SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 1997

or

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

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

(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 X . No .

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 8, 1998, was $28,205,853. On March 8, 1998 there were 18,915,027 shares of the registrant's common stock, par value $1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of registrant's Annual Report to Shareholders for the year ended December 31, 1997 - Parts I, II and IV.
2. Portions of registrant's Proxy Statement for the Annual Meeting of Shareholders, to be held on May 5, 1998, have been incorporated 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

Atlantic American Corporation, a Georgia Corporation (the "Parent" or "Company") incorporated in 1968, 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 Georgia Casualty & Surety Company ("Georgia Casualty"), incorporated in 1947 and acquired in 1968, Bankers Fidelity Life Insurance Company ("Bankers"), incorporated in 1955 and acquired in 1976, and American Southern Insurance Company and its wholly owned subsidiary American Safety Insurance Company (collectively, "American Southern"), incorporated in 1936 and acquired in 1995.

On January 1, 1997, the Company's wholly-owned subsidiary Atlantic American Life Insurance Company ("Atlantic American Life"), incorporated in 1946 and acquired in 1968, was merged with and into Bankers. The business and operations of Atlantic American Life, which were substantially similar to those of Bankers, have been consolidated into Bankers.

In addition, during 1997, the Company acquired 100% of the outstanding stock of American Independent Life Insurance Company ("AI"). AI, domiciled in Pennsylvania, was acquired to complement the operations of Bankers. The operations of AI were assimilated into the operations of Bankers shortly after the acquisition and expanded the Company's geographic presence in the Life and Health area by five states.

During 1997, the Company also acquired 100% of the outstanding stock of Self-Insurance Administrators, Inc. ("SIA"). SIA, domiciled in Georgia, is a third party administrator that specializes in providing administrative services to those companies and organizations that choose to self-insure their workers' compensation risks. The acquisition of SIA provides the Company with an entry into alternative services in the property and casualty insurance marketplace.

During 1996, the Company sold its majority interest in Leath Furniture, LLC (f/k/a/ Leath Furniture, Inc., "Leath"). Leath is reflected as discontinued operations in the Company's financial statements for 1996 and 1995.

Together Bankers and AI constitute the "Life and Health Division" and Georgia Casualty and American Southern constitute the "Casualty Division".

The Company's strategy is to focus on well-defined niches within various areas of the insurance marketplace. Each of the Company's subsidiaries operates autonomously as the Company believes this allows each subsidiary to best exploit its expertise. However, the Company seeks to develop and expand cross-marketing and joint-underwriting opportunities as they arise.

Additional information concerning the Company and its subsidiaries may be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the Company's 1997 Annual Report to Shareholders, which is incorporated herein by reference.

Casualty Division

The Casualty Division is divided into two distinct operating entities, American Southern and Georgia Casualty. The primary products offered by the Casualty Division are described below, followed by an overview of both companies.

<u>Workers' Compensation</u> insurance policies provide indemnity and medical benefits to insured workers for injuries sustained in the course of their employment.

<u>Business Automobile Insurance</u> policies provide for bodily injury or property damage liability coverage, uninsured motorists coverage, and physical damage coverage.

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

<u>Property</u> insurance policies provide for payment of losses on real and personal property caused by fire and other multiple perils.

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. 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 coverages.

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

	Year Ended December 31, (in thousands)	
	1997	1996
Automobile Physical Damage	$ 4,508	$ 4,865
Automobile Liability	30,909	30,889
General Liability	3,116	1,947
Property	3,206	3,461
Surety	60	88
Total	$41,799	$41,250

Georgia Casualty. Georgia Casualty is a property-casualty insurance company engaged in the sale of commercial lines of insurance, focusing on underwriting workers' compensation and commercial coverages in the Southeast.

Georgia Casualty writes business for both mainstream business accounts and for industries that are perceived to be high risk. The company is selective in its underwriting and focuses on insureds with stringent safety and loss control standards, or accounts that are willing to implement such standards.

Georgia Casualty has a diversified book of business that includes commercial lines other than workers' compensation, including business automobile, general liability, property, commercial umbrella; and, beginning in 1997, a Business Owners Policy ("BOP") was introduced.

Georgia Casualty concentrates its efforts in those states and industries which management believes offer the greatest opportunity for profitability. Currently, Georgia Casualty is focusing the majority of its new business efforts in Georgia and Mississippi, states which management believes offer the greatest opportunity for balanced, profitable growth. Outside of its core states, at the end of 1997, Georgia Casualty had authority to produce business in Florida, South Carolina, North Carolina and Tennessee and the company intends to begin writing business in some of these states in 1998.

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, (in thousands)				
	1997	1996	1995	1994	1993
Workers' Compensation	$12,841	$13,826	$14,954	$11,958	$ 9,890
Business Automobile	4,031	2,550	1,436	1,054	953
General Liability	1,387	1,152	1,025	1,065	1,180
Property	1,657	1,269	887	574	801
Total Casualty	$19,916	$18,797	$18,302	$14,651	$12,824

Life and Health Division

The Life and Health Division of Atlantic American offers a variety of life and supplemental health products with a focus on the senior and middle income markets. Products offered by the Life and Health Division include: ordinary life, Medicare supplement, cancer, and other supplemental health products. Medicare supplement, offered on both a standard and preferred basis, accounts for 46.5% of the Life and Health Division's net premiums. Life insurance, including both whole and term life insurance policies, accounts for 38.8% of the Life and Health Division's premiums. The Life and Health Division has begun to offer several of its products, both life and supplemental health, through payroll deduction services.

The following table summarizes, for the periods indicated, the allocation of the Life and Health Division's net premiums earned for each of its principal product lines followed by a brief description of the principal products.

	Year Ended December 31, (in thousands)				
	1997	1996	1995	1994	1993
Ordinary Life	$ 9,437	$ 8,937	$ 7,037	$ 6,716	$ 5,130
Mass Market Life	1,016	1,303	1,260	1,395	1,541
Total Life	10,453	10,240	8,297	8,111	6,671
Medicare Supplement	12,534	11,560	11,882	13,347	15,052
Convalescent Care/ Short-Term Care	1,141	955	1,191	1,385	1,628
Medical/Surgical	122	160	211	289	389
Cancer	1,803	1,982	2,221	2,457	2,726
Hospital Indemnity	241	282	337	414	508
Accident Expense	523	677	790	892	992
Disability	150	122	142	155	154
Total Accident and Health	16,514	15,738	16,774	18,939	21,449
Total Life and Accident and Health	$26,967	$25,978	$25,071	$27,050	$28,120

Medicare Supplement. The Life and Health Division 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. The Life and Health Division offers several policies providing for payment of benefits in connection with the treatment of diagnosed cancer.

Other Accident & Health Coverages. The Life and Health Division also offers a number of other policies including convalescent care, accident expense, hospital/surgical and disability.

Life Products. The Life and Health Division offers non-participating individual life insurance policies with a number of available riders and options.

Marketing

Casualty Division

American Southern. American Southern's business is marketed through a small number of specialized, experienced independent agent. 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. In addition, a significant portion (approximately 54% of total written premium) of American Southern's premiums are assumed from third parties. In arrangements similar to those with its agents, the premium assumed from these parties is adjusted based upon the profitability of the assumed business.

Georgia Casualty. Georgia Casualty is represented by a field force of approximately 100 independent agents in 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 in each state, are complemented by the underwriting, loss control, and audit staffs of Georgia Casualty, who are available to assist agents in the presentation of all insurance products and services to their insureds.

Life and Health Division

The Life and Health Division markets its policies through commissioned, independent agents. In general, the Life and Health Division 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 the Life and Health Division to expand or contract their sales forces at any time without incurring significant additional expense.

The Life and Health Division has implemented a selective agent qualification process, and had 3,500 licensed agents in 1997. The agents concentrate their sales activities in either the accident and health or life insurance product lines. During 1997, a total of 1,170 agents wrote policies on behalf of the Life and Health Division, and approximately 20% of those agents accounted for 80% of the Life and Health Division's annualized premium.

Products of the Life and Health Division compete directly with products offered by other insurance companies, as agents may represent several insurance companies. The Life and Health Division, 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. Additionally, the Life and Health Division has a staff of 19 employees whose primary function is to facilitate the activities of the agents and to act as liaisons between the agents and the Life and Health Division.

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. To allow for the expense of lead generation, commissions were lowered on the Life and Health Division's senior citizen life plans. In addition, the Life and Health Division 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 the Life and Health Division to build long-term relationships with individual producers who view the Life and Health Division as their primary company. In addition, management believes that the Life and Health Division'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 this distribution channel, production per agent contracted increased substantially when compared to the Life and Health Division's general brokerage division.

Underwriting

Casualty Division

American Southern specializes in the handling of block accounts such as states and municipalities that are generally sufficiently large to establish separate class experience, relying upon the underwriting expertise of its agents. In contrast, Georgia underwrites all of its accounts in-house and has developed a team approach to underwriting with respect to renewal policies. The renewal review team includes members of the staff from management and the underwriting, loss control, claims and finance departments. By receiving active input from each of these departments, the company has improved its underwriting of the risks it continues to insure. All individuals with first-hand information regarding an account are invited to share their information with the team.

During the course of the policy year, extensive use is made of loss control representatives to assist underwriters in identifying and correcting potential loss exposures. 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, 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 54% of American Southern's gross premiums written in 1997. Premiums assumed of $23.7 million include a single state contract of $15.9 million. Management believes that its relationship with all of its agencies is good; however, the loss of any one agency as a customer could potentially have a material adverse effect on the business or financial condition of the company.

Since September 1991, Georgia Casualty has been a direct assignment carrier in Georgia and is assigned direct workers' compensation policies rather than participating in the National Workers' Compensation Reinsurance Pool. Georgia Casualty had 171 direct assignment workers' compensation policies in force at December 31, 1997 with a total net earned premium of $0.8 million in 1997. The total net earned premium Georgia Casualty has been assigned has decreased from $4.0 in 1995, to $2.5 in 1996, and to $0.8 in 1997.

Georgia Casualty continually evaluates the industries in which it writes workers' compensation and today has a significant book of business in lines and industries where the cause of loss is more readily identifiable and corrective actions can be implemented through loss control programs, safety plans, drug-free workplaces, re-employment drug testing and various other risk reduction programs.

Life and Health Division

The Life and Health Division issues single premium life insurance policies with face amounts of not less than $1,000. All life insurance policies are fully underwritten, but the majority are issued with limited medical examinations subject to maximum policy limits ranging from $100,000 for persons under age 31 to $25,000 for persons under age 51. Medical examinations are required in connection with the issuance of life insurance policies in excess of these limits and for any amount on policies issued to customers over age 50. Paramedical examinations are ordered at age 41 for all life applications of $50,000 and above. Approximately 95% of the net premiums earned for life insurance sold during 1997 were derived from life insurance written below the Life and Health Division's medical limits. For the senior market, the Life and Health Division issue special life products on an accept-or-reject basis with a face amount from $15,000 at age 45 to a face amount of $2,000 at age 85. The Life and Health Division only retains a maximum amount of $50,000 with respect to any individual life (see "Reinsurance").

Applications for insurance are reviewed as to the applicant's age and medical history and depending upon this information, additional information may be requested including the "Medical Information Bureau Report", medical examinations, statements from doctors, and, where indicated, special medical tests. If deemed necessary, the Life and Health Division uses investigative services to supplement and substantiate information. For certain limited coverages, the Life and Health Division has adopted simplified policy issue procedures by which the applicant submits a short application for coverage, typically containing only a few health related questions instead of presenting the applicant's complete medical history. At present, approximately 20% to 30% of the senior citizen life applications, through age 79 on the standard product and up to age 75 on the preferred, are verified by telephone. For ages 80 and above, 100% of the standard applicants are verified. All telephone verifications are made by the underwriting department. Applications not meeting the underwriting criteria are declined or additional information is requested.

Operating Results

The following table sets forth, on a statutory basis, the incurred losses and loss ratios for the Company's Casualty and Life and Health Divisions during the past five years.

	Year Ended December 31				
	1997	1996	1995	1994	1993
	(dollars in thousands)				
Casualty (1)					
WORKERS' COMPENSATION:					
Incurred losses	$ 6,740	$ 6,645	$ 9,733(2)	$ 7,243	$ 5,405
Loss ratio	52.5%	48.1%	65.1%	61.9%	54.7%
BUSINESS AUTOMOBILE:					
Incurred losses	$27,237	$23,977	$ 1,227	$ 602	$ 183
Loss ratio	69.0%	62.6%	85.5%	57.1%	19.2%
GENERAL LIABILITY:					
Incurred losses	$ 1,428	$ 1,242	$(1,238)(2)	$ 1,080	$ 766
Loss ratio	31.3%	38.9%	-	101.3%	64.9%
PROPERTY:					
Incurred losses	$ 1,840	$ 1,700	$ 416	$ 244	$ 223
Loss ratio	37.9%	36.0%	47.0%	42.6%	27.9%
TOTAL CASUALTY:					
Incurred losses	$37,245	$33,546	$ 10,138	$ 9,169	$ 6,577
Loss ratio	60.3%	55.9%	55.4%	63.7%	51.3%
Loss adjustment expense ratio	13.9%	12.4%	15.2%	20.1%	19.2%
Expense ratio	25.3%	27.8%	31.4%	27.8%	43.7%
Combined ratio	99.5%	96.1%	102.0%	111.6%	114.2%
Life and Health					
MEDICARE SUPPLEMENT:					
Incurred losses	$ 7,820	$ 7,136	$ 6,688	$ 7,582	$ 8,284
Loss ratio	63.0%	61.7%	57.6%	57.8%	56.5%
CONVALESCENT CARE:					
Incurred losses	$ 867	$ 710	$ 1,393	$ 1,486	$ 1,861
Loss ratio	74.2%	74.3%	121.0%	110.3%	121.3%
MEDICAL SURGICAL:					
Incurred losses	$ 103	$ 187	$ 148	$ 170	$ 279
Loss ratio	84.4%	116.6%	78.8%	61.4%	84.2%
CANCER:					
Incurred losses	$ 568	$ 599	$ 714	$ 885	$ 1,035
Loss ratio	31.5%	30.2%	32.9%	37.0%	39.1%
HOSPITAL INDEMNITY:					
Incurred losses	$ 72	$ 54	$ 171	$ 206	$ 215
Loss ratio	30.3%	41.5%	52.9%	51.4%	65.8%
ACCIDENT EXPENSE:					
Incurred losses	$ 47	$ 165	$ 173	$ 526	$ 622
Loss ratio	9.0%	24.4%	21.9%	58.9%	62.7%
DISABILITY INCOME:					
Incurred losses	$ 90	$ 37	$ 72	$ 84	$ 90
Loss ratio	60.0%	30.2%	50.7%	53.2%	58.5%
TOTAL LIFE AND HEALTH:					
Incurred losses	$ 9,567	$ 8,888	$ 9,359	$ 10,939	$12,386
Loss ratio	58.3%	57.2%	57.2%	58.9%	59.6%

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(1) Includes American Southern for 1997 and 1996 only.
(2) Includes adjustment to reallocate reserves to workers' compensation.

See "Reserves" for analysis of loss development and reserves.

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 timely response. 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 Division

American Southern. American Southern controls its claims costs by utilizing its 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. American Southern frequently utilizes independent adjusters and appraisers to service claims which require on-site inspections.

Georgia Casualty. Georgia Casualty controls its claims costs by utilizing an in-house staff of adjusters 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 to determine whether an insurable event has occurred and, if so, records the claim. This process usually occurs within 7 days of notification of the claim. Where appropriate, the company utilizes independent adjusters and appraisers to service claims which require on-site inspections.

Life and Health Division

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 the Life and Health Division's claims system when the proper documentation is received. Properly documented claims are generally paid within three to nine business days of receipt. During 1997, the Life and Health Division paid approximately 118,000 claims aggregating $14.5 million, of which approximately 113,000 claims aggregating $7.8 million were for Medicare supplement insurance.

Reserves

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

	1997	1996
Balance at January 1	$ 84,074	$ 79,514
Less: Reinsurance recoverables	(26,854)	(22,467)
Net balance at January 1	57,220	57,047
Incurred related to:		
Current year	59,655	57,481
Prior years	21	(4,802)
Total incurred	59,676	52,679
Paid related to:		
Current year	33,857	28,279
Prior years	22,246	24,227
Total paid	56,103	52,506
Reserves acquired due to acquisition, net	764	-
Net balance at December 31	61,557	57,220
Plus: Reinsurance recoverables	25,164	26,854
Balance at December 31	$ 86,721	$ 84,074

Casualty Division

The Casualty Division maintains loss reserves representing estimates of amounts necessary for payment of losses and LAE. The Casualty Division also maintains 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. 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. 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; however, it is difficult to measure the effect of any one of these considerations on reserve estimates.

The Casualty Division establishes 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 Division's insurance lines for 1987 through 1997, including periods prior to the Company's ownership of American Southern. 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 1997. 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.

	Year ended December 31, (in thousands)										
	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Statutory reserve for losses and LAE	$56,712	$53,496	$53,320	$50,154	$48,031	$48,485	$50,808	$52,668	$ 47,819(1)	$39,036	$35,770
Cumulative paid as of:											
One year later		18,899	17,865	16,548	18,106	18,827	22,060	22,837	21,321	21,592	20,812
Two years later			25,821	25,280	25,914	27,731	32,560	35,278	33,507	32,352	32,975
Three years later				29,273	31,021	36,786	38,046	40,768	40,891	39,832	39,168
Four years later					33,674	40,295	41,872	44,267	43,745	43,713	43,249
Five years later						42,498	44,530	47,204	46,183	45,767	46,004
Six years later							46,523	49,000	48,056	47,880	47,727
Seven years later								50,658	49,835	49,704	49,671
Eight years later									51,100	51,288	51,617
Nine years later										52,424	52,363
Ten years later											53,293
Ultimate losses and LAE reestimated as of:											
End of Year	56,712	53,496	53,320	50,154	48,031	48,485	50,808	52,668	47,819(1)	39,036	35,770
One year later		51,103	49,799	46,249	47,021	46,756	53,700	53,676	53,212	47,314	40,990
Two years later			46,952	44,850	44,043	45,999	52,670	55,919	54,438	53,998	49,569
Three years later				44,138	45,568	48,446	53,040	55,865	56,064	55,313	55,752
Four years later					46,638	53,064	52,326	56,514	55,707	56,255	55,511
Five years later						54,173	56,771	56,648	56,579	56,403	56,408
Six years later							57,898	60,515	56,984	57,446	56,868
Seven years later								61,069	60,641	58,142	57,901
Eight years later									61,327	60,791	58,626
Nine years later										61,362	61,391
Ten years later											61,759
Cumulative redundancy (deficiency)		$ 2,393	$ 6,368	$ 6,016	$ 1,393	$(5,688)	$(7,090)	$(8,401)	$(13,508)	$(22,326)	$(25,989)

(1) Restated due to adjustment of $4.7 million for elimination of structured annuities changed to reinsurance in 1990.

Life and Health Division

The Life and Health Division 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 for the year ended December 31, 1997).

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 Division

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 $130,000. 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.

Georgia Casualty. Georgia Casualty's basic treaties cover all claims in excess of $200,000 per person, per occurrence on casualty losses, and per risk on property losses, up to $10.0 million per casualty claim and $3.0 million per property claim. An excess catastrophe treaty provides coverage up to statutory limits for any one occurrence on workers' compenThe property lines of coverage are protected with an excess of loss treaty which affords recovery for property losses in excess of $250,000 up to a maximum of $3.0 million. Facultative arrangements are in place for property accounts with limits in excess of $3.0 million per risk.

Life and Health Division

The Life and Health Division entered into reinsurance contracts ceding the excess of their retention to several primary reinsurers. Maximum retention by the Life and Health Division on any one individual in the case of life insurance policies is $50,000. At December 31, 1997, the Life and Health Division' reinsured annualized premiums totaled $11.8 million of the $318.6 million of life insurance then in force, generally under yearly renewable term agreements. Two companies accounted for the $11.8 million of reinsurance: Munich American Reassurance Company ($9.6 million) and Optimum Reinsurance ($2.2 million). Certain reinsurance agreements no longer active for new business remain in-force to cover any claims on a run-off basis.

Competition

Casualty Division

American Southern. All of 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.

Georgia Casualty. All of 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, loss control 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.

Life and Health Division

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. The Life and Health Division believes that the primary competitors are the Blue Cross/Blue Shield companies, AARP, the Prudential Insurance Company of America, Pioneer Life Insurance Company of Illinois, AFLAC, American Travellers, Kanawha Life, American Heritage, Bankers Life and Casualty Company, United American Insurance Corporation, and Standard Life of Oklahoma. The Life and Health Division competes with other insurers on the basis of premium rates, policy benefits, and service to policyholders. The Life and Health Division also competes with other insurers to attract and retain the allegiance of its independent agents through commission arrangements, accessibility and marketing assistance, lead programs, and market expertise. The Life and Health Division believes that it competes effectively on the basis of policy benefits, services, and market expertise.

Rating

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. These 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.

Casualty Division

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

Georgia Casualty. In early 1997, Georgia Casualty received a Best's rating of B+ (Very Good).

Life and Health Division

Bankers Fidelity. Bankers Fidelity maintains a Best's rating of B+ (Very Good).

American Independent. American Independent is currently rated C by A.M. Best, however, the rating was placed under review with "positive implications" following its acquisition by Atlantic American and as of the date hereof a new rating had not been assigned.

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, 1997, $15.7 million of securities were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Life and Health and the Casualty Divisions.

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, 1997, American Southern, Georgia Casualty and Bankers Fidelity were all within the NAIC "usual" range for all 13 financial ratios. American Independent was outside the "usual" range on three ratios; net change in capital and surplus, net income to total income and surplus relief. These variances are a result of activity that took place prior to Atlantic American's acquisition of American Independent.

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, 1997, all of the Company's insurance subsidiaries substantially 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,					
	1997		1996		1995	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Fixed maturities:						
Bonds:						
U.S. Government, agencies and authorities	$ 76,701	38.4%	$ 73,097	39.7%	$ 71,549	39.6%
States, municipalities and political subdivisions	2,738	1.4	3,496	1.9	21,947	12.2
Public utilities	1,893	1.0	1,505	.8	4,110	2.3
Convertibles and bonds with warrants attached	-	NIL	1,275	.7	1,188	.7
All other corp. bonds	10,457	5.5	11,562	6.3	12,829	7.1
Certificates of deposit	395	0.2	375	.2	1,690	.9
Total fixed maturities(1)	92,184	46.5	91,310	49.6	113,313	62.8
Common and preferred stocks (2)	46,876	23.6	37,762	20.5	42,116	23.3
Mortgage, policy and student loans (3)	9,536	2.1	13,367	7.3	12,642	7.0
Investments in limited partnerships (4)	3,941	2.7	-	-	-	-
Real estate	46	NIL	46	NIL	46	NIL
Short-term investments (5)	46,167	23.1	41,614	22.6	12,498	6.9
Total investments	$198,750	100.0%	$184,099	100.0%	$180,615	100.0%

(1) Fixed maturities are carried on the balance sheet at market value. Total cost of fixed maturities was $91.1 millio as of December 31, 1997, $91.6 million as of December 31, 1996, and $112.9 million at December 31, 1995.
(2) Equity securities are valued at market. Total cost of equity ecurities was $18.4 million as of December 31, 1997, $19.7 million as of December 31, 1996, and $26.9 million at December 31, 1995.
(3) Mortgage loans and policy and student loans are valued at historical cost.
(4) Investments in traded limited partnerships are valued at estimated market value; all other partnership interests are carried at historical cost. Total cost of investments in limited partnerships was $4.0 million as of December 31, 1997.
(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,		
	1997	1996	1995
	(Dollars in thousands)		
Average investments(1)	$187,408	$180,816	$106,645
Net investment income	11,117	11,005	6,142
Average yield on investments	5.9%	6.1%	5.7%
Realized investment gains, net	$ 1,076	$ 1,589	$ 1,731

(1) Calculated as the average of the balances at the beginning of the year and at the end of each of the four segment quarters. The calculation for 1995 does not include American Southern's investment portfolio.

Management's investment strategy is an increased investment in short and medium maturity bonds and common and convertible preferred stocks.

Employees

The Company and its subsidiaries at December 31, 1997 employed 176 people.

Financial Information By Industry Segment

Financial information concerning the Company and its consolidated subsidiaries by industry segment for the three years ended December 31, 1997, is set forth on page 21 of the 1997 Annual Report to Shareholders, and such information by industry segment is incorporated herein by reference.

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 December 31, 1997, (based upon information supplied by each of them) his name, age, positions with the Company, principal occupation, and business experience for the past five years and prior service with the Company.

Name	Age	Position with the Company	Director or Officer Since
J. Mack Robinson	74	Chairman of the Board	1974
Hilton H. Howell, Jr.	36	Director, President & CEO	1992
John W. Hancock	60	Senior Vice President and Treasurer	1989

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 also 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 1192 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.

Mr. Hancock has served as Senior Vice President and Treasurer of the Company since November 1993 and Senior Vice President of the Life Companies since August 1997, prior thereto served as Senior Vice President and Treasurer of the Life Companies since November 1993, prior thereto served as Vice President and Treasurer of the Company and each of the Life Companies since April 1989, and prior thereto served as Controller of the Life Companies since March 1988. He is also a Director of American Independent, Bankers Fidelity Life and Georgia Casualty. Prior to joining the Company in 1988, he was Vice President of Finance with National Consultants, 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 approximately seven acres located in Fulton and Washington Counties, Georgia. At December 31, 1997, the aggregate book value of such properties was approximately $46,000.

Leased Properties. The Company (with the exception of American Southern) leases space for its principal offices 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 54,000 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 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, 2000. Under the terms of the lease, American Southern occupies approximately 13,700 square feet.

ITEM 3. LEGAL PROCEEDINGS

Litigation

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, 1997.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common stock is traded in the over-the-counter market and quoted on the Nasdaq National Market (Symbol: AAME). As of March 8, 1998, there were 6,586 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
1997		
1st quarter	$ 3 3/4	$3 1/16
2nd quarter	3 1/4	2 1/2
3rd quarter	4 1/8	2 1/2
4th quarter	5 1/2	4
1996		
1st quarter	$ 3 1/4	$2 1/8
2nd quarter	4	2 3/4
3rd quarter	3 5/8	3
4th quarter	3 5/8	3

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 Georgia, cumulative dividend payments to the Parent Company by its insurance subsidiaries are limited to the accumulated statutory earnings of the insurance subsidiaries without the prior approval of the Insurance Commissioner. The Company's principal insurance subsidiaries had the following accumulated statutory earnings and/or (deficits) as of December 31, 1997: Georgia Casualty - $13.0 million, American Southern - $19.6 million, Bankers Fidelity Life - $18.0 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.

A total of 278,561 shares of common stock were issued in exchange for 100% of the outstanding stock of SIA, Inc., which shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1993, as amended.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data of Atlantic American Corporation and subsidiaries for the five year period December 31, 1997 is set forth on page 1 of the 1997 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations of Atlantic American Corporation and subsidiaries are set forth on pages 23 to 27 of the 1997 Annual Report to Shareholders and are incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and related notes are set forth on pages 8 to 22 of the 1997 Annual Report to Shareholders and are incorporated herein by reference.

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", "Employment Agreements With Management", 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 May 5, 1998.

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 STATEMENTS

	Page Reference
Consolidated Balance Sheets as of December 31, 1997 and December 31, 1996	8*
Consolidated Statements of Operations for the Three Years ended December 31, 1997	9*
Consolidated Statements of Shareholders'Equity for the Three Years ended December 31, 1997	10*
Consolidated Statements of Cash Flows for the Three Years ended December 31, 1997	11*
Notes to Consolidated Financial Statements	12-22*
Report of Independent Public Accountants	28*

* The page references so designated refer to page numbers in the 1997 Annual Report to Shareholders of Atlantic American Corporation, which pages are incorporated herein by reference. With the exception of the information specifically incorporated within this Form 10-K, the 1997 Annual Report to Shareholders of Atlantic American Corporation is not deemed to be filed under the Securities Exchange Act of 1934.

FINANCIAL STATEMENT SCHEDULES

Report of Independent Public Accountants
II - Condensed financial information of registrant for the three years ended December 31, 1997 III - Supplementary Insurance Information for the three years ended December 31, 1997
IV - Reinsurance for the three years ended December 31, 1997
VI - Supplemental Information concerning property-casualty insurance operations for the three years ended December 31, 1997

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 [incorporated by reference to Exhibit 3.1 to the registrant's Form 10-Q for the fiscal quarter ended March 31, 1996].

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].

4.1 - Indenture between registrant and Wachovia Bank and Trust Company, N.A., Trustee, dated as of April 1, 1987 relating to the registrant's 8% Convertible Subordinated Notes due May 15, 1997 [incorporated by reference to Exhibit 4.1 to the registrant's Form 10-K for the year ended December 31, 1987].

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* - Employment Agreement, dated September 8, 1988, between the registrant and John W. Hancock [incorporated by reference to exhibit 10.30 to the registrant's Form 10-K for the year ended December 31, 1992].

10.09 - Employment Agreement dated September 2, 1988, between the registrant and Eugene Choate [incorporated by reference to Exhibit 10.31 to the registrant's Form 10-K for the year ended December 31, 1992].

10.10 - 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].

10.11 - 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].

10.12 - 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].

10.13 - 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].

10.14 - 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].

10.15 - Stock Purchase Agreements by and between registrant and Fuqua Enterprises, Inc. dated as of October 16, 1995 [incorporated by reference to Exhibit 2.1 to the registrant's Form 8-K, filed January 12, 1996].

10.16 - Credit Agreement, dated as of December 29, 1995, between registrant and Wachovia Bank of Georgia, N.A. [incorporated by reference to Exhibit 99.1 to the registrant's Form 8-K, filed January 12, 1996].

13.1 - Those portions of the registrant's Annual Report to Shareholders for year ended December 31, 1997, that are specifically incorporated by reference herein.

21.1 - Subsidiaries of the registrant.

23.1 - Consent of Arthur Andersen, LLP Independent Public Accountants.

28.1 - Form of General Agent's Contract of Atlantic American Life Insurance Company [incorporated by reference to Exhibit 28 to the registrant's Form 10-K for the year ended December 31, 1990].

28.2 - Form of Agent's Contract of Bankers Fidelity Life Insurance Company [incorporated by reference to Exhibit 28 to the registrant's Form 10-K for the year ended December 31, 1990].

28.3 - Form of Agency Contract of Georgia Casualty & Surety Company [incorporated by reference to Exhibit 28 to the registrant's Form 10-K for the year ended December 31, 1990].

(b) Reports on Form 8-K. None.

*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.

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/
John W. Hancock
Senior Vice President and Treasurer
Date: March 27, 1998

By: /s/
Edward L. Rand, Jr.
Vice President and Controller
Date: March 27, 1998

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	Chairman of the Board	March 27, 1998
/s/ HILTON H. HOWELL, JR.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 27, 1998
/s/ JOHN W. HANCOCK	Senior Vice President and Treasurer (Principal Financial Officer)	March 27, 1998
/s/ EDWARD L. RAND, JR.	Vice President and Controller	March 27, 1998
/s/ SAMUEL E. HUDGINS	Director	March 27, 1998
/s/ D. RAYMOND RIDDLE	Director	March 27, 1998
/s/ HARRIETT J. ROBINSON	Director	March 27, 1998
/s/ SCOTT G. THOMPSON	Director	March 27, 1998
/s/ MARK C. WEST	Director	March 27, 1998
/s/ WILLIAM H. WHALEY, M.D.	Director	March 27, 1998
/s/ DOM H. WYANT	Director	March 27, 1998

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
Atlantic American Corporation:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of Atlantic American Corporation, incorporated by reference in this Form 10-K, and have issued our report thereon dated March 20, 1998. Our audits of the financial statements were made for the purpose of forming an opinion on those statements taken as a whole. The financial statement schedules listed in Item 14 (a) are the responsibility of the Company's management, are presented for the purpose of complying with the Securities and Exchange Commission's rules, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the consolidated 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 consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 20, 1998

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

BALANCE SHEETS
(in thousands)

ASSETS

	December 31, 1997	December 31, 1996
Current assets:		
Cash and short-term investments	$ 223	$ 382
Investment in insurance subsidiaries	107,124	94,797
Income taxes receivable from subsidiaries	137	55
Other assets	2,424	2,278
	$109,908	$ 97,512

LIABILITIES AND SHAREHOLDERS' EQUITY

	1997	1996
Current liabilities:		
Notes payable to affiliates	$ -	$ 1,058
Current portion of long-term debt	1,000	8,559
Interest payable	-	56
Other payables	3,125	2,076
Total current liabilities	4,125	11,749
Income taxes payable to subsidiaries	-	633
Long-term debt	27,600	25,994
Shareholders' equity	78,183	59,136
	$109,908	$ 97,512

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

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF OPERATIONS
(in thousands)

	Year Ended December 31,		
	1997	1996	1995
REVENUE			
Fees, rentals and interest income from subsidiaries	$ 3,841	$ 5,662	$ 5,968
Distributed earnings from subsidiaries	11,209	6,850	2,864
Other	20	94	12
Total revenue	15,070	12,606	8,844
GENERAL AND ADMINISTRATIVE EXPENSES	5,305	6,073	5,555
INTEREST EXPENSE	2,902	3,292	2,458
	6,863	3,241	831
INCOME TAX PROVISION (BENEFIT) (1)	(1,862)	(2,054)	(274)
	8,725	5,295	1,105
EQUITY IN UNDISTRIBUTED EARNINGS OF CONSOLIDATED SUBSIDIARIES, NET	(692)	2,316	2,013
Income from continuing operations	8,033	7,611	3,118
(Loss) from discontinued operations, net	-	(4,447)	(10,094)
Net income (loss)	$ 8,033	$ 3,164	$(6,976)

(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.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
ATLANTIC AMERICAN CORPORATION
(Parent Company Only)
STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 8,033	$ 3,164	$(6,976)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	591	452	379
Equity in undistributed earnings of consolidated subsidiaries	692	(2,316)	(2,013)
Loss from discontinued operations	-	4,447	10,094
Change in intercompany taxes	(715)	(245)	-
Decrease in other liabilities	(157)	(262)	(746)
Minority interest	-	-	(554)
Other, net	(245)	2,528	1,550
Net cash provided by operating activities	8,199	7,768	1,734
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiaries, net	-	-	(38)
Proceeds from sale of Leath Furniture, net	-	3,645	-
Acquisition of American Southern Insurance Company	-	-	(22,770)
Additions to property and equipment	(536)	(1,177)	(1,058)
Net cash provided (used) by investing activities	(536)	2,468	(23,866)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of bank financing	5,617	11,352	22,642
Preferred stock dividends to affiliated shareholders	(315)	(315)	(315)
Purchase of treasury shares	(558)	(338)	(174)
Retirements and payments of long-term debt and notes payable to affiliates	(12,628)	(20,662)	(675)
Proceeds from exercise of stock options	62	85	600
Net cash (used) provided by financing activities	(7,822)	(9,878)	220,078
Net increase (decrease) in cash	(159)	358	(54)
Cash at beginning of year	382	24	78
Cash at end of year	$ 223	$ 382	$ 24
Supplemental disclosure:			
Cash paid for interest	$ 2,958	$ 3,763	$ 2,894
Cash paid for income taxes	$ 85	$ 116	$ 128
Long-term debt, payable to affiliates, converted to preferred stock	-	-	$13,400
Debt to seller for purchase of American Southern Insurance Company	-	-	$11,352
Issuance of stock to acquire SIA, Inc.	$ 1,212	-	-

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)

Segment	Deferred Acquisition Costs	Future Policy Benefits, Losses, Claims and Loss Reserves	Unearned Premiums	Other Policy Claims and Benefits Payable
December 31, 1997:				
A & H.....	$ 1,517	$ 6,890	$ 2,631	$ -
Life......	11,895	37,180	-	2,001
Casualty..	3,071	81,839	21,781	1,996
	$16,483	$125,909(1)	$24,412	$ 3,997
December 31, 1996:				
A & H.....	$ 2,561	$ 6,924	$ 2,135	$ -
Life......	9,676	33,686	-	1,912
Casualty..	2,942	79,849	22,965	1,727
	$15,179	$120,459(2)	$25,100	$ 3,639
December 31, 1995:				
A & H.....	$ 3,831	$ 8,907	$ 2,222	$ -
Life......	8,411	32,219	-	1,905
Casualty..	2,657	74,693	21,918	1,983
	$14,899	$115,819(3)	$24,140	$ 3,888

(1)Includes future policy benefits of $39,188 and losses and claims of $86,721.
(2)Includes future policy benefits of $36,385 and losses and claims of $84,074.
(3)Includes future policy benefits of $36,305 and losses and claims of $79,514.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION(1)
(in thousands)

Segment	Premium Revenue	Investment Income (Losses)*(2)	Benefits, Claims, Losses and Settlement Expenses	Amortization of Deferred Acquisition Costs	Other Operating Expenses(2)	Casualty Premiums Written
December 31, 1997:						
Life......	$10,453	$ 4,018	$ 7,022	$ 540	$ 3,480	$ -
Casualty..	61,715	7,363	45,442	7,760	7,986	60,562
A & H.....	16,514	1,157	8,554	1,404	6,564	-
Other.....	-	(5)	-	-	4,292	-
	$88,682	$12,533	$61,018	$9,704	$22,322	$60,562
December 31, 1996:						
Life......	$10,240	$ 4,210	$ 6,446	$1,449	$ 4,543	$ -
Casualty..........	60,047	7,377	40,245	5,349	13,039	61,068
A & H.....	15,738	1,234	7,590	1,386	7,565	-
Other.....	-	225	-	-	3,644	-
	$86,025	$13,046	$54,281	$8,184	$28,791	$61,068
December 31, 1995:						
Life......	$ 8,297	$ 3,941	$ 4,861	$1,799	$ 3,546	$ -
Casualty..	18,302	2,989	12,356	-	6,582	19,074
A & H.....	16,774	1,442	7,472	1,922	7,796	-
Other.....	-	(75)	-	-	2,252	-
	$43,373	$ 8,297	$24,689	$3,721	$20,176	$19,074

* Includes realized investment gains (losses).

(1) Supplementary insurance information contained above includes amounts related to American Southern for 1996 and 1997 only.
(2) Investment incom is allocated based on the pro rata percentages of insurance reserves and policyholders' funds attributable to each segment whereas other operating expenses are allocated based on premiums collected.

Schedule IV

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
REINSURANCE
(in thousands)

	Gross Amount	Ceded To Other Companies	Assumed From Other Companies	Net Amount
Year ended December 31, 1997:				
Life insurance in force...........	$318,594	$11,767	$ -	$306,827
Premiums --				
Life insurance....................	$ 10,540	$ 91	$ -	$ 10,449
Accident and health insurance.....	16,518	-	-	16,518
Property and casualty insurance(1)	43,721	8,978	26,972	61,715
Total premiums.................	$ 70,779	$ 9,069	$26,972	$ 88,682
Year ended December 31, 1996:				
Life insurance in force...........	$277,891	$10,072	$ -	$267,819
Premiums --				
Life insurance....................	$ 10,305	$ 65	$ -	$ 10,240
Accident and health insurance.....	15,738	-	-	15,738
Property and casualty insurance(1)	43,317	9,009	25,739	60,047
Total premiums.................	$ 69,360	$ 9,074	$25,739	$ 86,025
Year ended December 31, 1995:				
Life insurance in force...........	$254,349	$10,003	$ -	$244,346
Premiums --				
Life insurance....................	$ 8,378	$ 81	$ -	$ 8,297
Accident and health insurance.....	16,774	-	-	16,774
Property and casualty insurance(1)	21,258	2,956	-	18,302
Total premiums................	$ 46,410	$ 3,037	$ -	$ 43,373

(1) Information contained above includes amounts related to American Southern for 1996 and 1997 only.

Schedule VI

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING

PROPERTY-CASUALTY INSURANCE OPERATIONS
(in thousands)

						Claims and Claim Adjustment Expenses Incurred Related to				
Yead Ended	Deferred Policy Acquisition	Reserves	Unearned Premium	Earned Premium	Net Investment Income	Current Year	Prior Years	Amortization of Deferred Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Premiums Written
December 31, 1997(1)	$ 3,071	$81,839	$21,781	$61,715	$7,363	$48,562	$(3,003)	$ 7,760	$41,883	$60,562
December 31, 1996(1)	$ 2,942	$79,849	$22,965	$60,047	$7,205	$44,468	$(3,403)	$ 5,349	$41,017	$61,068
December 31, 1995	$2,657(1)	$74,693(1)	$21,918(1)	$18,302(2)	$2,989(2)	$7,002(2)	$ 5,985(2)	$ -	$12,923(2)	$19,074(2)

(1) Includes Georgia Casualty & Surety and American Southern.

(2) Includes Georgia Casualty only.

EXHIBIT 13.1

Corporate Profile

Atlantic American Corporation is an insurance holding company involved through its subsidiary companies in well-defined specialty markets of the life, health, property and casualty insurance industries.

SELECTED FINANCIAL DATA

(In Thousands, Except Per Share Data)

	Year Ended December 31,				
	1997	1996	1995	1994	1993
Insurance premiums	$88,682	$ 86,025	$ 43,373	$ 41,701	$ 40,944
Investment income	11,457	11,457	6,566	6,628	6,048
Realized investment gains, net	1,076	1,589	1,731	870	744
Total revenue	101,215	99,071	51,670	49,199	47,736
Insurance benefits and losses incurred	61,018	54,281	24,689	21,955	25,364
Other expenses	32,026	36,975	23,897	20,727	21,905
Total benefits and expenses	93,044	91,256	48,586	42,682	47,269
	8,171	7,815	3,084	6,517	467
Income tax provision (benefit)	138	204	(34)	(1,632)	(989)
Income from continuing operations	8,033	7,611	3,118	8,149	1,456
(Loss) income from discontinued operations, net	-	(4,447)	(10,094)	1,121	1,543
Income (loss) before extra-ordinary gain and cumulative effect of change in accounting principle for income taxes	8,033	3,164	(6,976)	9,270	2,999
Extraordinary gain	-	-	-	100	897
Income (loss) before cumulative effect of change in accounting principle, for income taxes	8,033	3,164	(6,976)	9,370	3,896
Cumulative effect of change in accounting principle, for income taxes	-	-	-	-	(519)
Net income (loss)	$ 8,033	$ 3,164	$ (6,976)	$ 9,370	$ 3,377
Diluted net income (loss) per common share data:					
Continuing operations	$ .35	$ .32	$ .15	$ .43	$ .06
Discontinued operations	-	(.23)	(.54)	.06	.09
Extraordinary gain	-	-	-	-	.05
Cumulative effect of change in accounting principle	-	-	-	-	(.03)
Net income (loss)	$ .35	$ .09	$ (.39)	$ .49	$ .17
Diluted weighted average common shares outstanding	18,842	18,882	18,671	18,511	18,476
Book value per share	$ 3.27	$ 2.29	$ 1.61	$ 1.47	$ 1.24
Common shares outstanding	18,907	18,684	18,679	18,414	18,399
Total assets	$271,860	$252,994	$245,494	$148,740	$154,822
Total long-term debt	$ 27,600	$ 25,994	$31,569	$ 24,327	$ 21,827
Total shareholders' equity	$ 78,183	$ 59,136	$ 46,478	$ 30,022	$ 25,806

President's Message

To Our Shareholders:

The past year was a successful and important one for our Company. Atlantic American completed two small but significant acquisitions, American Independent Life Insurance Company and SIA, Inc. These acquisitions, coupled with the continued solid performance of our existing insurance companies, produced a very exciting and rewarding 1997.

The financial performance of the company was strong. Net income reported was $8.0 million, or $.35 per share, compared with net income from continuing operations of $7.6 million, or $.32 per share, in 1996 - representing a 5.5% and 9.4% increase, respectively. The Company's book value per share grew by an impressive 42.8% from $2.29 per share to $3.27 per share and total shareholders equity increased by 32.3% to $78.2 million from $59.1 million. Since 1991, the book value of Atlantic American has appreciated eight-fold. Equally important, during 1997 our total debt, which was primarily incurred to finance our acquisition of the American Southern Insurance Companies at year-end 1995, decreased from $35.6 million to $28.6 million, which represents a total debt to equity ratio of 36.6% at year-end 1997.

Atlantic American's property and casualty operations, which represent approximately 70% of both our total revenue and net income, once again produced excellent results. The American Southern Companies renewed all of their important accounts during the year and were able to report a very successful year with continued healthy underwriting profits. The hallmark of American Southern's success continues to be the strength of its relationships with its producers and the unquestioned integrity of its senior management. The continued outstanding financial performance of American Southern proves that the old-fashioned values of hard work, shooting straight, and standing behind your word are still key to long-term success in our fast-paced modern world. Roy Thompson elected to become Chairman Emeritus of American Southern at the end of 1997. Fortunately, Roy will remain an active part of the Company and we will still be able to draw upon his talents despite the change in title. Calvin Wall assumed the title of Chairman and CEO, a promotion he richly deserves.

Georgia Casualty, which celebrates its 50th anniversary in 1998, also produced a very good year. Despite keen pricing competition in most of its markets and lines of business, our sound underwriting discipline and professional claims handling produced profitable results in all lines of business, other than our discontinued short-haul trucking program in Mississippi. In the fourth quarter, Georgia Casualty expanded into the states of Florida, Tennessee, Louisiana, North Carolina and South Carolina. In 1998, we expect to see much growth from these new markets as we feel these neighboring states offer attractive markets for growth with little new overhead required. As Georgia Casualty embarks on its next 50 years, we will strive to continue to be a strong regional company which focuses on the people, products and industries it knows so well.

SIA, Inc., which was acquired for shares of Atlantic American common stock in October, specializes in handling the workers' compensation claims of self-insured companies and public sector entities. The addition of SIA, Inc., which continues to be ably run by its founder, Andy Thompson, provides Atlantic American with an entry into alternative services in the insurance marketplace. It also complements the primary focus of Georgia Casualty, allowing it to enter a new line of business by providing stop-loss insurance to some of SIA, Inc.'s clients.

Our life and health operations, augmented by the recent acquisition of American Independent, a Pennsylvania domiciled life insurance company, also produced an admirable year. The assimilation of the American Independent business into the Bankers Fidelity operation went very smoothly. We were able to integrate close to $6 million in annualized premium and over 9,000 policyholders into our operations without adding any new staff. In doing so, we have eliminated virtually all of American Independent's operating expenses and spread our own over a larger revenue base. Going forward, we expect this acquisition will add significantly to our earnings and will serve as a model for similar acquisitions by Atlantic American.

In terms of our marketing success, our life insurance sales continued their climb as several new and refined life products were introduced. For the first time in many years, our supplemental health insurance premiums increased significantly as our new products won consumer acceptance. Since 1991, our life insurance premiums have increased more than 85% and our total life insurance in force has increased over 60% during a time of relatively stagnant life insurance sales for the industry as a whole. We have also initiated a marketing alliance between the Bankers Fidelity payroll deduction division and select property and casualty agents whereby they can introduce our payroll products to their small business accounts. Our first products from this distribution method were sold during the fourth quarter of 1997.

We are also extremely pleased that Mark C. West, Chairman and CEO of the Genoa Companies, joined our Board of Directors in June, replacing his father who served so ably on our board for 17 years. Atlantic American is truly privileged to have such longstanding support and guidance from such a fine family. We are delighted to welcome Mark to the Board of Directors.

The steps we have taken and the fine results achieved this past year have strengthened our balance sheet and helped to ensure that we have the financial flexibility to take advantage of opportunities as they present themselves. Many people share the credit for our excellent year in 1997. The leadership of our Board of Directors, the hard work of our management team, the dedication of our employees and the enthusiasm of our agents were critical to producing such a successful year. As we look to 1998, we are highly confident that Atlantic American is positioned to compete and win. We are enthusiastic about our future prospects and greatly appreciate your continued confidence in and support of Atlantic American.

J. Mack Robinson	Hilton H. Howell, Jr.
Chairman	President and Chief Executive Officer

OPERATIONS

Atlantic American Corporation operates in both the property and casualty and life and health segments of the insurance industry. Each of our insurance subsidiaries has a distinct niche and strong identity in their respective markets.

The American Southern Insurance Companies

The American Southern Insurance Companies provide 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 that can be specifically rated and underwritten. While the majority of American Southern's premiums come from Florida, Georgia and South Carolina, American Southern produces business in 18 of the 24 states in which it is licensed. Acquired by Atlantic American Corporation at the close of 1995, American Southern continues to be a solid and consistent contributor to Atlantic American's overall financial results. American Southern generated approximately 47 percent of Atlantic American's 1997 premium revenue and both insurance companies of the American Southern group rated "A-", or Excellent, by A.M. Best.

A typical American Southern account ranges from two to five years and has a sizable premium. Consequently, in comparison to Atlantic American's other subsidiaries, the growth in premiums written by American Southern is less predictable; however, the underwriting results and profitability of American Southern have historically been quite consistent and new contracts tend to be large, the addition of which can be significant.

Despite intensifying competition, American Southern has been very successful in its ability to maintain and renew virtually all of its long-term contracts. Throughout its 60 years, American Southern's executives and agents have instilled confidence in their customers through the quality of their relationships, developed by providing outstanding service and highly unique insurance programs. To achieve higher growth rates while maintaining its target profitability, American Southern has established programs to enhance its business through alternative, customized coverages and by obtaining licensing approval in several additional states.

Another objective to grow American Southern is to seek out complementary acquisitions that can be accretive and add depth to its business. Moreover, by incrementally expanding its business, American Southern strives to reduce the risk of exposure that could result from the loss of any single large contract.

Georgia Casualty & Surety Company and SIA, Inc.

Georgia Casualty is celebrating its 50th anniversary in 1998. Focusing on underwriting workers' compensation and commercial coverages in the Southeast, Georgia Casualty increased earned premiums by 6 percent in 1997. Georgia Casualty represented approximately 22 percent of Atlantic American's overall insurance business and received a rating increase to "B+", or Very Good, from A.M. Best in early 1997. Another significant achievement in 1997 was the acquisition of Self-Insurance Administrators, Inc. ("SIA, Inc."), a third party administrator of workers' compensation plans for self-insured companies and organizations. The addition of SIA, Inc. has expanded the services Georgia Casualty offers beyond traditional guaranteed-cost workers' compensation insurance and various deductible programs to include the alternative of establishing self-insured workers' compensation programs.

An integral component of the growth of Georgia Casualty has been its personal approach to business and loss control programs that enable it to identify and correct potential loss exposures. This process allows Georgia Casualty to adjust coverages or limits and, in some cases, decline to renew accounts at expiration. By adhering to its stringent guidelines, Georgia Casualty has maintained exceptional claim results and higher profitability levels.

Intense competitive pricing throughout the workers' compensation industry has been an issue impacting margins for all insurers who write this line of business. Confident in the quality of its services and products, Georgia Casualty's philosophy is to decline business rather than reduce its pricing to levels that could ultimately prove unprofitable. By adhering to this strategy, Georgia Casualty has been able to maintain stable profitability in the workers' compensation line.

Georgia Casualty is constantly seeking ways in whichit can enhance its services and ultimately shareholder value. One of several objectives includes increasing Georgia Casualty's geographic presence by obtaining licensing and product approval in new states. In the fourth quarter, Georgia Casualty expanded its operations into the states of Louisiana, North Carolina, South Carolina, Tennessee and Florida.

Bankers Fidelity and American Independent Life Insurance Companies

Bankers Fidelity Life Insurance Company, and the recently acquired American Independent Life Insurance Company, specialize in the sale of traditional life and supplemental health and accident insurance coverages with a focus on the senior and middle-income markets. Over the years, this business has been a substantial contributor to Atlantic American and in 1997 contributed approximately 30 percent of Atlantic American's total premium revenue. At the close of the year, Bankers Fidelity was rated "B+" by A.M. Best and was licensed in 33 states, up from 28 in 1996.

In order to expand our existing businesses, this past year we acquired American Independent. This acquisition expanded our geographic presence by five states, adding Arizona, Colorado, Delaware, Idaho and Pennsylvania; and it complemented our product offerings by adding depth in the areas of traditional life, supplemental health and long-term care insurance. The assimilation of American Independent into the operations of Bankers Fidelity was effective almost immediately upon the completion of the transaction, allowing for increased operating efficiencies in addition to the new business acquired.

Bankers Fidelity, offering a series of value-added products such as Standard, Preferred and Modified Whole Life and Medicare supplement insurance, focuses on a well-defined customer base - the senior and middle income markets. Recent value-added enhancements have been to package and offer our preferred life products, with no additional application requirements, following the previous approval of Medicare supplement insurance coverage. Bankers Fidelity has also introduced several new whole life products and a ten-year level term product, as well as refinements to our family life series of Cancer Protection, Accident, Disability Income and Afford-A-Care products.

We have continued to grow our business in the middle income market by offering payroll deduction programs to manufacturers having 100 or fewer employees. Products in this series such as supplemental Cancer Care, Accident and Term-Life have been particularly well received in this market. The Life and Health Division has also fostered niche opportunities exemplified by its whole life and annuity products to assist families with college funding.

A significant component to the strength of Bankers Fidelity has been its ability to offer its products and services through a dedicated agent base of approximately 3,000 agents coupled with a strong internal support operation.

Bankers Fidelity has built its business based on the confidence, trust and professionalism of its agents, and by offering a broad scope of quality products and personal services to its customers. We intend to maintain this culture, pursue new business in niche markets and seek to maximize our potential through internal growth and by taking advantage of consolidation opportunities through carefully selected acquisitions.

DIRECTORS

J. MACK ROBINSON
Chairman
Atlantic American Corporation

HILTON H. HOWELL, JR.
President and Chief Executive Officer
Atlantic American Corporation

SAMUEL E. HUDGINS
Consultant

D. RAYMOND RIDDLE
Retired Chairman and Chief Executive Officer
National Service Industries, Inc.

HARRIETT J. ROBINSON
Director, Delta Life Insurance Company

SCOTT G. THOMPSON
President and Chief Financial Officer
American Southern Insurance Company

MARK C. WEST
Chairman and Chief Executive Officer
Genoa Companies

WILLIAM H. WHALEY, M.D.
William H. Whaley, M.D., P.C., F.A.C.P.

DOM H. WYANT
Retired Partner, Jones, Day, Reavis & Pogue

OFFICERS

J. MACK ROBINSON
Chairman

HILTON H. HOWELL, JR.
President and Chief Executive Officer

JOHN W. HANCOCK
Senior Vice President and Treasurer

EDWARD L. RAND, JR.
Vice President and Controller

CLARK W. BERRYMAN
Vice President, Information Services

MICHAEL J. BRASSER
Vice President, Internal Audit

JANIE L. RYAN
Corporate Secretary

BARBARA B. SNYDER
Assistant Vice President and Director, Human Resources

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars In Thousands, Except Share and Per Share Data)

December 31,

ASSETS

	1997	1996
Cash, including short-term investments of $46,167 and $41,614	$ 51,044	$ 45,499
Investments	152,583	142,485
Receivables:		
Reinsurance	25,164	26,854
Other (net of allowance for doubtful accounts: $916 and $1,151)	17,470	16,301
Deferred acquisition costs	16,483	15,179
Other assets	4,510	4,576
Goodwill	4,606	2,100
Total assets	$271,860	$252,994

LIABILITIES AND SHAREHOLDERS' EQUITY

	1997	1996
Insurance reserves and policy funds	$154,318	$149,198
Accounts payable and accrued expenses	10,759	9,049
Debt payable	28,600	35,611
Total liabilities	193,677	193,858
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; 18,920,728 shares issued in 1997 and 18,712,167 shares issued in 1996 and 18,907,267 shares outstanding in 1997 and 18,684,217 shares outstanding in 1996	18,921	18,712
Additional paid-in capital	53,316	54,062
Accumulated deficit	(23,653)	(31,426)
Net unrealized investment gains	29,498	17,713
Treasury stock, at cost, 13,461 shares in 1997 and 27,950 shares in 1996	(63)	(89)
Total shareholders' equity	78,183	59,136
Total liabilities and shareholders' equity	$271,860	$252,994

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars In Thousands, Except Per Share Data)

	Year Ended December 31,		
Revenue:	1997	1996	1995
Insurance premiums	$ 88,682	$ 86,025	$ 43,373
Investment income	11,457	11,457	6,566
Realized investment gains, net	1,076	1,589	1,731
Total revenue	101,215	99,071	51,670
Benefits and expenses:			
Insurance benefits and losses incurred	61,018	54,281	24,689
Commissions and underwriting expenses	23,012	26,959	15,249
Interest expense	2,902	3,292	2,458
Other	6,112	6,724	6,190
Total benefits and expenses	93,044	91,256	48,586
Income before income tax provision (benefit) and discontinued operations	8,171	7,815	3,084
Income tax provision (benefit)	138	204	(34)
Income from continuing operations, net	8,033	7,611	3,118
Loss from discontinued operations, net	-	(4,447)	(10,094)
Net income (loss) before preferred stock dividends	8,033	3,164	(6,976)
Preferred stock dividends	(1,521)	(1,521)	(315)
Net income (loss) applicable to common stock	$ 6,512	$ 1,643	$ (7,291)
Diluted earnings (loss) per common share:			
Continuing operations	$ .35	$ .32	$ .15
Discontinued operations	-	(.23)	(.54)
Net income (loss)	$ .35	$ .09	$ (.39)
Basic earnings (loss) per common share:			
Continuing operations	$ .35	$ .33	$ .15
Discontinued operations	-	(.24)	(.54)
Net income (loss)	$ .35	$ .09	$ (.39)

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars In Thousands, Except Per Share Data)

	Preferred Stock(1)	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Net Unrealized Investment Gains	Treasury Stock	Total
Balance, December 31, 1994	$ 30	$18,414	$33,289	$(27,452)	$ 5,741	$ -	$30,022
Net loss	-	-	-	(6,976)	-	-	(6,976)
Cash dividends paid on preferred stock	-	-	(315)	-	-	-	(315)
Purchase of 78,148 shares for treasury	-	-	-	-	-	(174)	(174)
Issuance of 343,606 shares for employee benefit plans and stock options	-	298	291	(18)	-	102	673
Conversion of debt payable to preferred stock	134	-	13,266	-	-	-	13,400
Increase in unrealized investment gains	-	-	-	-	9,848	-	9,848
Balance, December 31, 1995	164	18,712	46,531	(34,446)	15,589	(72)	46,478
Net income	-	-	-	3,164	-	-	3,164
Cash dividends paid on preferred stock	-	-	(315)	-	-	-	(315)
Dividends accrued on preferred stock	-	-	(1,206)	-	-	-	(1,206)
Purchase of 104,635 shares for treasury	-	-	-	-	-	(338)	(338)
Issuance of 109,452 shares for employee benefit plans and stock options	-	-	6	(144)	-	321	183
Gain on sale of subsidiary	-	-	9,046	-	-	-	9,046
Increase in unrealized investment gains	-	-	-	-	2,124	-	2,124
Balance, December 31, 1996	164	18,712	54,062	(31,426)	17,713	(89)	59,136
Net income	-	-	-	8,033	-	-	8,033
Cash dividends paid on preferred stock	-	-	(315)	-	-	-	(315)
Dividends accrued on preferred stock	-	-	(1,206)	-	-	-	(1,206)
Purchase of 213,089 shares for treasury	-	-	-	-	-	(735)	(735)
Issuance of 157,578 shares for employee benefit plans and stock options	-	-	3	(260)	-	530	273
Issuance of 278,561 shares for acquisition of Self-Insurance Administrators, Inc.	-	209	772	-	-	231	1,212
Increase in unrealized investment gains	-	-	-	-	11,785	-	11,785
Balance, December 31, 1997	$ 164	$18,921	$53,316	$(23,653)	$29,498	$ (63)	$78,183

(1) Includes Series A and B preferred stock

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

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(Dollars In Thousands)	1997	1996	1995
Cash flows from operating activities:			
Net income (loss)	$ 8,033	$ 3,164	$(6,976)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Amortization of deferred acquisition costs	9,704	8,184	3,721
Acquisition costs deferred	(11,008)	(8,464)	(2,985)
Realized investment gains	(1,076)	(1,589)	(1,731)
Increase (decrease) in reserves	618	5,352	(1,203)
Loss from discontinued operations, net	-	4,447	10,094
Depreciation and amortization	1,121	1,102	547
Minority interest	-	-	285
Decrease (increase) in receivables, net	1,114	(3,870)	997
Increase (decrease) in other liabilities	13	(694)	177
Other, net	98	811	319
Net cash provided by continuing operations	8,617	8,443	3,245
Net cash used by discontinued operations	-	(5,902)	(9,177)
Net cash provided (used) by operating activities	8,617	2,541	(5,932)
Cash flows from investing activities:			
Proceeds from investments sold	7,748	44,445	21,027
Proceeds from investments matured, called or redeemed	52,074	40,868	17,004
Investments purchased	(53,544)	(54,632)	(32,909)
Acquisition of minority interest	(101)	(846)	(1,012)
Additions to property and equipment	(733)	(1,616)	(1,107)
Sale of Leath Furniture, Inc., net	-	3,646	-
Acquisition of American Independent, net of $1,946 acquired	(719)	-	-
Acquisition of SIA, Inc.	25	-	-
Net cash provided (used) by continuing operations	4,750	31,865	(14,270)
Net cash used by discontinued operations	-	(440)	(2,551)
Net cash provided (used) by investing activities	4,750	31,425	(16,821)
Cash flows from financing activities:			
Proceeds from issuance of bank financing	5,617	11,352	22,642
Preferred stock dividends	(315)	(315)	(315)
Proceeds from exercise of stock options	62	85	600
Purchase of treasury shares	(558)	(338)	(174)
Repayments of debt	(12,628)	(20,662)	(675)
Net cash (used) provided by continuing operations	(7,822)	(9,878)	22,078
Net cash provided by discontinued operations	-	6,342	9,345
Net cash (used) provided by financing activities	(7,822)	(3,536)	31,423
Net increase in cash and short-term investments	5,545	30,430	8,670
Cash and cash equivalents at beginning of year:			
Continuing operations	45,499	15,069	4,016
Discontinued operations	-	-	2,383
Total	45,499	15,069	6,399
Cash and cash equivalents at end of year - continuing operations	51,044	45,499	15,069
Total	$51,044	$45,499	$15,069
Supplemental cash flow information:			
Cash paid for interest	$ 2,958	$ 3,763	$ 3,096
Cash paid for income taxes	$ 85	$ 116	$ 128
Debt to seller for purchase of American Southern Insurance Company	$ -	$ -	$11,352
Debt payable converted to preferred stock	$ -	$ -	$13,400

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP"). These financial statements include the accounts of Atlantic American Corporation (the "Company") and its wholly owned subsidiaries. Leath Furniture, LLC (f/k/a Leath Furniture, Inc.), previously a majority owned subsidiary, has been reflected as discontinued operations in the accompanying financial statements (see Note 8) through the date of its divestiture on April 8, 1996 (see Note 14). All significant intercompany accounts and transactions have been eliminated in consolidation.

At December 31, 1997, the Company had five insurance subsidiaries, which included Bankers Fidelity Life Insurance Company and its wholly owned subsidiary, American Independent Life Insurance Company ("American Independent"), collectively termed as the "Life and Health Division", American Southern Insurance Company and its wholly owned subsidiary, American Safety Insurance Company (together known as "American Southern"), Georgia Casualty & Surety Company, and one non-insurance subsidiary, Self-Insurance Administrators, Inc. ("SIA, Inc."), collectively termed the "Casualty Division". American Southern was acquired on December 31, 1995, American Independent Life Insurance Company was acquired on October 1, 1997, and SIA, Inc. was acquired on October 28, 1997 (see Note 7). The results of operations of American Independent and SIA, Inc. are included from the date of acquisition and are not material to the overall operations of the Company. Assets and liabilities are not classified, in accordance with insurance industry practice, and certain prior year amounts have been reclassified to conform to the 1997 presentation.

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 earned premiums so as to result in recognition of profits over the lives of the contracts in proportion to premiums earned. 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 (principally commissions, advertising and certain issue expenses). 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 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 the related unearned premiums and investment income.

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 resulting from the acquisitions of American Independent, American Southern, and SIA, Inc. is amortized over a 15 year period using the straight-line method. The Company periodically evaluates whether events and circumstances have occurred that indicate 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 income over the estimated remaining life of the goodwill in assessing whether the goodwill is recoverable.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Traded limited partnership interests are carried at estimated market value; all other partnership interests are carried at historical cost. If a decline in the value of a common stock, preferred stock, limited partnership interest, or publicly traded bond below its cost or amortized cost 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.

The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of bonds and common and preferred stocks, are accounted for as a direct increase (decrease) in shareholders' equity 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 paid or payable for the current year, plus the change in deferred taxes during the year.

Net Income (Loss) Per Common Share

Basic earnings per 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. Unless otherwise indicated, earnings per share are presented on a restated 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

The Financial Accounting Standards Boards has issued Statements 130, "Reporting Comprehensive Income ("SFAS 130") and 131 "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 130 establishes new rules for the reporting and displaying of comprehensive income. SFAS 130 is effective for fiscal years beginning after December 15, 1997, and will be adopted by the Company in the first quarter of 1998. SFAS 131 requires companies to report segment information based upon a companies operating segments. Operating segments are revenue components of a company for which separate financial information is produced and are subject to evaluation by senior management. SFAS 131 is effective for years beginning after December 15, 1997 and need not be applied to interim financial statements in the initial year. SFAS 131 will be adopted by the Company in the first quarter of 1998. The Company does not believe the effect of adoption of either statement will be material to its financial position or results of operations.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, although, in the opinion of management, such differences would not be significant.

NOTE 2. INVESTMENTS

Investments are comprised of the following:

1997	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Bonds:				
U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies	$ 75,724	$ 670	$ 136	$75,190
Obligations of states and political subdivisions	2,738	30	-	2,708
Corporate securities	12,745	464	14	12,295
Mortgage-backed securities (government guaranteed)	977	30	3	950
	92,184	$ 1,194	$ 153	$91,143
Common and preferred stocks	46,876	$29,561	$1,044	$18,359
Investment in limited partnerships	3,941	-	60	4,001
Mortgage loans (estimated fair value of $4,406)	4,243			
Policy and student loans	5,293			
Real estate	46			
Investments	152,583			
Short-term investments	46,167			
Total investments	$198,750			

1996	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Bonds:				
U.S. Treasury Securities and Obligations of U.S. Government Corporations and Agencies	$ 67,370	$ 275	$ 443	$67,538
Obligations of states and political subdivisions	3,496	86	168	3,578
Corporate securities	14,717	272	272	14,717
Mortgage-backed securities (government guaranteed)	5,727	-	51	5,778
	91,310	$ 633	$ 934	$91,611
Common and preferred stocks	37,762	$19,348	$1,334	$19,748
Mortgage loans (estimated fair value of $7,732)	6,812			
Policy and student loans	6,555			
Real estate	46			
Investments	142,485			
Short-term investments	41,614			
Total investments	$184,099			

Bonds having an amortized cost of $15,684 and $13,578 were on deposit with insurance regulatory authorities at December 31, 1997 and 1996, respectively, in accordance with statutory requirements.

NOTE 2. INVESTMENTS (CONTINUED)

The amortized cost and carrying value of bonds and short-term investments at December 31, 1997 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.

	Carrying Value	Amortized Cost
Due in one year or less	$ 59,651	$ 59,711
Due after one year through five years	19,873	19,449
Due after five years through ten years	47,358	46,861
Due after ten years	10,492	10,339
Varying maturities	977	950
Totals	$138,351	$137,310

Investment income was earned from the following sources:

	1997	1996	1995
Bonds	$6,906	$6,728	$3,549
Common and preferred stocks	1,373	1,622	1,205
Mortgage loans	554	863	791
CDs and commercial paper	2,130	1,443	548
Other	494	801	473
Total investment income	11,457	11,457	6,566
Less investment expenses	(340)	(452)	(424)
Net investment income	$11,117	$11,005	$6,142

A summary of realized investment gains (losses) follows:

1997

	Stocks	Bonds	Limited Partnership	Total
Gains	$1,597	$ 16	$ 2	$1,615
Losses	(104)	(435)	-	(539)
Total realized investment gains (losses), net	$1,493	$(419)	$ 2	$1,076

1996

	Stocks	Bonds	Limited Partnership	Total
Gains	$1,910	$ 73	$ 17	$2,000
Losses	(411)	-	-	(411)
Total realized investment gains (losses), net	$1,499	$ 73	$ 17	$1,589

1995

	Stocks	Bonds	Limited Partnership	Total
Gains	$1,743	$ 35	$363	$2,141
Losses	(73)	(9)	-	(82)
Write-downs	(162)	(166)	-	(328)
Total realized investment gains (losses), net	$1,508	$(140)	$363	$1,731

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

	1997	1996	1995
Common and preferred stocks	$6,393	$9,734	$10,199
Bonds	-	25,335	1,730
Student loans	1,262	6,053	7,278
Other investments	93	3,323	1,820
Total proceeds	$7,748	$44,445	$21,027

The single investment which exceeds 10% of shareholders' equity at December 31, 1997 was a common stock investment in Wachovia Corporation with a carrying value of $26,215 and a cost basis of $3,388.

The Company's bond portfolio included 99% of investment grade securities at December 31, 1997 as defined by the NAIC.

NOTE 3. INSURANCE RESERVES AND POLICY FUNDS

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

			Amount of Insurance in Force	
	1997	1996	1997	1996
Future policy benefits Life insurance policies:				
Ordinary	$ 26,403	$ 22,451	$301,341	$256,482
Mass market	8,916	9,364	17,253	21,409
Individual annuities	808	856	-	-
	36,127	32,671	$318,594	$277,891
Accident and health insurance policies	3,061	3,714		
	39,188	36,385		
Unearned premiums	24,412	25,100		
Losses and claims	86,721	84,074		
Other policy liabilities	3,997	3,639		
Total policy liabilities	$154,318	$149,198		

Annualized premiums for accident and health insurance policies were $21,434 and $15,884 at December 31, 1997 and 1996, 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) 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.

NOTE 3. INSURANCE RESERVES AND POLICY FUNDS (CONTINUED)

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

	1997	1996
Balance at January 1	$84,074	$79,514
Less: Reinsurance recoverables	(26,854)	(22,467)
Net balance at January 1	57,220	57,047
Incurred related to:		
Current year	59,655	57,481
Prior years	21	(4,802)
Total incurred	59,676	52,679
Paid related to:		
Current year	33,857	28,279
Prior years	22,246	24,227
Total paid	56,103	52,506
Reserves acquired due to acquisition	764	-
Net balance at December 31	61,557	57,220
Plus: Reinsurance recoverables	25,164	26,854
Balance at December 31	$86,721	$84,074

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

	1997	1996
Total incurred claims	$59,676	$52,679
Cash surrender value and matured endowments	1,263	1,522
Death benefits	79	80
Total insurance benefits and losses incurred	$61,018	$54,281

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 74% of the reinsurance receivables are due from three reinsurers as of December 31, 1997. Reinsurance receivables of $14,300 are with National Reinsurance Corporation, "A++" (Superior), $2,100 are with First Colony Life Insurance Company, "A++" (Superior), and $2,300 are with Pennsylvania Manufacturers Association Insurance Company, "A+" (Superior). In the opinion of management, the Company's reinsurers are financially stable and allowances for uncollectible amounts are established against reinsurance receivables, if appropriate. Premiums assumed of $23,738 and $25,739 in 1997 and 1996, respectively, include a contract with premiums of $15,900 and $15,400, both 17.9% of net premiums earned for the years 1997 and 1996, respectively. The following table reconciles premiums written to premiums earned and summarizes the components of insurance benefits and losses incurred.

	1997	1996	1995
Premiums written	$73,006	$70,295	$46,773
Plus - premiums assumed	23,738	25,739	-
Less - premiums ceded	(9,345)	(9,074)	(3,037)
Net premiums written	87,399	86,960	43,736
Change in unearned premiums	1,314	(960)	(230)
Change in unearned premiums ceded	(31)	25	(133)
Net change in unearned premiums	1,283	(935)	(363)
Net premiums earned	$88,682	$86,025	$43,373
Provision for benefits and losses incurred	$68,043	$58,801	$25,999
Reinsurance loss recoveries	(7,025)	(4,520)	(1,310)
Insurance benefits and losses incurred	$61,018	$54,281	$24,689

NOTE 5. INCOME TAXES

A reconciliation of the differences between income taxes on income before discontinued operations computed at the federal statutory income tax rate is as follows:

	1997	1996	1995
Federal income tax provision at statutory rate of 35%	$ 2,860	$ 2,735	$ 1,079
Tax exempt interest and dividends received deductions	(267)	(413)	(391)
Change in asset valuation allowance - Utilization of net operating loss	(2,585)	(2,260)	(731)
Alternative minimum tax	130	142	9
Total provision (benefit) for income taxes	$ 138	$ 204	$ (34)

Deferred tax liabilities and assets at December 31, 1997 and 1996 are comprised of the following:

	1997	1996
Deferred tax liabilities:		
Deferred acquisition costs	$(3,875)	$(3,585)
Net unrealized investment gains	(10,325)	(6,199)
Total deferred tax liabilities	(14,200)	(9,784)
Deferred tax assets:		
Net operating loss carryforwards	15,101	17,856
Insurance reserves	8,600	7,702
Bad debts	321	404
Total deferred tax assets	24,022	25,962
Asset valuation allowance	(9,822)	(16,178)
Net deferred tax assets	$ -	$ -

NOTE 5. INCOME TAXES (CONTINUED)

The components of the provision (benefit) are:

	1997	1996	1995
Current - Federal	$138	$204	$(34)
Deferred - Federal	-	-	-
Total	$138	$204	$(34)

At December 31, 1997, the Company has regular tax loss carryforwards of approximately $43,147 expiring generally between 2000 and 2009.

The Company has determined, based on its earnings history, that an asset valuation allowance of $9,822 should be established against its net deferred tax assets at December 31, 1997. The Company's asset valuation allowance decreased by $6,356 during 1997, due primarily to the utilization of net loss carryforwards in the current year from profitable operations and the increase in unrealized gains on the investment portfolio. Due to the uncertain nature of their ultimate realization based upon past performance and expiration dates, the Company has established a full valuation allowance against these carryforward benefits and recognizes the benefits only as reassessment demonstrates they are realizable. 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 based on historical performance. Therefore, the realization of the deferred tax assets will be assessed periodically based on the Company's current and anticipated results of operations. The Company has a formal tax-sharing agreement with each of its subsidiaries. With the exception of American Independent, which files a separate federal income tax return, the Company files a consolidated federal income tax return with its subsidiaries.

NOTE 6. CREDIT ARRANGEMENTS

Debt payable is as follows:

	1997	1996
8% Convertible Subordinated Notes paid May 15, 1997		
($1,058 held by affiliates at December 31, 1996)	$ -	$ 5,617
Note payable to bank due December 31, 2000		
Balance at prime rate of interest (1997 8.50%; 1996 8.25%)	28,600	18,642
Balance at prime plus1/2% (1997 9.00%; 1996 8.75%)	-	11,352
Total arrangements	$28,600	$35,611

Total arrangements		
Due within one year	$ 1,000	$ 9,617
Long-term debt	$27,600	$25,994

The note payable to bank due December 31, 2000, is payable in quarterly payments of $1,000 beginning in the fourth quarter of 1998 through 2000 with the balance due at maturity. Interest is paid quarterly in arrears. The interest rate on the note payable to bank changes based upon the Company meeting certain financial criteria. On January 1, 1998, the interest rate on the note payable was decreased to 8.0% (50 basis points below prime) as a result of the Company meeting certain financial criteria.

The Company is required to maintain certain financial covenants including, among others, ratios that relate funded debt to consolidated total capitalization, cash flow to debt service, and must comply with limitations on capital expenditures and debt obligations. The Company was in compliance with all of the convenants associated with the debt payable to bank at December 31, 1997.

Maturities

The Company's principal payments on credit arrangements outstanding at December 31, 1997 are as follows:

Year	Amount
1998	$ 1,000
1999	4,000
2000	23,600
	$28,600

NOTE 7. ACQUISITIONS

On October 1, 1997, the Company acquired 100% of the outstanding stock of American Independent for approximately $2,700 in cash. The assets and liabilities of American Independent are included in the 1997 balance sheet and the results of operations are included from the date of acquisition. On October 28, 1997, the Company acquired 100% of the outstanding stock of SIA, Inc. for approximately $1,200 in common stock of the Company. The assets and liabilities of SIA, Inc. are included in the 1997 balance sheet and the results of operations are included since the date of acquisition. The acquisitions of American Independent and SIA, Inc. were both accounted for as purchases and were not material to the financial position or results of operations of the Company in 1997. Had both companies been included in the consolidated financial statements for the earliest year presented, their impact on the consolidated results of operations would not have been material.

On December 31, 1995, the Company acquired a 100% ownership interest in American Southern for $34,000 ($22,648 in cash and a note to seller of $11,352). Accordingly, the assets and liabilities of American Southern were included in the accompanying 1997 and 1996 balance sheets; however, the results of operations were only included beginning January 1, 1996. American Southern operates as a multi-line property and casualty insurance company primarily engaged in the sale of state and municipality automobile insurance.

The acquisition of American Southern was accounted for as a purchase transaction and, accordingly, the purchase price was allocated to assets and liabilities based on their estimated fair values as of the date of acquisition. The excess of the consideration paid over the estimated fair values of net assets acquired in the amount of $2,250 was recorded as goodwill and is amortized on a straight-line basis over 15 years.

The following unaudited pro forma summary combines the consolidated results of operations of the Company and American Southern as if the acquisition had taken place at the beginning of 1995 after giving effect to certain adjustments. These adjustments include adjustments to increase interest expense on funds used by the Company to purchase American Southern, the amortization of goodwill, a reduction in American Southern's income tax expense due to the Company's intercompany tax-sharing agreement and the effect of the conversion of $13,400 in debt into 134,000 shares of Series B Preferred Stock (see Note 11). This pro forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition taken place at the beginning of the period.

	1995
Revenue	$ 95,855
Net (loss) income:	
Continuing operations	$ 6,865
Discontinued operations	(10,094)
Net (loss) income	$ (3,229)
Diluted net (loss) income per common share data:	
Continuing operations	$ .29
Discontinued operations	(.54)
Net (loss) income	$ (.25)

In connection with the acquisitions of American Independent and SIA, Inc. the following assets and liabilities were acquired:

	1997
Cash, short-term investments	$ 1,971
Other investments	3,585
Goodwill	2,701
Other assets	732
Total assets	8,989
Insurance reserves and policy funds	4,502
Other liabilities	593
Total liabilities	5,095
Net assets	$ 3,894

NOTE 8. DISCONTINUED OPERATIONS

Subsequent to year end 1995, the Company announced its intent to sell its approximately 88% interest in Leath Furniture, LLC (f/k/a Leath Furniture, Inc.), a retail furniture chain. Accordingly, the consolidated financial statements report separately the operating results of these discontinued operations. The Company completed the sale of its interest to Gulf Capital Services, Ltd., a related party, on April 8, 1996. The gain from this transaction is reflected as a direct credit to additional paid-in capital.

The following results of operations are attributable to discontinued operations:

	1996	1995
Results of Operations:		
Net sales	$45,502	$113,265
Loss from discontinued operations	$(7,885)	$ (6,656)
Benefit (provision) for discontinued operations	3,438	(3,438)
Net loss from discontinued operations	$(4,447)	$(10,094)
Diluted net loss per share from discontinued operations	$ (.23)	$ (.54)

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation

The Company and its subsidiaries are party to litigation occurring in the normal course of business. In the opinion of management, such litigation will not have a material adverse effect on the Company's financial position or results of operations.

Operating Lease Commitments

The Company's rental expense, including common area charges, for operating leases was $1,178, $1,222 and $1,013 in 1997, 1996 and 1995, respectively. The Company's future minimum lease obligations under non-cancelable operating leases are as follows:

Year Ending December 31,	
1998	$1,053
1999	1,053
2000	800
2001	771
2002	563
Thereafter	1,242
Total	$5,482

NOTE 10. EMPLOYEE BENEFIT PLANS

Stock Options

In 1992, the shareholders approved the Company's adoption of the 1992 Incentive Plan ("1992 Plan"). The 1992 Plan originally provided for a maximum of 400,000 stock options subject to issuance. The 1992 Plan was amended by the Board of Directors in 1995, and subsequently ratified at the 1996 Annual Meeting of Shareholders, to provide for an additional 400,000 stock options. 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; or (e) all or any combination of the foregoing to officers and key employees. Options granted under these plans expire five years from the date of grant. Vesting occurs at 50% upon issuance of an option, and the remaining portion is vested at 25% in each of the following two years. In 1996, the Company adopted the 1996 Director Stock Option Plan, which provides for a maximum of 200,000 stock options with full vesting six months after the grant date. As of December 31, 1997, sixty-six employees, officers and directors were participants in the Plan.

A summary of the status of the Company's stock option plans at December 31, 1997 and 1996, is as follows:

	1997		1996	
	Shares	Weighted Avg. Ex. Price	Shares	Weighted Avg. Ex. Price
Options outstanding, beginning of year	625,391	$2.14	430,141	$ 1.74
Options granted	379,500	4.08	276,000	2.47
Options exercised	(129,491)	1.30	(76,750)	1.11
Options canceled or expired	(5,000)	3.25	(4,000)	1.44
Options outstanding, end of year	870,400	3.11	625,391	2.14
Options exercisable	624,900	2.89	441,141	1.98

The Company does not recognize compensation cost since the option price approximates fair value. If compensation cost had been recognized, the Company's net income (loss) and earnings (loss) per share would have been as follows:

	1997	1996	1995
Net income:			
As reported	$ 8,033	$ 3,164	$ (6,976)
Pro forma	7,793	2,972	(6,989)
Diluted earnings per share:			
As reported	$ .35	$ .09	$ (.39)
Pro forma	.34	.08	(.39)

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

Of the 870,400 options outstanding at December 31, 1997, 94,900 have exercise prices of $1.875 with a remaining contractual life of 2.0 years and all are currently exercisable. 125,000 options have an exercise price of $2.50 with a remaining contractual life of 2.8 years and all are currently exercisable. 269,000 options have exercise prices between $2.375 and $3.3125 with a weighted average exercise price of $2.46, a weighted average remaining contractual life of 3.2 years and 201,750 are currently exercisable. 62,500 options have an exercise price between $3.00 and $3.25 with a weighted average exercise price of $3.1375, a weighted average remaining contractual life of 4.1 years and 43,750 are currently exercisable. The remaining 319,000 options have an exercise price of $4.25 with a remaining contractual life of 4.8 years and 159,500 are currently exercisable.

NOTE 10. EMPLOYEE BENEFIT PLANS (CONTINUED)

The weighted average fair value of options granted estimated on the date of grant using the Black-Scholes option pricing model is $1.83 and $1.11 for grants in 1997 and 1996, respectively, based on expected dividend yields of zero; expected lives of 5 years; risk free interest rates of 5.71% and 6.13%; and expected volatility of 39.97% and 39.80%, for the years ended December 31, 1997 and 1996, respectively.

401(k) Plan

The Company initiated an employees' savings plan under Section 401(k) of the Internal Revenue Code in May of 1995. The plan covers substantially all the Company's employees, except employees of American Southern. The Company previously had a profit sharing plan for its employees which was subsequently amended and restated to comply with the Section 401(k) provisions. 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 to the plan has been funded by reissuance of the Company's treasury stock and was approximately $103, $102, and $72 in 1997, 1996 and 1995, respectively.

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, 1997 and 1996 included the following components:

	1997	1996
Service costs	$102	$103
Interest costs	221	204
Actual return on plan assets	(205)	(97)
Net amortization and deferral	28	(74)
	$146	$136

The following assumptions were used to measure the projected benefit obligation for the benefit plans at December 31, 1997 and 1996:

	1997	1996
Discount rate to determine the projected benefit obligation	7.25%	7.75%
Expected long-term rate of return on plan assets used to determine net periodic pension cost	8.00%	8.00%
Projected annual salary increases	6.00%	6.00%

The following table sets forth the benefit plans' funded status at December 31, 1997 and 1996:

	1997	1996
Actuarial present value of benefit obligation:		
Vested benefit obligation	$2,219	$1,862
Non-vested benefit obligation	12	7
Accumulated benefit obligation	2,231	1,869
Effect of projected future compensation levels	1,050	901
Projected benefit obligation	3,281	2,770
Plan assets at fair value	2,508	2,371
Projected benefit obligation in excess of plan assets	773	399
Unrecognized net loss	(503)	(272)
Unrecognized net transition obligation and prior service costs	(7)	(9)
Accrued pension cost	$ 263	$ 118

NOTE 11. PREFERRED STOCK

Annual dividends on the Series A Convertible Preferred Stock ("Series A Preferred Stock") are $10.50 per share and are cumulative. The Series A Preferred Stock is convertible into approximately 752,000 shares of the Company's common stock at a conversion price of $3.99 per share and is redeemable at the Company's option at $100 per share, plus unpaid dividends.

As part of the American Southern acquisition and effective December 31, 1995, the Company issued 134,000 shares of Series B Preferred Stock ("Series B Preferred Stock") having a stated value of $100 per share. Annual dividends to be paid are $9.00 per share and are cumulative. 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.

NOTE 12. EARNINGS PER SHARE

Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("SFAS 128") is effective for 1997 and subsequent periods. A reconciliation of the numerator and denominator of the earnings per common share calculations are as follows:

For the Year Ended December 31, 1997	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Net income	$ 8,033	18,667	
Less preferred dividends	(1,521)		
Net income available to common shareholders	$ 6,512	18,667	$ .35
Diluted Earnings Per Common Share			
Effect of dilutive stock options		175	
Net income available to common shareholders plus assumed conversions	$ 6,512	18,842	$ .35

For the Year Ended December 31, 1996	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Net income from continuing operations	$ 7,611	18,682	
Less preferred dividends	(1,521)		
Net income available to common shareholders from continuing operations	6,090	18,682	$ .33
Net loss from discontinued operations	(4,447)	18,682	(.24)
Net income available to common shareholders	1,643	18,682	$ .09
Diluted Earnings Per Common Share			
Effect of dilutive stock options		200	
Net income available to common shareholders from continuing operations	6,090	18,882	$ .32
Net loss from discontinued operations	(4,447)	18,882	(.23)
Net income available to common shareholders	$ 1,643	18,882	$ .09

For the Year Ended December 31, 1995	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Net income from continuing operations	$ 3,118	18,557	
Less preferred dividends	(315)		
Net income available to common shareholders from continuing operations	2,803	18,557	$ .15
Net loss from discontinued operations	(10,094)	18,557	(.54)
Net loss available to common shareholders	$(7,291)	18,557	$(.39)
Diluted Earnings Per Common Share			
Effect of dilutive stock options		114	
Net income available to common shareholders from continuing operations	2,803	18,671	$ .15
Net loss from discontinued operations	(10,094)	18,671	(.54)
Net loss available to common shareholders	$(7,291)	18,671	$(.39)

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 nonadmitted 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) no provision is made for deferred income taxes; (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:

	1997	1996	1995
Life and Health, net income	$ 2,523(2)	$1,315	$ 3,021
Property and Casualty, net income	6,694	7,567	1,466(1)
Total net income	$ 9,217	8,882	$ 4,487
Life and Health, surplus	$26,517(2)	$25,792	$24,724
Property and Casualty, surplus	48,032	42,416	38,995
Total surplus	$74,549	68,208	$63,719

(1) Excludes American Southern which was acquired effective December 31, 1995.
(2) Impact of American Independent was not material.

Under the Insurance Code of the State of Georgia, dividend payments to the Company by its insurance subsidiaries have certain limitations without the prior approval of the Insurance Commissioner. The Company received dividends of $11,209 and $6,850 in 1997 and 1996, respectively, from its insurance subsidiaries. Approval from the Insurance Commissioner was required and obtained for a portion of the dividends received in 1997 and 1996. In 1998, dividend payments by the insurance companies in excess of $8,900 would require prior approval.

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. These transactions include leasing of office space, investing and financing. A brief description of each of these is discussed below.

The Company leases approximately 54,637 square feet of office and covered garage space from an affiliated company. In the years ended December 31, 1997, 1996 and 1995, the Company paid $900, $957 and $960, respectively, under the lease.

A majority of the financing of the Company has historically been through affiliates of the Company or its Chairman, in the form of debt and the Series A Preferred Stock. Effective December 31, 1995, the Company issued 134,000 shares of Series B Preferred Stock in exchange for cancellation of approximately $13,400 in outstanding debt to the Company's Chairman and certain of his affiliates (see Note 11).

The Company has mortgage loans to finance properties owned by its discontinued furniture subsidiary. At December 31, 1997 and 1996, the balance of mortgage loans owed to various of the Company's insurance subsidiaries was $3,921 and $6,391, respectively. For 1997, 1996 and 1995, interest on the mortgage loans totaled $521, $688 and $730, respectively.

Certain members of management are on the Board of Directors of Bull Run Corporation and Gray Communications Systems, Inc. At both December 31, 1997 and 1996, the Company owned 600,000 common shares of Bull Run Corporation and 236,040 common shares of Gray Communications Systems, Inc.

On April 8, 1996, the Company completed the sale of its 88% interest in Leath Furniture, LLC (f/k/a Leath Furniture, Inc.) to Gulf Capital Services, Ltd., in exchange for $5.3 million. Gulf Capital is controlled by certain affiliates of the Company.

Delta Life Insurance Company purchases credit life insurance policies with face amounts greater than $50 from Bankers Fidelity. Bankers Fidelity receives premiums for these policies from Delta Life and pays benefits directly to policyholders. At December 31, 1997 and 1996, the face amount of these policies was $673 and $416, respectively, and the reserve balance was $11 and $9, respectively.

NOTE 15. SEGMENT INFORMATION

The following summary sets forth the Company's business segments by revenue, income (loss) before income tax provision (benefit), and assets. The Company operates in three segments: Property and Casualty Insurance, Life Insurance, and Accident and Health Insurance.

	Property and Casualty	Life	Accident and Health	Other	Adjustments and Eliminations	Consolidated
Revenue						
1997	$ 69,078	$14,467	$17,675	$ 48	$ (53)	$101,215
1996	67,468	14,450	16,972	144	37	99,071
1995	21,532(1)	12,435	18,508	2	(807)	51,670
Income (loss) before income tax provision (benefit)						
1997	7,890	3,425	1,153	(4,297)	-	8,171
1996	8,834	2,012	431	(3,588)	126	7,815
1995	2,353(1)	2,033	1,025	(2,419)	92	3,084
Assets						
1997	167,993	85,822	13,769	4,276	-	271,860
1996	160,502	74,798	15,884	1,810	-	252,994
1995	150,505	71,532	19,603	3,854	-	245,494

(1) Excludes American Southern which was acquired effective December 31, 1995.

NOTE 16. 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, 1997 and 1996:

	1997				1996			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	$24,691	$24,339	$25,249	$26,936	$24,773	$24,414	$25,681	$24,203
Income:								
Income before income tax provision,	$ 1,978	$ 1,466	$ 2,418	$ 2,309	$ 1,977	$ 1,849	$ 2,169	$ 1,820
Income tax provision	(40)	(20)	(23)	(55)	-	(59)	(101)	(44)
Continuing operations	1,938	1,446	2,395	2,254	1,977	1,790	2,068	1,776
Discontinued operations	-	-	-	-	-	(4,447)	-	-
Net income (loss)	$ 1,938	$ 1,446	$ 2,395	$ 2,254	$ 1,977	$(2,657)	$ 2,068	$ 1,776
Diluted per common share data:								
Continuing operations	$ .08	$ .06	$ .11	$ .10	$ .08	$ .08	$ .09	$ .07
Discontinued operations	-	-	-	-	-	(.23)	-	-
Net income (loss)	$ .08	$ .06	$ .11	$ .10	$ .08	$ (.15)	$ .09	$ .07

NOTE 17. DISCLOSURES ABOUT FAIR VALUE 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.

	1997		1996	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and short-term investments	$51,044	$51,044	$45,499	$45,499
Bonds	92,184	92,184	91,310	91,310
Common and preferred stocks	46,876	46,876	37,762	37,762
Mortgage loans	4,243	4,406	6,812	7,732
Investments in limited partnerships	3,941	3,941	-	-
Insurance premiums receivable	14,074	14,074	13,485	13,485
Liabilities:				
Debt - affiliated	-	-	1,058	952
- non-affiliated	28,600	28,600	34,553	34,097
Accounts payable and accrued liabilities	10,759	10,759	9,049	9,049

The fair value estimates as of December 31, 1997 and 1996 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, Short-term Investments, Investments in Limited Partnerships, Insurance Premiums Receivable, Accounts Payable, and Accrued Liabilities

The carrying amount approximates fair value.

Bonds, Common and Preferred Stocks

The carrying amount is determined in accordance with methods prescribed by the National Association of Insurance Commissioners ("NAIC"), which do not differ materially from nationally quoted market prices. The fair value of certain municipal bonds is assumed to be equal to amortized cost where market quotations exist.

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.

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

Management's discussion and analysis of the financial condition and the results of operations for the three years ended December 31, 1997, 1996 and 1995 analyzes the results of operations, consolidated financial condition, liquidity and capital resources of Atlantic American Corporation (the "Company" or "Parent Company") and its consolidated subsidiaries Bankers Fidelity Life Insurance Company and American Independent Life Insurance Company (collectively the "Life and Health Division"), American Southern Insurance Company ("American Southern") and Georgia Casualty & Surety Company ("Georgia Casualty" and collectively the "Casualty Division"). Effective January 1, 1997, Atlantic American Life Insurance Company was merged into Bankers Fidelity Life Insurance Company ("Bankers Fidelity"). The following discussion should be read in conjunction with the consolidated financial statements and notes thereto.

OVERVIEW

Atlantic American Corporation's net income for 1997 was $8.0 million ($.35 per share), compared to a net income of $3.2 million ($.09 per share) (net income of $7.6 million or $.32 per share from continuing operations), in 1996, and a net loss of $7.0 million ($.39 per share) (net income of $3.1 million or $.15 per share from continuing operations), in 1995. The increase in earnings from continuing operations in 1997 was attributable to increased revenues from the insurance operations. The increase in earnings in 1996 was primarily due to the inclusion of American Southern's 1996 earnings ($4.3 million).

As discussed below, 1997 represents the first full year not impacted by the discontinued operations of the Company's previously owned furniture operation.

ACQUISITIONS

On October 1, 1997, the Company acquired American Independent Life Insurance Company ("American Independent") for approximately $2.7 million in cash. American Independent specializes in traditional life insurance and supplemental health insurance, including Medicare supplement. American Independent has been consolidated in the Company's December 31, 1997 balance sheet. Results of operations and cash flows are reflected from the date of acquisition.

On October 28, 1997, the Company acquired Self-Insurance Administrators, Inc. ("SIA, Inc.") for approximately $1.2 million in common stock of the Company. SIA, Inc. specializes in the administration of self-insured workers' compensation funds and was acquired to complement the Company's existing workers' compensation book of business. SIA Inc.'s balance sheet has been consolidated in the Company's December 31, 1997 balance sheet, while the results of operations and cash flows of SIA, Inc. have been included since the date of acquisition.

Although the results of both American Independent and SIA, Inc. have been included since their respective acquisition dates, the net earnings impact of these acquisitions is not material to the overall financial position or results of operations of the Company and therefore, have not been individually discussed. The results of American Independent from the date of acquisition are included in discussions of the Life and Health Division.

On December 31, 1995, the Company acquired American Southern for aggregate consideration of $34.0 million. American Southern, a highly rated property and casualty insurance company specializing in state and municipality automobile insurance, was acquired to complement the Company's position as a niche insurance holding company. American Southern's balance sheet has been consolidated since it was acquired on December 31, 1995, while results of operations and cash flows are not reflected until 1996 (see Note 7 of the Notes to Consolidated Financial Statements).

DISCONTINUED OPERATIONS

In early 1996, the Company announced its intent to sell its furniture operations. The furniture division, which consisted of Leath Furniture, Inc. ("Leath") and its subsidiaries, Modernage Furniture, Inc. and Jefferson Home Furniture Company, Inc., suffered significant losses in an industry wide downturn. Management anticipated continued losses in the future and, therefore, decided to exit the retail furniture business and concentrate on its core insurance businesses (see Note 8 of the Notes to Consolidated Financial Statements). The Company completed the sale of its approximately 88% interest in Leath on April 8, 1996, to Gulf Capital Services, Ltd., a related party (see Note 14 of the Notes to Consolidated Financial Statements).

Leath's operating losses for 1995 totaled $6.7 million. The Company recorded an additional charge to earnings of $3.4 million in 1995 for estimated losses to be incurred prior to disposition, bringing the total loss from discontinued operations in 1995 to $10.1 million. The losses anticipated prior to disposition were inadequate, and the Company incurred an additional loss from discontinued operations of $4.4 million in 1996. Previously separated intersegment revenues attributable to mortgage loans from the insurance companies to Leath have been included in investment income of the continuing operations of the insurance segment.

RESULTS OF CONTINUING OPERATIONS

Revenue

The Company markets insurance through various distribution channels. The following table summarizes the insurance premiums during each of the three years ended December 31, 1997, 1996 and 1995 by company and line of business. American Southern is included for 1997 and 1996.

Net Earned Premium by Company by Line
(in thousands)

	Year Ended December 31,					
	1997		1996		1995	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Life and Health Companies:						
Ordinary Life	$ 9,437	10.64%	$ 8,937	10.39%	$ 7,037	16.22%
Mass Market Life	1,016	1.15%	1,303	1.51%	1,260	2.91%
Total Life	10,453	11.79%	10,240	11.90%	8,297	19.13%
Medicare Supplement	12,534	14.13%	11,560	13.44%	11,882	27.39%
Convalescent Care/Short-Term Care	1,141	1.29%	955	1.11%	1,191	2.75%
Medical Surgical	122	.14%	160	.19%	211	.49%
Cancer	1,803	2.03%	1,982	2.30%	2,221	5.12%
Hospital Indemnity	241	.27%	282	.33%	337	.77%
Accident Expense	523	.59%	677	.79%	790	1.82%
Disability	150	.17%	122	.14%	142	.33%
Total Accident and Health	16,514	18.62%	15,738	18.30%	16,774	38.67%
Total Life and Health Companies	26,967	30.41%	25,978	30.20%	25,071	57.80%
Georgia Casualty:						
Workers' Compensation	12,841	14.48%	13,826	16.07%	14,954	34.48%
Business Automobile	4,031	4.55%	2,550	2.96%	1,436	3.31%
General Liability	1,387	1.56%	1,152	1.34%	1,025	2.36%
Property	1,657	1.87%	1,269	1.48%	887	2.05%
Total Georgia Casualty	19,916	22.46%	18,797	21.85%	18,302	42.20%
American Southern:						
Automobile Physical Damage	4,508	5.08%	4,865	5.66%		
Automobile Liability	30,909	34.85%	30,889	35.91%		
General Liability	3,116	3.51%	1,947	2.26%		
Property	3,206	3.62%	3,461	4.02%		
Surety	60	.07%	88	.10%		
Total American Southern	41,799	47.13%	41,250	47.95%		
Total Consolidated	$88,682	100.00%	$86,025	100.00%	$43,373	100.00%

Premium revenues increased 3% in 1997 to $88.7 million from $86.0 million in 1996 and $43.4 million in 1995. Inclusion of American Southern's premiums accounted for 95.1% of the increased premium revenue in 1996, or $41.3 million. Premiums at American Southern increased 1% in 1997 or $549,000. The general liability line increased 60% or $1.2 million which was offset by slight declines in American Southern's other lines of business. Georgia Casualty's premiums increased 6% over 1996 results to $19.9 million from $18.8 million. Georgia Casualty experienced a decline of 7% in the workers' compensation line of business as a result of increasing price competition, which has caused Georgia Casualty to choose not to underwrite some risks rather than pricing them at levels the Company believes to be unprofitable. Modest increases were experienced in Georgia Casualty's other lines of business in 1997. Georgia Casualty's premiums increased in 1996 to $18.8 million from $18.3 million in 1995. Increases occurred in all lines for Georgia Casualty in 1996 except workers' compensation, which declined to $13.8 million from $15.0 million in 1995. The decline from 1995 was due to a decrease of $1.6 million in net earned premiums from direct-assignment workers' compensation policies, over which Georgia Casualty had no control.

The Life and Health Division's premiums increased by $989,000 in 1997 and $907,000 in 1996, after decreasing by $2.0 million in 1995. The main reason for the increase in 1997 was a $974,000 increase in Medicare supplement business. The increase in 1996 was attributable to a $1.9 million increase in ordinary life premiums offset by an accident and health premiums decrease of $1.0 million in 1996. The increase in Medicare supplement business in 1997 was principally the result of the acquisition of American Independent combined with the introduction of a new Preferred Medicare supplement product in 1996 that provides lower commissions and a preferred underwriting classification. In 1996, for the first time since 1986, annualized premiums for the Life and Health Division increased from the preceding year to $26.7 million for 1996, compared to $26.3 million for 1995. This trend continued in 1997 ending the year with $33.7 million in annualized premium.

Investment income remained flat at $11.5 million in 1997 and 1996, although it represented an increase from $6.6 million earned in 1995. Investment income remained unchanged due in part to declines in interest rates and the flattening of the yield curve. The inclusion of American Southern for the first time in 1996 accounted for $4.3 million of the total increase in 1996. Management has continued to focus on increasing the Company's investments in short and medium maturity bonds and government backed securities. The carrying value of funds available for investment (which include cash, short-term investments, bonds, and common and preferred stocks) at December 31, 1997, increased approximately $15.6 million from 1996, primarily due to cash provided by operations of $8.6 million and an increase in unrealized investment gains of $11.8 million offset by a reduction of $7 million attributable to the payment of debt.

Realized investment gains were down $513,000 in 1997 to $1.1 million compared to $1.6 million for 1996 and $1.7 million for 1995. The changes in realized investment gains for these periods were primarily the result of adjustments made in the investment portfolio to increase the yield on invested assets. In 1997, fewer opportunities presented themselves for increasing the overall yield on the investment portfolio and as a result, fewer securities were sold compared to 1996.

Benefits and Expenses

Total insurance benefits and losses increased to $61.0 million in 1997 from $54.3 million in 1996 and $24.7 million in 1995. Insurance benefits and losses increased $1.6 million at American Southern in 1997 while Georgia Casualty experienced a $2.8 million increase over 1996. The increase in benefits and losses at Georgia Casualty was the result of worse than anticipated claims frequency in one agent's line of business. The Company discontinued this line of business in August 1997, and has instituted additional loss control programs and tightened underwriting standards in the line in an effort to maintain its underwriting discipline. Insurance benefits and losses in the Life and Health Division increased $1.5 million which paralleled the increased level of insurance premiums. In 1996, the Casualty Division's increase is due to inclusion of American Southern's benefits and losses, accounting for $28.6 million of the increase, offset by a decrease in Georgia Casualty's benefits and losses of $698,000. The Life and Health Division's 1996 increase is mainly caused by an increase in reserves and claims resulting from increased life premiums, whereas in 1995 there was a decrease in reserves due to the elimination of a block of life insurance business sold through funeral homes.

As a percentage of premium revenue, insurance benefits and losses increased to 68.8% in 1997 from 63.1% in 1996 and 56.9% in 1995. The Life and Health Division's percentages increased to 57.8% in 1997 from 54.0% in 1996 and 49.1% in 1995. Georgia Casualty's percentages increased to 77.6% in 1997 from 66.4% in 1996 and 67.5% in 1995. American Southern's percentage increased to 72.2% from 69.3% in 1996, its first year of operations as a subsidiary of the Company.

Commission and underwriting expenses decreased to $23.0 million in 1997 from $27.0 million in 1996 and $15.2 million in 1995. The overall decline in commissions and underwriting expenses in 1997 was spread across all segments of the Company's operations. Commissions and underwriting expenses at American Southern were down $525,000 from 1996 and the ratio of expense to insurance premiums ("expense ratio") decreased to 23.3% in 1997 from 24.9% in 1996. At Georgia Casualty commission and underwriting expenses decreased $1.1 million in 1997. This decrease was attributable to contingent ceding commissions received under Georgia Casualty's reinsurance agreements. As a result, the expense ratio at Georgia Casualty decreased to 27.6% from 35.3% in 1996. Commission and underwriting expenses in the Life and Health Division decreased $3.0 million in 1997, in part as a result of efficiencies achieved following the merger of Atlantic American Life Insurance Company with Bankers Fidelity and the acquisition and assimilation of the operations of American Independent. In addition, the Life and Health Division deferral of acquisition costs increased in 1997 as a result of its growth of business, deferring costs associated with that division's lead program and improving lapse rates.

The Company had a net deferral of acquisition costs in 1997 of $1.3 million compared to a net deferral of $280,000 in 1996 and net amortization of acquisition costs in 1995 of $736,000. Aside from items previously discussed, the increase in deferred costs is attributable to an increase in business produced, particularly in the fourth quarter. The increase in commission and underwriting expenses in 1996 was attributable to the inclusion of American Southern which accounted for $10.3 million of the $11.7 million increase.

Interest expense decreased to $2.9 million in 1997 from $3.3 million in 1996 and $2.5 million in 1995. The decrease in 1997 was due to the reduction of debt in 1997 and 1996. Other expense decreased by $612,000 in 1997 to $6.1 million, and increased in 1996 by $534,000 and by $786,000 in 1995. The decrease in other expenses in 1997 is the result of a decrease in legal fees and overall operating cost reductions for the Parent Company. In 1996 significant legal fees were incurred relating to the acquisition of the remaining minority interests in Bankers Fidelity and Georgia Casualty and the sale of Leath. The increase in 1995 other expense was due in part to an increase of $248,000 in the expenses related to claims of the Company's self-insured employee group medical plan.

The Company's net tax provision of $138,000 and $204,000 in 1997 and 1996, respectively, was for alternative minimum taxes, while the tax benefit in 1995 consisted of $9,000 of alternative minimum taxes offset by a benefit of $43,000 from overpayments of alternative taxes in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

The major cash needs of the Company are for the payment of claims and expenses as they come due and maintaining adequate statutory capital and surplus to satisfy state regulatory requirements and meeting debt service requirements of the Parent. The Company's primary sources of cash are written premiums and investment income. Cash payments consist of current claim payments to insureds and operating expenses such as salaries, employee benefits, commissions, taxes, and shareholder dividends, when earnings warrant such payment. By statute, the state regulatory authorities establish minimum liquidity standards primarily to protect policyholders.

The Company's insurance subsidiaries reported a combined statutory profit of $9.2 million in 1997 compared to $8.9 million in 1996 and $4.5 million in 1995. The statutory results in 1997 were comprised of a $4.8 million profit at American Southern, a $1.9 million profit at Georgia Casualty and a $2.5 million profit in the Life and Health Division. The 1996 statutory results were due to a profit of $5.6 million from American Southern, $2.0 million from Georgia Casualty, and $1.3 million from the Life and Health Division. The 1995 statutory results were due to a profit of $1.5 million from Georgia Casualty and a profit of $3.0 million in the Life and Health Division.

Statutory results differfrom the results of operations under generally accepted accounting principles ("GAAP") for the Casualty Division due to the deferral of acquisition costs. The Life and Health Division's statutory results differ from GAAP primarily due to deferral of acquisition costs, as well as different reserving methods.

On April 1, 1996, the Company completed a merger transaction pursuant to which the Company acquired the remaining publicly-held interest in Bankers Fidelity that the Company did not own. As a result of the merger, the Company owns 100% of the equity of Bankers Fidelity, and the public shareholders of Bankers Fidelity received $6.25 in cash per share, for an aggregate payout of approximately $1.3 million. The source of funds for the payment of the merger consideration, together with an estimated $225,000 in related expenses, was Bankers Fidelity's surplus account.

On November 26, 1996, the Company acquired the remaining publicly-held interest in Georgia Casualty. The transaction was completed through the merger of a newly formed wholly-owned subsidiary of the Company into Georgia Casualty, with Georgia Casualty being the surviving corporation in the merger. As a result of the transaction, the Company owns 100% of the equity of Georgia Casualty, and the remaining public shareholders of Georgia Casualty received $9.00 in cash per share, for an aggregate payout of approximately $20,000.

In connection with the acquisition of American Southern on December 31, 1995, the Company entered into a Credit Agreement with Wachovia Bank of Georgia, N.A. The Credit Agreement provides for aggregate borrowings of approximately $34.0 million, of which $22.6 million was immediately drawn on December 31, 1995, to finance the cash portion of the purchase price. The remaining amount was borrowed on October 11, 1996 to finance the $11.4 million balance of the purchase price due on that date. At December 31, 1997, the Company had outstanding borrowings under the Credit Agreement of $28.6 million, of which approximately $1.0 million will become due and payable during 1998. The Company intends to repay its obligations under the Credit Agreement using dividend payments received from its subsidiaries and through receipts from its tax-sharing agreement with its subsidiaries.

In connection with entering into the Credit Agreement, the Company converted, effective December 31, 1995, approximately $13.4 million in outstanding debt to affiliates into a new series of preferred stock, which accrues dividends at 9% per year. The Company has accrued but not paid the cumulative dividends on this preferred stock since its issuance and does not currently intend to pay such dividends in 1998. At December 31, 1997, the Company had accrued but not paid dividends on its Series B preferred stock totaling $2.4 million. On May 15, 1997, the Company borrowed an additional $5.6 million under the Credit Agreement in order to retire a like amount of 8% subordinated notes that became due on that day.

The Company provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries remained constant at $5.6 million in 1997, 1996 and 1995. In addition, the Company has a formal tax-sharing agreement between the Company and its insurance subsidiaries, to which American Southern was added when it was acquired in 1996. A net total of $1.2 million, $3.4 million and $1.4 million were paid to the Company under the tax-sharing agreement in 1997, 1996 and 1995, respectively. It is anticipated that this agreement will provide the Company with additional funds from profitable subsidiaries due to the subsidiaries' use of the Company's tax loss carryforwards which totaled approximately $43 million at December 31, 1997. Approximately 94% of the invested 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, subject to annual limitations, are restricted to the accumulated statutory earnings of the individual insurance subsidiaries. At December 31, 1997, Georgia Casualty had $13.0 million of accumulated statutory earnings, Bankers Fidelity had $18.0 million of accumulated statutory earnings, and American Southern had $19.6 million of accumulated statutory earnings for a total of $50.6 million.

Net cash provided by operating activities totaled $8.6 million in 1997 and $8.4 million in 1996, compared to $3.2 million in 1995. The Company incurred a total cost of $733,000 in 1997, $1.6 million in 1996, and $1.1 million in 1995 for additions to property and equipment, which mainly represent leasehold improvements and additions to new computer systems. Cash and short-term investments increased to $51.0 million in 1997.

The Company believes that the fees, charges and dividends it receives from its subsidiaries and, if needed, 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.

YEAR 2000

Many existing computer systems currently in use were developed using two digits rather than four digits to specify the year. As a result, many systems will recognize a date code of "00" as the calendar year 1900 rather than 2000 which could cause systems to fail or cause erroneous results.

The Company has undertaken projects to ensure that all of its systems will be compliant with year 2000 issues. Currently, one of the Company's three major operating systems is fully year 2000 compliant and the process of bringing the other operating systems into compliance is underway. All operating systems are expected to be fully compliant by the end of 1998. If the Company fails to bring its systems into compliance by the year 2000 the Company may, as a result, be unable to process some business which could potentially have a materially adverse effect on the financial operations of the Company; however, in the opinion of management the risk of this occurrence is remote. The cost of bringing the Company's systems into compliance is not expected to have a material effect on the results of operations or financial position of the Company.

DEFERRED TAXES

At December 31, 1997, the Company had a net cumulative deferred tax asset of zero. The net cumulative deferred tax asset is the result of $24 million of deferred tax assets, offset by $14.2 million of deferred tax liabilities, and a $9.8 million valuation allowance. SFAS No. 109 requires that a valuation allowance be recorded against tax assets which are not likely to be realized. The Company's carryforwards expire at specific future dates and utilization of certain carryforwards is limited to specific amounts each year. However, due to the uncertain nature of their ultimate realization based upon past performance and expiration dates, the Company has established a full valuation allowance against these carryforward benefits and recognizes the benefits only as reassessment demonstrates they are realizable. 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 based on historical performance. Therefore, the realization of the deferred tax assets will be assessed periodically based on the Company's current and anticipated results of operations.

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.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of
Atlantic American Corporation:

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation (a Georgia corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements (pages 8 through 22) referred to above present fairly, in all material respects, the financial position of Atlantic American Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Atlanta, Georgia
March 20, 1998

SUBSIDIARIES

Bankers Fidelity Life Insurance Company
American Independent Life Insurance Company

J. MACK ROBINSON
Chairman
HILTON H. HOWELL, JR.
Vice Chairman
EUGENE CHOATE
President
JOHN W. HANCOCK
Senior Vice President
ROBERT A. RENAUD
Vice President, Secretary and Treasurer
ANTHONY D. CHAPMAN
Vice President and Chief Marketing Officer, Agency Division
ROBERT E. OREAN
Vice President and Actuary
SHARON A. BUSCH
Assistant Vice President, Marketing
DEWEY A. SANDAGE, JR.
Assistant Vice President, Claims
JANIE L. RYAN
Assistant Secretary
GAIL T. ARNOLD
Assistant Secretary

Georgia Casualty & Surety Company

J. MACK ROBINSON
Chairman and President
HILTON H. HOWELL, JR.
Vice Chairman
LINDA S. COOK
Vice President, Secretary and Treasurer
GEORGE G. CLEMENTS
Vice President, Claims
SANDRA W. DOAR
Vice President, Underwriting
JOE F. BERRYHILL
Vice President, Marketing
Mississippi/Louisiana
JACK R. BAKER
Assistant Vice President
JANIE L. RYAN
Assistant Secretary

American Southern Insurance Company
American Safety Insurance Company

ROY S. THOMPSON, JR.
Chairman Emeritus
CALVIN L. WALL
Chairman and Chief Executive Officer
SCOTT G. THOMPSON
President and Chief Financial Officer
THOMAS J. WHITTY
Senior Vice President, Claims
DAVID I. WEEKS
General Vice President
WANDA J. HULSEY
Vice President, Underwriting
BRIAN G. HAURYLAK
Vice President
JOHN R. HUOT
Vice President
GLENDA N. BATES
Treasurer
GAIL A. PARSONS
Secretary and Vice President
FRANK J. CICCONE
Vice President
ERNEST E. GRANT, JR.
Vice President
WILLIAM E. LYNCH
Vice President
BRIAN C. MOSS
Vice President
MICHAEL D. WINSTON
Vice President
TERESA P. GANN
Assistant Secretary

Self-Insurance Administrators, Inc.

HILTON H. HOWELL, JR.
Chairman
ANDY M. THOMPSON
President
EDWARD L. RAND, JR.
Treasurer
JANIE L. RYAN
Secretary

MARKET INFORMATION (UNAUDITED)

The common stock of the Company is traded in the over-the-counter market and is quoted on the NASDAQ National Market under the symbol "AAME". As of December 31, 1997, the Company had approximately 6,586 stockholders, including beneficial owners holding shares in nominee or "street" name. The following tables show for the periods indicated the range of the reported high and low prices of the common stock on the NASDAQ National Market and the closing price of the stock and percent of change at December 31. The Company did not declare or pay cash dividends on its common stock during the year ended December 31, 1997. Since 1988, the Company has retained its earnings to support the growth of its business.

	1997		1996	
	High	Low	High	Low
First quarter	$3 3/4	$3 1/16	$3 1/4	$2 1/8
Second quarter	3 1/4	2 1/2	4	2 3/4
Third quarter	4 1/8	2 1/2	3 5/8	3
Fourth quarter	5 1/2	4	3 5/8	3

	1997	1996	1995	1994	1993
December 31, stock price close per share	$ 5 1/16	$3 1/16	$2 5/16	$2 1/4	$1 3/4
Stock price percentage of change from prior year	+65.3%	+32.4%	+2.8%	+28.6%	+8%

FORWARD-LOOKING STATEMENTS

This report contains and references certain information that constitutes forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Those statements, to the extent they are not historical facts, should be considered forward-looking and subject to various risks and uncertainties. Such forward-looking statements are made based upon management's assessments of various risks and uncertainties, as well as assumptions made in accordance with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The Company's actual results could differ materially from the results anticipated in these forward-looking statements as a result of such risks and uncertainties, including those identified in the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 1997 and the other filings made by the Company from time to time with the Securities and Exchange Commission.

SHAREHOLDER INFORMATION

ANNUAL MEETING

Atlantic American's annual meeting of shareholders will be held on Tuesday, May 5, 1998, at 9:00 a.m. in the Peachtree Insurance Center, 4370 Peachtree Road, N.E., Atlanta, Georgia. Holders of common stock of record at the close of business on March 8, 1998, are entitled to vote at the meeting, and all parties interested in Atlantic American are invited to attend. A notice of meeting, proxy statement and proxy were mailed to shareholders with this annual report.

Independent Accountants
Arthur Andersen LLP
Atlanta, Georgia

Legal Counsel
Jones, Day, Reavis & Pogue
Atlanta, Georgia

Stock Exchange Listing
Symbol: AAME
Traded over-the-counter market
Quoted on the NASDAQ National Market System

Transfer Agent and Registrar
Atlantic American Corporation
Attn: Janie L. Ryan, Corporate Secretary
P. O. Box 190720
Atlanta, Georgia 31119-0720
(800) 241-1439 or (404) 266-5532

Form 10-K and Other Information For investors and others seeking additional data regarding Atlantic American Corporation or copies of the Corporation's annual report to the Securities and Exchange Commission (Form 10-K), please contact Janie L. Ryan Corporate Secretary, (800) 241-1439 or (404) 266-5532. Please visit our web site at: www.atlam.com.

Atlantic
American
Corporation

4370 Peachtree Road, N.E.
Atlanta, Georgia 30319-3000
Telephone: 404-266-5500
Facsimile: 404-266-5702
Internet: www.atlam.com

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	State of Incorporation
American Independent Insurance Company	Pennsylvania
American Safety Insurance Company	Georgia
American Southern Insurance Company	Georgia
Bankers Fidelity Life Insurance Company	Georgia
Georgia Casualty & Surety Company	Georgia
Self-Insurance Administrators	Georgia

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included and incorporated by reference in this Form 10-K into the Company's previously filed registration statements (33-56866) on Form S-8.

Arthur Andersen, LLP

Atlanta, Georgia
March 20, 1998

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YEAR
Dec-31-1997
Dec-31-1997
0
92184
92184
46876
4243
46
152583
51044
25164
16483
271860
125909
24412
3997
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1076
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61018
9704
22322
8171
138
8033
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33857
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56103
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