conversion of, or upon exercise of such Common Stock Equivalents.

(A) Upon each issuance of Common Stock for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series A Preferred Stock in effect on such date will be adjusted by multiplying it by a fraction:

(x) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares of Common Stock, plus the number of such Additional Shares of Common Stock so issued, and

(y) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares of Common Stock plus the number of shares of Common Stock which the aggregate net consideration received by the Corporation for the total number of such Additional Shares of Common Stock so issued would purchase at the Conversion Price then in effect.

(B) Upon each issuance of Common Stock Equivalents, exchangeable without further consideration into Common Stock, for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series A Preferred Stock in effect on such date will be adjusted as in paragraph (A) of this Subsection (d)(5) on the basis that the related Additional Shares of Common Stock are to be treated as having been issued on the date of issuance of the Common Stock Equivalents, and the aggregate consideration received by the Corporation for such Common Stock Equivalents shall be deemed to have been received for such Additional Shares of Common Stock.

(C) Upon each issuance of Common Stock Equivalents other than those described in paragraph (B) of this Subsection (d)(5), for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series A Preferred Stock in effect on such date will be adjusted as in paragraph (A) of this Subsection (d)(5) on the basis that the related Additional Shares of Common Stock are to be treated as having been issued on the date of issuance of such Common Stock Equivalents, and the aggregate consideration received and receivable by the Corporation on conversion or exercise of such Common Stock Equivalents shall be deemed to have been received for such Additional Shares of Common Stock.

(D) Once any Additional Shares of Common Stock have been treated as having been issued for the purpose of this Subsection (d)(5), they shall be treated as issued and outstanding shares of Common Stock whenever any subsequent calculations must be made pursuant hereto. On the expiration of any options, warrants or rights to purchase Additional Shares of Common Stock, the termination of any rights to convert or exchange for Additional Shares of Common Stock, the expiration of any options or rights related to such convertible or exchangeable securities on account of which an adjustment in the Conversion Rate has been made previously pursuant to this Subsection (d)(5) or the expiration or termination of any Common Stock Equivalents, then the Conversion Rate shall forthwith be readjusted to such Conversion Rate as would have obtained had the adjustment made upon the issuance of such options, warrants, rights, securities or options or rights related to such securities or Common Stock Equivalents been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options, warrants or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities or upon the exercise of the Common Stock Equivalents. Any readjustment of the Conversion Rate shall also cause an appropriate readjustment of the Conversion Price, calculated by dividing the readjusted Conversion Rate into the initial Conversion Price.

(E) The foregoing notwithstanding, no adjustment of the Conversion Rate or Conversion Price shall be made as a result of the issuance of the following, but such shares of Common Stock shall be deemed to be outstanding upon issuance for all other purposes hereof:

> (x) shares of Common Stock relating to (i) outstanding options to purchase 229,125 shares of Common Stock issuable to officers and employees of the Corporation pursuant to employee stock option plans or to members of the Board of Directors, and (ii) 2,742,230 shares of Common Stock issuable upon conversion of the Corporation's 8% Convertible Subordinated Notes Due May 15, 1997 (all such numbers to be appropriately adjusted in the event of any recapitalization, reorganization, stock dividend, stock split or similar event affecting the capital stock of the Corporation);

(y) any shares of Common Stock pursuant to which the Conversion Rate and Conversion Price have been adjusted under Subsection (3) or (4) of this Section (d); or

(z) any shares of Common Stock issued pursuant to the exchange, conversion or exercise of any Common Stock Equivalents which have previously been incorporated into computations hereunder on the date when such Common Stock Equivalents were issued.

(6) Reorganization, Merger, Consolidation or Sale of Assets. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section (d)) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all of the Corporation's properties and assets to any other person which is effected so that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the holders of the Series A Preferred Stock shall thereafter be entitled to receive upon conversion of the Series A Preferred Stock the number of shares of stock, securities or assets of the Corporation, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of Common Stock deliverable upon conversion would have been entitled on such capital reorganization, merger, consolidation or sale. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section (d) with respect to the rights of the holders of the Series A Preferred Stock after the reorganization, merger, consolidation or sale to the end that the provisions of this Section (d) (including adjustment of the Conversion Rate and Conversion Price then in effect and the number of shares purchasable upon conversion of the Series A Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(7) No Adjustment. No adjustment to the Conversion Rate and Conversion Price shall be made if such adjustment would result in a change in the Conversion Price of less than one percent (l%). Any adjustment of less than one (1%) percent which is not made shall be carried forward and shall be made at the time of and together with any subsequent adjustment which, on a cumulative basis, amounts to an adjustment of one percent (1%) or more in the Conversion Price.

(8) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Rate pursuant to this Section (d), the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and cause independent public accountants selected by the Corporation to verify such computation and prepare and furnish to each holder of Series A Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series A Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Rate at that time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at that time would be received upon the conversion of Series A Preferred Stock.

(9) Notices of Record Date. In the event of any taking by the Corporation of a record of the holders of any class of securities other than Series A Preferred Stock for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, any Common Stock Equivalents or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Corporation shall mail to each holder of Series A Preferred Stock at least twenty (20) days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or rights, and the amount and character of such dividend, distribution or rights.

(10) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose

of effecting the conversion of the shares of the Series A Preferred Stock such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(e) Redemption. The Series A Preferred Stock will not be redeemable, either in whole or in part, prior to March 15, 1991 unless the closing price per share of the Common Stock has been equal to or in excess of 150% of the then effective Conversion Price for at least twenty (20) out of thirty (30) consecutive trading days ending on the fifth day preceding the date notice of redemption is given. Subject to such restriction, the Series A Preferred Stock may be redeemed for cash at the option of the Corporation, either in whole or in part, at any time or from time to time, if redeemed from the Original Issue Date and before March 15, 1988, at One Hundred and Ten Dollars and Fifty Cents ($110.50) per share, and if redeemed during the twelve (12) month period beginning on March 15 of the year specified below, at the following redemption prices:

1988	$110.50	1993	$104.66
1989	$109.33	1994	$103.50
1990	$108.17	1995	$102.33
1991	$107.00	1996	$101.16
1992	$105.83	1997 and thereafter	$100.00

plus, in each case, an amount equal to the amount of all dividends accrued but unpaid (whether or not declared) to the date fixed for redemption.

Unless full cumulative dividends on all outstanding shares of the Series A Preferred Stock shall have been or contemporaneously are declared and paid or set apart for payment for all past dividend periods, the Series A Preferred Stock may not be redeemed unless all outstanding preferred stock is redeemed, and neither the Corporation nor any subsidiary thereof may purchase any preferred stock, including shares of the Series A Preferred Stock, and neither the Corporation nor any subsidiary thereof may redeem or purchase any class or series of capital stock ranking junior to the Series A Preferred Stock in respect to dividends or distributions upon liquidation; provided, however, that the Corporation may complete the purchase or redemption of shares of preferred stock for which a purchase contract was entered into, or notice of redemption of which was initially given, prior to such default in payment of dividends.

If less than all of the outstanding shares of Series A Preferred Stock are to be redeemed, the shares to be redeemed shall be selected by the Corporation from outstanding shares not previously called for redemption, pro rata, by lot, or in such other equitable manner as the Board of Directors may determine.

Notice of any proposed redemption of Series A Preferred Stock shall be given by the Corporation by mailing a copy of such notice at least thirty (30) days but not more than sixty (60) days prior to the date fixed for such redemption to each holder of record of the shares to be redeemed at such holder's address appearing on the books of the Corporation. On and after the date fixed for redemption dividends shall cease to accrue on the shares of Series A Preferred Stock called for redemption, whether or not the certificates for such shares are actually surrendered for redemption. All shares of Series A Preferred Stock redeemed pursuant to this Section (e) shall be restored to the status of authorized and unissued shares of preferred stock, undesignated as to series.

(f) Notices. Any notice required by the provisions hereof to be given to the holders of shares of Series A Preferred Stock shall be deemed given if deposited in the United States Postal Service, postage prepaid, and addressed to each holder of record at his or her address appearing on the books of the Corporation.

STATEMENT OF
RELATIVE RIGHTS AND PREFERENCES OF
THE SERIES B PREFERRED STOCK OF
ATLANTIC AMERICAN CORPORATION

Pursuant to authority granted in the Restated Articles of Incorporation, as amended, of the Corporation, the Board of Directors of the Corporation has been authorized to issue in series 4,000,000 shares of the Corporation's Preferred Stock of the par value of $1.00 per share, and to designate by resolution the relative rights and preferences of each series so established. By resolution of the Board of Directors, the Corporation has established a series of such Preferred Stock consisting of 134,000 shares and has designated said series as the "Series B Preferred Stock."

For the purposes of this statement, "Corporation" shall mean Atlantic American Corporation, a Georgia corporation;

"Board of Directors" shall mean the board of directors of the Corporation;

"Series B Preferred Stock" shall mean the 134,000 shares of Series B Preferred Stock of the par value of $1.00 per share of the Corporation;

"Common Stock" shall mean the common stock of the par value of $1.00 per share of the Corporation; and

"Original Issue Date" shall mean the date on which the first share of Series B Preferred Stock was deemed originally issued.

The voting powers, preferences, and the relative, participating, optional and other rights granted to and imposed upon the Series B Preferred Stock are as follows:

(a) Series B Stated Value. Each share of the Series B Preferred Stock shall have a stated value of $100.00 (the "Series B Stated Value").

(b) Dividend Rights. From and after the issuance of the Series B Preferred Stock, the holders of outstanding shares of the Series B Preferred Stock shall be entitled to receive, and shall be paid, when and as declared by the Board of Directors, out of funds legally available therefor, cumulative dividends on each share of Series B Preferred Stock at the annual rate of nine percent (9%) of the Series B Stated Value, payable in arrears quarterly on March 15, June 15, September 15 and December 15 of each year, said dividends to commence accrual on January 1, 1996. Such dividends shall be prior and in preference to any declaration of payment of any dividend on the Common Stock and any other class or series of capital stock ranking junior to the Series B Preferred Stock in respect of dividends or distributions upon liquidation. Such dividends shall be cumulative and shall accrue whether or not declared by the Board of Directors. No cash dividends shall be paid on the Common Stock or any other junior stock (except stock dividends of Common Stock or any other junior stock), until all dividends accrued on any outstanding shares of the Series B Preferred Stock and all other series of preferred stock ranking on a parity with the Series B Preferred Stock, whether or not declared, have been set apart and fully paid. No accumulation of dividends on the Series B Preferred Stock shall bear interest.

In the event cash dividends are not paid in full on all outstanding shares of the Series B Preferred Stock and any other series of preferred stock ranking on a parity with the Series B Preferred Stock, shares of the Series B Preferred Stock and shares of such other series of preferred stock shall be entitled to proportionate amounts of the funds available for their respective dividend requirements based upon the payments required to be made on the Series B Preferred Stock and each such other series of preferred stock then outstanding.

No dividends shall be paid on the Series B Preferred Stock, although such dividends shall still accrue, if the payment of such dividends would cause the Corporation to violate or constitute an occurrence of default under any provision of, or result in acceleration of any obligation under any note, loan, agreement, instrument or other arrangement to which the Corporation is bound.

(c) Liquidation Rights. In the event of liquidation of the Corporation, whether voluntary or involuntary, the holders of shares of the Series B Preferred Stock will be entitled to receive, from the assets of the Corporation available for distribution to stockholders, an amount equal to One Hundred Dollars ($100.00) per share, plus all accrued but unpaid dividends on such shares, whether or not declared, before any distribution shall be made or set apart for holders of Common Stock or any other class or series of capital stock ranking junior to the Series B Preferred Stock in respect of dividends or distributions upon liquidation. The holders of Series B Preferred Stock shall be entitled to no further participation in any remaining assets of the Corporation. If, upon any liquidation of the Corporation, the assets of the Corporation, or proceeds thereof, distributable among the holders of shares of the Series B Preferred Stock and any other class or series of preferred stock ranking on a parity with the Series B Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full. Neither the consolidation or merger of the Corporation with or into any other corporation or corporations, nor the sale or lease of all or substantially all of the assets of the Corporation, shall constitute a liquidation as used in this Section (c).

(d) Voting Rights. Except as required by law or indicated below, the holders of shares of the Series B Preferred Stock shall have no voting rights.

In addition to any other rights provided by law, so long as any shares of the Series B Preferred Stock shall be outstanding, the Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of such outstanding shares of Series B Preferred Stock, voting together as a class, amend or repeal any provision of, or add any provision to, the Corporation's Articles of Incorporation or Bylaws, as amended, or file any certificate of designations, preferences and rights of any series of preferred stock, if such action would materially and adversely affect the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, the Series B Preferred Stock. Nothing herein shall be deemed to restrict the Board of Directors from amending the terms hereof prior to the issuance of any shares of the Series B Preferred Stock.

(e) Conversion. Except as set forth in the following paragraph, shares of the Series B Preferred Stock shall not be convertible into shares of Common Stock.

In the event that (i) J. Mack Robinson, his spouse, lineal descendants, any trust created and existing solely for the benefit of any such person or persons, or any corporation, partnership, limited liability company or any other entity that controls, is controlled by or under common control with, or is in any other way an affiliate of any of the foregoing (collectively, the "Affiliates"), "beneficially own" (as determined in accordance with the provisions of Rule 13d-3 under the Securities Exchange Act of 1934, as amended) less than 50.1% of the Common Stock or (ii) the Corporation or the Affiliates enter into a definitive agreement providing for the sale or transfer of all of the outstanding shares of Common Stock to a third party that does not control, is not controlled by or is not under common control with, or is not in any other way an affiliate of, any of the Affiliates, or the merger of the Corporation with another entity such that after giving effect to the merger, the Affiliates will no longer "beneficially own" at least 50.1% of the voting equity of the surviving corporation in the merger, then in each such event of the holders of the Series B Preferred Stock shall have conversion rights as follows:

(1) Right to Convert.

(A) Each share of the Series B Preferred Stock shall be convertible, at the option of the holder thereof, into fully paid and nonassessable shares of Common Stock at the initial conversion rate of twenty-five and six one-hundredths (25.06) fully paid and nonassessable shares of Common Stock for each share of Series B Preferred Stock, subject, however, to the adjustments described below. The number of shares of Common Stock into which each share of Series B Preferred Stock may be converted is hereinafter referred to as the "Conversion Rate."

(B) No fractional shares of Common Stock shall be issued upon conversion of Series B Preferred Stock and if any shares of Series B Preferred Stock surrendered by a holder, in the aggregate, for conversion would otherwise result in a fractional share of Common Stock, then such fractional share shall be redeemed at the then effective Conversion Price (as hereinafter defined) per share, payable as promptly as possible when funds are legally available therefor.

(2) Mechanics of Conversion. Before any holder of shares of Series B Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed and accompanied by properly executed stock powers, at the office of the Corporation or of any transfer agent for the Series B Preferred Stock, shall give written notice to the Corporation at such office of the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued if different from the name in which the Series B Preferred Stock being surrendered is registered, as shown on the books and records of the Corporation, and shall pay any applicable transfer tax. Said conversion notice shall also contain such representations as may reasonably be required by the Corporation to the effect that the shares to be received upon conversion are not being acquired and will

not be transferred in any way which might violate the then applicable securities laws. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of shares of the Series B Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series B Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. All certificates issued upon the exercise of the conversion shall contain a legend governing restrictions upon such shares imposed by applicable securities laws.

(3) Adjustment for Subdivisions or Combinations of Common Stock. In the event the Corporation at any time or from time to time after the Original Issue Date effects a subdivision or combination of its outstanding Common Stock into a

greater or lesser number of shares without a proportionate and corresponding subdivision or combination of its outstanding Series B Preferred Stock, then and in each such event the Conversion Rate shall be increased or decreased proportionately.

(4) Adjustments for Dividends, Distributions and Common Stock. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into or entitling the holder thereof to receive additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder of such Common Stock Equivalents for the additional shares of Common Stock, without a proportionate and corresponding dividend or other distribution to holders of Series B Preferred Stock, then and in each such event the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable in payment of such dividend or distribution or upon conversion or exercise of such Common Stock Equivalents shall be deemed, for purposes of this Subsection (e)(4), to be issued and outstanding as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date. In each such event, the Conversion Rate shall be increased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Rate by a fraction,

(A) the numerator of which shall be the total number of shares of Common Stock (x) issued and outstanding or deemed pursuant to the terms hereof to be issued and outstanding (not including any shares described in clause (y) immediately below), immediately prior to the time of such issuance or the close of business on such record date, plus (y) the number of shares of Common Stock issuable in payment of such dividend or distribution or upon conversion or exercise of such Common Stock Equivalents; and

(B) the denominator of which shall be the total number of shares of Common Stock issued and outstanding or deemed to be issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

provided, however, (i) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Rate shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Rate shall be adjusted pursuant to this Subsection (e)(4) as of the time of actual payment of such dividends or distributions; or (ii) if such Common Stock Equivalents provide, with the passage of time or otherwise, for any decrease or increase in the number of shares of Common Stock issuable upon conversion or exercise thereof (or upon the occurrence of a record date with respect thereto), the Conversion Rate computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such decrease or increase becoming effective, be recomputed to reflect such decrease or increase insofar as it affects the rights of conversion or exercise of the Common Stock Equivalents then outstanding; or (iii) upon the expiration of any rights of conversion or exercise under any unexercised Common Stock Equivalents, the Conversion Rate computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if the only additional shares of Common Stock issued were the shares of such stock, if any, actually issued upon the conversion or exercise of such Common Stock Equivalents; or (iv) in the event of issuance of Common Stock Equivalents which expire by their terms not more than sixty (60) days after the date of issuance thereof, no adjustments of the Conversion Rate shall be made until the expiration or exercise of all such Common Stock Equivalents, whereupon such adjustment shall be made in the manner provided in this Subsection (e)(4).

(5) Adjustment of Conversion Rate for Diluting Issues. The amount obtained by dividing One Hundred Dollars ($100.00) by the Conversion Rate shall be called the "Conversion Price." Except as

otherwise provided in this Subsection (e)(5), in the event the Corporation after the Original Issue Date sells or issues any Common Stock or Common Stock Equivalents at a per share consideration (as defined below) less than the Conversion Price then in effect for the Series B Preferred Stock, then the Conversion Rate and the Conversion Price then in effect shall be adjusted as provided in paragraphs (A), (B) and (C) hereof. With respect to the sale or issuance of Common Stock Equivalents which are convertible into or exchangeable for Common Stock without further consideration, the per share consideration shall be determined by dividing the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable with respect to such Common Stock Equivalents into the aggregate consideration received by the Corporation upon the sale or issuance of such Common Stock Equivalents. With respect to the issuance of other Common Stock Equivalents, the per share consideration shall be determined by dividing the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable with respect to such Common Stock Equivalents into the aggregate consideration received by the Corporation upon the sale or issuance of such Common Stock Equivalents plus the total consideration receivable by the Corporation upon the conversion or exercise of such Common Stock Equivalents. The issuance of Common Stock or Common Stock Equivalents for no consideration or for less than $1.00 per share shall be deemed to be an issuance at a per share consideration of $1.00. In connection with the sale or issuance of Common Stock and/or Common Stock Equivalents for noncash consideration, the amount of consideration shall be determined by the Board of Directors. For the purposes of the foregoing, the per share consideration with respect to the sale or issuance of Common Stock or Common Stock Equivalents shall be the price per share received by the Corporation, prior to the payment of any expenses, commissions, discounts and other applicable costs.

As used in this Subsection (e)(5), "Additional Shares of Common Stock" shall mean either shares of Common Stock issued subsequent to the Original Issue Date or, with respect to the issuance of Common Stock Equivalents subsequent to the Original Issue Date, the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable in exchange for, upon conversion of, or upon exercise of such Common Stock Equivalents.

(A) Upon each issuance of Common Stock for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series B Preferred Stock in effect on such date will be adjusted by multiplying it by a fraction:

(x) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares of Common Stock, plus the number of such Additional Shares of Common Stock so issued, and

(y) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares of Common Stock plus the number of shares of Common Stock which the aggregate net consideration received by the Corporation for the total number of such Additional Shares of Common Stock so issued would purchase at the Conversion Price then in effect.

(B) Upon each issuance of Common Stock Equivalents, exchangeable without further consideration into Common Stock, for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series B Preferred Stock in effect on such date will be adjusted as in paragraph (A) of this Subsection (e)(5) on the basis that the related Additional Shares of Common Stock are to be treated as having been issued on the date of issuance of the Common Stock Equivalents, and the aggregate consideration received by the Corporation for such Common Stock Equivalents shall be deemed to have been received for such Additional Shares of Common Stock.

(C) Upon each issuance of Common Stock Equivalents other than those described in paragraph (B) of this Subsection (e)(5), for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series B Preferred Stock in effect on such date will be adjusted as in paragraph (A) of this Subsection (e)(5) on the basis that the related Additional Shares of Common Stock are to be treated as having been issued on the date of issuance of such Common Stock Equivalents, and the aggregate consideration received and receivable by the Corporation on conversion or exercise of such Common Stock Equivalents shall be deemed to have been received for such Additional Shares of Common Stock.

(D) Once any Additional Shares of Common Stock have been treated as having been issued for the purpose of this Subsection (e)(5), they shall be treated as issued and outstanding shares of Common Stock whenever any subsequent calculations must be made pursuant hereto. On the expiration of any options, warrants or rights to purchase Additional Shares of Common Stock, the termination of any rights to convert or exchange for Additional Shares of Common Stock, the expiration of any options or rights related to such convertible or exchangeable securities on account of which an adjustment in the Conversion Rate has been made previously pursuant to this Subsection (e)(5) or the expiration or termination of any Common Stock Equivalents, then the

Conversion Rate shall forthwith be readjusted to such Conversion Rate as would have been obtained had the adjustment made upon the issuance of such options, warrants, rights, securities or options or rights related to such securities or Common Stock Equivalents been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options, warrants or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities or upon the exercise of the Common Stock Equivalents. Any readjustment of the Conversion Rate shall also cause an appropriate readjustment of the Conversion Price, calculated by dividing the readjusted Conversion Rate into the initial Conversion Price.

(E) The foregoing notwithstanding, no adjustment of the Conversion Rate or Conversion Price shall be made as a result of the issuance of the following, but such shares of Common Stock shall be deemed to be outstanding upon issuance for all other purposes hereof:

> (w) shares of Common Stock (i) issued or issuable to employee benefit plans (including, but not limited to, stock option plans, tax-qualified employee retirement plans and current cash or stock bonus awards) of the Corporation, or to employees or beneficiaries pursuant to said plans whether currently in

existence or hereafter adopted, and (ii) relating to 514,351 shares of Common Stock issuable upon conversion of the Corporation's 8% Convertible Subordinated Notes Due May 15, 1997 (such number to be appropriately adjusted in the event of any recapitalization, reorganization, stock dividend, stock split or similar event affecting the capital stock of the Corporation);

(x) any shares of Common Stock pursuant to which the Conversion Rate and Conversion Price have been adjusted under Subsection (3) or (4) of this Section (e);

(y) any shares of Common Stock issued pursuant to the exchange, conversion or exercise of any Common Stock Equivalents which have previously been incorporated into computations hereunder on the date when such Common Stock Equivalents were issued; or

(z) Common Stock issued or issuable with respect to which the holders of all the outstanding Series B Preferred Stock have waived in writing the right to any adjustment hereunder. In such event, such waiver shall be binding on all subsequent holders of Series B Preferred Stock.

(6) Reorganization, Merger, Consolidation or Sale of Assets. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section (e)) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all of the Corporation's properties and assets to any other person which is effected so that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the holders of the Series B Preferred Stock shall thereafter be entitled to receive upon conversion of the Series B Preferred Stock the number of shares of stock, securities or assets of the Corporation, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of Common Stock deliverable upon conversion would have been entitled on such capital reorganization, merger, consolidation or sale. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section (e) with respect to the rights of the holders of the Series B Preferred Stock after the reorganization, merger, consolidation or sale to the end that the provisions of this Section (e) (including adjustment of the Conversion Rate and Conversion Price then in effect and the number of shares purchasable upon conversion of the Series B Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(7) No Adjustment. No adjustment to the Conversion Rate and Conversion Price shall be made if such adjustment would result in a change in the Conversion Price of less than one percent (l%). Any adjustment of less than one (1%) percent which is not made shall be carried forward and shall be made at the time of and together with any subsequent adjustment which, on a cumulative basis, amounts to an adjustment of one percent (1%) or more in the Conversion Price.

(8) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Rate pursuant to this Section (e), the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and cause independent public accountants selected by the Corporation to verify such computation and prepare and furnish to each holder of Series B Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series B Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Rate at that time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at that time would be received upon the conversion of Series B Preferred Stock.

(9) Notices of Record Date. In the event of any taking by the Corporation of a record of the holders of any class of securities other than Series B Preferred Stock for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, any Common Stock Equivalents or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Corporation shall mail to each holder of Series B Preferred Stock at least twenty (20) days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or rights, and the amount and character of such dividend, distribution or rights.

(10) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of the Series B Preferred Stock such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series B Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series B

Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(f) Redemption by Corporation. The Series B Preferred Stock may be redeemed for cash solely at the option of the Corporation, either in whole or in part, at any time or from time to time, at One Hundred Dollars ($100.00) per share, plus an amount equal to the amount of all dividends accrued but unpaid (whether or not declared) to the date fixed for redemption.

Unless full cumulative dividends on all outstanding shares of the Series B Preferred Stock shall have been or contemporaneously are declared and paid or set apart for payment for all past dividend periods, the Series B Preferred Stock may not be redeemed unless all outstanding preferred stock is redeemed, and neither the Corporation nor any subsidiary thereof may purchase any preferred stock, including shares of the Series B Preferred Stock, and neither the Corporation nor any subsidiary thereof may redeem or purchase any class or series of capital stock ranking junior to the Series B Preferred Stock in respect to dividends or distributions upon liquidation; provided, however, that the Corporation may complete the purchase or redemption of shares of preferred stock for which a purchase contract was entered into, or notice of redemption of which was initially given, prior to such default in payment of dividends.

If less than all of the outstanding shares of Series B Preferred Stock are to be redeemed, the shares to be redeemed shall be selected by the Corporation from outstanding shares not previously called for redemption, pro rata, by lot, or in such other equitable manner as the Board of Directors may determine.

Notice of any proposed redemption of Series B Preferred Stock shall be given by the Corporation by mailing a copy of such notice at least thirty (30) days but not more than sixty (60) days prior to the date fixed for such redemption to each holder of record of the shares to be redeemed at such holder's address appearing on the books of the Corporation. On and after the date fixed for redemption dividends shall cease to accrue on the shares of Series B Preferred Stock called for redemption, whether or not the certificates for such shares are actually surrendered for redemption. All shares of Series B Preferred Stock redeemed pursuant to this Section (f) shall be restored to the status of authorized and unissued shares of preferred stock, undesignated as to series.

(g) Notices. Any notice required by the provisions hereof to be given to the holders of shares of Series B Preferred Stock shall be deemed given if deposited in the United States Postal Service, postage prepaid, and addressed to each holder of record at his or her address appearing on the books of the Corporation.

RELATIVE RIGHTS AND PREFERENCES OF THE SERIES C PREFERRED STOCK OF ATLANTIC AMERICAN CORPORATION

Pursuant to authority granted in the Restated Articles of Incorporation, as amended, of the Corporation, the Board of Directors of the Corporation has been authorized to issue in series 4,000,000 shares of the Corporation's Preferred Stock of the par value of $1.00 per share, and to designate by resolution the relative rights and preferences of each series so established. By resolution of the Board of Directors, the Corporation has established a series of such Preferred Stock consisting of 100,000 shares and has designated said series as the "Series C Preferred Stock."

For the purposes of this statement, "Corporation" shall mean Atlantic American Corporation, a Georgia corporation;

"Board of Directors" shall mean the board of directors of the Corporation;

"Series C Preferred Stock" shall mean the 100,000 shares of Series C Preferred Stock of the par value of $1.00 per share of the Corporation;

"Common Stock" shall mean the common stock of the par value of $1.00 per share of the Corporation; and

"Original Issue Date" shall mean the date on which the first share of Series C Preferred Stock was deemed originally issued.

The voting powers, preferences, and the relative, participating, optional and other rights granted to and imposed upon the Series C Preferred Stock are as follows:

(a) Series C Stated Value. Each share of the Series C Preferred Stock shall have a stated value of $100.00 (the "Series C Stated Value").

(b) Dividend Rights. From and after the issuance of the Series C Preferred Stock, the holders of outstanding shares of the Series C Preferred Stock shall be entitled to receive, and shall be paid, when and as declared by the Board of Directors, out of funds legally available therefor, cumulative dividends on each share of Series C Preferred Stock at the annual rate of nine percent (9%) of the Series C Stated Value, payable in arrears quarterly on March 15, June 15, September 15 and December 15 of each year, said dividends to commence on January 1, 2001. Such dividends shall be prior and in preference to any declaration of payment of any dividend on the Common Stock and any other class or series of capital stock ranking junior to the Series C Preferred Stock in respect of dividends or distributions upon liquidation. Such dividends shall be cumulative and shall accrue whether or not declared by the Board of Directors. No cash dividends shall be paid on the Common Stock or any other junior stock (except stock dividends of Common Stock or any other junior stock), until all dividends accrued on any outstanding shares of the Series C Preferred Stock and all other series of preferred stock ranking on a parity with the Series C Preferred Stock, whether or not declared, have been set apart and fully paid. No unpaid dividends on the Series C Preferred Stock shall bear interest.

In the event cash dividends are not paid in full on all outstanding shares of the Series C Preferred Stock and any other series of preferred stock ranking on a parity with the Series C Preferred Stock, shares of the Series C Preferred Stock and shares of such other series of preferred stock shall be entitled to proportionate amounts of the funds available for their respective dividend requirements based upon the payments required to be made on the Series C Preferred Stock and each such other series of preferred stock then outstanding.

No dividends shall be paid on the Series C Preferred Stock, although such dividends shall still accrue, if the payment of such dividends would cause the Corporation to violate or constitute an occurrence of default under any provision of, or result in acceleration of any obligation under any note, loan, agreement, instrument or other arrangement to which the Corporation is bound.

(c) Liquidation Rights. In the event of liquidation of the Corporation, whether voluntary or involuntary, the holders of shares of the Series C Preferred Stock will be entitled to receive, from the assets of the Corporation available for distribution to stockholders, an amount equal to One Hundred Dollars ($100.00) per share, plus all accrued but unpaid dividends on such shares, whether or not declared, before any distribution shall be made or set apart for holders of Common Stock or any other class or series of capital stock ranking junior to the Series C Preferred Stock in respect of dividends or distributions upon liquidation. The holders of Series C Preferred Stock shall be entitled to no further participation in any remaining assets of the Corporation. If, upon any liquidation of the Corporation, the assets of the Corporation, or proceeds thereof, distributable among the holders of shares of the Series C Preferred Stock and any other class or series of preferred stock ranking on a parity with the Series C Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid, then such assets, or the proceeds thereof, shall be distributed among such holders ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full. Neither the consolidation or merger of the Corporation with or into any other corporation or corporations, nor the sale or lease of all or substantially all of the assets of the Corporation, shall constitute a liquidation as used in this Section (c).

(d) Voting Rights. Except as required by law or indicated below, the holders of shares of the Series C Preferred Stock shall have no voting rights.

In addition to any other rights provided by law, so long as any shares of the Series C Preferred Stock shall be outstanding, the Corporation shall not, without first obtaining the affirmative vote or written consent of the holders of not less than a majority of such outstanding shares of Series C Preferred Stock, voting together as a class, amend or repeal any provision of, or add any provision to, the Corporation's Articles of Incorporation or Bylaws, as amended, or file any certificate of designations, preferences and rights of any series of preferred stock, if such action would materially and adversely affect the preferences, rights, privileges or powers of, or the restrictions provided for the benefit of, the Series C Preferred Stock. Nothing herein shall be deemed to restrict the Board of Directors from amending the terms hereof prior to the issuance of any shares of the Series C Preferred Stock.

(e) Conversion. Except as set forth in the following paragraph, shares of the Series C Preferred Stock shall not be convertible into shares of Common Stock.

In the event that (i) J. Mack Robinson, his spouse, lineal descendants, any trust created and existing solely for the benefit of any such person or persons, or any corporation, partnership, limited liability company or any other entity that controls, is controlled by or under common control with, or is in any other way an affiliate of any of the foregoing (collectively, the "Affiliates"), "beneficially own" (as determined in accordance with the provisions of Rule 13d-3 under the Securities Exchange Act of 1934, as amended) less than 50.1% of the Common Stock or (ii) the Corporation or the Affiliates enter into a definitive agreement providing for the sale or transfer of all of the outstanding shares of Common Stock to a third party that does not control, is not controlled by or is not under common control with, or is not in any other way an affiliate of, any of the Affiliates, or the merger of the Corporation with another entity such that after giving effect to the merger, the Affiliates will no longer "beneficially own" at least 50.1% of the voting equity of the surviving corporation in the merger, then in each such event of the holders of the Series C Preferred Stock shall have conversion rights as follows:

(1) Right to Convert.

(A) Each share of the Series C Preferred Stock shall be convertible, at the option of the holder thereof, into fully paid and nonassessable shares of Common Stock at the initial conversion rate of twenty-five and six one-hundredths (25.06) fully paid and nonassessable shares of Common Stock for each share of Series C Preferred Stock, subject, however, to the adjustments described below. The number of shares of Common Stock into which each share of Series C Preferred Stock may be converted is hereinafter referred to as the "Conversion Rate."

(B) No fractional shares of Common Stock shall be issued upon conversion of Series C Preferred Stock and if any shares of Series C Preferred Stock surrendered by a holder, in the aggregate, for conversion would otherwise result in a fractional share of Common Stock, then such fractional share shall be redeemed at the then effective Conversion Price (as hereinafter defined) per share, payable as promptly as possible when funds are legally available therefor.

(2) Mechanics of Conversion. Before any holder of shares of Series C Preferred Stock shall be entitled to convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed and accompanied by properly executed stock powers, at the office of the Corporation or of any transfer agent for the Series C Preferred Stock, shall give written notice to the Corporation at such office of the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued if different from the name in which the Series C Preferred Stock being surrendered is registered, as shown on the books and records of the Corporation, and shall pay any applicable transfer tax. Said conversion notice shall also contain such representations as may reasonably be required by the Corporation to the effect that the shares to be received upon conversion are not being acquired and will

not be transferred in any way which might violate the then applicable securities laws. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of shares of the Series C Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series C Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date. All certificates issued upon the exercise of the conversion shall contain a legend governing restrictions upon such shares imposed by applicable securities laws.

(3) Adjustment for Subdivisions or Combinations of Common Stock. In the event the Corporation at any time or from time to time after the Original Issue Date effects a subdivision or combination of its outstanding Common Stock into a

greater or lesser number of shares without a proportionate and corresponding subdivision or combination of its outstanding Series C Preferred Stock, then and in each such event the Conversion Rate shall be increased or decreased proportionately.

(4) Adjustments for Dividends, Distributions and Common Stock. In the event the Corporation at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive a dividend or other distribution payable in additional shares of Common Stock or other securities or rights convertible into or entitling the holder thereof to receive additional shares of Common Stock (hereinafter referred to as "Common Stock Equivalents") without payment of any consideration by such holder of such Common Stock Equivalents for the additional shares of Common Stock, without a proportionate and corresponding dividend or other distribution to holders of Series C Preferred Stock, then and in each such event the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable in payment of such dividend or distribution or upon conversion or exercise of such Common Stock Equivalents shall be deemed, for purposes of this Subsection (e)(4), to be issued and outstanding as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date. In each such event, the Conversion Rate shall be increased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Rate by a fraction,

(A) the numerator of which shall be the total number of shares of Common Stock (x) issued and outstanding or deemed pursuant to the terms hereof to be issued and outstanding (not including any shares described in clause (y) immediately below), immediately prior to the time of such issuance or the close of business on such record date, plus (y) the number of shares of Common Stock issuable in payment of such dividend or distribution or upon conversion or exercise of such Common Stock Equivalents; and

(B) the denominator of which shall be the total number of shares of Common Stock issued and outstanding or deemed to be issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

provided, however, (i) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Rate shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Rate shall be adjusted pursuant to this Subsection (e)(4) as of the time of actual payment of such dividends or distributions; or (ii) if such Common Stock Equivalents provide, with the passage of time or otherwise, for any decrease or increase in the number of shares of Common Stock issuable upon conversion or exercise thereof (or upon the occurrence of a record date with respect thereto), the Conversion Rate computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such decrease or increase becoming effective, be recomputed to reflect such decrease or increase insofar as it affects the rights of conversion or exercise of the Common Stock Equivalents then outstanding; or (iii) upon the expiration of any rights of conversion or exercise under any unexercised Common Stock Equivalents, the Conversion Rate computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if the only additional shares of Common Stock issued were the shares of such stock, if any, actually issued upon the conversion or exercise of such Common Stock Equivalents; or (iv) in the event of issuance of Common Stock Equivalents which expire by their terms not more than sixty (60) days after the date of issuance thereof, no adjustments of the Conversion Rate shall be made until the expiration or exercise of all such Common Stock Equivalents, whereupon such adjustment shall be made in the manner provided in this Subsection (e)(4).

(5) Adjustment of Conversion Rate for Diluting Issues. The amount obtained by dividing One Hundred Dollars ($100.00) by the Conversion Rate shall be called the "Conversion Price." Except as

otherwise provided in this Subsection (e)(5), in the event the Corporation after the Original Issue Date sells or issues any Common Stock or Common Stock Equivalents at a per share consideration (as defined below) less than the Conversion Price then in effect for the Series C Preferred Stock, then the Conversion Rate and the Conversion Price then in effect shall be adjusted as provided in paragraphs (A), (B) and (C) hereof. With respect to the sale or issuance of Common Stock Equivalents which are convertible into or exchangeable for Common Stock without further consideration, the per share consideration shall be determined by dividing the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable with respect to such Common Stock Equivalents into the aggregate consideration received by the Corporation upon the sale or issuance of such Common Stock Equivalents. With respect to the issuance of other Common Stock Equivalents, the per share consideration shall be determined by dividing the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable with respect to such Common Stock Equivalents into the aggregate consideration received by the Corporation upon the sale or issuance of such Common Stock Equivalents plus the total consideration receivable by the Corporation upon the conversion or exercise of such Common Stock Equivalents. The issuance of Common Stock or Common Stock Equivalents for no consideration or for less than $1.00 per share shall be deemed to be an issuance at a per share consideration of $1.00. In connection with the sale or issuance of Common Stock and/or Common Stock Equivalents for noncash consideration, the amount of consideration shall be determined by the Board of Directors. For the purposes of the foregoing, the per share consideration with respect to the sale or issuance of Common Stock or Common Stock Equivalents shall be the price per share received by the Corporation, prior to the payment of any expenses, commissions, discounts and other applicable costs.

As used in this Subsection (e)(5), "Additional Shares of Common Stock" shall mean either shares of Common Stock issued subsequent to the Original Issue Date or, with respect to the issuance of Common Stock Equivalents subsequent to the Original Issue Date, the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for subsequent adjustment of such number) of Common Stock issuable in exchange for, upon conversion of, or upon exercise of such Common Stock Equivalents.

(A) Upon each issuance of Common Stock for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series C Preferred Stock in effect on such date will be adjusted by multiplying it by a fraction:

(x) the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares of Common Stock, plus the number of such Additional Shares of Common Stock so issued, and

(y) the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to the issuance of such Additional Shares of Common Stock plus the number of shares of Common Stock which the aggregate net consideration received by the Corporation for the total number of such Additional Shares of Common Stock so issued would purchase at the Conversion Price then in effect.

(B) Upon each issuance of Common Stock Equivalents, exchangeable without further consideration into Common Stock, for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series C Preferred Stock in effect on such date will be adjusted as in paragraph (A) of this Subsection (e)(5) on the basis that the related Additional Shares of Common Stock are to be treated as having been issued on the date of issuance of the Common Stock Equivalents, and the aggregate consideration received by the Corporation for such Common Stock Equivalents shall be deemed to have been received for such Additional Shares of Common Stock.

(C) Upon each issuance of Common Stock Equivalents other than those described in paragraph (B) of this Subsection (e)(5), for a per share consideration less than the Conversion Price in effect on the date of such issuance, the Conversion Rate of the Series C Preferred Stock in effect on such date will be adjusted as in paragraph (A) of this Subsection (e)(5) on the basis that the related Additional Shares of Common Stock are to be treated as having been issued on the date of issuance of such Common Stock Equivalents, and the aggregate consideration received and receivable by the Corporation on conversion or exercise of such Common Stock Equivalents shall be deemed to have been received for such Additional Shares of Common Stock.

(D) Once any Additional Shares of Common Stock have been treated as having been issued for the purpose of this Subsection (e)(5), they shall be treated as issued and outstanding shares of Common Stock whenever any subsequent calculations must be made pursuant hereto. On the expiration of any options, warrants or rights to purchase Additional Shares of Common Stock, the termination of any rights to convert or exchange for Additional Shares of Common Stock, the expiration of any options or rights related to such convertible or exchangeable securities on account of which an adjustment in the Conversion Rate has been made previously pursuant to this Subsection (e)(5) or the expiration or termination of any Common Stock Equivalents, then the

Conversion Rate shall forthwith be readjusted to such Conversion Rate as would have been obtained had the adjustment made upon the issuance of such options, warrants, rights, securities or options or rights related to such securities or Common Stock Equivalents been made upon the basis of the issuance of only the number of shares of Common Stock actually issued upon the exercise of such options, warrants or rights, upon the conversion or exchange of such securities or upon the exercise of the options or rights related to such securities or upon the exercise of the Common Stock Equivalents. Any readjustment of the Conversion Rate shall also cause an appropriate readjustment of the Conversion Price, calculated by dividing the readjusted Conversion Rate into the initial Conversion Price.

(E) The foregoing notwithstanding, no adjustment of the Conversion Rate or Conversion Price shall be made as a result of the issuance of the following, but such shares of Common Stock shall be deemed to be outstanding upon issuance for all other purposes hereof:

(w) shares of Common Stock (i) issued or issuable to employee benefit plans (including, but not limited to, stock option plans, tax-qualified employee retirement plans and current cash or stock bonus awards) of the Corporation, or to employees or beneficiaries pursuant to said plans whether currently in existence or hereafter adopted, and (ii) issuable upon conversion of shares of the Corporation's Series B Preferred Stock (such number to be appropriately adjusted in the event of any recapitalization, reorganization, stock dividend, stock split or similar event affecting the capital stock of the Corporation);

(x) any shares of Common Stock pursuant to which the Conversion Rate and Conversion Price have been adjusted under Subsection (3) or (4) of this Section (e);

(y) any shares of Common Stock issued pursuant to the exchange, conversion or exercise of any Common Stock Equivalents which have previously been incorporated into computations hereunder on the date when such Common Stock Equivalents were issued; or

(z) Common Stock issued or issuable with respect to which the holders of all the outstanding Series C Preferred Stock have waived in writing the right to any adjustment hereunder. In such event, such waiver shall be binding on all subsequent holders of Series C Preferred Stock.

(6) Reorganization, Merger, Consolidation or Sale of Assets. If at any time or from time to time there shall be a capital reorganization of the Common Stock (other than a subdivision, combination, reclassification or exchange of shares provided for elsewhere in this Section (e)) or a merger or consolidation of the Corporation with or into another corporation, or the sale of all or substantially all of the Corporation's properties and assets to any other person which is effected so that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock, then, as a part of such reorganization, merger, consolidation or sale, provision shall be made so that the holders of the Series C Preferred Stock shall thereafter be entitled to receive upon conversion of the Series C Preferred Stock the number of shares of stock, securities or assets of the Corporation, or of the successor corporation resulting from such merger or consolidation or sale, to which a holder of Common Stock deliverable upon conversion would have been entitled on such capital reorganization, merger, consolidation or sale. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section (e) with respect to the rights of the holders of the Series C Preferred Stock after the reorganization, merger, consolidation or sale to the end that the provisions of this Section (e) (including adjustment of the Conversion Rate and Conversion Price then in effect and the number of shares purchasable upon conversion of the Series C Preferred Stock) shall be applicable after that event as nearly equivalent as may be practicable.

(7) No Adjustment. No adjustment to the Conversion Rate and Conversion Price shall be made if such adjustment would result in a change in the Conversion Price of less than one percent (l%). Any adjustment of less than one (1%) percent which is not made shall be carried forward and shall be made at the time of and together with any subsequent adjustment which, on a cumulative basis, amounts to an adjustment of one percent (1%) or more in the Conversion Price.

(8) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Rate pursuant to this Section (e), the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and cause independent public accountants selected by the Corporation to verify such computation and prepare and furnish to each holder of Series C Preferred Stock a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, upon the written request at any time of any holder of Series C Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Rate at that time in effect, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at that time would be received upon the conversion of Series C Preferred Stock.

(9) Notices of Record Date. In the event of any taking by the Corporation of a record of the holders of any class of securities other than Series C Preferred Stock for the purpose of determining the

holders thereof who are entitled to receive any dividend or other distribution, any Common Stock Equivalents or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Corporation shall mail to each holder of Series C Preferred Stock at least twenty (20) days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or rights, and the amount and character of such dividend, distribution or rights.

(10) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of the Series C Preferred Stock such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series C Preferred Stock; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series C Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

(f) Redemption by Corporation. The Series C Preferred Stock may be redeemed for cash solely at the option of the Corporation, either in whole or in part, at any time or from time to time, at One Hundred Dollars ($100.00) per share, plus an amount equal to the amount of all dividends accrued but unpaid (whether or not declared) to the date fixed for redemption.

Unless full cumulative dividends on all outstanding shares of the Series C Preferred Stock shall have been or contemporaneously are declared and paid or set apart for payment for all past dividend periods, the Series C Preferred Stock may not be redeemed unless all outstanding preferred stock is redeemed, and neither the Corporation nor any subsidiary thereof may purchase any preferred stock, including shares of the Series C Preferred Stock, and neither the Corporation nor any subsidiary thereof may redeem or purchase any class or series of capital stock ranking junior to the Series C Preferred Stock in respect to dividends or distributions upon liquidation; provided, however, that the Corporation may complete the purchase or redemption of shares of preferred stock for which a purchase contract was entered into, or notice of redemption of which was initially given, prior to such default in payment of dividends.

If less than all of the outstanding shares of Series C Preferred Stock are to be redeemed, the shares to be redeemed shall be selected by the Corporation from outstanding shares not previously called for redemption, pro rata, by lot, or in such other equitable manner as the Board of Directors may determine.

Notice of any proposed redemption of Series C Preferred Stock shall be given by the Corporation by mailing a copy of such notice at least thirty (30) days but not more than sixty (60) days prior to the date fixed for such redemption to each holder of record of the shares to be redeemed at such holder's address appearing on the books of the Corporation. On and after the date fixed for redemption dividends shall cease to accrue on the shares of Series C Preferred Stock called for redemption, whether or not the certificates for such shares are actually surrendered for redemption. All shares of Series C Preferred Stock redeemed pursuant to this Section (f) shall be restored to the status of authorized and unissued shares of preferred stock, undesignated as to series.

(g) Notices. Any notice required by the provisions hereof to be given to the holders of shares of Series C Preferred Stock shall be deemed given if deposited in the United States Postal Service, postage prepaid, and addressed to each holder of record at his or her address appearing on the books of the Corporation.

Exhibit 10.19

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is made effective as of 31st day of December, 2001, between ATLANTIC AMERICAN CORPORATION, a Georgia corporation (the "Borrower") and WACHOVIA BANK, N.A. (the "Bank").

Background:

The Borrower and the Bank have entered into a Credit Agreement dated as of July 1, 1999 (as amended on March 24, 2000 and on February 9, 2001, the "Credit Agreement"). The Borrower and the Bank wish to amend the Credit Agreement in certain respects, as hereinafter provided.

NOW, THEREFORE, the Borrower and the Bank agree as follows:

SECTION 1. Definitions. Capitalized terms used herein which are not otherwise defined herein shall have the respective meanings assigned to them in the Credit Agreement.

SECTION 2. The Credit Agreement is amended as set forth in this Section 2.

2.1. Amendment to Section 1.01. The definitions of "Capital Expenditures", "Commitment" and "Loans" in Section 1.01 of the Credit Agreement are hereby amended and restated in their entirety and the definitions of "Draw One", "Draw One Commitment", "Draw One Date", "Draw Two", "Draw Two Commitment", "Draw Two Date", "Notice of Continuation and Conversion" and "Term Loan", are hereby added in their appropriate alphabetical order to Section 1.01 of the Credit Agreement to read in their entirety as follows:

"Capital Expenditures" means for any period the sum of all capital expenditures, excluding capital expenditures related to the Borrower's imaging system incurred during the Fiscal Year ending December 31, 2002 in an amount not to exceed $750,000 in the aggregate, incurred during such period by the Borrower and its Consolidated Subsidiaries, as determined in accordance with GAAP.

"Commitment" means the aggregate amount of the Draw One Commitment then in effect plus the Draw Two Commitment then in effect, as the amount may be reduced from time to time in accordance with the Credit Agreement.

"Draw One" means a conversion of the outstanding amount of the Euro-Dollar Loans and Base Rate Loans as of the Draw One Date into a term loan made initially as a Euro-Dollar Loan to be repaid in accordance with the Credit Agreement.

"Draw One Commitment" means $19,000,000.

"Draw One Date" means April 2, 2002.

"Draw Two" means a Base Rate Loan or a Euro-Dollar Loan in an amount not to exceed the Draw Two Commitment, the proceeds of which are to be used solely to repay the Tender Advance (as such term is defined in the Reimbursement Agreement).

"Draw Two Commitment" means $25,000,000.

"Draw Two Date" means the date specified in the Notice of Borrowing as the date on which the Borrower desires Draw Two to be advanced.

"Notice of Continuation or Conversion" has the meaning as specified in Section 2.02.

"Loans" means the Term Loan.

"Term Loan" means the term loan advanced to the Borrower in accordance with Sections 2.01(a) and 2.01(b).

2.2. Amendment to Section 2.01. Section 2.01 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 2.01. Commitments to Make Loans.

(a) The Bank hereby agrees, on the terms and conditions set forth herein, to establish a term loan facility by making Draw One to the Borrower on the Draw One Date in an aggregate principal amount not to exceed the Draw One Commitment. The Bank and the Borrower agree that on the Draw One Date the aggregate amount of the Base Rate Loans and Euro-Dollar Loans outstanding shall automatically convert into Draw One. The Draw One Commitment shall terminate on the earlier of (i) the Draw One Date and (ii) May 1, 2002.

(b) The Bank hereby agrees, on the terms and conditions set forth herein, to make Draw Two to the Borrower on the Draw Two Date in an aggregate principal amount not to exceed the Draw Two Commitment. Draw Two shall be advanced to the Borrower on the date specified in the Notice of Borrowing. The Draw Two Commitment shall terminate on the earlier of (i) the Draw Two Date and (ii) May 1, 2002.

(c) The Bank shall have no obligation to advance any moneys to the Borrower other than pursuant to clauses (a) and (b) above.

2.3. Amendment to Section 2.02. Section 2.02 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 2.02. Method of Borrowing Loans and Conversion and Continuation of Loans.

(a) The Borrower shall give the Bank notice in the form attached hereto as Exhibit G (a "Notice of Borrowing") prior to 11:00 A.M. (Atlanta, Georgia time) on or before the Draw Two Date in the case of a Base Rate Borrowing, or at least 3 Euro-Dollar Business Days before the Draw Two Date in the case of a Euro-Dollar Borrowing, specifying:

(i) the Draw Two Date, which shall be a Domestic Business Day in the case of a Base Rate Borrowing and a Euro-Dollar Business Day in the case of a Euro-Dollar Borrowing;

(ii) whether Draw Two is a Base Rate Loan or a Euro-Dollar Loan; and

(iii) in the case of a Euro-Dollar Borrowing, the duration of the Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

(b) In the event that the Notice of Borrowing fails to specify whether Draw Two is to be a Base Rate Loan or a Euro-Dollar Loan, Draw Two shall be made as a Base Rate Loan.

(c) Draw One shall initially be a Euro-Dollar Loan in the amount of the Draw One Commitment with an Interest Period of three months. Thereafter, on the terms and subject to the conditions of this Agreement, the Borrower may elect (A) at the end of any Interest Period with respect to Euro-Dollar Loans to convert such Euro-Dollar Loans into Base Rate Loans or to continue such Euro-Dollar Loans for an additional Interest Period, or (B) at any time to convert Base Rate Loans to Euro-Dollar Loans. The Loans may be continued as, or converted to, (i) Base Rate Loans in an aggregate principal amount of $1,000,000 or any larger multiple of $500,000 or (ii) Euro-Dollar Loans in an aggregate principal amount of $5,000,000 or any larger multiple of $1,000,000. The Borrower shall make each such election by delivering to the Bank a notice in the form of Exhibit H (a "Notice of Continuation or Conversion") prior to 11:00 a.m. (Atlanta, Georgia time) at least 3 Euro-Dollar Business Days prior to the effective date of any conversion to or continuation of Euro-Dollar Loans, and prior to 10:00 a.m. (Atlanta, Georgia time) on the same Domestic Business Day as the effective date of any conversion to Base Rate Loans, specifying (x) in the case of a conversion to or continuation of Euro-Dollar Loans, the Interest Period; (y) the date of conversion or continuation (which shall be a Euro-Dollar Business Day, in the case of a conversion to or continuation of Euro-Dollar Loans and a Domestic Business Day in the case of a conversion to Base Rate Loans); and (z) the amount and type of conversion or continuation. Upon timely receipt of a Notice of Continuation or Conversion, the Bank shall promptly notify the Borrower

of the applicable interest rate for the Interest Period selected in
such Notice of Continuation or

Conversion; provided that the failure by the Bank to provide any such notice shall not, in any way, affect or diminish the Borrower's obligations to the Bank or the Bank's rights under this Agreement, the Notes or any of the other Loan Documents. If, within the time period required under this Section, the Bank shall not have received a Notice of Continuation or Conversion with respect to Euro-Dollar Loans from the Borrower of an election to continue such loans for an additional Interest Period, then, upon the expiration of the Interest Period therefor, such Loans shall be converted automatically into Base Rate Loans.

(d) No more than two Interest Periods shall be applicable to the Term Loan on any day.

(e) Notwithstanding anything to the contrary contained in this Agreement, the Term Loan may not be continued as, or converted to, Euro-Dollar Loans if at the time of continuation or conversion there shall have occurred an Event of Default, which Event of Default shall not have been cured or waived in writing.

2.4. Amendment to Section 2.04. Section 2.04 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 2.04. Repayment and Maturity of Loans. Unless due sooner pursuant to the provisions of Article VI, the Borrower agrees to repay the principal of the Term Loan in annual installments in the amount of $2,000,000 on or before December 31, 2002, and $2,000,000 after January 1, 2003 but on or before December 31, 2003, together with one final installment on the Termination Date in an amount equal to the unpaid principal balance of, and accrued but unpaid interest on, the Loans.

2.5. Amendment to Section 2.07. Section 2.07 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 2.07. Intentionally Omitted.

2.6. Amendment to Section 2.08. Section 2.08 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 2.08. Intentionally Omitted.

2.7. Amendment to Section 2.10. Section 2.10 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 2.10. Intentionally Omitted.

2.8. Amendment to Section 5.05. Section 5.05 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 5.05. Intentionally Omitted.

2.9. Amendment to Section 5.06. Section 5.06 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

SECTION 5.06. Ratio of Interest Coverage to Consolidated Interest Expense. At the end of each Fiscal Quarter through the Fiscal Quarter ending June 30, 2002, the ratio of Interest Coverage for the period of 4 consecutive Fiscal Quarters then ended to Consolidated Interest Expense for the period of 4 consecutive Fiscal Quarters then ended shall be no less than 2.0 to 1.0; thereafter, at the end of each Fiscal Quarter, the ratio of Interest Coverage for the period of 4 consecutive Fiscal Quarters then ended to Consolidated Interest Expense for the period of 4 consecutive Fiscal Quarters then ended shall be no less than 2.25 to 1.0

SECTION 3. No Other Amendment. Except for the amendments set forth above, the text of the Credit Agreement shall remain unchanged and in full force and effect. This Amendment is not intended to effect, nor shall it be construed as, a novation. The

Credit Agreement and this Amendment shall be construed together as a single instrument and any reference to the "Agreement" or any other defined term for the Credit Agreement in the Credit Agreement, the Loan Documents or any certificate, instrument or other document delivered pursuant thereto shall mean the Credit Agreement as amended hereby and as it may be amended, supplemented or otherwise modified hereafter. Nothing herein contained shall waive, annul, vary or affect any provision, condition, covenant or agreement contained in the Credit Agreement, except as herein amended, or any of the other Loan Documents nor affect nor impair any rights, powers or remedies under the Credit Agreement, as hereby amended or any of the other Loan Documents. The Bank does hereby reserve all of its rights and remedies against all parties who may be or may hereafter become secondarily liable for the repayment of the Notes. The Borrower promises and agrees to perform all of the requirements, conditions, agreements and obligations under the terms of the Credit Agreement, as heretofore and hereby amended, and the other Loan Documents, the Credit Agreement, as amended, and the other Loan Documents being hereby ratified and affirmed. The Borrower hereby expressly agrees that the Credit Agreement, as amended, and the other Loan Documents are in full force and effect.

SECTION 4. Representations and Warranties. The Borrower hereby represents and warrants in favor of the Bank as follows:

(a) The representations and warranties of the Borrower contained in Article IV of the Credit Agreement are true on and as of the date hereof;

(b) Upon the effectiveness of this Amendment, no Default or Event of Default under the Credit Agreement has occurred and is continuing on the date hereof;

(c) The Borrower has the corporate power and authority to enter into this Amendment and to do all acts and things as are required or contemplated hereunder to be done, observed and performed by it;

(d) This Amendment has been duly authorized, validly executed and delivered by one or more authorized officers of the Borrower, and this Amendment and the Credit Agreement, as amended hereby constitutes the legal, valid and binding obligation of the Borrower enforceable against it in accordance with its terms; and

(e) The execution and delivery of this Amendment and the Borrower's performance hereunder and under the Credit Agreement as amended hereby do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over the Borrower other than those which have already been obtained or given, nor be in contravention of or in conflict with the Articles of Incorporation or Bylaws of the Borrower, or the provision of any statute, or any judgment, order or indenture, instrument, agreement or undertaking, to which the Borrower is a party or by which its assets or properties are or may become bound.

SECTION 5. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same agreement.

SECTION 6. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of Georgia.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal by their respective authorized officers as of the day and year first above written.

Attest:

/s/ Janie L. Ryan

Its: /s/ Secretary

[CORPORATE SEAL]

ATLANTIC AMERICAN CORPORATION

By: /s/ Hilton H. Howell

Its: /s/ President & CEO

WACHOVIA BANK, N.A.

By: /s/ William R. McCamey

Title: /s/ Senior Vice President

Exhibit 21.1

Subsidiaries of the Registrant

SUBSIDIARY	STATE OF INCORPORATION
American Safety Insurance Company	Georgia
American Southern Insurance Company	Kansas
Association Casualty Insurance Company	Texas
Association Risk Management General Agency	Texas
Bankers Fidelity Life Insurance Company	Georgia
Georgia Casualty & Surety Company	Georgia
Self-Insurance Administrators, Inc.	Georgia

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated March 25, 2002 included in this Form 10-K, into Atlantic American Corporation's previously filed Registration Statements (File Nos. 33-56866, 333-90063 and 333-90057).

/s/ ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 25, 2002

Exhibit 99

Atlantic American Corporation
4370 Peachtree Road, N.E.
Atlanta, GA 30319

March 27, 2002

Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Re: Representations of Arthur Andersen LLP

Ladies and Gentlemen:

In accordance with Temporary Note 3T to Article 3 of Regulation S-X, this letter confirms that we have received from Arthur Andersen LLP a letter that represents that their audit of Atlantic American Corporation's financial statements for the year ended December 31, 2001, was subject to their quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the audit engagement was conducted in compliance with professional standards, that there was appropriate continuity of Arthur Andersen personnel working on the audit and availability of national office consultation. According to the letter, availability of personnel at foreign affiliates of Arthur Andersen was not relevant to their audit. These representations were obtained in conjunction with Arthur Andersen's consent filed today as Exhibit 23.1 to the Form 10-K of Atlantic American Corporation for 2001.

Sincerely,

/s/ Hilton H. Howell, Jr.

Hilton H. Howell, Jr.
President and
Chief Executive Officer