

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1996

OR

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

Commission File Number 0-3722

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

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

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

Indicate by check mark whether 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

The total number of shares of the registrant's Common Stock, \$1 par value, outstanding on August 5, 1996, was 18,687,124.

ATLANTIC AMERICAN CORPORATION

INDEX

Part 1. Financial Information Page No.

Item 1. Financial Statements:

Consolidated Balance Sheets -  
December 31, 1995 and June 30, 1996 2

Consolidated Statements of Operations -  
Three months and six months ended  
June 30, 1995 and 1996 3

Consolidated Statements of Cash Flows -  
Six months ended June 30, 1995 and 1996 4

Notes to Consolidated Financial Statements	5
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	6 - 8
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Part II. Other Information  
-----

Item 4. Submission of matters to a vote of security holders	9
---	---

Item 6. Exhibit and report on Form 8-K	10
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Signatures	11
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ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

ASSETS

(In thousands, except share and per share data)

	June 30, 1996	December 31, 1995
Cash, including short-term investments of \$21,380 and \$12,498	\$ 22,590	\$ 15,069
Investments:		
Bonds (cost: \$109,920 and \$112,915)	110,986	113,313
Common and preferred stocks (cost: \$26,996 and \$26,925)	38,512	42,116
Mortgage loans	6,876	6,952
Policy and student loans	2,870	5,690
Real estate	46	46
Total investments	159,290	168,117
Receivables:		
Reinsurance	24,034	22,467
Other (net of allowance for bad debts: \$1,469 and \$1,260)	25,380	18,567
Deferred acquisition costs	15,367	14,899
Other assets	4,153	4,125
Goodwill	2,175	2,250
Total assets	\$ 252,989	\$245,494

LIABILITIES AND SHAREHOLDERS' EQUITY

Insurance reserves and policy funds:		
Future policy benefits	\$ 36,327	\$ 36,305
Unearned premiums	31,446	24,140
Losses and claims	82,504	79,514
Other policy liabilities	3,733	3,888
Total policy liabilities	154,010	143,847
Accounts payable and accrued expenses	7,145	8,010
Debt payable (\$1,058 and \$6,358 due to affiliates)	38,827	44,921
Net obligation to discontinued operations	-	953
Minority interest	587	1,285
Total liabilities	200,569	199,016
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$1 par, 4,000,000 shares authorized;		
Series A preferred, 30,000 shares issued and outstanding, \$3,000 redemption value	30	30
Series B preferred, 134,000 shares issued and outstanding, \$13,400 redemption value	134	134
Common stock, \$1 par, 30,000,000 shares authorized; 18,712,167 shares issued in 1996 and 1995	18,712	18,712
Additional paid-in capital	54,824	46,531
Accumulated deficit	(35,127)	(34,446)
Net unrealized investment gains	13,886	15,589
Treasury stock, at cost, 17,468 shares in 1996 and 32,767 shares in 1995	(39)	(72)
Total shareholders' equity	52,420	46,478
Total liabilities and shareholders' equity	\$ 252,989	\$245,494

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	1996 ----	1995 ----	1996 ----	1995 ----
<b>Revenue:</b>				
Insurance premiums	\$ 21,458	\$ 10,689	\$ 42,843	\$ 20,914
Investment income	2,878	1,613	5,558	3,231
Realized investment gains, net	11	470	681	538
Other income	67	-	105	-
Total revenue	24,414	12,772	49,187	24,683
<b>Benefits and expenses:</b>				
Insurance benefits and losses incurred	13,953	6,456	28,045	12,726
Commissions and underwriting expenses	6,260	3,513	12,648	7,049
Interest expense	801	561	1,724	1,133
Other	1,551	1,519	2,944	2,825
Total benefits and expenses	22,565	12,049	45,361	23,733
Income before income tax expense and discontinued operations	1,849	723	3,826	950
Income tax expense	(59)	-	(59)	(9)
Income from continuing operations	1,790	723	3,767	941
Loss from discontinued operations	(4,447)	(3,205)	(4,447)	(2,980)
Net loss	\$(2,657)	\$ (2,482)	\$ (680)	\$ (2,039)
<b>Net income (loss) per common share data:</b>				
Continuing operations	\$ 0.10	\$ 0.03	\$ 0.20	\$ 0.05
Discontinued operations	(0.24)	(0.17)	(0.24)	(0.16)
Net loss	\$ (0.14)	\$ (0.14)	\$ (0.04)	\$ (0.11)
Weighted average common shares outstanding	18,901	18,588	18,855	18,574

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Six Months Ended  
June 30,  
-----  
1996                  1995  
-----

(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (680)	\$ (2,038)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of deferred acquisition costs	1,805	2,050
Acquisition costs deferred	(2,273)	(1,856)
Realized investment losses	(681)	(538)
Increase in insurance reserves	10,163	2,668
Gain from discontinued operations	-	2,980
Depreciation and amortization	557	258
Minority interest	(698)	(19)
Increase in receivables, net	(8,380)	(2,025)
(Decrease) increase in other liabilities	(861)	177
Other, net	1,429	1,213
	-----	-----
Net cash provided by continuing operations	381	2,870
Net cash used in discontinued operations	-	(2,977)
	-----	-----
Net cash provided by (used in) operating activities	381	(107)
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from investments sold or matured	56,741	12,955
Investments purchased	(42,727)	(7,144)
Additions to property and equipment	(404)	(702)
	-----	-----
Net cash provided by investing activities	13,610	5,109
Net cash used in discontinued operations	-	(1,904)
	-----	-----
Net cash provided by investing activities	13,610	3,205
	-----	-----

CASH FLOWS FROM FINANCING ACTIVITIES:

Preferred stock dividends	(157)	(158)
Proceeds from exercise of stock options	9	157
Purchase of treasury shares	(22)	(78)
Repayments of debt	(6,300)	(675)
	-----	-----
Net cash used in continuing operations	(6,470)	(754)
Net cash provided by discontinued operations	-	5,149
	-----	-----
Net cash (used in) provided by financing activities	(6,470)	4,395
	-----	-----

Net increase in cash and cash equivalents

7,521                  7,493

Cash and cash equivalents at beginning of period:

Continuing operations	15,069	4,016
Discontinued operations	-	2,383
	-----	-----

Total                                  15,069                  6,399

Cash and cash equivalents at end of period:

Continuing operations	22,590	11,241
Discontinued operations	-	2,651
	=====	=====

Total                                  \$ 22,590                  \$ 13,892

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest	\$ 1,989	\$ 1,375
	=====	=====
Cash paid for income taxes	\$ 27	\$ 128

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (In thousands)

Note 1. Basis of presentation.

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The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation and the interests of minority shareholders have been recognized. Operating results for the six month period ended June 30, 1996, are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. These operating results include American Southern Insurance Company for the first and second quarters of 1996 whereas comparable 1995 operating results do not. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1995.

Note 2. Investments.

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Investments are comprised of the following:

	June 30, 1996	December 31, 1995
	-----	-----
Bonds (cost: \$109,920 and \$112,915)	\$ 110,986	\$ 113,313
Common and preferred stocks (cost: \$26,996 and \$26,925)	38,512	42,116
Mortgage loans	6,876	6,952
Policy and student loans	2,870	5,690
Real estate	46	46
	-----	-----
Total investments	\$ 159,290	\$ 168,117
	=====	=====

Note 3. Insurance reserves and policy funds.

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Insurance reserves and policy funds are comprised of the following:

	June 30, 1996	December 31, 1995
	-----	-----
Future policy benefits	\$ 36,327	\$ 36,305
Unearned premiums	31,446	24,140
Losses and claims	82,504	79,514
Other policy liabilities	3,733	3,888
	-----	-----
Total policy liabilities	\$ 154,010	\$ 143,847
	=====	=====

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS

Atlantic American Corporation's (the "Company" or "Parent Company") net income from continuing operations for the second quarter of 1996 was \$1.8 million, or \$0.10 per share, compared to net income of \$723,000, or \$0.03 per share, for the second quarter of 1995. The Company's net income from continuing operations year-to-date for 1996 was \$3.8 million, or \$0.20 per share, compared to net income of \$942,000, or \$0.04 per share, in 1995. The primary reason for the increase in earnings for the second quarter and year-to-date are due to inclusion of the income of American Southern Insurance Company (American Southern") in the Company's income starting January 1, 1996. American Southern accounted for \$1.4 million of the \$1.8 million of income before taxes for the quarter and \$2.9 million of the \$3.8 million of income before taxes for the year-to-date.

At June 30, 1996 the Company had a net cumulative deferred tax asset of zero. The net cumulative deferred tax asset consists of \$26.7 million of deferred tax assets, offset by \$8.6 million of deferred tax liabilities, and a \$18.1 million valuation allowance. The Company's ability to generate taxable income from operations is dependent upon various factors, many of which are beyond management's control. Accordingly, there can be no assurance that the Company will generate future taxable income. Therefore, the realization of the deferred tax assets will be assessed periodically based on the Company's current and anticipated results of operations.

Georgia Casualty & Surety Company ("Georgia Casualty") had income before taxes of \$366,000 in the second quarter of 1996 and \$1.1 million year-to-date compared to \$341,000 in the second quarter and \$634,000 for the year-to-date in 1995. The improvement operating income is mainly due to an increase in premium of \$103,000 and \$1.0 million in the second quarter and year-to-date, respectively, over 1995.

Atlantic American Life Insurance Company and Bankers Fidelity Life Insurance Company (the "Life and Health Division") had net income of \$960,000 and \$1.5 million for the second quarter and year-to-date, respectively, for 1996, compared to \$956,000 and \$1.4 million, respectively, for 1995. The increase in net income is mainly due to an increase in life insurance premiums offset by declining accident and health premiums.

The Company had announced on February 21, 1996, its intentions to sell its interest in Leath Furniture and its subsidiaries; therefore, beginning with the fourth quarter of 1995, the Company began reporting the results from its furniture operations as discontinued operations. The sale of Leath Furniture was completed on April 8, 1996, and, as anticipated, resulted in the Company recognizing a loss. The loss reported in the second quarter was \$4.4 million, or \$0.24 per share, compared to \$3.2 million, or \$0.17 per share, in the second quarter of 1995. The loss for the six months for discontinued operations is also \$4.4 million, or \$0.23 per share, compared to \$3.0 million, or \$0.16 per share, for first six months of 1995.

#### RESULTS OF OPERATIONS

Total revenue increased to \$24.4 million and \$49.2 million in the second quarter and first half, respectively, of 1996 from \$12.8 million and \$24.7 million, respectively, for the comparable periods in 1995. Total revenue increased in the second quarter and first half of 1996 mainly due to an increase in premium revenue of \$10.8 million and \$21.9 million, respectively. The increase in premium revenue is attributed to the inclusion of American Southern for the first time in 1996, which accounted for \$10.5 million in the second quarter and \$20.5 million in the first half of 1996. The balance of the increase in revenue is attributed to an increase in investment income of \$1.5 million in the second quarter and \$2.7 million year-to-date, of which \$1.0 million and \$2.0 million in the second quarter and first half of 1996, respectively, was attributed to the inclusion of American Southern. The remaining increase in insurance premiums came from a \$103,000 increase in Georgia Casualty's premiums in the second quarter and \$1.0 million for the first half of 1996, and \$116,000 and \$447,000 in the second quarter and first half of 1996, respectively, from the Life and Health Division. The increase in Georgia Casualty's premiums for the quarter comes from the business automobile market and for the first half from the business automobile and worker's compensation markets. The increase in the Life and Health Division's premiums is in the life line of business which increased \$430,000 for the quarter and \$1.2 million for the six months, offset by a decrease of \$315,000 and \$741,000 for the quarter and six months, respectively, in accident and health premiums.



Insurance benefits and losses have increased to \$14.0 million for the second quarter of 1996 from \$6.5 million for the same quarter of 1995, and year-to-date they have increased to \$28.0 million from \$12.7 million in 1995. An increase of \$7.3 million in the second quarter and \$14.6 million in the first half of the year was attributed to Georgia Casualty and American Southern (collectively known as the "Casualty Division") and a \$217,000 and \$748,000 increase in the second quarter and first half of 1996, respectively, was attributed to the Life and Health Division. The Casualty Division's increase is due to a \$7.8 million and \$14.8 million addition in the second quarter and first half of 1996, respectively, from the American Southern acquisition, offset by Georgia Casualty's decrease of \$531,000 and \$222,000 in the second quarter and first half of 1996, respectively. The Life and Health Division's increase is due to increased premiums causing an increase in reserves, whereas 1995 reflected a decrease in reserves caused by the elimination of a block of funeral home business.

As a percentage of premium revenue, insurance benefits and losses incurred have increased to 65.02% in the second quarter of 1996 from 60.40% in 1995 and to 65.46% year-to-date for 1996 compared to 60.85% for 1995. The percentage of insurance benefits and losses incurred to premium for the second quarter and year-to-date in the Life and Health Division was 52.16% and 55.24%, respectively, for 1996 compared to 49.69% and 51.22% for the same periods, respectively, for 1995; for Georgia Casualty, 62.40% and 64.55% for 1996 compared to 76.17% and 75.00% for 1995; and for American Southern, 74.03% for the quarter and 72.32% year-to-date.

Commission and underwriting expenses in the first six months increased to \$12.6 million in 1996 from \$6.1 million in 1995. This increase was primarily due to an increase in commissions of \$3.8 million, an increase in underwriting expenses of \$3.2 million and a net deferral of deferred acquisition costs of \$447,000. These changes can be attributed to the inclusion of American Southern which had \$3.1 million of commissions, \$1.9 million of underwriting expenses, and \$164,000 of the net deferral of acquisition costs. The balance of the six month increases were due to increased premiums causing commissions to increase for Georgia Casualty by \$440,000 and \$344,000 in the Life and Health Division. Underwriting expenses increased \$850,000 for Georgia Casualty and \$373,000 in the Life and Health Division.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's insurance subsidiaries reported a combined statutory income of \$1.8 million and \$3.9 million in the second quarter and first half of 1996, compared to \$507,000 and \$1.2 million for the same periods, respectively, in 1995. These statutory results were due to income of \$312,000 in the Life and Health Division, \$247,000 for Georgia Casualty, and from the addition of American Southern, whose income was \$1.2 million for the second quarter of 1996. The income for the first half of 1996 on the statutory basis was \$474,000 in the Life and Health Division, \$729,000 for Georgia Casualty, and \$2.7 million for American Southern. Statutory results approximate the previous explanations of generally accepted accounting principles ("GAAP") results of operations, with the exception of the deferred acquisition costs and reserves in the Life and Health Division.

The primary sources of funds for the Company are dividends from its subsidiaries and management fees and borrowings from affiliates of the Company. The Company believes that additional funding would be available from certain of its affiliates to meet any additional liquidity needs, although currently there are no other arranged sources of unused borrowing.

The Company provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries in 1996 remained approximately the same as 1995. The Company believes that the fees and charges to its subsidiaries, dividends and, if needed, borrowings from affiliates will enable the Company to meet its liquidity requirements for the foreseeable future. In addition the Company has a formal tax-sharing agreement between the Company and its insurance subsidiaries. It is anticipated that this agreement will continue to provide the Company with additional funds from profitable subsidiaries due to the subsidiaries' use of the Company's tax loss carryforward. Approximately 93.8% of the investment assets of the insurance subsidiaries are in marketable securities that can be converted into cash, if required; however, use of such assets by the Company is limited by state insurance regulations. Dividend payments to the Company by its insurance subsidiaries are also limited by insurance regulations. At June 30, 1996, Georgia Casualty had \$7.2 million of accumulated statutory earnings, American Southern had \$16.6 million, Bankers Fidelity had \$6.5 million, and Atlantic American Life had an accumulated statutory deficit of \$578,000. American Southern paid the Company dividends totaling \$900,000 in both the first and



second quarters of 1996. Atlantic American Life received approval in the second quarter for payment of \$2.25 million in dividends to the Parent Company. This payment will be made during the second half of 1996.

Net cash provided by continuing operations totaled \$382,000 in 1996, compared to net cash used in continuing operations of \$2.9 million in the first half of 1995. This is partly due to a decrease in the Life & Health Division's benefit expenses of \$242,000 combined with a slight increase in collected premiums. In addition, the Parent Company had cash provided by operating activities of \$469,000 in the first half of 1996, compared to net cash used in operating activities of \$969,000 in the first half of 1995. This increase is due to intercompany taxes received from American Southern, Georgia Casualty, and Bankers Fidelity totaling \$2.1 million, compared to intercompany taxes received of \$1.1 million in 1995. There was also an overall decrease of Parent Company operating expenses of \$475,000. Bankers Fidelity had net cash used in operating activities of \$987,000 in the first half of 1996, compared to net cash provided by operating activities of \$351,000 in the first half of 1995. This is principally due to costs incurred in acquiring the remaining publicly-held shares of stock of Bankers Fidelity, which was consummated on April 1, 1996. The total consideration to be paid in that transaction is approximately \$1.3 million, of which approximately \$698,000 was paid during the second quarter of 1996. Net cash used in operating activities for Georgia Casualty totaled \$537,000 in the first half of 1996, compared to net cash provided by operating activities of \$2.5 million in the first half of 1995. This is the result of an increase in paid claims with no offsetting increase in collected premiums. In the first half of 1996, collected premiums increased by only \$136,000, while in 1995 premiums increased by \$1.9 million over the prior year. Claims paid in the first half of 1996 increased by \$933,000, while in 1995 claims paid had increased by only \$472,000. Cash and short-term investments increased from \$15.0 million at December 31, 1995, to \$22.6 million at June 30, 1996. This increase is due to American Southern's net investment proceeds of \$6.5 million, primarily from the purchases and sales of bonds. Total investments (excluding short-term investments) decreased to \$160.0 million at June 30, 1996, from \$168.1 million at December 31, 1995, due primarily to American Southern's net investment activities.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 4. Submission of matters to a vote of security holders.

On May 7, 1996, the shareholders of the Company cast the following votes at the annual meeting of shareholders for the election of directors of the Company, to amend the 1992 Incentive Plan, and to ratify appointment of Arthur Andersen LLP as the Company's independent public accountants.

1. Election of Directors.

Election of Directors	Shares Voted	
	For	Withheld
Director Nominee		
J. Mack Robinson	16,678,357	48,487
Hilton H. Howell, Jr.	16,681,609	45,235
Samuel E. Hudgins	16,667,091	59,753
D. Raymond Riddle	16,670,831	56,013
Harriett J. Robinson	16,679,004	47,840
Scott G. Thompson	16,681,704	45,140
Charles B. West	16,681,209	45,635
William H. Whaley, M.D.	16,672,126	54,718
Dom H. Wyant	16,671,629	55,215

2. Amendment of the 1992 Incentive Plan.

Shares Voted		
For	Against	Abstain
16,017,074	639,665	70,105

3. Appointment of independent public accountants.

Appointment of the Company's Auditors	Shares Voted		
	For	Against	Abstain
Arthur Andersen LLP	16,678,951	27,184	20,709

Item 6. Exhibit and Report on Form 8-K.

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(a) The following exhibit is filed herewith:

Exhibit 11. Computation of net loss per common share.

(b) Reports on Form 8-K:

- 1) On April 23, 1996, under Item 2, the Company filed a Form 8-K regarding the disposition of the Company's interest in Leath Furniture.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ATLANTIC AMERICAN CORPORATION

-----  
(Registrant)

Date: August 14, 1996

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By: /s/

-----  
John W. Hancock  
Senior Vice President-Treasurer  
(Principal Financial Officer)

By: /s/

-----  
John C. Hall, Jr.  
Controller  
(Principal Accounting Officer)

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES  
 COMPUTATIONS OF NET LOSS PER COMMON SHARE  
 SUPPORTING SCHEDULE

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	1996	1995	1996	1995
	-----	-----	-----	-----
Net loss	\$(2,657)	\$ (2,482)	\$ (680)	\$ (2,038)
Less preferred dividends to affiliates	(79)	(79)	(158)	(158)
	-----	-----	-----	-----
Net loss available to common shareholders	\$(2,736)	\$ (2,561)	\$ (838)	\$ (2,196)
	=====	=====	=====	=====
Weighted average common shares outstanding	18,901	18,588	18,855	18,574
	=====	=====	=====	=====
Net loss per common share	\$(0.14)	\$ (0.14)	\$ (0.04)	\$ (0.12)
	=====	=====	=====	=====

NOTE: Fully diluted earnings per common share are not presented because the effect of convertible subordinated notes and preferred stock is anti-dilutive.

3-MOS  
 DEC-31-1996  
 JUN-30-1996  
 0  
 110986  
 110986  
 38512  
 6876  
 46  
 159290  
 22589  
 24034  
 15367  
 252989  
 118831  
 31446  
 3733  
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 38827  
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 33543  
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 5558  
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 3826  
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