
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2007
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number **0-3722**

ATLANTIC AMERICAN CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
*(State or other jurisdiction of
incorporation or organization)*
4370 Peachtree Road, N.E.,
Atlanta, Georgia
(Address of principal executive offices)

58-1027114
*(I.R.S. employer
identification no.)*
30319
(Zip code)

(Registrant's telephone number, including area code)
(404) 266-5500

Securities registered pursuant to section 12(b) of the Act:
None

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

Common Stock, \$1.00 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of voting and nonvoting common stock held by non-affiliates of the registrant as of June 30, 2007, the last business day of the registrant's most recently completed second fiscal quarter, was \$21,010,869. On March 14, 2008 there were 21,843,062 shares of the registrant's common stock, par value \$1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's Proxy Statement for the 2008 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, have been incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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PART I

Item 1. *Business*

The Company

Atlantic American Corporation, a Georgia corporation incorporated in 1968 (the “Parent” or “Company”), is a holding company that operates through its subsidiaries in well-defined specialty markets within the life and health and property and casualty insurance industries. Atlantic American’s principal operating subsidiaries are American Southern Insurance Company and American Safety Insurance Company (collectively known as “American Southern”) and Bankers Fidelity Life Insurance Company (“Bankers Fidelity”). Each subsidiary is managed separately based upon the geographic location or the type of products offered and is evaluated on its individual performance. The Company’s strategy is to focus on well-defined geographic, demographic and/or product niches within the insurance market place. Each of the Company’s subsidiaries operates with relative autonomy, which is designed to allow for quick reaction to market opportunities.

The Parent has no significant business operations of its own and relies on fees, dividends and other distributions from its insurance companies as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of the Parent may be found in the Liquidity and Capital Resources section of Management’s Discussion and Analysis of Financial Condition and Results of Operations below.

In December 2007, the Company entered into an agreement for the sale of its “regional” property and casualty operations, comprised of Association Casualty Insurance Company and Association Risk Management General Agency, Inc. (collectively known as “Association Casualty”) and Georgia Casualty & Surety Company (“Georgia Casualty”), to Columbia Mutual Insurance Company. Accordingly, the assets, liabilities and results of operations of the regional property and casualty operations have been reflected by the Company as discontinued operations. The sale is expected to be completed on or about March 31, 2008.

Property and Casualty Operations

American Southern comprises the Company’s property and casualty operations and its primary products are as follows:

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

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

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

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

Surety Bonds are contracts under which one party, the insurance company issuing the surety bond, guarantees to a third party that the primary party will fulfill an obligation in accordance with a contractual agreement. This obligation may involve meeting a contractual commitment, paying a debt or performing certain duties.

American Southern provides tailored business 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 is licensed to do business in 31 states. While the majority of American Southern’s premiums are derived from auto liability and auto physical damage, American Southern also offers personal property, inland marine, and general liability coverages. Additionally,

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American Southern directly provides surety bond coverage for school bus transportation and subdivision construction, as well as performance and payment bonds. During 2007, American Southern experienced decreased premium writings in the surety line of business, specifically pay for performance bonds and subdivision construction bonds, due to the general economic slowdown, particularly in housing. As described in more detail below, the reduction in these bonds reduced premium revenue but enhanced the overall profitability of the surety business in 2007.

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

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Automobile liability	\$10,936	\$16,163	\$16,723	\$18,944	\$17,947
Automobile physical damage	8,105	9,698	11,002	11,187	9,451
General liability	10,349	11,394	11,767	10,102	5,777
Property	3,005	3,187	3,692	3,862	3,819
Surety	9,180	10,218	8,263	3,967	364
Total	<u>\$41,575</u>	<u>\$50,660</u>	<u>\$51,447</u>	<u>\$48,062</u>	<u>\$37,358</u>

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products with a focus on the senior markets. Products offered by Bankers Fidelity include ordinary and term life insurance, Medicare supplement, cancer, and other supplemental health insurance products. Health business, primarily Medicare supplement insurance, accounted for 81.1% of Bankers Fidelity's net earned premiums in 2007 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2007, 23.4% were life insurance policies and 76.6% were health insurance policies.

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

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Life insurance	\$10,615	\$10,960	\$11,600	\$12,934	\$13,541
Medicare supplement	41,786	44,919	51,414	49,575	46,190
Other accident and health	3,848	3,041	2,890	2,933	2,952
Total health insurance	45,634	47,960	54,304	52,508	49,142
Total	<u>\$56,249</u>	<u>\$58,920</u>	<u>\$65,904</u>	<u>\$65,442</u>	<u>\$62,683</u>

Life Insurance products include non-participating individual term and whole life insurance policies with a variety of riders and options. Policy premiums are dependent upon a number of factors, including selected riders or options.

Medicare Supplement Insurance includes 7 of the 12 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.

Other Accident and Health Insurance coverages include several policies providing for the payment of benefits in connection with the treatment of diagnosed cancer, as well as a number of other policies including facility care, accident expense, hospital/surgical and disability.

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Marketing

Property and Casualty Operations

A portion of American Southern's business is marketed through a small number of specialized, experienced independent agents. American Southern's agent selection process is actively managed by internal marketing personnel with active oversight from management. Senior management carefully reviews all new programs prior to implementation. Most of American Southern's agents are paid an up-front commission with the potential for additional commissions by participating in a profit sharing arrangement that is directly linked to the profitability of the business generated. American Southern also solicits business from governmental entities. As an experienced writer for certain governmental programs, the company actively pursues this market on a direct basis. Much of this business is priced by means of competitive bid situations and there can be no assurance that the company can retain such business at the time of a specific contract renewal.

Life and Health Operations

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

Bankers Fidelity has implemented a selective agent qualification process and had 1,699 licensed agents as of December 31, 2007. The agents concentrate their sales activities in either the accident and health or life insurance product lines, although the company is currently promoting greater cross selling initiatives through property and casualty agencies, association groups and worksite marketing agencies. During 2007, approximately 484 agents wrote policies on behalf of Bankers Fidelity.

Bankers Fidelity utilizes multiple distribution sales channels including agency business, 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 sufficient geographic territory to produce a minimum senior population of 25,000. Bankers Fidelity also recruits at a general agent level as well as at a managing general agent level in an effort to use more than one distribution channel to lower expenses.

The Company believes these lead generation systems solve an agent's most important dilemma — prospecting — and allows Bankers Fidelity to build long-term relationships with agents who view Bankers Fidelity as their primary company. In addition, management believes that Bankers Fidelity's product line is less sensitive to competitor pricing and commissions because of the perceived value of the protected territory and the lead generation plan. In protected geographical areas, production per agent compares favorably to unprotected areas served by the general brokerage division.

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

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Underwriting

Property and Casualty Operations

American Southern specializes in underwriting various risks that are sufficiently large enough to establish separate class experience, relying upon the underwriting expertise of its agents.

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

Life and Health Operations

Bankers Fidelity issues a variety of products for both life and health insurance markets, which include senior life products typically with small face amounts of between \$1,000 and \$30,000, and Medicare supplement. The majority of its products are “Yes” or “No” applications that are underwritten on a non-medical basis. Bankers Fidelity offers products to all age groups; however, its primary focus is the senior market. For life products other than the senior market, Bankers Fidelity may require medical information such as medical examinations subject to age and face amount based on published guidelines. Approximately 95% of the net premiums earned for both life and health insurance sold during 2007 were derived from insurance written below Bankers Fidelity’s medical limits. For the senior market, Bankers Fidelity issues products primarily on an accept-or-reject basis with face amounts up to \$30,000 for ages 45-70, \$20,000 for ages 71-80 and \$10,000 for ages 81-85. Bankers Fidelity retains a maximum amount of \$50,000 with respect to any individual life policy (see “Reinsurance”).

Applications for insurance are reviewed to determine the face amount, age, and medical history. Depending upon information obtained from the insured, the Medical Information Bureau (“M.I.B.”) report, paramedical testing, and/or medical records, special testing may be ordered. If deemed necessary, Bankers Fidelity may use investigative services to supplement and substantiate information. For certain limited coverages, Bankers Fidelity has adopted simplified policy issue procedures by which an application containing a variety of Yes/No health related questions is submitted. For these plans, a M.I.B. report is ordered, however, paramedical testing and medical records are not ordered in most cases. All applications for individuals age 60 and above are verified by telephone interview.

Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see “Competition”). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company’s policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for 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 ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

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

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a

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claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Frequently, independent adjusters and appraisers are utilized to service claims which require on-site inspections.

Life and Health Operations

Insureds may obtain claim forms by calling the claims department customer service group or through Bankers Fidelity's website. To shorten claim processing time, a letter detailing all supporting documents that are required to complete a claim for a particular policy is sent to the customer along with the correct claim form. With respect to life policies, the claim is entered into Bankers Fidelity's claims system when the proper documentation is received. Properly documented claims are generally paid within three to nine business days of receipt. With regard to Medicare supplement policies, the claim is either directly billed to Bankers Fidelity by the provider or sent electronically through a Medicare clearing house.

Reserves

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at January 1	\$ 55,291	\$ 53,817	\$ 53,025
Less: Reinsurance recoverables	<u>(12,266)</u>	<u>(12,829)</u>	<u>(12,857)</u>
Net balance at January 1	<u>43,025</u>	<u>40,988</u>	<u>40,168</u>
Incurred related to:			
Current year	65,274	73,167	76,626
Prior years(1)	<u>(11,517)</u>	<u>(9,926)</u>	<u>(8,370)</u>
Total incurred	<u>53,757</u>	<u>63,241</u>	<u>68,256</u>
Paid related to:			
Current year	41,687	46,355	50,922
Prior years	<u>16,395</u>	<u>14,849</u>	<u>16,514</u>
Total paid	<u>58,082</u>	<u>61,204</u>	<u>67,436</u>
Net balance at December 31	38,700	43,025	40,988
Plus: Reinsurance recoverables	<u>13,004</u>	<u>12,266</u>	<u>12,829</u>
Balance at December 31	<u>\$ 51,704</u>	<u>\$ 55,291</u>	<u>\$ 53,817</u>

(1) See Note 4 of Notes to Consolidated Financial Statements.

Reserves are set by line of business within each of the subsidiaries and a single line of business may be written in one or more of the subsidiaries. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Lines of business for which loss data (e.g. paid losses and case reserves) emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's long-tail line of business generally includes general liability while the short-tail lines of business generally include property and automobile coverages.

The Company's actuaries regularly review reserves for both current and prior accident years using the most current claims data. These regular reviews incorporate a variety of actuarial methods (discussed below in Critical Accounting Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current

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circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

For long-tail lines of business, the emergence of paid losses and case reserves is less credible in the early periods, and accordingly may not be indicative of ultimate losses. For these lines, methods which incorporate a development pattern assumption are given less weight in calculating incurred but not reported (“IBNR”) reserves for the early periods of loss emergence because such a low percentage of ultimate losses are reported in that time frame. Accordingly, for any given accident year, the rate at which losses on long-tail lines of business emerge in the early periods is generally not as reliable an indication of the ultimate loss costs as it would be for shorter-tail lines of business. The estimation of reserves for these lines of business in the early periods of loss emergence is therefore largely influenced by statistical analysis and application of prior accident years’ loss ratios after considering changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to affect the estimated ultimate losses. For later periods of loss emergence, methods which incorporate a development pattern assumption are given more weight in estimating ultimate losses.

For short-tail lines of business, the emergence of paid loss and case reserves is more credible and likely indicative of ultimate losses. The method used to set reserves for these lines is based upon utilization of a historical development pattern for reported losses. IBNR reserves for the current year are set as the difference between the estimated fully developed ultimate losses for each year, less the established, related case reserves and cumulative related payments. IBNR reserves for prior accident years are similarly determined, again relying on an indicated, historical development pattern for reported losses.

Based on the results of regular reserve estimate reviews, the Company will determine the appropriate reserve adjustment, if any, to record. If necessary, recorded reserve estimates are changed after consideration of numerous factors, including, but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indication in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to recognize changes in estimates to ultimate losses in mature accident years and less volatile lines of business.

Estimating case reserves and ultimate losses involves various considerations which differ according to the line of business. In addition, changes in state legislative and regulatory environments may impact loss estimates. General liability claims may have a long pattern of loss emergence. Given the broad nature of potential general liability coverages, investigative time periods may be extended and coverage questions may exist. Such uncertainties create greater imprecision in estimating required levels of loss reserves. The property and automobile lines of business generally have less variable reserve estimates than other lines. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends. Severity trends can be impacted by changes in internal claim handling and reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels.

Components of the Company’s reserves for losses and claims by product line at December 31, 2007 were as follows:

	<u>Case</u>	<u>IBNR</u>	<u>Total</u>
		(In thousands)	
Business automobile	\$ 9,759	\$ 8,802	\$18,561
Personal automobile/physical damage	1,911	659	2,570
General & other liability	4,483	10,984	15,467
Other lines (including life)	2,667	4,455	7,122
Medicare supplement	176	5,376	5,552
Unallocated loss adjustment reserves	—	2,432	2,432
Total reserves for losses and claims	<u>\$18,996</u>	<u>\$32,708</u>	<u>\$51,704</u>

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The Company's policy is to record reserves for losses and claims in amounts which approximate actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and high end reserve values. The range of estimates developed in connection with the December 31, 2007 review indicated that reserves could be as much as 16.0% lower or as much as 6.7% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates will be made in future periods. Any such revisions could be material, and may materially adversely affect the Company's financial condition and results of operations.

Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and LAE and are not discounted. IBNR reserves are also maintained 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 periodically by both internal and external qualified actuaries. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

American Southern establishes reserves for claims based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of LAE. The estimated liability is periodically 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 following table sets forth the development of reserves for unpaid losses and claims determined using generally accepted accounting principles of American Southern's insurance lines from 1997 through 2007. Specifically excluded from the table are the life and health division's claims reserves, which are included in the consolidated loss and claims reserves. The top line of the table represents the estimated cumulative 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 IBNR losses at the applicable date. 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 re-estimated 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 2007. 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 year may be affected, favorably or unfavorably, by the amount of the change in the estimate for such years; however, because such analysis is based on the reserves for unpaid losses and claims, before consideration of reinsurance, the total indicated redundancies and/or deficiencies may not ultimately be reflected in the Company's net income. Further, conditions and trends that have affected development of the reserves in the past may not necessarily occur in the future and there could be future events or actions that would impact future development which have not existed in the past. Accordingly, it is impossible to accurately predict future redundancies or deficiencies based on the data in the following table.

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	Year Ended December 31,										
	2007	2006	2005	2004	2003	2002 (In thousands)	2001	2000	1999	1998	1997
Reserve for losses and LAE	\$43,994	\$45,655	\$43,593	\$42,310	\$39,042	\$44,428	\$46,242	\$48,350	\$48,764	\$46,972	\$47,843
Cumulative paid as of:											
One year later		18,010	14,254	16,521	13,772	15,825	18,093	20,682	18,267	14,643	16,983
Two years later			23,967	24,217	22,202	23,933	26,194	31,687	30,143	25,802	24,600
Three years later				28,775	26,673	28,487	31,257	35,865	37,938	31,491	30,690
Four years later					28,645	31,398	33,683	37,223	39,972	34,987	33,767
Five years later						32,820	35,134	38,616	40,816	36,064	34,898
Six years later							35,610	39,166	42,006	36,464	35,092
Seven years later								39,538	42,079	37,528	35,348
Eight years later									42,352	37,595	36,332
Nine years later										37,868	36,380
Ten years later											36,620
Ultimate losses and LAE reestimated as of:											
End of year	43,994	45,655	43,593	42,310	39,042	44,428	46,242	48,350	48,764	46,972	47,843
One year later		35,590	34,897	37,280	35,706	42,235	39,628	46,778	45,866	41,834	43,689
Two years later			32,929	34,108	34,779	40,099	40,249	43,104	46,065	40,502	39,369
Three years later				33,338	31,710	39,260	38,877	42,208	44,800	41,175	38,536
Four years later					31,224	37,163	39,339	41,503	43,792	40,295	38,884
Five years later						37,133	39,067	41,490	43,775	39,621	38,822
Six years later							39,484	41,600	43,674	39,518	38,367
Seven years later								41,822	43,738	39,453	38,426
Eight years later									43,884	39,524	38,303
Nine years later										39,710	38,348
Ten years later											38,494
Cumulative redundancy (deficiency)		\$10,065	\$10,664	\$ 8,972	\$ 7,818	\$ 7,295	\$ 6,758	\$ 6,528	\$ 4,880	\$ 7,262	\$ 9,349
		22.0%	24.5%	21.2%	20.0%	16.4%	14.6%	13.5%	10.0%	15.5%	19.5%

Note: Because this analysis is based on reserves for unpaid losses and claims, before consideration of reinsurance, the total indicated redundancies and/or deficiencies may not ultimately be reflected in the Company's net income.

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Life and Health Operations

Bankers Fidelity establishes liabilities for future policy benefits to meet projected 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 modification to reflect actual experience. See Note 4 of Notes to Consolidated Financial Statements.

Reinsurance

The Company's insurance subsidiaries may purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential 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.

Property and Casualty Operations

American Southern's basic reinsurance treaties generally cover all claims in excess of \$150,000 per occurrence. Limits per occurrence within the reinsurance treaties are as follows: Fire, inland marine, commercial automobile physical damage — \$125,000 excess of \$50,000 retention; and automobile liability and general liability — excess coverage of \$2.0 million less retentions that may vary from \$100,000 to \$150,000 depending on the account. American Southern maintains a property catastrophe treaty with a \$6.6 million limit excess of \$400,000 retention. American Southern also issues individual surety bonds with face amounts generally up to \$1.5 million, and limited to \$5.0 million per account, that are not subject to reinsurance.

Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its retention to several primary reinsurers. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is \$50,000. At December 31, 2007, \$36.5 million of the \$272.3 million of life insurance in force at Bankers Fidelity was reinsured, generally under yearly renewable term agreements. Certain prior year reinsurance agreements remain in force although they no longer provide reinsurance for new business.

Competition

Competition is based on many factors including premiums charged, terms and conditions of coverage, service provided, financial ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the organization in the line of business being written.

Property and Casualty Operations

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, offer 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 in which American Southern operates. American Southern attempts to develop strong relationships with its existing agents and, consequently, is generally privy to new programs with existing agents.

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Life and Health Operations

The life and health insurance business also remains highly competitive and includes a large number of insurance companies, many of which have substantially greater financial resources than Bankers Fidelity or the Company. Bankers Fidelity focuses on four core products in the senior market: Medicare supplement, hospital indemnity, small face amount life insurance and short-term nursing home coverage. Bankers Fidelity believes that its primary competitors in this market are Continental Life, Standard Life & Accident, Lincoln Heritage Life, United American, American Pioneer and Blue Cross / Blue Shield. Bankers Fidelity competes with these as well as other insurers on the basis of premium rates, policy benefits and service to policyholders. Bankers Fidelity also competes with other insurers to attract and retain the allegiance of its independent agents through commission arrangements, accessibility and marketing assistance, lead programs, reputation, and market expertise. In order to better compete, Bankers Fidelity utilizes a proprietary lead generation program to attract and retain independent agents. Bankers Fidelity has expanded into other markets through cross-selling strategies with the company's property and casualty affiliations, offering turn-key marketing programs to facilitate business through these relationships. Bankers Fidelity continues to expand in niche markets through long-term relationships with a select number of independent marketing organizations including worksite marketing, credit union business and association endorsements. Bankers Fidelity has a track record of competing in its chosen markets through long-standing relationships with independent agents and marketing agencies by providing proprietary marketing initiatives and outstanding service to distribution and policyholders. Bankers Fidelity believes that it competes effectively on the bases of policy benefits, services and market expertise.

Ratings

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

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

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

Bankers Fidelity. Bankers Fidelity is currently rated "B++" (Very Good) by A.M. Best.

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 commissioners. 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 to 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 commissioners of

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intercorporate transfers of assets (including payments of dividends by the insurance subsidiaries in excess of specified amounts) 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 adjustments; however, the Company cannot provide any assurance that it will not receive any objections to its applications in the future.

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, 2007, securities with an amortized cost of \$10.6 million were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Company's insurance subsidiaries.

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 likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred.

NAIC Ratios

The National Association of Insurance Commissioners (the "NAIC") was established to, among other things, 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 state 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, 2007, both American Southern and Bankers Fidelity were within the NAIC "usual" range for all 13 financial ratios.

Risk-Based Capital

Risk-based capital ("RBC") is used by rating agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of adjusted capital needed by a company to avoid regulatory action. "Authorized Control Level Risk-Based Capital" ("ACL") is calculated, and if a company's adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2007, the Company's insurance subsidiaries exceeded the RBC regulatory levels.

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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,					
	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Fixed maturities:						
U.S. Government agencies and authorities	\$127,073	63.1%	\$117,127	55.9%	\$ 95,085	48.7%
States, municipalities and political subdivisions	412	0.2	414	0.2	422	0.2
Public utilities	—	0.0	—	0.0	—	0.0
All other corporate bonds	29,628	14.7	33,792	16.2	33,578	17.2
Redeemable preferred stock	10,714	5.3	12,949	6.2	18,154	9.3
Certificates of deposit	100	0.0	100	0.0	100	0.1
Total fixed maturities(1)	167,927	83.3	164,382	78.5	147,339	75.5
Common and non-redeemable preferred stocks(2)	5,335	2.7	22,476	10.7	24,580	12.6
Mortgage, policy and student loans(3)	1,958	1.0	3,328	1.6	4,018	2.1
Other invested assets(4)	1,563	0.8	1,735	0.8	2,076	1.1
Real estate	38	—	38	—	38	—
Investments in unconsolidated trusts	1,238	0.6	1,238	0.6	1,238	0.6
Short-term investments(5)	23,432	11.6	16,191	7.8	15,744	8.1
Total investments	\$201,491	100.0%	\$209,388	100.0%	\$195,033	100.0%

- (1) Fixed maturity securities are carried on the balance sheet at estimated fair value. Total cost of fixed maturity securities was \$168.7 million as of December 31, 2007, \$163.1 million as of December 31, 2006, and \$144.6 million as of December 31, 2005.
- (2) Equity securities are carried on the balance sheet at estimated fair value. Certain non-redeemable preferred stocks do not have publicly quoted values, and are carried at estimated fair value as determined by management. Total cost of equity securities was \$5.4 million as of December 31, 2007, \$7.5 million as of December 31, 2006, and \$9.0 million as of December 31, 2005.
- (3) Mortgage, policy and student loans are valued at historical cost.
- (4) Investments in other invested assets which are traded are valued at estimated fair value and the others are accounted for using the equity method. Total cost of other invested assets was \$1.6 million as of December 31, 2007, \$1.8 million as of December 31, 2006, and \$2.1 million as of December 31, 2005.
- (5) Short-term investments are valued at cost, which approximates market value at the measurement date.

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

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Average investments(1)	\$199,614	\$199,236	\$188,351
Net investment income	11,603	11,822	10,702
Average yield on investments	5.81%	5.93%	5.68%
Realized investment gains (losses), net(2)	12,627	3,084	(7,303)

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- (1) Calculated as the average of the balances at the beginning of the year and at the end of each of the succeeding four quarters.
- (2) Includes a \$7.2 million impairment charge in 2005 related to the write-down in the value of certain automotive sector fixed maturity investments. See Note 3 of Notes to Consolidated Financial Statements.

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

Employees

The Company and its subsidiaries employed 146 people at December 31, 2007 which excludes 74 people in discontinued operations.

Financial Information By Industry Segment

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

Available Information

The Company files annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other information with the Securities and Exchange Commission (the "SEC"). The public can read and obtain copies of those materials by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements and other information regarding issuers like Atlantic American that file electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. In addition, as soon as reasonably practicable after such materials are filed with or furnished to the SEC by the Company, the Company makes copies available to the public, free of charge, on or through its web site at <http://www.atlam.com>. Neither the Company's website, nor the information appearing on the website, is included, incorporated into, or a part of, this report.

Executive Officers of the Registrant

The table below and the information following the table set forth, for each executive officer of the Company as of March 1, 2008, his name, age, positions with the Company and business experience for the past five years, as well as any prior service with the Company (based upon information supplied by each of them).

<u>Name</u>	<u>Age</u>	<u>Positions with the Company</u>	<u>Director or Officer Since</u>
J. Mack Robinson	84	Chairman of the Board	1974
Hilton H. Howell, Jr.	45	Director, President & CEO	1992
John G. Sample, Jr.	51	Senior Vice President & CFO	2002

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

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

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a

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Director of the Company since October 1992. Mr. Howell is the son-in-law of Mr. Robinson. He is also a director of Triple Crown Media, Inc. and Gray Television, Inc.

Mr. Sample has served as Senior Vice President and Chief Financial Officer of the Company since July 2002. He also serves in the following capacities at subsidiaries of the Company: Director of Georgia Casualty, Director of Association Casualty, and Director of Bankers Fidelity. Prior to joining the Company in July 2002, he had been a partner of Arthur Andersen LLP since 1990. He is also a director of 1st Franklin Financial Corporation.

Forward-Looking Statements

Certain of the statements contained herein are forward-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to, among other things, economic, competitive and legislative developments. The forward-looking statements are subject to changes and uncertainties which are, in many instances, beyond the Company's control and have been made based upon management's current expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the outcome of various factors. These factors include, among others, those discussed in the "Risk Factors" section which follows and: unanticipated increases in the rate, number and amounts of claims outstanding; the possible occurrence of terrorist attacks; the level of performance of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company's statutory capital levels; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers, agents and other producers; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of regulatory developments, including those which could increase the Company's business costs and required capital levels; the possibility of general economic and business conditions that are less favorable than anticipated; the Company's ability to distribute its products through distribution channels, both current and future; the uncertain effect of emerging claim and coverage issues; and the effect of assessments and other surcharges for guaranty funds and second-injury trust funds and other mandatory pooling arrangements. 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 1A. Risk Factors

There are numerous factors, many beyond our control, which could have a significant or material adverse effect on our business, financial condition, operating results or liquidity. Any factor discussed below or elsewhere in this report could by itself or, together with one or more other factors, cause results to differ significantly from our expectations. Further, there may be significant additional risks which management has not considered which could have a significant or material adverse effect on the business, financial condition, operating results or liquidity of the Company.

We operate in a highly competitive environment.

The life and health and property and casualty insurance businesses are highly competitive. We compete with large national insurance companies, locally-based specialty carriers and alternative risk transfer entities whose activities are directed to limited markets. Competitors include companies that have substantially greater resources than we do, as well as mutual companies and similar companies not subject to the expenses and

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limitations imposed on publicly-held companies. Competition is based on many factors including premiums charged, terms and conditions of coverage, service provided, financial ratings assigned by independent rating agencies, claims services, reputation, perceived financial strength and the experience of the organization in the line of business being written. Increased competition could adversely affect our ability to attract and retain business at current premium levels and reduce the profits that would otherwise arise from operations.

We operate in a highly regulated environment.

Our insurance businesses are subject to extensive regulations by state insurance authorities in each state in which they operate. Regulation is intended for the benefit of the policyholders rather than shareholders. In addition to limiting the amount of dividend and other payments that can be made to us by our insurance subsidiaries, regulatory authorities have broad administrative and supervisory authority relating to: licensing requirements, trade practices, capital and surplus requirements, investment practices and rates charged to our customers. Regulatory authorities may also impose conditions on terms of business or rate increases that we may desire to enhance our operating results. In addition, we may incur significant costs in complying with regulatory requests, initiatives and/or requirements. Regulatory authorities generally also regulate insurance holding companies in a variety of matters such as placing limits on acquisitions, changes of control and the terms of any affiliate transactions.

Our revenues may fluctuate with insurance market conditions for similar products.

We derive a significant portion of our insurance premium revenue from Medicare supplement and relatively large commercial property and casualty insurance policies. While we have in the recent past been partially successful in implementing premium increases which help improve our operating results, we believe that competition from alternative government sponsored products and pricing decisions from larger insurers will, at least in the short term, result in more moderate pricing increases, if not decreases in certain situations. Should our competitors become less disciplined in their pricing, or more permissive in their terms, we may lose customers who base their purchasing decisions primarily on price because our policy is to price coverage commensurate with the underlying risk. We cannot predict whether, when or how market conditions will change, or the manner in which, or the extent to which any such changes may adversely impact the results of our operations.

Our revenues and profitability may fluctuate with interest rates and investment results.

We generally rely on the positive performance of our investment portfolio to offset insurance losses and to contribute to our profitability. As our investment portfolio is primarily comprised of interest-earning assets, prevailing economic conditions, particularly changes in market interest rates, may significantly affect our operating results. Changes in interest rates also can affect the value of our interest-earning assets, which are principally comprised of fixed rate investment securities. Generally, the values of fixed-rate investment securities fluctuate inversely with changes in interest rates. Interest rate fluctuations could adversely affect our shareholders' equity, income and/or cash flows. Further, to the extent fixed rate investment securities consist of investments in other than government or government agency securities, changing credit risk profiles may significantly affect our operating results. The Company generally carries investment securities at fair value; however, if the value of an investment security declines below its cost or amortized cost, and the decline is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated fair value. Realized losses are reflected as a reduction in investment results and revenues and could adversely impact our results of operations.

Our operating results may be affected if incurred losses differ from our loss reserve estimates.

Varying periods of time often elapse between the occurrence of an insured loss, the reporting of the loss by the insured and the ultimate settlement of that loss. The financial statement recognition of unpaid incurred losses is made through a provision for incurred losses with corresponding loss reserves established. The loss reserves represent the estimate of amounts needed to pay incurred losses and related loss adjustment expense as of the balance sheet date. The process of estimating loss reserves is a complex undertaking and involves

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significant variables and judgments. Consideration is given to numerous factors including, but not limited to: historical data; trends in claim frequency and severity; changes in operations; emerging economic, social, regulatory and legal trends and inflation. Further, estimating loss reserves assumes that past experience, adjusted for the effect of current developments and anticipated trends, is an appropriate, but not always necessarily accurate, basis for predicting future settlements. There is no precise method for evaluating the impact of any specific factor on the adequacy of loss reserves, and ultimate settlements will differ from initial and regularly updated estimates. To the extent loss reserves prove to be inadequate in the future, increases in loss reserves would be necessitated with a corresponding charge to earnings in the period the reserves are increased, which could have a material adverse impact on our financial condition and results of operations.

Rapidly changing benefit costs could have a material impact on our operations.

A significant portion of the Company's insurance policies provide coverage for some portion of medical benefits and/or repair/replacement of damaged property such as buildings and automobiles. Historical inflationary increases in those costs are considered when developing premium rates; however, on occasion, future cost increases exceed those initially estimated. In the medical field, scientific breakthroughs and/or new technology can result in unanticipated increasing medical costs. In property repair/replacement, a significant geographically concentrated demand for labor and supplies, particularly as a result of catastrophic disasters, may result in significantly increased costs. Rapidly changing costs of settling claims in excess of those originally anticipated, due to scientific breakthrough, new technology and/or catastrophic events could have a material adverse impact on our results of operations.

If market conditions cause reinsurance to be more costly or unavailable, we may be required to assume increased risk or reduce the level of our underwriting commitments.

As part of our enterprise risk management strategy, we purchase reinsurance for significant amounts of risk underwritten by our insurance company subsidiaries. Market conditions beyond our control determine the availability and cost of the reinsurance, which may affect the level of our business and profitability. We may be unable to maintain current reinsurance coverage or to obtain other reinsurance coverage in adequate amounts and at comparable rates in the future. If we are unable to renew our expiring coverage or to obtain new reinsurance coverage, either our net exposure to risk would increase, or if we were unwilling to assume additional risk, we would have to reduce the amount of our underwritten risk.

We cannot guarantee that our reinsurers will pay in a timely fashion, if at all, and, as a result, we could experience losses.

We transfer some of our risks to reinsurance companies in exchange for part of the premium we receive in connection with the risk. Although reinsurance makes the reinsurer liable to us to the extent the risk is transferred, it does not relieve us of our liability to our policyholders. If reinsurers fail to pay us or fail to pay on a timely basis, our financial results would be adversely affected.

The guaranty fund assessments that we are required to pay to state guaranty associations may increase and our results of operations and financial condition could suffer as a result.

A majority of the states in which we operate have separate insurance guaranty fund laws which require certain admitted insurance companies doing business within their respective jurisdictions to be a member of their guaranty associations. These associations are organized to pay covered claims, as defined, under insurance policies issued by insolvent insurance companies. Most guaranty association laws enable the associations to make assessments against member insurers to obtain funds to pay covered claims after a member insurer becomes insolvent. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the covered lines of business in that state. Maximum assessments permitted by law in any one year are generally subject to 4% of annual premiums written by a member in that state. Some states permit member insurers to recover assessments paid through surcharges on policyholders or through full or partial premium tax offsets, while other states permit recovery of assessments through the rate filing process.

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Our policy is to accrue an estimated annual assessment based on the most recent prior year's experience. There is a significant degree of uncertainty in estimating the liabilities relating to an insolvent insurer due to inadequate financial data with respect to the estate of the insolvent company as supplied by the guaranty funds.

The unpredictability of court decisions could have a material impact on our operations.

From time to time we are party to legal proceedings that may arise from disputes over our insurance coverage. The financial position of our insurance subsidiaries may be affected by court decisions that expand insurance coverage beyond the intention of the insurer at the time it originally issued an insurance policy. In addition, a significant jury award, or series of awards, against one or more of our insureds could require us to pay large sums of money in excess of our reserve amounts.

The passage of tort reform or other legislation, and the subsequent review of such laws by the courts, could have a material impact on our operations.

Tort reforms generally restrict the ability of a plaintiff to recover damages by, among other limitations, eliminating certain claims that may be heard in a court, limiting the amount or types of damages, changing statutes of limitations or the period of time to make a claim, and limited venue or court selection. A number of states in which we do business have enacted, or are considering, tort reform legislation. Proposed federal tort reform legislation has failed to win Congressional approval to date. While the effects of tort reform would appear to be beneficial to our business generally, there can be no assurance that such reforms will be effective or ultimately upheld by the courts in the various states. Further, if tort reforms are effective, it could effectively increase the level of competition for us in the markets in which we compete. In addition, there can be no assurance that the benefits of tort reform will not be accompanied by legislation or regulatory actions that may be detrimental to our business. Furthermore, insurance regulators might require premium rate limitations and expanded coverage requirements as well as other requirements in anticipation of the expected benefits of tort reform which may or may not be actually realized.

Catastrophic events could have a material adverse effect on our business, consolidated operating results, financial condition and/or liquidity.

The Company's primary objective in managing risk is to obtain diversification in the types and locations of business written. In the property and casualty operations, evaluations are made with respect to the "probable maximum loss" that may result from natural catastrophic events. There are however, catastrophic events which may occur, the effects of which cannot be reasonably estimated. In various Asian and European countries there have been confirmed cases of Avian Influenza. Individuals, primarily in Asia, have contracted the Avian Influenza and although there are no cases which have been reported in the United States, should such influenza or similar influenzas reach the United States and begin spreading via human transmission, the impact on our life and health subsidiary is undeterminable. The Company does not insure "high-profile" individuals and/or locations and believes the risk of loss from future catastrophic terrorist activities is remote. Each of these or other catastrophic events, individually and/or collectively could ultimately however have a material adverse effect on our business, consolidated operating results, financial condition and/or liquidity.

If we are unable to maintain favorable financial strength ratings, it may be more difficult for us to write new business or renew our existing business.

Our principal operating subsidiaries hold favorable financial strength ratings from A.M. Best, an independent insurance rating agency. Financial strength ratings are used by our agents and customers as an important means of assessing the financial strength and quality of various insurers. If our financial position, or that of any of our individual subsidiaries, were to deteriorate, we may not maintain our existing financial strength ratings from the rating agency. A downgrade or withdrawal of any such rating could limit or prevent us from writing and/or renewing desirable business which would materially adversely impact our financial condition and results of operations.

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Our business could be adversely affected by the loss of independent agents.

We depend in part on the services of independent agents and brokers in the marketing of our insurance products. We face competition from other insurance companies for the services and allegiance of independent agents and brokers. These agents and brokers may choose to direct business to competing insurance companies or may direct less desirable risks to us.

Our business could be adversely affected by the loss of one or more key employees.

We are heavily dependent upon our senior management and the loss of services of any of our senior executives could adversely affect our business. Our success has been, and will continue to be, dependent on our ability to retain the services of existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of key employees or senior management, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of our business operations.

We are a holding company and are dependent on dividends and other payments from our operating subsidiaries, which are subject to dividend restrictions.

We are a holding company whose principal source of funds is cash dividends and other permitted payments from operating subsidiaries. If our subsidiaries are unable to make payments to us, or are able to pay only limited amounts, we may be unable to make payments on our indebtedness. The payment of dividends by these operating subsidiaries is subject to restrictions set forth in the insurance laws and regulations of their respective states of domicile.

A majority of our common stock is held directly and indirectly by one family.

The Chairman of the Board of Directors of our Company and his family, directly and indirectly, own slightly less than 2/3 of the outstanding common stock of the Company. Accordingly, on significantly all matters requiring a majority or greater shareholder vote, our Chairman and his family effectively control the vote. Such ownership effectively precludes any other shareholder from acquiring any number of shares in an attempt to exercise any degree of control over the Company. Further, as a result of the significant ownership, the level of float of the Company's stock on the NASDAQ market is minimal.

Item 1B. *Unresolved Staff Comments*

Not applicable.

Item 2. *Properties*

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia, from Delta Life Insurance Company under a lease which continues until either party provides written notice of cancellation at least twelve months in advance of the actual termination date. The lease, which incepted on November 1, 2007, provides for rent adjustments on every fifth anniversary of the term commencement date. Under the current terms of the lease, the Company occupies approximately 65,489 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by J. Mack Robinson, Chairman of the Board of Directors and the largest shareholder of the Company. The terms of the lease 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 office in a building located in Atlanta, Georgia. The lease term expires January 31, 2010. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

Self Insurance Administrators, Inc. ("SIA"), a non-insurance subsidiary of the Company, leases space for its office in a building located in Duluth, Georgia. The lease term expired March 31, 2008 and SIA was

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moved into available space at the Company's primary home office. Under the terms of the lease, SIA occupied 2,266 square feet.

Item 3. *Legal Proceedings*

From time to time, the Company and its subsidiaries are involved in various claims and lawsuits arising in the ordinary course of business, both as a liability insurer defending third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Company accounts for such exposures through the establishment of loss and loss adjustment expense reserves. Subject to the uncertainties inherent in litigation, management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for probable losses and costs of defense, will not be material to the Company's consolidated financial condition, although the results of such litigation could be material to the consolidated results of operations for any given period.

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, 2007.

PART II

Item 5. *Market For Registrant's Common Equity, Related Shareholder Matters And Issuer Purchases of Equity Securities*

The Company's common stock is quoted on the Nasdaq Global Market (Symbol: AAME). As of March 14, 2008, there were 4,124 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 Global Market.

<u>Year Ended December 31,</u>	<u>High</u>	<u>Low</u>
2007		
1st quarter	\$4.04	\$2.90
2nd quarter	5.44	3.46
3rd quarter	4.15	2.40
4th quarter	2.96	1.11
2006		
1st quarter	\$3.00	\$2.52
2nd quarter	3.45	2.69
3rd quarter	3.15	2.25
4th quarter	3.86	2.24

The Company has not paid dividends to its common shareholders since the fourth quarter of 1988. 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. 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, earnings of the Company, any restrictions contained in any agreements by which the Company is bound, 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 codes of the state of jurisdiction under which each insurance subsidiary operates, dividend payments to the Company by its insurance subsidiaries, without the prior approval of the Insurance Commissioner of the applicable state, are limited to the greater of 10% of statutory surplus or statutory net income of such subsidiary before recognizing realized investment gains. At December 31, 2007, American Southern had \$38.2 million of statutory surplus and Bankers Fidelity had \$33.8 million of statutory surplus.

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Equity Compensation Plan Information

The following table sets forth, as of December 31, 2007, the number of securities outstanding under the Company's equity compensation plans, the weighted average exercise price of such securities and the number of securities remaining available for grant under these plans:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</u>
Equity compensation plans approved by security holders	624,000	\$ 1.42	2,479,594
Equity compensation plans not approved by security holders(1)	—	—	—
Total	624,000	\$ 1.42	2,479,594

(1) All the Company's equity compensation plans have been approved by the Company's shareholders.

Issuer Purchases of Equity Securities

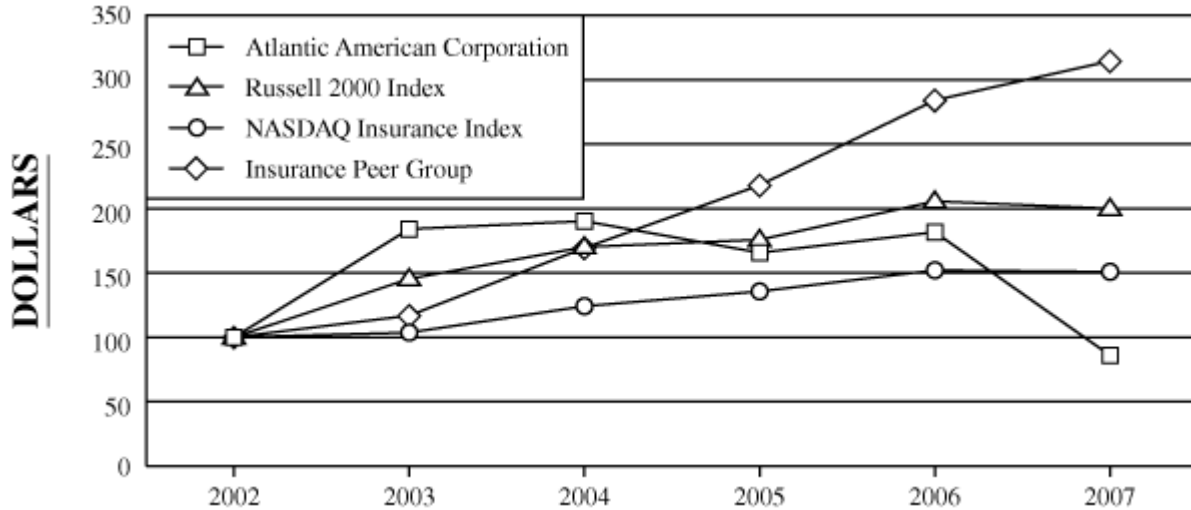
On May 2, 1995, the Board of Directors of the Company approved an initial plan that allowed for the repurchase of shares of the Company's common stock (the "Repurchase Plan"). As amended since its original adoption, the Repurchase Plan currently allows for repurchases of up to an aggregate of 2.0 million shares of the Company's common stock on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Such purchases can be made from time to time in accordance with applicable securities laws and other requirements. As of December 31, 2007, a maximum of 554,194 shares of common stock may yet be purchased under this plan.

No purchases of common stock of the Company were made by or on behalf of the Company during the three months ended December 31, 2007.

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Performance Graph

The graph below compares the cumulative total return to shareholders on the Company’s common stock for the period from December 31, 2002 through December 31, 2007, with (i) the Russell 2000 Index, (ii) the Nasdaq Insurance Index, and (iii) a previously selected peer group of insurance companies (the “Insurance Peer Group”).



Assumes \$100 invested at the close of trading in 12/2002 in Atlantic American common stock, the Russell 2000 Index, the NASDAQ Insurance Index and the Insurance Peer Group.

	2002	2003	2004	2005	2006	2007
Atlantic American Corporation	100.00	184.05	190.18	165.64	181.60	85.89
Russell 2000 Index	100.00	145.37	170.08	175.73	205.60	199.96
NASDAQ Insurance Index	100.00	103.61	124.11	135.59	152.01	150.81
Insurance Peer Group	100.00	116.82	169.35	218.09	284.04	314.51

Factual material is obtained from sources believed to be reliable, but the publisher is not responsible for any errors or omissions contain

Insurance Peer Group includes: American Safety Insurance Group Ltd., Donegal Insurance Group J, National Security Group, Inc., Meadowbrook Insurance Group, Inc., Horace Mann Educators Corp., Unico American Corp. and Covanta Holding Group.

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Item 6. Selected Financial Data

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
Insurance premiums	\$ 97,824	\$109,580	\$117,351	\$113,504	\$100,041
Investment income	11,722	11,926	10,828	10,071	9,789
Other income	799	768	1,105	1,049	776
Realized investment gains (losses), net(1)	12,627	3,084	(7,303)	1,154	696
Total revenue	122,972	125,358	121,981	125,778	111,302
Insurance benefits and losses incurred	58,701	65,460	71,201	70,622	64,840
Other expenses	45,173	50,274	51,394	47,466	40,440
Total benefits and expenses	103,874	115,734	122,595	118,088	105,280
Income (loss) before income taxes	19,098	9,624	(614)	7,690	6,022
Income tax expense (benefit)	7,513	2,458	(1,746)	(149)	(454)
Income from continuing operations	11,585	7,166	1,132	7,839	6,476
(Loss) income from discontinued operations, net of tax(2)	(4,333)	1,770	(4,307)	(2,822)	368
Net income (loss)	\$ 7,252	\$ 8,936	\$ (3,175)	\$ 5,017	\$ 6,844
Basic income (loss) per common share:					
Income from continuing operations	\$.46	\$.27	\$ —	\$.31	\$.24
(Loss) income from discontinued operations	(.20)	.09	(.21)	(.13)	.02
Net income (loss)	\$.26	\$.36	\$ (.21)	\$.18	\$.26
Diluted income (loss) per common share:					
Income from continuing operations	\$.45	\$.27	\$ —	\$.31	\$.23
(Loss) income from discontinued operations	(.20)	.06	(.21)	(.13)	.02
Net income (loss)	\$.25	\$.33	\$ (.21)	\$.18	\$.25
Tangible book value per common share(3)	\$ 2.98	\$ 3.30	\$ 3.00	\$ 3.42	\$ 3.30
Common shares outstanding	21,817	21,481	21,383	21,213	21,199
Total assets	\$458,254	\$459,152	\$461,366	\$471,274	\$442,609
Total long-term debt	\$ 52,988	\$ 52,988	\$ 49,738	\$ 51,488	\$ 53,238
Total debt	\$ 53,988	\$ 53,988	\$ 51,488	\$ 53,238	\$ 56,238
Total shareholders' equity	\$ 87,794	\$ 94,188	\$ 80,453	\$ 88,960	\$ 86,893

(1) Includes a \$7,198 impairment charge in 2005 for automotive sector fixed maturity investments. See Note 3 of Notes to Consolidated Financial Statements.

(2) See Note 2 of Notes to Consolidated Financial Statements.

(3) Excludes goodwill.

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

The following is management's discussion and analysis of the financial condition and results of operations of Atlantic American Corporation ("Atlantic American" or the "Parent") and its subsidiaries (collectively, the "Company") for each of the three years in the period ended December 31, 2007. This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

Atlantic American is an insurance holding company whose operations are conducted primarily through its insurance subsidiaries: American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") and Bankers Fidelity Life Insurance Company ("Bankers Fidelity"). Each operating company is managed separately, offers different products and is evaluated on its individual performance.

In December 2007, the Company entered into an agreement for the sale of its regional property and casualty operations, Association Casualty Insurance Company and Association Risk Management General Agency, Inc. (together known as "Association Casualty") and Georgia Casualty & Surety Company ("Georgia Casualty") to Columbia Mutual Insurance Company. The sale is expected to be completed on or about March 31, 2008. In accordance with generally accepted accounting principles, the consolidated financial statements reflect the assets, liabilities and operating results of the regional property and casualty operations as discontinued operations. Accordingly, unless otherwise noted, amounts and analyses contained herein reflect the continuing operations of the Company and exclude the regional property and casualty operations. References to income and loss from operations are identified as continuing operations or discontinued operations, while references to net income or net loss reflect the consolidated net results of both continuing and discontinued operations.

Critical Accounting Policies

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

Unpaid loss and loss adjustment expenses comprised 14% of the Company's total liabilities at December 31, 2007. This obligation includes estimates for: 1) unpaid losses on claims reported prior to December 31, 2007, 2) development on those reported claims, 3) unpaid ultimate losses on claims incurred prior to December 31, 2007 but not yet reported and 4) unpaid loss adjustment expenses for reported and unreported claims incurred prior to December 31, 2007. Quantification of loss estimates for each of these components involves a significant degree of judgment and estimates may vary, materially, from period to period. Estimated unpaid losses on reported claims are developed based on historical experience with similar claims by the Company. Development on reported claims, estimates of unpaid ultimate losses on claims incurred prior to December 31, 2007 but not yet reported, and estimates of unpaid loss adjustment expenses, are developed based on the Company's historical experience, using actuarial methods to assist in the analysis. The Company's actuarial staff develops ranges of estimated development on reported and unreported claims as well as loss adjustment expenses using various methods including the paid-loss development method, the reported-loss development method, the paid Bornhuetter-Ferguson method and the reported Bornhuetter-Ferguson method. Any single method used to estimate ultimate losses has inherent advantages and disadvantages due to the trends and changes affecting the business environment and the Company's administrative policies. Further, a variety of external factors, such as legislative changes, medical cost inflation, and others may directly or indirectly impact the relative adequacy of liabilities for unpaid losses and loss adjustment expenses. The Company's approach is to select an estimate of ultimate losses based on comparing results of a

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variety of reserving methods, as opposed to total reliance on any single method. Unpaid loss and loss adjustment expenses are reviewed periodically for significant lines of business, and when current results differ from the original assumptions used to develop such estimates, the amount of the Company's recorded liability for unpaid loss and loss adjustment expenses is adjusted. In the event the Company's actual reported losses in any period are materially in excess of the previous estimated amounts, such losses, to the extent reinsurance coverage does not exist, would have a material adverse effect on the Company's results of operations.

Future policy benefits comprised 15% of the Company's total liabilities at December 31, 2007. These liabilities relate primarily to life insurance products and are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company's experience. If actual results differ from the initial assumptions, the amount of the Company's recorded liability could require adjustment.

Deferred acquisition costs comprised 4% of the Company's total assets at December 31, 2007. Deferred acquisition costs are commissions, premium taxes, and other costs that vary with and are primarily related to the acquisition of new and renewal business and are generally deferred and amortized. The deferred amounts are recorded as an asset on the balance sheet and amortized to expense in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the related liability for policy benefit reserves. The deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance). Assessments of recoverability for property and casualty and short-duration health insurance are extremely sensitive to the estimates of a subsequent year's projected losses related to the unearned premiums. Projected loss estimates for a current block of business for which unearned premiums remain to be earned may vary significantly from the indicated losses incurred in any given previous calendar year.

Receivables are amounts due from reinsurers, insureds and agents and comprised 4% of the Company's total assets at December 31, 2007. Insured and agent balances are evaluated periodically for collectibility. Annually, the Company performs an analysis of the credit worthiness of the Company's reinsurers using various data sources. Failure of reinsurers to meet their obligations due to insolvencies or disputes could result in uncollectible amounts and losses to the Company. Allowances for uncollectible amounts are established, as and when a loss has been determined probable, against the related receivable. Losses are recognized when determined on a specific account basis and a general provision for loss is made based on the Company's historical experience.

Cash and investments comprised 47% of the Company's total assets at December 31, 2007. Substantially all investments are in bonds and common and preferred stocks, which are subject to significant market fluctuations. The Company carries all investments as available for sale and, accordingly, at their estimated fair values. The Company owns certain non-redeemable preferred stocks that do not have quoted values and are carried at estimated fair values as determined by management. Such values inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility. On occasion, the value of an investment may decline to a value below its amortized purchase price and remain at such value for an extended period of time. When an investment's indicated fair value has declined below its cost basis for a period of time, primarily due to changes in credit risk, the Company evaluates such investment for other than a temporary impairment. If other than a temporary impairment is deemed to exist, then the Company will write down the amortized cost basis of the investment to its estimated fair value. While such write down does not impact the reported value of the investment in the Company's balance sheet, it is reflected as a realized investment loss in the Company's consolidated statements of operations.

Deferred income taxes comprised approximately 1% of the Company's total assets at December 31, 2007. Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These

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deferred income taxes are measured by applying currently enacted tax laws and rates. Valuation allowances are recognized to reduce the deferred tax assets to the amount that is more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and tax planning strategies.

Refer to Note 1 of “Notes to Consolidated Financial Statements” for details regarding the Company’s significant accounting policies.

Overall Corporate Results

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Revenue			
Property and Casualty:			
American Southern	\$ 47,046	\$ 56,593	\$ 52,925
Life and Health:			
Bankers Fidelity	74,658	67,443	68,255
Corporate and Other	1,268	1,322	801
Total revenue	\$122,972	\$125,358	\$121,981
Income (loss) from continuing operations before income taxes			
Property and Casualty:			
American Southern	\$ 9,462	\$ 10,625	\$ 4,765
Life and Health:			
Bankers Fidelity	16,105	6,754	2,208
Corporate and Other	(6,469)	(7,755)	(7,587)
Income (loss) from continuing operations before income taxes	\$ 19,098	\$ 9,624	\$ (614)
(Loss) from discontinued operations, net of tax	\$ (4,333)	\$ 1,770	\$ (4,307)
Net income (loss)	\$ 7,252	\$ 8,936	\$ (3,175)

On a consolidated basis, the Company had net income of \$7.3 million, or \$0.25 per diluted share, in 2007, compared to net income of \$8.9 million, or \$0.33 per diluted share, in 2006 and a net loss of \$3.2 million, or \$0.21 per diluted share, in 2005. Income from continuing operations was \$11.6 million in 2007, compared with \$7.2 million in 2006 and \$1.1 million in 2005; while the loss from discontinued operations was \$4.3 million in 2007 as compared to income from discontinued operations of \$1.8 million in 2006 and a loss from discontinued operations of \$4.3 million in 2005. Income from continuing operations before income taxes was \$19.1 million in 2007 compared with \$9.6 million in 2006 and a loss of \$0.6 million in 2005. The significant increase in income from continuing operations before income taxes was due to realized investment gains which totaled \$12.6 million in 2007 as compared with \$3.1 million in 2006. In 2007, the Company disposed of a significant holding in Wachovia Corporation which resulted in realized investment gains totaling \$12.9 million; whereas in 2005, the Company recognized a \$7.2 million impairment due to its automotive sector holdings. Such variations between years in realized investment gains significantly influence the reported income (loss) from continuing operations before income taxes. Income from continuing operations before income taxes and realized investment gains was \$6.5 million in both 2007 and 2006. Income from continuing operations before income taxes and realized investment losses in 2005 was \$6.7 million. The magnitude of realized investment gains and losses in any year are a function of the timing of trades of investments relative to the markets themselves as well as the recognition of any impairments on investments.

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Total revenue was \$123.0 million in 2007 as compared to \$125.4 million in 2006 and \$122.0 million in 2005. Insurance premiums decreased to \$97.8 million in 2007 from \$109.6 million in 2006 and \$117.4 million in 2005. The continued softening in the property and casualty markets combined with the significant market competition in the Medicare supplement and Medicare advantage markets have resulted in declining premiums in both of the Company's business segments for the past two years. Premium declines have not been as evident in the change in total revenue due to the magnitude of the changes in realized investment gains between years. Realized investment gains (losses) were a gain of \$12.6 million in 2007, a gain of \$3.1 million in 2006 and a loss of \$7.3 million in 2005.

Total expenses have decreased consistent with the related premium decreases; although not directly proportionate. Insurance benefits and losses and commissions and underwriting expenses as a percentage of premiums were 93.4%, 93.0% and 93.2% in 2007, 2006 and 2005, respectively.

The Company's property and casualty operations are comprised of American Southern and the Company's life and health operations consist of the operations of Bankers Fidelity.

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

Underwriting Results

American Southern

The following table summarizes, for the periods indicated, American Southern's premiums, losses, expenses and underwriting ratios:

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in thousands)		
Gross written premiums	\$42,351	\$55,539	\$62,082
Ceded premiums	(6,379)	(9,265)	(9,099)
Net written premiums	<u>\$35,972</u>	<u>\$46,274</u>	<u>\$52,983</u>
Net earned premiums	\$41,575	\$50,660	\$51,447
Net losses and loss adjustment expenses	18,399	23,440	24,827
Underwriting expenses	<u>19,185</u>	<u>22,528</u>	<u>23,333</u>
Underwriting income	<u>\$ 3,991</u>	<u>\$ 4,692</u>	<u>\$ 3,287</u>
Loss ratio	44.3%	46.3%	48.2%
Expense ratio	46.1	44.4	45.4
Combined ratio	<u>90.4%</u>	<u>90.7%</u>	<u>93.6%</u>

Gross written premiums at American Southern decreased \$13.2 million, or 23.7%, during 2007 as compared to 2006. The decrease in gross written premiums was primarily attributable to the loss of one program marketed through a general agent which prior to 2007 had annualized gross written premiums exceeding \$10.0 million per annum. Loss of the program resulted from a larger competitor offering a broader coverage on a national basis to the insured.

Ceded premiums decreased \$2.9 million, or 31.1%, during 2007 as compared to 2006. The decrease in ceded premiums was due to the decline in the related earned premiums.

Gross written premiums at American Southern decreased \$6.5 million, or 10.5%, during 2006 as compared to 2005. The decrease in gross written premiums was primarily due to the cancellation of several commercial programs, including the low-value dwelling property business in the second half of 2005 and the joint venture with AAA Carolinas to market automobile insurance to club members, which was terminated on October 1, 2005. Also contributing to the decrease in gross written premiums was the termination of the

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relationship with one of the company's agents who had previously produced approximately \$1.6 million in annualized general liability business. Partially offsetting this decrease in gross written premiums were increased business writings in the surety line of business.

Ceded premiums increased \$0.2 million, or 1.8%, during 2006 as compared to 2005. The increase in ceded premiums was due to changes in certain provisions in the company's reinsurance treaty agreements relating to certain accounts.

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

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Automobile liability	\$10,936	\$16,163	\$16,723
Automobile physical damage	8,105	9,698	11,002
General liability	10,349	11,394	11,767
Property	3,005	3,187	3,692
Surety	9,180	10,218	8,263
Total earned premium	<u>\$41,575</u>	<u>\$50,660</u>	<u>\$51,447</u>

Net earned premiums decreased \$9.1 million, or 17.9% during 2007 from 2006 as compared to a decrease of \$0.8 million, or 1.5%, during 2006 from 2005 due primarily to the changes in the written premiums for the respective years as discussed previously. In 2007, American Southern's five largest states in terms of premium revenue were Florida, Ohio, Georgia, Alabama, and Indiana which accounted for 64% of gross written premiums.

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

The combined ratio for American Southern decreased to 90.4% in 2007 from a combined ratio of 90.7% in 2006. The loss ratio decreased to 44.3% in 2007 from 46.3% in 2006. The decrease in the loss ratio was primarily attributable to the loss and cancellation of several commercial programs. The expense ratio increased to 46.1% in 2007 from 44.4% in 2006 due primarily to slightly higher profit margins on the business with variable commissions. Approximately 88% of American Southern's business provides for contractual commission arrangements, which compensate the company's agents in relation to the loss ratios of the business they write. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with American Southern. The combined ratio decreased to 90.7% in 2006 from 93.6% in 2005. The single largest component of the decrease was the decreased loss ratio which decreased to 46.3% in 2006 from 48.2% in 2005. The decrease in the loss ratio was the result of cancellation of several commercial programs including the low-value dwelling property business, combined with favorable loss experience in the commercial automobile line of business.

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Bankers Fidelity

The following summarizes, for the periods indicated, Bankers Fidelity's premiums, losses and expenses:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Medicare supplement	\$41,786	\$44,919	\$51,414
Other health products	3,848	3,041	2,890
Life insurance	10,615	10,960	11,600
Total earned premiums	56,249	58,920	65,904
Insurance benefits and losses	40,302	42,020	46,374
Underwriting expenses	18,251	18,669	19,673
Total expenses	58,553	60,689	66,047
Underwriting loss	<u>\$ (2,304)</u>	<u>\$ (1,769)</u>	<u>\$ (143)</u>

Premium revenue at Bankers Fidelity decreased \$2.7 million, or 4.5%, during 2007 as compared to 2006. Premiums from the Medicare supplement line of business decreased \$3.1 million, or 7.0%, in 2007 over 2006 and accounted for 74% of total 2007 earned premiums. In 2007, the company's five key states in terms of premium revenue, Georgia, Pennsylvania, Ohio, Utah and West Virginia, were consistent with those in 2006 and accounted for approximately 55% of total earned premiums for 2007. The Medicare supplement line of business in these states decreased approximately \$2.4 million as compared to 2006. The general decline in Medicare supplement premiums has resulted primarily from the increase in competition not only from traditional insurance company competitors but also the federal government as it provides incentives directly and indirectly to seniors to exit traditional Medicare programs and choose instead Medicare Advantage and other similar plans which result in much different economics to the insured. Premiums from the life insurance line of business decreased \$0.3 million, or 3.1%, during 2007 due to a decline in sales related activities. The other health products premiums increased to \$3.8 million in 2007 from \$3.0 million in 2006, or 26.5%, primarily as a result of increased business activities with group "associations." Recently, Bankers Fidelity has begun targeting group "associations" for additional sources of new business.

Premium revenue at Bankers Fidelity decreased \$7.0 million, or 10.6%, during 2006 as compared to 2005. The most significant decrease in premiums was in the Medicare supplement line of business, where premiums decreased \$6.5 million, or 12.6%, due to the continued decline in new business levels and non-renewal of certain policies that resulted from increased competition, as discussed previously. In 2006, the company's key five states collectively accounted for approximately 56% of total earned premiums. The Medicare supplement line of business in these states increased approximately \$0.1 million as compared to 2005. Premiums from the life insurance line of business decreased \$0.6 million, or 5.5%, during 2006 due to a continued decline in sales related activities.

Benefits and losses decreased \$1.7 million, or 4.1%, during 2007 as compared to 2006 and \$4.4 million, or 9.4% during 2006 as compared to 2005. As a percentage of earned premiums, benefits and losses were 71.6% in 2007 compared to 71.3% in 2006 and 70.4% in 2005. The increasing loss ratio between years was primarily due to the continued aging of the life business.

Underwriting expenses decreased \$0.4 million, or 2.2%, during 2007 as compared to 2006, and decreased \$1.0 million, or 5.1%, during 2006 as compared to 2005. The decrease in underwriting expenses during 2007 and 2006 was directly related to the decline in premium revenues. As a percentage of earned premiums, these expenses were 32.4% in 2007 compared to 31.7% in 2006 and 29.8% in 2005. The increasing expense ratio during 2007 and 2006 was primarily due to increased costs on marketing initiatives related to product diversification efforts.

The indicated underwriting loss of \$2.3 million in 2007 as compared to \$1.8 million in 2006 and \$0.1 million in 2005 is prior to considering investment income which is a significant component in evaluating

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profitability; particularly in the life insurance business. Further increased marketing efforts, particularly in the past two years, have resulted in underwriting expenses declining at a slower rate than the related premiums and thus increasing the indicated underwriting loss.

Investment Income And Realized Gains

Investment income of \$11.7 million decreased \$0.2 million, or 1.7%, during 2007 as compared to 2006 and increased \$1.1 million, or 10.1%, during 2006 as compared to 2005. The decrease in investment income during 2007 was primarily due to a large number of called securities in the last six months of the year, the proceeds of which were reinvested at lower rates. The increase in investment income between 2006 and 2005 was the result of a higher level of average invested assets as well as a higher average yield on these investments.

The Company had net realized investment gains of \$12.6 million in 2007 and \$3.1 million in 2006, and net realized investment losses of \$7.3 million in 2005. The significant net realized investment gains in 2007 were primarily the result of the disposition of the investment in equity securities of Wachovia Corporation which resulted in a realized investment gain of \$12.9 million. The net realized investment gains in 2006 were primarily due to the sale of a portion of the Company's automotive sector investments (bonds of General Motors, GMAC and Ford), a portion of the Company's investment in equity securities of Wachovia Corporation, and the sale of a real estate partnership interest, all of which resulted in realized investment gains totaling \$3.1 million. During the years ended December 31, 2007 and 2005, the Company recorded investment impairments due to other than temporary declines in values, which reduced reported realized investment gains, related to the following investments:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(In thousands)		
Corporate bonds	\$123	\$ —	\$6,380
Redeemable preferred stocks	\$ —	\$ —	\$ 875
Other invested assets	\$123	\$ —	\$ —

While the impairments did not impact the carrying value of the investments, they resulted in realized losses of \$0.2 million in 2007 and \$7.3 million in 2005. The impairment losses for 2005 were due primarily to the write down of the value of General Motors, GMAC, and Ford fixed maturity investments, all of which resulted in a charge of \$7.2 million. Management continually evaluates the Company's investment portfolio and, as needed, makes adjustments for impairments and/or will divest investments. See Note 3 of Notes to Consolidated Financial Statements.

Interest Expense

Interest expense of \$4.2 million decreased \$0.4 million, or 9.7%, during 2007 as compared to 2006. The decrease in interest expense during 2007 was due to active management of the revolving nature of the Company's bank credit facility (the "Credit Agreement") with Wachovia Bank, National Association ("Wachovia"). During each quarter, using excess funds, the Company repaid a substantial portion of its bank borrowings. At each quarter end, the Company would then reborrow funds under the Credit Agreement such that borrowed amounts were consistent at each quarter end. Such periodic bank borrowings and repayments resulted in a reduction in interest expense by reducing the average debt level outstanding during 2007 as compared to 2006.

Interest expense of \$4.6 million increased \$1.0 million, or 27.5%, during 2006 as compared to 2005. The increase in interest expense during 2006 was due primarily to an increase in interest rates. During 2006, the Company's outstanding debt had a variable interest rate tied to three-month London Interbank Offered Rate ("LIBOR"), which increased throughout 2006. Also, on February 28, 2006, the Company entered into a \$3.0 million term loan with Wachovia, which resulted in a higher average debt level and increased interest expense during 2006 as compared to the prior year. In the fourth quarter of 2006, the Company entered into the Credit Agreement. Borrowings under the Credit Agreement were used to repay the amounts outstanding under the Company's prior term loans with Wachovia.

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Other Expenses

Other expenses (commissions, underwriting expenses, and other expenses) decreased \$4.7 million, or 10.2%, in 2007 as compared to 2006. The decrease in premium revenue that occurred in 2007 resulted in a corresponding decrease in the related commissions and underwriting expenses. As a percentage of earned premiums, other expenses were 41.9% in 2007 as compared with 41.7% in 2006. The increase in other expenses as a percentage of earned premiums resulted from the increased marketing costs incurred in connection with continuing to diversify and grow the book of business. Offsetting some of the increased marketing costs were cost reductions which were implemented in the fourth quarter of 2007, including reductions in compensation for officers, the elimination of certain corporate positions and other cost reduction initiatives.

Other expenses decreased \$2.1 million, or 4.4%, in 2006 as compared to 2005. The decrease in other expenses during 2006 again was primarily attributable to a reduction in commission and underwriting expenses that resulted directly from a decline in premium revenue. The decrease in premium revenue that occurred in 2006 was primarily due to the non-renewal of targeted classes of property business, lower sales activity, and an increased level of price competition. On a consolidated basis, as a percentage of earned premiums, other expenses increased to 41.7% in 2006 from 40.7% in 2005. The increase in the expense ratio during 2006 was primarily due to the lower loss ratio in 2006 as compared to 2005. The majority of American Southern's business is structured in a way that agents are rewarded or penalized based upon the loss ratio of the business they submit to the company. In periods where the loss ratio decreases, commissions and underwriting expenses will increase and conversely in periods where the loss ratio increases, commissions and underwriting expenses should decrease.

Liquidity And Capital Resources

The primary cash needs of the Company are for the payment of claims and operating expenses, maintaining adequate statutory capital and surplus levels, and meeting debt service requirements. Current and expected patterns of claim frequency and severity may change from period to period but generally are expected to continue within historical ranges. The Company's primary sources of cash are written premiums, investment income and the sale and maturity of invested assets. The Company believes that, within each subsidiary, total invested assets will be sufficient to satisfy all policy liabilities and that cash inflows from investment earnings, future premium receipts and reinsurance collections will be adequate to fund the payment of claims and expenses as needed. Cash flows at the Parent are derived from dividends, management fees, and tax sharing payments from the subsidiaries. The cash needs of the Parent are for the payment of operating expenses, the acquisition of capital assets and debt service requirements.

Dividend payments to the Parent by its insurance subsidiaries are subject to annual limitations and are restricted to the greater of 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2007, the Parent's insurance subsidiaries had statutory surplus of \$72.0 million.

The Parent provides certain administrative, purchasing and other services to each of its subsidiaries. The amounts charged to and paid by the subsidiaries were \$5.0 million, \$4.9 million, and \$4.9 million in 2007, 2006, and 2005, respectively. In addition, the Parent has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of \$3.6 million, \$4.1 million and \$3.9 million was paid to the Parent under the tax sharing agreements in 2007, 2006, and 2005, respectively. Dividends were paid to Atlantic American by its subsidiaries totaling \$5.6 million in 2007, \$7.8 million in 2006, and \$11.9 million in 2005. As a result of the Parent's tax loss carryforwards, which totaled approximately \$3.6 million at December 31, 2007, it is anticipated that the tax sharing agreements will continue to provide the Parent with additional funds sufficient to meet its cash flow obligations.

At December 31, 2007, the Company's \$54.0 million of borrowings consisted of \$12.8 million of bank debt pursuant to the Company's Credit Agreement with Wachovia and an aggregate of \$41.2 million of outstanding junior subordinated deferrable interest debentures ("Junior Subordinated Debentures"). The Credit Agreement provides for a reducing revolving credit facility pursuant to which the Company may, subject to

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the terms and conditions thereof, initially borrow or reborrow up to \$15.0 million (the "Commitment Amount"). In accordance with the terms of the Credit Agreement, the Commitment Amount is incrementally reduced every six months beginning on July 1, 2007 and had been reduced to \$14.0 million at December 31, 2007. The interest rate on amounts outstanding under the Credit Agreement is, at the option of the Company, equivalent to either (a) the base rate (which equals the higher of the Prime Rate or 0.5% above the Federal Funds Rate, each as defined) or (b) the LIBOR determined on an interest period of 1-month, 2-months, 3-months or 6-months, plus an Applicable Margin (as defined), and was 7.25% at December 31, 2007. The Applicable Margin varies based upon the Company's leverage ratio (funded debt to total capitalization, each as defined) and ranges from 1.75% to 2.50%. Interest on amounts outstanding is payable quarterly. If not sooner repaid in full, the Credit Agreement requires the Company to repay \$0.5 million in principal on each of June 30 and December 31, 2008, \$1.0 million and \$1.5 million in principal on June 30 and December 31, 2009, respectively, with one final payment of \$10.5 million in principal at maturity on June 30, 2010. The Credit Agreement requires the Company to comply with certain covenants, including, among others, ratios that relate funded debt to both total capitalization and earnings before interest, taxes, depreciation and amortization, as well as the maintenance of minimum levels of tangible net worth. The Company must also comply with limitations on capital expenditures, certain payments, additional debt obligations, equity repurchases and redemptions, as well as minimum risk-based capital levels. Upon the occurrence of an event of default, Wachovia may terminate the Credit Agreement and declare all amounts outstanding under the Credit Agreement due and payable in full.

The Company has two statutory trusts which exist for the exclusive purpose of issuing trust preferred securities representing undivided beneficial interests in the assets of the trusts and investing the gross proceeds of the trust preferred securities in Junior Subordinated Debentures. The outstanding \$41.2 million of Junior Subordinated Debentures have a maturity of thirty years from their original date of issuance, are callable, in whole or in part, only at the option of the Company five years after their respective dates of issue and quarterly thereafter, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At December 31, 2007, the effective interest rate was 8.03%. The obligations of the Company with respect to the issuances of the trust preferred securities represent a full and unconditional guarantee by the Parent of each trust's obligations with respect to the trust preferred securities. Subject to certain exceptions and limitations, the Company may elect from time to time to defer Junior Subordinated Debenture interest payments, which would result in a deferral of distribution payments on the related trust preferred securities.

The Company intends to pay its obligations under the Credit Agreement and the Junior Subordinated Debentures using dividend and tax sharing payments from the operating subsidiaries, or from potential future financing arrangements. In addition, the Company believes that, if necessary, at maturity, the Credit Agreement could be refinanced, although there can be no assurance of the terms or conditions of such a refinancing, or its availability.

During 2006, the Company entered into a zero cost rate collar with Wachovia to hedge future interest payments on a portion of the Junior Subordinated Debentures. The notional amount of the collar was \$18.0 million with an effective date of March 6, 2006. The collar has a LIBOR floor rate of 4.77% and a LIBOR cap rate of 5.85% and adjusts quarterly on the 4th of each March, June, September and December through termination on March 4, 2013. The estimated fair value and related carrying value of the Company's rate collar at December 31, 2007 was a liability of approximately \$0.7 million.

At December 31, 2007, the Company had two series of preferred stock outstanding, substantially all of which is held by affiliates of the Company's chairman and principal shareholders. The outstanding shares of Series B Preferred Stock ("Series B Preferred Stock") have a stated value of \$100 per share; accrue annual dividends at a rate of \$9.00 per share and are cumulative; in certain circumstances may be convertible into an aggregate of approximately 3,358,000 shares of common stock; and are redeemable solely at the Company's option. The Series B Preferred Stock is not currently convertible. At December 31, 2007, the Company had accrued, but unpaid, dividends on the Series B Preferred Stock totaling \$14.5 million. The outstanding shares of Series D Preferred Stock ("Series D Preferred Stock") have a stated value of \$100 per share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option

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of the board of directors of the Company) and are cumulative. In certain circumstances the shares of Series D Preferred Stock may be convertible into an aggregate of approximately 1,754,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. During 2007, the Company issued common stock in lieu of Series D Preferred Stock dividend payments of \$0.6 million. Accordingly, as of December 31, 2007, the Company did not have any unpaid dividends on the Series D Preferred Stock.

Net cash provided by operating activities totaled \$5.6 million in 2007, \$6.8 million in 2006, and \$12.4 million in 2005. The decrease in operating cash flows during each of 2007 and 2006 in comparison with the preceding year was primarily attributable to the decrease in premiums coupled with an increase in loss related payments to settle prior years' outstanding claims. Cash and short-term investments increased to \$36.9 million at December 31, 2007 from \$17.6 million at December 31, 2006. The increase in cash and short-term investments during 2007 was primarily due to an increased level of investment maturities, redemptions and calls exceeding normal purchasing activity. Cash and short-term investments at December 31, 2007 of \$36.9 million are believed to be sufficient to meet the Company's near-term needs.

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

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). This statement replaces SFAS No. 141, "Business Combinations" ("SFAS 141") and establishes the principles and requirements for how the acquirer in a business combination: (a) measures and recognizes the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquired entity, (b) measures and recognizes positive goodwill acquired or a gain from bargain purchase (negative goodwill), and (c) determines the disclosure information that is decision-useful to users of financial statements in evaluating the nature and financial effects of the business combination. The statement further requires all transaction costs for an acquisition to be expensed as incurred rather than capitalized. In December 2007, the FASB also issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). This statement amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("ARB 51"). Noncontrolling interest refers to the minority interest portion of the equity of a subsidiary that is not attributable directly or indirectly to a parent. SFAS 160 establishes accounting and reporting standards that require for-profit entities that prepare consolidated financial statements to (a) present noncontrolling interests as a component of equity, separate from the parent's equity, (b) separately present the amount of consolidated net income attributable to noncontrolling interests in the income statement, (c) consistently account for changes in a parent's ownership interests in a subsidiary in which the parent entity has a controlling financial interest as equity transactions, (d) require an entity to measure at fair value its remaining interest in a subsidiary that is deconsolidated, (e) require an entity to provide sufficient disclosures that identify and clearly distinguish between interests of the parent and interest of noncontrolling owners. Both SFAS 141(R) and SFAS 160 are effective for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. The Company does not believe that the adoption of either of the standards will have a material impact on the Company's financial position or results of operations; although if future acquisitions are made, the prospective accounting will differ from that of the past.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115." This statement permits entities to choose, at specified election dates, to measure eligible items at fair value (i.e. the fair value option). Items eligible for the fair value option include certain recognized financial assets and liabilities, rights and

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obligations under certain insurance contracts that are not financial instruments, host financial instruments resulting from the separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument, and certain commitments. Business entities are required to report unrealized gains and losses on items for which the fair value option has been elected in net income. The fair value option: (a) may be applied instrument by instrument, with certain exceptions; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, although early adoption is permitted under certain conditions. The Company did not elect the fair value option for any specific financial instruments or other items.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. SFAS No. 157 provides guidance on measuring fair value when required under existing accounting standards and establishes a hierarchy that prioritizes the inputs to valuation techniques. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company does not believe the adoption of this statement will have a material impact on the Company's financial position or results of operations.

In July 2006, the FASB issued Financial Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company adopted the provisions of FIN 48 on January 1, 2007 and did not recognize any liability for unrecognized tax benefits or adjust retained earnings. The Company's policy is to classify interest and penalties related to unrecognized tax benefits in income tax expense and, as of January 1, 2007, the Company had no accrued interest and penalties.

In September 2005, the AICPA issued Statement of Position 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs ("DAC") in Connection with Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for DAC on internal replacements of insurance. An internal replacement is a modification in product benefits, features, rights or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. Modifications that result in a replacement contract that is substantially changed from the replaced contract should be accounted for as an extinguishment of the replaced contract. Unamortized DAC, unearned revenue liabilities and deferred sales inducements from the replaced contract must be written-off. Modifications that result in a contract that is substantially unchanged from the replaced contract should be accounted for as a continuation of the replaced contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. The Company adopted SOP 05-1 on January 1, 2007. Adoption of this statement did not have a material impact on the Company's financial position or 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.

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Off-Balance Sheet Arrangements

In the normal course of business, the Company has structured borrowings that, in accordance with U.S. GAAP, are recorded on the Company's balance sheet at an amount that differs from the ultimate contractual obligation. See Note 7 of Notes to Consolidated Financial Statements.

Contractual Obligations

The following table discloses the amounts of payments due under specified contractual obligations, aggregated by category of contractual obligation, for specified time periods:

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(In thousands)		
Bank debt payable	\$ 12,750	\$ 1,000	\$11,750	\$ —	\$ —
Junior Subordinated Debentures	41,238	—	—	—	41,238
Interest payable(1)	93,294	4,077	8,969	7,232	73,016
Operating leases	4,015	1,098	1,673	1,244	—
Purchase commitments(2)	9,676	9,676	—	—	—
Losses and claims(3)	51,704	30,192	16,568	3,751	1,193
Future policy benefits(4)	55,548	8,275	15,841	14,910	16,522
Unearned premiums(5)	13,474	6,045	2,883	1,220	3,326
Other policy liabilities	1,878	1,878	—	—	—
Total	<u>\$283,577</u>	<u>\$62,241</u>	<u>\$57,684</u>	<u>\$28,357</u>	<u>\$135,295</u>

- (1) Interest payable is based on interest rates as of December 31, 2007 and assumes that all debt remains outstanding until its stated contractual maturity.
- (2) Represents balances due for goods and/or services which have been contractually committed as of December 31, 2007. To the extent contracts provide for early termination with notice but without penalty, only the amounts contractually due during the notice period have been included.
- (3) Losses and claims include case reserves for reported claims and reserves for claims incurred but not reported ("IBNR"). While payments due on claim reserves are considered contractual obligations because they relate to insurance policies issued by the Company, the ultimate amount to be paid to settle both case reserves and IBNR reserves is an estimate, subject to significant uncertainty. The actual amount to be paid is not determined until the Company reaches a settlement with any applicable claimant. Final claim settlements may vary significantly from the present estimates, particularly since many claims will not be settled until well into the future. In estimating the timing of future payments by year, the Company has assumed that its historical payment patterns will continue. However, the actual timing of future payments will likely vary materially from these estimates due to, among other things, changes in claim reporting and payment patterns and large unanticipated settlements. Amounts reflected do not include reinsurance amounts which may also be recoverable based on the level of ultimate sustained loss.
- (4) Future policy benefits relate to life insurance policies on which the Company is not currently making payments and will not make future payments unless and until the occurrence of an insurable event, such as a death or disability, or the occurrence of a payment triggering event, such as a surrender of a policy. Occurrence of any of these events is outside the control of the Company and the payment estimates are based on significant uncertainties such as mortality, morbidity, expenses, persistency, investment returns, inflation and the timing of payments. For regulatory purposes, the Company does perform cash flow modeling of such liabilities, which is the basis for the indicated disclosure; however, due to the significance of the assumptions used, the amount presented could materially differ from actual results.
- (5) Unearned premiums represent potential future revenue for the Company; however, under certain circumstances, such premiums may be refundable with cancellation of the underlying policy. Significantly all unearned premiums will be earned within the following twelve month period as the related future

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insurance protection is provided. Significantly all costs related to such unearned premiums have already been incurred and paid and are included in deferred acquisition costs; however, future losses related to the unearned premiums have not been recorded. The contractual obligations related to unearned premiums reflected in the table represent the average loss ratio applied to the year end unearned premium balances, with loss payments projected in comparable proportions to the year end loss and claims reserves. Projecting future losses is subject to significant uncertainties and the projected payments will most likely vary materially from these estimates as a result of differences in future severity, frequency and other anticipated and unanticipated factors. Amounts reflected do not take into account reinsurance amounts which may be recoverable based on the level of ultimate sustained loss.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate And Market Risk

Due to the nature of the Company's business, it is exposed to both interest rate and market risk. Changes in interest rates, which represent a significant risk factor affecting the Company, may result in changes in the fair value of the Company's investments, cash flows and interest income and expense. To manage this risk, the Company generally invests in U.S. Government agency fixed maturity securities and monitors its level of investment in securities that are directly linked to loans or mortgages.

The table below summarizes the estimated fair values that might result from changes in interest rates applicable to the Company's fixed maturity portfolio:

	<u>+200bp</u>	<u>+100bp</u>	<u>Fair value</u> <u>(In thousands)</u>	<u>-100bp</u>	<u>-200bp</u>
December 31, 2007	\$148,943	\$157,692	\$167,927	\$178,626	\$191,200
December 31, 2006	\$144,531	\$153,875	\$164,382	\$176,216	\$189,604

The Company is also subject to risk from changes in equity prices. The table below summarizes the effect that a change in equity prices would have on the value of the Company's equity portfolio. At December 31, 2006, the Company's investment in Wachovia Corporation was the Company's single largest equity investment. The Company did not have any similarly large holding at December 31, 2007.

	<u>+20%</u>	<u>+10%</u>	<u>Fair Value</u> <u>(In thousands)</u>	<u>-10%</u>	<u>-20%</u>
December 31, 2007 — Total equity holdings	<u>\$ 6,402</u>	<u>\$ 5,869</u>	<u>\$ 5,335</u>	<u>\$ 4,802</u>	<u>\$ 4,268</u>
December 31, 2006					
Investment in Wachovia Corporation	\$20,474	\$18,768	\$ 17,062	\$15,356	\$13,650
Other equity holdings	6,497	5,956	5,414	4,872	4,331
Total equity holdings	<u>\$26,971</u>	<u>\$24,724</u>	<u>\$ 22,476</u>	<u>\$20,228</u>	<u>\$17,981</u>

The interest rate on the Company's debt is variable and based on LIBOR. The table below summarizes the effect that changes in interest rates would have on the Company's interest expense.

	<u>Interest Expense</u>		<u>Debt</u>	<u>Interest Expense</u>	
	<u>+200bp</u>	<u>+100bp</u>		<u>-100bp</u>	<u>-200bp</u>
	<u>(In thousands)</u>				
December 31, 2007	\$1,055	\$ 528	\$53,988	\$(528)	\$(1,055)
December 31, 2006	\$1,055	\$ 528	\$53,988	\$(528)	\$(1,055)

On February 21, 2006, the Company entered into a zero cost rate collar with Wachovia to hedge future interest payments on a portion of the Junior Subordinated Debentures. The notional amount of the collar was \$18,042 with an effective date of March 6, 2006. The collar has a LIBOR floor rate of 4.77% and a LIBOR cap rate of 5.85% and adjusts quarterly on the 4th of each March, June, September and December through termination on March 4, 2013.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Atlantic American Corporation
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation and subsidiaries (the “Company”) as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2007. We have also audited schedules II, III, IV and VI as of and for each of the three years in the period ended December 31, 2007. These consolidated financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantic American Corporation and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

BDO SEIDMAN LLP

**Atlanta, Georgia
March 27, 2008**

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2007	2006
ASSETS		
Cash and cash equivalents, including short-term investments of \$23,432 and \$16,191 in 2007 and 2006, respectively	\$ 36,909	\$ 17,606
Investments	178,059	193,197
Receivables:		
Reinsurance	13,004	12,266
Other, net of allowance for doubtful accounts of \$728 and \$752 in 2007 and 2006, respectively	6,912	14,267
Deferred income taxes, net	3,929	1,627
Deferred acquisition costs	18,830	20,218
Other assets	2,069	2,715
Goodwill	2,388	3,008
Assets of discontinued operations (Note 2)	196,154	194,248
Total assets	<u>\$458,254</u>	<u>\$459,152</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds	\$128,078	\$134,316
Accounts payable and accrued expenses	36,047	33,200
Debt payable	53,988	53,988
Liabilities of discontinued operations (Note 2)	152,347	143,460
Total liabilities	<u>370,460</u>	<u>364,964</u>
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, \$1 par, 4,000,000 shares authorized;		
Series B preferred, 134,000 shares issued and outstanding; \$13,400 redemption value	134	134
Series D preferred, 70,000 shares issued and outstanding; \$7,000 redemption value	70	70
Common stock, \$1 par, 50,000,000 shares authorized;		
21,816,999 shares issued in 2007 and 21,484,440 shares issued in 2006 and 21,816,999 shares outstanding in 2007 and 21,481,413 shares outstanding in 2006	21,817	21,484
Additional paid-in capital	56,414	55,832
Retained earnings	10,530	4,969
Accumulated other comprehensive (loss) income	(1,171)	11,707
Treasury stock, at cost, 3,027 shares in 2006	—	(8)
Total shareholders' equity	<u>87,794</u>	<u>94,188</u>
Total liabilities and shareholders' equity	<u>\$458,254</u>	<u>\$459,152</u>

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

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Year Ended December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(Dollars in thousands, except per share data)		
Revenue:			
Insurance premiums	\$ 97,824	\$109,580	\$117,351
Investment income	11,722	11,926	10,828
Realized investment gains (losses), net	12,627	3,084	(7,303)
Other income	799	768	1,105
Total revenue	<u>122,972</u>	<u>125,358</u>	<u>121,981</u>
Benefits and expenses:			
Insurance benefits and losses incurred	58,701	65,460	71,201
Commissions and underwriting expenses	32,663	36,404	38,221
Interest expense	4,160	4,605	3,611
Other	8,350	9,265	9,562
Total benefits and expenses	<u>103,874</u>	<u>115,734</u>	<u>122,595</u>
Income (loss) from continuing operations before taxes	19,098	9,624	(614)
Income tax expense (benefit)	7,513	2,458	(1,746)
Income from continuing operations	11,585	7,166	1,132
(Loss) income from discontinued operations, net of tax (Note 2)	(4,333)	1,770	(4,307)
Net income (loss)	7,252	8,936	(3,175)
Preferred stock dividends	(1,691)	(1,333)	(1,206)
Net income (loss) applicable to common stock	<u>\$ 5,561</u>	<u>\$ 7,603</u>	<u>\$ (4,381)</u>
Basic income (loss) per common share:			
Income from continuing operations	\$.46	\$.27	\$ —
(Loss) income from discontinued operations	(.20)	.09	(.21)
Net income (loss) applicable to common shareholders	<u>\$.26</u>	<u>\$.36</u>	<u>\$ (.21)</u>
Diluted income (loss) per common share:			
Income from continuing operations	\$.45	\$.27	\$ —
(Loss) income from discontinued operations	(.20)	.06	(.21)
Net income (loss) applicable to common shareholders	<u>\$.25</u>	<u>\$.33</u>	<u>\$ (.21)</u>

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

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	(Dollars in thousands)						
Balance, December 31, 2004	\$ 134	\$21,412	\$ 50,347	\$ 462	\$ 17,207	\$ (602)	\$ 88,960
Comprehensive loss:							
Net loss	—	—	—	(3,175)	—	—	(3,175)
Decrease in unrealized investment gains	—	—	—	—	(6,549)	—	(6,549)
Minimum pension liability adjustment	—	—	—	—	(160)	—	(160)
Deferred income tax attributable to other comprehensive loss	—	—	—	—	2,348	—	2,348
Total comprehensive loss	—	—	—	—	—	—	(7,536)
Dividends accrued on preferred stock	—	—	(1,206)	—	—	—	(1,206)
Deferred share compensation expense	—	—	(201)	(40)	—	240	(1)
Restricted stock grants	—	—	(66)	—	—	66	—
Amortization of unearned compensation	—	—	66	—	—	—	66
Acquisition of 45,619 shares for treasury	—	—	—	—	—	(132)	(132)
Issuance of 194,026 shares for employee benefit plans and stock options	—	—	(15)	(27)	—	344	302
Balance, December 31, 2005	134	21,412	48,925	(2,780)	12,846	(84)	80,453
Comprehensive income:							
Net income	—	—	—	8,936	—	—	8,936
Decrease in unrealized investment gains	—	—	—	—	(660)	—	(660)
Fair value adjustment to derivative financial instrument	—	—	—	—	(165)	—	(165)
Minimum pension liability adjustment	—	—	—	—	216	—	216
Deferred income tax attributable to other comprehensive income	—	—	—	—	213	—	213
Total comprehensive income	—	—	—	—	—	—	8,540
Minimum pension liability adjustment due to adoption of SFAS 158, net of tax	—	—	—	—	(743)	—	(743)
Issuance of 70,000 shares of preferred stock	70	—	6,930	—	—	—	7,000
Dividends accrued on preferred stock	—	—	(155)	(1,178)	—	—	(1,333)
Deferred share compensation expense	—	—	4	—	—	—	4
Restricted stock grants	—	22	(22)	—	—	—	—
Amortization of unearned compensation	—	—	66	—	—	—	66
Acquisition of 25,774 shares for treasury	—	—	—	—	—	(70)	(70)
Issuance of 102,009 shares for employee benefit plans and stock options	—	50	84	(9)	—	146	271
Balance, December 31, 2006	\$ 204	\$21,484	\$ 55,832	\$ 4,969	\$ 11,707	\$ (8)	\$ 94,188
Comprehensive loss:							
Net income	—	—	—	7,252	—	—	7,252
Decrease in unrealized investment gains	—	—	—	—	(19,549)	—	(19,549)
Fair value adjustment to derivative financial instrument	—	—	—	—	(575)	—	(575)
Minimum pension liability adjustment	—	—	—	—	312	—	312
Deferred income tax attributable to other comprehensive loss	—	—	—	—	6,934	—	6,934
Total comprehensive loss	—	—	—	—	—	—	(5,626)
Dividends on preferred stock	—	—	—	(1,691)	—	—	(1,691)
Common stock issued in lieu of preferred stock dividend payments	—	227	386	—	—	—	613
Deferred share compensation expense	—	10	(8)	—	—	—	2
Restricted stock grants	—	12	(12)	—	—	—	—
Amortization of unearned compensation	—	—	66	—	—	—	66
Acquisition of 5,655 shares for treasury	—	—	—	—	—	(23)	(23)
Issuance of 102,239 shares for employee benefit plans and stock options	—	84	150	—	—	31	265
Balance, December 31, 2007	\$ 204	\$21,817	\$ 56,414	\$ 10,530	\$ (1,171)	\$ —	\$ 87,794

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

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
(Dollars in thousands)			
Cash flows from operating activities:			
Net income (loss)	\$ 7,252	\$ 8,936	\$ (3,175)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Amortization of deferred acquisition costs	11,119	13,697	14,167
Acquisition costs deferred	(9,731)	(11,764)	(13,291)
Realized investment (gains) losses, net	(12,627)	(3,084)	7,303
(Decrease) increase in insurance reserves and policyholder funds	(6,238)	(3,497)	3,460
Loss (income) from discontinued operations, net	4,333	(1,770)	4,307
Compensation expense related to share awards	68	70	65
Depreciation and amortization	108	871	949
Deferred income tax expense (benefit)	3,711	981	(2,959)
Decrease in receivables, net	5,067	778	801
Increase in other liabilities	1,507	1,429	784
Goodwill impairment	620	—	—
Other, net	425	147	11
Net cash provided by continuing activities	5,614	6,794	12,422
Net cash used in discontinued activities	(5,629)	(6,298)	(1,155)
Net cash (used in) provided by operating activities	(15)	496	11,267
Cash flows from investing activities:			
Proceeds from investments sold	22,538	18,384	28,715
Proceeds from investments matured, called or redeemed	69,653	24,827	33,414
Investments purchased	(78,988)	(59,683)	(66,038)
Additions to property and equipment	(446)	(286)	(644)
Net cash provided by (used in) continuing operations	12,757	(16,758)	(4,553)
Net cash provided by (used in) discontinued operations	12,301	(7,666)	(4,048)
Net cash provided by (used in) investing activities	25,058	(24,424)	(8,601)
Cash flows from financing activities:			
Proceeds from issuance of Series D Preferred Stock	—	7,000	—
Proceeds from exercise of stock options	19	16	34
Purchase of treasury shares	(23)	(70)	(132)
Proceeds from bank financing	36,000	15,750	—
Repayments of debt	(36,000)	(13,250)	(1,750)
Financing of discontinued operations	936	(6,560)	(4,200)
Net cash provided by (used in) continuing operations	932	2,886	(6,048)
Net cash (used in) provided by discontinued operations	(936)	6,560	4,200
Net cash (used in) provided by financing activities	(4)	9,446	(1,848)
Net increase (decrease) in cash	25,039	(14,482)	818
Cash and cash equivalents at beginning of year			
Continuing operations	17,606	24,684	22,863
Discontinued operations	9,688	17,092	18,095
Total	27,294	41,776	40,958
Cash and cash equivalents at end of year			
Continuing operations	36,909	17,606	24,684
Discontinued operations	15,424	9,688	17,092
Total	\$ 52,333	\$ 27,294	\$ 41,776
Supplemental cash flow information:			
Cash paid for interest	\$ 4,195	\$ 4,711	\$ 3,470
Cash paid for income taxes	\$ 460	\$ 609	\$ 317
Cash received for income taxes	\$ —	\$ 676	\$ —

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except per share amounts)

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

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

At December 31, 2007, the Parent owned five insurance subsidiaries, Bankers Fidelity Life Insurance Company ("Bankers Fidelity"), American Southern Insurance Company and its wholly-owned subsidiary, American Safety Insurance Company (together known as "American Southern"), Association Casualty Insurance Company and Georgia Casualty & Surety Company ("Georgia Casualty"), in addition to two non-insurance subsidiaries, Association Risk Management General Agency, Inc., and Self-Insurance Administrators, Inc. ("SIA, Inc."). Association Casualty Insurance Company and Association Risk Management General Agency, Inc. are together termed "Association Casualty." On December 26, 2007, the Company entered into a Stock Purchase Agreement ("SPA") providing for the sale of all the outstanding shares of stock of Association Casualty and Georgia Casualty to Columbia Mutual Insurance Company ("Columbia"). Accordingly, the assets, liabilities, and results of operations of Association Casualty and Georgia Casualty have been reflected by the Company as discontinued operations (Note 2).

Premium Revenue and Cost Recognition

Life insurance premiums are recognized as revenues when due; accident and health premiums are recognized over the premium paying period and property and casualty insurance premiums are recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided. Benefits and expenses are accrued as incurred and are associated with premiums as they are earned so as to result in recognition of profits over the lives of the contracts. For traditional life insurance and long-duration health insurance, this association is accomplished by the provision of a future policy benefits reserve and the deferral and subsequent amortization of the costs of acquiring business, "deferred policy acquisition costs" (principally commissions, premium taxes, and other expenses of issuing policies). Deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the policy benefits reserve. The Company provides for insurance benefits and losses on accident, health, and property-casualty claims based upon estimates of projected ultimate losses. The deferred policy acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance).

Goodwill

Goodwill represents the excess of cost over the fair value of net assets acquired and is not amortized. The Company periodically reviews its goodwill to determine if any adverse conditions exist that could indicate impairment. Conditions that could trigger impairment include, but are not limited to, a significant change in business climate that could affect the value of the related asset, an adverse action, or an assessment by a regulator. During 2007, an impairment of \$620 was recognized. No impairment of the Company's recorded goodwill was identified during 2006 or 2005.

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Investments

The Company's investments in both fixed maturity securities, which include bonds and redeemable preferred stocks, and equity securities, which include common and non-redeemable preferred stocks, are classified as "available-for-sale" and, accordingly, are carried at fair value with the after-tax difference from amortized cost, as adjusted if applicable, reflected in shareholders' equity as a component of accumulated other comprehensive income. The fair values for fixed maturity and equity securities are largely determined by either independent methods prescribed by the National Association of Insurance Commissioners ("NAIC"), which do not differ materially from nationally quoted market prices, when available, or independent broker quotations. Certain non-redeemable preferred stocks that do not have quoted values are carried at estimated fair value as determined by management. With the exception of short-term securities for which amortized cost is predominately used to approximate fair value, security prices are first sought from NAIC pricing services with the remaining unpriced securities submitted to brokers for prices. Mortgage loans, policy and student loans, and real estate are carried at historical cost. Other invested assets are comprised of investments in limited partnerships, limited liability companies, and real estate joint ventures. Those which are publicly traded are carried at estimated fair value and the others are accounted for using the equity method. If the value of a common stock, preferred stock, other invested asset, or publicly traded bond declines below its cost or amortized cost, if applicable, and the decline is considered to be other than temporary, a realized loss is recorded to reduce the carrying value of the investment to its estimated fair value, which becomes the new cost basis. In evaluating impairment, the Company considers, among other factors, the expected holding period, the nature of the investment and the prospects for the company and its industry. Premiums and discounts related to investments are amortized or accreted over the life of the related investment as an adjustment to yield using the effective interest method. Dividends and interest income are recognized when earned or declared. The cost of securities sold is based on specific identification. Unrealized gains (losses) in the value of invested assets are accounted for as a direct increase (decrease) in accumulated other comprehensive income in shareholders' equity, net of deferred tax and, accordingly, have no effect on net income.

Income Taxes

Deferred income taxes represent the expected future tax consequences when the reported amounts of assets and liabilities are recovered or paid. They arise from differences between the financial reporting and tax basis of assets and liabilities and are adjusted for changes in tax laws and tax rates as those changes are enacted. The provision for income taxes represents the total amount of income taxes due related to the current year, plus the change in deferred taxes during the year. A valuation allowance is recognized if, based on management's assessment of the relevant facts, it is more likely than not that some portion of the deferred tax asset will not be realized.

Earnings Per Common Share

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

Stock Options

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R") using the modified prospective transition method. SFAS No. 123R replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." The adoption of SFAS 123R did not have a material impact on the Company's consolidated statements of operations or net income (loss) per share. Prior to January 1, 2006, stock options were reported under the recognition and measurement principles of APB Opinion No. 25 instead of the fair

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value approach recommended in SFAS No. 123 as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." Accordingly, no stock-based employee compensation expense attributable to stock options was reflected in net income, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Pro forma net income (loss) and net income (loss) per common share were determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The fair value of these options was determined at the date of grant using an options pricing model, which requires the input of subjective assumptions, including the volatility of the stock price. If the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation in 2005, the Company's net income (loss) and net income (loss) per share would not have been materially different from that as reported.

Cash and Cash Equivalents

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

Impact of Recently Issued Accounting Standards

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141(R)"). This statement replaces SFAS No. 141, "Business Combinations" ("SFAS 141") and establishes the principles and requirements for how the acquirer in a business combination: (a) measures and recognizes the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquired entity, (b) measures and recognizes positive goodwill acquired or a gain from bargain purchase (negative goodwill), and (c) determines the disclosure information that is decision-useful to users of financial statements in evaluating the nature and financial effects of the business combination. The statement further requires all transaction costs for an acquisition to be expensed as incurred rather than capitalized. In December 2007, the FASB also issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). This statement amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements" ("ARB 51"). Noncontrolling interest refers to the minority interest portion of the equity of a subsidiary that is not attributable directly or indirectly to a parent. SFAS 160 establishes accounting and reporting standards that require for-profit entities that prepare consolidated financial statements to (a) present noncontrolling interests as a component of equity, separate from the parent's equity, (b) separately present the amount of consolidated net income attributable to noncontrolling interests in the income statement, (c) consistently account for changes in a parent's ownership interests in a subsidiary in which the parent entity has a controlling financial interest as equity transactions, (d) require an entity to measure at fair value its remaining interest in a subsidiary that is deconsolidated, (e) require an entity to provide sufficient disclosures that identify and clearly distinguish between interests of the parent and interest of noncontrolling owners. Both SFAS 141(R) and SFAS 160 are effective for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. The Company does not believe that the adoption of either of the standards will have a material impact on the Company's financial position or results of operations; although if future acquisitions are made, the prospective accounting will differ from that of the past.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115." This statement permits entities to choose, at specified election dates, to measure eligible items at fair value (i.e. the fair value option). Items eligible for the fair value option include certain recognized financial assets and liabilities, rights and obligations under certain insurance contracts that are not financial instruments, host financial instruments resulting from the separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument, and certain commitments. Business entities are required to report unrealized gains and losses on items for which the fair value option has been elected in net income. The fair value option: (a) may be applied instrument by instrument, with certain exceptions; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, although early adoption is

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permitted under certain conditions. The Company did not elect the fair value option for any specific financial instruments or other items.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. SFAS No. 157 provides guidance on measuring fair value when required under existing accounting standards and establishes a hierarchy that prioritizes the inputs to valuation techniques. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company does not believe the adoption of this statement will have a material impact on the Company's financial position or results of operations.

In July 2006, the FASB issued Financial Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken, or expected to be taken, in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. The Company adopted the provisions of FIN 48 on January 1, 2007 and did not recognize any liability for unrecognized tax benefits or adjust retained earnings. The Company's policy is to classify interest and penalties related to unrecognized tax benefits in income tax expense and, as of January 1, 2007, the Company had no accrued interest and penalties.

In September 2005, the AICPA issued Statement of Position 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs ("DAC") in Connection with Modifications or Exchanges of Insurance Contracts" ("SOP 05-1"). SOP 05-1 provides guidance on accounting by insurance enterprises for DAC on internal replacements of insurance. An internal replacement is a modification in product benefits, features, rights or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. Modifications that result in a replacement contract that is substantially changed from the replaced contract should be accounted for as an extinguishment of the replaced contract. Unamortized DAC, unearned revenue liabilities and deferred sales inducements from the replaced contract must be written-off. Modifications that result in a contract that is substantially unchanged from the replaced contract should be accounted for as a continuation of the replaced contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. The Company adopted SOP 05-1 on January 1, 2007. Adoption of this statement did not have a material impact on the Company's financial position or results of operations.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates and assumptions are used in developing and evaluating deferred income taxes, deferred acquisition costs, insurance reserves, investments, pension benefits, commitments and contingencies, among others, and actual results could differ from management's estimates.

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Note 2. Discontinued Operations

On December 26, 2007, the Company entered into a SPA providing for the sale of all the outstanding shares of stock of Association Casualty and Georgia Casualty to Columbia. Accordingly, the consolidated financial statements reflect the assets, liabilities, and operating results of Georgia Casualty and Association Casualty as discontinued operations.

The following table provides operating results from the discontinued operations of Georgia Casualty and Association Casualty for the years indicated:

	Year Ended December 31,		
	2007	2006	2005
Revenue:			
Insurance premiums	\$37,031	\$44,125	\$60,242
Investment income	6,343	6,397	5,857
Realized investment gains (losses), net	3,225	3,607	(3,153)
Other income	26	45	158
Total revenue	<u>46,625</u>	<u>54,174</u>	<u>63,104</u>
Benefits and expenses:			
Insurance benefits and losses incurred	34,107	26,472	44,474
Commissions and underwriting expenses	16,951	25,584	22,716
Other	3,109	453	2,765
Total benefits and expenses	<u>54,167</u>	<u>52,509</u>	<u>69,955</u>
(Loss) income from discontinued operations before taxes	(7,542)	1,665	(6,851)
Income tax benefit	<u>(3,209)</u>	<u>(105)</u>	<u>(2,544)</u>
Net (loss) income from discontinued operations	<u>\$ (4,333)</u>	<u>\$ 1,770</u>	<u>\$ (4,307)</u>

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The following table provides condensed information about the assets and liabilities of the discontinued operations of Georgia Casualty and Association Casualty and as aggregated in the consolidated balance sheet:

	December 31,	
	2007	2006
Assets of Discontinued Operations:		
Cash and cash equivalents, including short-term investments of \$10,585 and \$3,997 in 2007 and 2006, respectively	\$ 15,424	\$ 9,688
Investments:		
Fixed maturities (cost: \$91,216 and \$97,278)	91,088	97,933
Common and non-redeemable preferred stocks (cost: \$2,406 and \$3,733)	3,139	6,350
Other invested assets (cost: \$47 and 1,330)	47	1,295
Total investments	<u>94,274</u>	<u>105,578</u>
Receivables:		
Reinsurance	54,391	42,227
Other	17,570	20,709
Deferred acquisition costs	3,486	4,200
Other assets	11,009	11,846
Total assets	<u>\$196,154</u>	<u>\$194,248</u>
Liabilities of Discontinued Operations:		
Unearned premiums	\$ 22,065	\$ 25,532
Losses and claims	122,418	107,658
Accounts payable and accrued expenses	7,864	10,270
Total liabilities	<u>\$152,347</u>	<u>\$143,460</u>

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Note 3. Investments

Investments were comprised of the following:

	2007			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed Maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$127,070	\$ 994	\$ 67	\$126,143
Obligations of states and political subdivisions	412	14	—	398
Corporate securities	29,728	314	832	30,246
Mortgage-backed securities (government guaranteed)	3	—	—	3
Redeemable preferred stocks	10,714	264	1,416	11,866
Total fixed maturities	167,927	1,586	2,315	168,656
Common and non-redeemable preferred stocks	5,335	590	621	5,366
Other invested assets (fair value of \$1,563)	1,563	—	—	1,563
Policy and student loans	1,958	—	—	1,958
Real estate	38	—	—	38
Investments in unconsolidated trusts	1,238	—	—	1,238
Investments	178,059	2,176	2,936	178,819
Short-term investments	23,432	—	—	23,432
Total investments	\$201,491	\$ 2,176	\$ 2,936	\$202,251

	2006			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
Fixed Maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$117,120	\$ 99	\$ 1,660	\$118,681
Obligations of states and political subdivisions	414	18	—	396
Corporate securities	33,892	2,597	297	31,592
Mortgage-backed securities (government guaranteed)	7	—	—	7
Redeemable preferred stocks	12,949	656	153	12,446
Total fixed maturities	164,382	3,370	2,110	163,122
Common and non-redeemable preferred stocks	22,476	14,960	30	7,546
Other invested assets (fair value of \$1,735)	1,735	—	34	1,769
Mortgage loans (fair value of \$1,564)	1,379	—	—	1,379
Policy and student loans	1,949	—	—	1,949
Real estate	38	—	—	38
Investments in unconsolidated trusts	1,238	—	—	1,238
Investments	193,197	18,330	2,174	177,041
Short-term investments	16,191	—	—	16,191
Total investments	\$209,388	\$ 18,330	\$ 2,174	\$193,232

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Bonds and short-term investments having an amortized cost of \$10,553 and \$10,709 were on deposit with insurance regulatory authorities at December 31, 2007 and 2006, respectively, in accordance with statutory requirements.

Securities with unrealized losses at December 31, 2007 and 2006 were as follows:

	2007					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$ 8,189	\$ 40	\$ 4,241	\$ 27	\$12,430	\$ 67
Corporate securities	9,801	425	5,918	407	15,719	832
Redeemable preferred stocks	4,465	657	2,751	759	7,216	1,416
Common and non-redeemable preferred stocks	1,980	303	928	318	2,908	621
Total temporary impaired securities	<u>\$24,435</u>	<u>\$ 1,425</u>	<u>\$13,838</u>	<u>\$ 1,511</u>	<u>\$38,273</u>	<u>\$ 2,936</u>

	2006					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	\$23,091	\$ 175	\$71,819	\$ 1,485	\$ 94,910	\$ 1,660
Corporate securities	3,885	52	5,054	245	8,939	297
Redeemable preferred stocks	—	—	5,637	153	5,637	153
Common and non-redeemable preferred stocks	594	24	994	6	1,588	30
Other invested assets	1,735	34	—	—	1,735	34
Total temporary impaired securities	<u>\$29,305</u>	<u>\$ 285</u>	<u>\$83,504</u>	<u>\$ 1,889</u>	<u>\$112,809</u>	<u>\$ 2,174</u>

Market changes in interest rates and credit spreads result in changes in the fair values of investments and are accumulated and reported as unrealized gains and losses. Excluding U.S. Treasury securities and obligations of U.S. Government agencies and authorities, the change in value of which is deemed solely to relate to interest rate movements, the Company held investments in less than 30 issuers which had unrealized investment losses at December 31, 2007 and 2006, respectively. The majority of the unrealized losses at December 31, 2007 resulted from holdings in financial entities which have been impacted by the markets and related liquidity in the markets for mortgage related and other derivative products. Holdings with the largest amount of unrealized losses include redeemable preferred stocks of Citigroup and JPMorgan Chase and corporate bonds of General Motors Acceptance Corporation. Unrealized losses related to these three holdings aggregated approximately $\frac{1}{3}$ of the Company's total unrealized losses related to corporate bonds, common and preferred stocks at December 31, 2007.

During the years ended December 31, 2007, 2006, and 2005, the Company recorded impairments related to the following investments.

	2007	2006	2005
Corporate securities(1)	\$123	\$ —	\$6,380
Redeemable preferred stocks(1)	\$ —	\$ —	\$ 875
Other invested assets	\$123	\$ —	\$ —

(1) Includes automotive sector impairments of \$7,198 in 2005, primarily from holdings in General Motors and related entities.

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As part of the Company's ongoing investment review, the Company has reviewed its investment portfolio and concluded that there were no additional investments with other than temporary impairments as of December 31, 2007 or 2006. The evaluation for other than temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other than temporary. The risks and uncertainties include changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. As a result of issuers' continued satisfaction of the investment obligations in accordance with their contractual terms, if applicable, and management's expectation that they will continue to do so, also if applicable, management's intent and ability to hold these securities, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Company believes that the unrealized losses on investments at December 31, 2007 and 2006 were temporary.

The amortized cost and carrying value of fixed maturities and short-term investments at December 31, 2007 and 2006 by contractual maturity were 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.

	2007		2006	
	Carrying Value	Amortized Cost	Carrying Value	Amortized Cost
(In thousands)				
Maturities				
Due in one year or less	\$ 43,069	\$ 43,031	\$ 39,592	\$ 39,587
Due after one year through five years	14,389	14,084	12,936	12,644
Due after five years through ten years	13,832	13,832	22,751	22,081
Due after ten years	120,066	121,138	105,287	104,994
Varying maturities	3	3	7	7
Totals	\$191,359	\$192,088	\$180,573	\$179,313

Investment income was earned from the following sources:

	2007	2006	2005
Fixed maturities	\$ 9,384	\$ 9,922	\$ 8,205
Common and non-redeemable preferred stocks	767	948	1,386
Mortgage loans	79	184	250
Short-term investments	1,297	671	598
Other	195	201	389
Total investment income	\$11,722	\$11,926	\$10,828
Less investment expenses	(119)	(104)	(126)
Net investment income	<u>\$11,603</u>	<u>\$11,822</u>	<u>\$10,702</u>

A summary of realized investment gains (losses) follows:

	2007			Total
	Stocks	Fixed Maturities	Other Invested Assets	
Gains	\$12,905	\$ 21	\$ —	\$12,926
Losses	—	(176)	(123)	(299)
Realized investment gains (losses), net	<u>\$12,905</u>	<u>\$ (155)</u>	<u>\$ (123)</u>	<u>\$12,627</u>

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	2006			
	<u>Stocks</u>	<u>Fixed Maturities</u>	<u>Other Invested Assets</u>	<u>Total</u>
Gains	\$1,738	\$ 1,201	\$ 654	\$3,593
Losses	—	(509)	—	(509)
Realized investment gains (losses), net	<u>\$1,738</u>	<u>\$ 692</u>	<u>\$ 654</u>	<u>\$3,084</u>

	2005			
	<u>Stocks</u>	<u>Fixed Maturities</u>	<u>Other Invested Assets</u>	<u>Total</u>
Gains	\$ 715	\$ 81	\$ —	\$ 796
Losses	(384)	(7,715)	—	(8,099)
Realized investment gains (losses), net	<u>\$ 331</u>	<u>\$ (7,634)</u>	<u>\$ —</u>	<u>\$(7,303)</u>

Proceeds from the sale of investments were as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Common and non-redeemable preferred stocks	\$16,635	\$ 1,666	\$11,884
Fixed maturities	5,753	15,510	16,021
Student loans	—	128	245
Other investments	150	1,080	565
Total proceeds	<u>\$22,538</u>	<u>\$18,384</u>	<u>\$28,715</u>

The Company's investments in fixed maturity securities of General Motors and General Motors Acceptance Corporation exceeded 10% of shareholders' equity at December 31, 2007. The carrying value of these fixed maturity investments at December 31, 2007 was \$9,907 with an adjusted cost basis of \$10,164.

The Company's bond portfolio included 90% investment grade securities at December 31, 2007 as defined by the NAIC.

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Note 4. Insurance Reserves and Policyholder Funds

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

	2007	2006	Amount of Insurance In Force	
			2007	2006
Future policy benefits				
Life insurance policies:				
Ordinary	\$ 44,187	\$ 43,046	\$228,780	\$224,401
Mass market	4,586	4,908	6,985	7,667
Individual annuities	297	332	—	—
	49,070	48,286	<u>\$235,765</u>	<u>\$232,068</u>
Accident and health insurance policies	6,478	3,733		
	55,548	52,019		
Unearned premiums	18,948	25,190		
Losses and claims	51,704	55,291		
Other policy liabilities	1,878	1,816		
Total insurance reserves and policyholder funds	<u>\$128,078</u>	<u>\$134,316</u>		

Annualized premiums for accident and health insurance policies were \$45,913 and \$47,326 at December 31, 2007 and 2006, 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 unexpected claim experience. The assumed mortality and withdrawal rates are based upon the Company's experience. The interest rates assumed for life, accident and health are generally: (i) 2.5% to 5.5% for issues prior to 1977, (ii) 7% graded to 5.5% for 1977 through 1979 issues, (iii) 9% for 1980 through 1987 issues, and (iv) 5% to 7% for 1988 and later issues.

Loss and Claim Reserves

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

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Activity in the liability for unpaid loss and claim reserves is summarized as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at January 1	\$ 55,291	\$ 53,817	\$ 53,025
Less: Reinsurance recoverables	(12,266)	(12,829)	(12,857)
Net balance at January 1	<u>43,025</u>	<u>40,988</u>	<u>40,168</u>
Incurred related to:			
Current year	65,274	73,167	76,626
Prior years	(11,517)	(9,926)	(8,370)
Total incurred	<u>53,757</u>	<u>63,241</u>	<u>68,256</u>
Paid related to:			
Current year	41,687	46,355	50,922
Prior years	16,395	14,849	16,514
Total paid	<u>58,082</u>	<u>61,204</u>	<u>67,436</u>
Net balance at December 31	38,700	43,025	40,988
Plus: Reinsurance recoverables	<u>13,004</u>	<u>12,266</u>	<u>12,829</u>
Balance at December 31	<u>\$ 51,704</u>	<u>\$ 55,291</u>	<u>\$ 53,817</u>

Prior years' development was primarily the result of better than expected development on prior years IBNR reserves for Medicare supplement as well as certain lines of business within American Southern.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total incurred claims	\$53,757	\$63,241	\$68,256
Cash surrender value and matured endowments	1,413	1,666	1,663
Benefit reserve changes	3,531	553	1,282
Total insurance benefits and losses incurred	<u>\$58,701</u>	<u>\$65,460</u>	<u>\$71,201</u>

Note 5. 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 liable with respect to reinsurance ceded should any reinsurer be unable to meet its obligations. Approximately 82% of the Company's reinsurance receivables were due from one reinsurer as of December 31, 2007. Reinsurance receivables of \$10,686 were with Swiss Reinsurance Corporation, rated "AA-" (Very Strong) by Standard & Poor's and "A+" (Superior) by A.M. Best. Allowances for uncollectible amounts are established against reinsurance receivables, if appropriate.

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The following table reconciles premiums written to premiums earned and summarizes the components of insurance benefits and losses incurred.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Direct premiums written	\$89,766	\$104,253	\$118,184
Plus — premiums assumed	9,022	9,763	9,655
Less — premiums ceded	<u>(6,729)</u>	<u>(9,338)</u>	<u>(9,290)</u>
Net premiums written	92,059	104,678	118,549
Change in unearned premiums	6,242	5,006	(1,269)
Change in unearned premiums ceded	<u>(477)</u>	<u>(104)</u>	<u>71</u>
Net change in unearned premiums	5,765	4,902	(1,198)
Net premiums earned	<u>\$97,824</u>	<u>\$109,580</u>	<u>\$117,351</u>
Provision for benefits and losses incurred	\$66,641	\$ 70,217	\$ 79,462
Reinsurance loss recoveries	<u>(7,940)</u>	<u>(4,757)</u>	<u>(8,261)</u>
Insurance benefits and losses incurred	<u>\$58,701</u>	<u>\$ 65,460</u>	<u>\$ 71,201</u>

Components of reinsurance receivables were as follows:

	<u>2007</u>	<u>2006</u>
Receivable on unpaid losses	\$12,929	\$12,266
Receivable on paid losses	75	—
	<u>\$13,004</u>	<u>\$12,266</u>

Note 6. Income Taxes

Total income taxes were allocated as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Tax expense (benefit) on income or loss from:			
Continuing operations	\$ 7,513	\$2,458	\$(1,746)
Discontinued operations	<u>(3,209)</u>	<u>(105)</u>	<u>(2,544)</u>
Total tax expense (benefit) on income or loss	4,304	2,353	(4,290)
Tax (benefit) expense on components of shareholders' equity:			
Net unrealized gains (losses) on investment securities	(6,842)	(231)	(2,292)
Fair value adjustment to derivative financial instrument	(201)	(58)	—
Minimum pension liability adjustment	<u>109</u>	<u>(325)</u>	<u>(56)</u>
Total tax benefit on shareholders' equity	<u>(6,934)</u>	<u>(614)</u>	<u>(2,348)</u>
Total tax (benefit) expense	<u>\$(2,630)</u>	<u>\$1,739</u>	<u>\$(6,638)</u>

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A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax expense (benefit) from continuing operations was as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal income tax provision at statutory rate of 35%	\$6,684	\$3,368	\$ (215)
Tax exempt interest and dividends received deductions	(282)	(401)	(444)
Small life deduction	(55)	(579)	(534)
Non-deductible goodwill	217	—	—
Intercompany fees(1)	363	504	—
Other permanent differences	38	46	39
Change in asset valuation allowance due to change in judgment relating to realizability of deferred tax assets	333	(569)	(125)
Adjustment for prior years' estimates to actual	205	80	(474)
State income taxes	10	9	7
Income tax expense (benefit)	<u>\$7,513</u>	<u>\$2,458</u>	<u>\$(1,746)</u>

(1) Intercompany fees from discontinued operations eliminated in consolidated tax return.

A reconciliation of the differences between income taxes computed at the federal statutory income tax rate and the income tax expense (benefit) from discontinued operations was as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal income tax provision at statutory rate of 35%	\$(2,640)	\$ 583	\$(2,398)
Tax exempt interest and dividends received deductions	(147)	(170)	(257)
Intercompany fees(1)	(363)	(504)	—
Other permanent differences	9	4	10
Adjustment for prior years' estimates to actual	(68)	(26)	101
State income taxes	—	8	—
Income tax benefit	<u>\$(3,209)</u>	<u>\$(105)</u>	<u>\$(2,544)</u>

(1) Intercompany fees from discontinued operations eliminated in consolidated tax return.

The primary differences between the effective tax rate and the federal statutory income tax rate results from the dividends-received deduction (“DRD”), the small life insurance company deduction (“SLD”) and the change in asset valuation allowance. The current estimated DRD is adjusted as underlying factors change, including known actual 2007 distributions earned on invested assets. The actual 2007 DRD can vary from the estimates based on, but not limited to, amounts of distributions from these investments as well as appropriate levels of taxable income. The SLD varies in amount and is determined at a rate of 60 percent of the tentative life insurance company taxable income (“LICTI”). The amount of the SLD for any taxable year is reduced (but not below zero) by 15 percent of the tentative LICTI for such taxable year as it exceeds \$3,000 and is ultimately phased out at \$15,000. The change in the asset valuation allowance results from reassessment of the realization of certain net operating loss carry forwards.

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Deferred tax liabilities and assets at December 31, 2007 and 2006 were comprised of the following:

	<u>2007</u>	<u>2006</u>
Deferred tax liabilities:		
Deferred acquisition costs	\$(2,564)	\$ (2,874)
Net unrealized investment gains	—	(5,655)
Deferred and uncollected premiums	(672)	(657)
Total deferred tax liabilities	<u>(3,236)</u>	<u>(9,186)</u>
Deferred tax assets:		
Net operating loss carryforwards	1,957	4,161
Insurance reserves	2,819	3,148
Impaired assets	1,333	1,247
Alternative minimum tax credit	—	1,125
Net unrealized investment losses	266	—
Bad debts and other	1,484	1,493
Total deferred tax assets	<u>7,859</u>	<u>11,174</u>
Asset valuation allowance	(694)	(361)
Net deferred tax assets	<u>\$ 3,929</u>	<u>\$ 1,627</u>

The components of the income tax expense (benefit) from continuing operations were:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current — Federal	\$3,792	\$1,468	\$ 1,206
Current — State	10	9	7
Deferred — Federal	3,711	981	(2,959)
Total	<u>\$7,513</u>	<u>\$2,458</u>	<u>\$(1,746)</u>

The components of the income tax (benefit) expense from discontinued operations were:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current — Federal	\$(1,662)	\$(1,089)	\$(1,228)
Current — State	—	8	—
Deferred — Federal	(1,547)	976	(1,316)
Total	<u>\$(3,209)</u>	<u>\$ (105)</u>	<u>\$(2,544)</u>

At December 31, 2007, the Company had regular federal net operating loss carryforwards of approximately \$3,609 expiring generally between 2009 and 2025. As of December 31, 2007 and 2006, a valuation allowance of \$694 and \$361, respectively, was established against deferred income tax benefits relating primarily to net operating loss carryforwards that may not be realized. In each year, the changes in the valuation allowance resulted from a reassessment of the realization of certain net operating loss carryforwards. During 2005, the Company amended certain prior years' tax returns to recognize permanent items that generated an income tax refund of \$676 which was received in 2006. Since the Company's ability to generate taxable income from operations and utilize available tax-planning strategies in the near term is dependent upon various factors, many of which are beyond management's control, management believes that the remaining deferred income tax benefits relating to certain years' carryforwards may not be realized. However, realization of the remaining deferred income tax benefits will be assessed periodically based on the Company's current and anticipated results of operations, and amounts could increase or decrease in the near term if estimates of future taxable income change. The Company has formal tax-sharing agreements, and files a consolidated income tax return, with its subsidiaries.

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Note 7. Credit Arrangements

Bank Debt

At December 31, 2007, the Company's \$12,750 of bank debt consisted of a revolving credit facility (the "Credit Agreement") with Wachovia Bank, National Association ("Wachovia") pursuant to which the Company was able to, subject to the terms and conditions thereof, initially borrow or reborrow up to \$15,000 (the "Commitment Amount"). In accordance with the terms of the Credit Agreement, the Commitment Amount is incrementally reduced every six months beginning on July 1, 2007 and had been reduced to \$14,000 by December 31, 2007. The interest rate on amounts outstanding under the Credit Agreement is, at the option of the Company, equivalent to either (a) the base rate (which equals the higher of the Prime Rate or 0.5% above the Federal Funds Rate, each as defined) or (b) the London Interbank Offered Rate ("LIBOR") determined on an interest period of 1-month, 2-months, 3-months or 6-months, plus an Applicable Margin (as defined). The Applicable Margin varies based upon the Company's leverage ratio (funded debt to total capitalization, each as defined) and ranges from 1.75% to 2.50%. As of December 31, 2007, the effective interest rate was 7.25%. Interest on amounts outstanding is payable quarterly. If not sooner repaid in full, the Credit Agreement requires the Company to repay \$500 in principal on each of June 30 and December 31, 2008, \$1,000 and \$1,500 in principal on June 30 and December 31, 2009, respectively, with one final payment of \$10,500 in principal at maturity on June 30, 2010. The Credit Agreement requires the Company to comply with certain covenants, including, among others, ratios that relate funded debt to both total capitalization and earnings before interest, taxes, depreciation and amortization, as well as the maintenance of minimum levels of tangible net worth. The Company must also comply with limitations on capital expenditures, certain payments, additional debt obligations, equity repurchases and redemptions, as well as minimum risk-based capital levels. Upon the occurrence of an event of default, Wachovia may terminate the Credit Agreement and declare all amounts outstanding due and payable in full. The Company was in compliance with all covenants at December 31, 2007.

Junior Subordinated Debentures

The Company has two unconsolidated Connecticut statutory business trusts, which exist for the exclusive purposes of: (i) issuing trust preferred securities ("Trust Preferred Securities") representing undivided beneficial interests in the assets of the trusts; (ii) investing the gross proceeds of the Trust Preferred Securities in junior subordinated deferrable interest debentures ("Junior Subordinated Debentures") of Atlantic American; and (iii) engaging in only those activities necessary or incidental thereto.

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The financial structure of each of Atlantic American Statutory Trust I and II, as of December 31, 2007 and 2006, was as follows:

	Atlantic American Statutory Trust I	Atlantic American Statutory Trust II
JUNIOR SUBORDINATED DEBENTURES(1)(2)		
Principal amount owed	\$ 18,042	\$ 23,196
Balance December 31, 2007	18,042	23,196
Balance December 31, 2006	18,042	23,196
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Interest payable	Quarterly	Quarterly
Maturity date	December 4, 2032	May 15, 2033
Redeemable by issuer on or after	December 4, 2007	May 15, 2008
TRUST PREFERRED SECURITIES		
Issuance date	December 4, 2002	May 15, 2003
Securities issued	17,500	22,500
Liquidation preference per security	\$ 1	\$ 1
Liquidation value	17,500	22,500
Coupon rate	LIBOR + 4.00%	LIBOR + 4.10%
Distribution payable	Quarterly	Quarterly
Distribution guaranteed by(3)	Atlantic American Corporation	Atlantic American Corporation

- (1) For each of the respective debentures, the Company has the right at any time, and from time to time, to defer payments of interest on the Junior Subordinated Debentures for a period not exceeding 20 consecutive quarters up to the debentures' respective maturity dates. During any such period, interest will continue to accrue and the Company may not declare or pay any cash dividends or distributions on, or purchase, the Company's common stock nor make any principal, interest or premium payments on or repurchase any debt securities that rank equally with or junior to the Junior Subordinated Debentures. The Company has the right at any time to dissolve each of the trusts and cause the Junior Subordinated Debentures to be distributed to the holders of the Trust Preferred Securities.
- (2) The Junior Subordinated Debentures are unsecured and rank junior and subordinate in right of payment to all senior debt of the Parent and are effectively subordinated to all existing and future liabilities of its subsidiaries.
- (3) The Parent has guaranteed, on a subordinated basis, all of the obligations under the Trust Preferred Securities, including payment of the redemption price and any accumulated and unpaid distributions to the extent of available funds and upon dissolution, winding up or liquidation.

Note 8. Derivative Financial Instruments

On February 21, 2006, the Company entered into a zero cost rate collar with Wachovia to hedge future interest payments on a portion of the Junior Subordinated Debentures. The notional amount of the collar was \$18,042 with an effective date of March 6, 2006. The collar has a LIBOR floor rate of 4.77% and a LIBOR cap rate of 5.85% and adjusts quarterly on the 4th of each March, June, September and December through termination on March 4, 2013.

The estimated fair value and related carrying value of the Company's rate collar at December 31, 2007 was a liability of approximately \$740.

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Note 9. Commitments and Contingencies

Litigation

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

Operating Lease Commitments

The Company's rental expense, including common area charges, for operating leases was \$1,268, \$1,276, and \$1,269 in 2007, 2006, and 2005, respectively. The Company's future minimum lease obligations under non-cancelable operating leases are as follows:

Year Ending December 31,	
2008	\$1,098
2009	1,018
2010	655
2011	622
2012	622
Thereafter	—
Total	<u>\$4,015</u>

Note 10. Employee Benefit Plans

Stock Options

In accordance with the Company's 1992 Incentive Plan, the Board of Directors was authorized to grant up to 1,800,000 stock options or share awards. The Board of Directors may grant: (a) incentive stock options within the meaning of Section 422 of the Internal Revenue Code; (b) non-qualified stock options; (c) performance units; (d) awards of restricted shares of the Company's common stock and other stock unit awards; (e) deferred shares of common stock; or (f) all or any combination of the foregoing to officers and key employees. Stock options granted under this plan expire five or ten years from the date of grant, as specified in an award agreement. Vesting occurs at 50% upon issuance of an option, and the remaining portion vests in 25% increments in each of the following two years. In accordance with the Company's 1996 Director Stock Option Plan, a maximum of 200,000 stock options were authorized to be granted, which fully vest six months after the grant date. In accordance with the Company's 2002 Incentive Plan (the "2002 Plan"), the Board of Directors was authorized to grant up to 2,000,000 stock options or share awards. Subject to adjustment as provided in the 2002 Plan, the Board of Directors is authorized to grant: (a) incentive stock options; (b) non-qualified stock options; (c) stock appreciation rights; (d) restricted shares; (e) deferred shares; and (f) performance shares and/or performance units. Further, the Board may authorize the granting to non-employee directors of stock options and/or restricted shares. A total of 12,397, 21,923 and 21,923 restricted shares were issued to the Company's Board of Directors under the 2002 Plan in 2007, 2006 and 2005, respectively. As of December 31, 2007, an aggregate of twenty-eight employees, officers and directors held options under the three plans.

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A summary of the status of the Company's stock options at December 31, 2007, 2006 and 2005, is as follows:

Shares	2007		2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	636,500	\$ 1.43	649,500	\$ 1.44	677,500	\$ 1.47
Options exercised	(7,000)	2.68	(9,500)	1.70	(21,000)	1.73
Options canceled or expired	(5,500)	1.63	(3,500)	1.44	(7,000)	3.54
Options outstanding, end of year	<u>624,000</u>	1.42	<u>636,500</u>	1.43	<u>649,500</u>	1.44
Options exercisable	<u>624,000</u>	1.42	<u>636,500</u>	1.43	<u>649,500</u>	1.44
Options available for future grant	<u>2,479,594</u>		<u>2,486,491</u>		<u>2,504,914</u>	

Data on options outstanding and exercisable at December 31, 2007 is as follows:

Range of Exercise Price	Number of Options	Outstanding and Exercisable	
		Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
\$1.00 to \$1.50	380,000	3.79	\$ 1.25
\$1.51 to \$2.00	244,000	5.17	\$ 1.67
	<u>624,000</u>		

The fair value of options granted is determined on the date of grant using the Black-Scholes option pricing model, which requires the input of subjective assumptions, including the expected volatility of the stock price. No options were granted in 2007, 2006 or 2005.

401(k) Plan

The Company initiated an employees' savings plan qualified under Section 401(k) of the Internal Revenue Code in May 1995. The plan covers substantially all of the Company's employees, except employees of American Southern. Under the plan, employees generally may elect to contribute up to 16% of their compensation to the plan. The Company generally makes a matching contribution on behalf of each employee in an amount equal to 50% of the first 6% of such contributions. The Company's matching contribution is in Company common stock and had a value of approximately \$136, \$135, and \$129 in 2007, 2006, and 2005, respectively. During 2007, an additional matching contribution was made by the Company to the plan in an amount equal to 50% of the first 6% of an employee's contribution to the plan. The additional contribution was in cash and was \$141.

Defined Benefit Pension Plans

The Company has both a funded and unfunded noncontributory defined benefit pension plan covering the employees of American Southern. The plans provide defined benefits based on years of service and average salary. The Company's general funding policy is to contribute annually the maximum amount that can be deducted for income tax purposes. The measurement date for these plans was December 31 of each year.

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Obligation and Funded Status

	<u>2007</u>	<u>2006</u>
Change in Benefit Obligation		
Net benefit obligation at beginning of year	\$ 6,190	\$ 5,713
Service cost	204	237
Interest cost	330	314
Actuarial loss	(316)	53
Gross benefits paid	(305)	(127)
Net benefit obligation at end of year	<u>6,103</u>	<u>6,190</u>
Change in Plan Assets		
Fair value of plan assets at beginning of year	3,154	2,799
Employer contributions	215	184
Actual return on plan assets	100	298
Gross benefits paid	(305)	(127)
Fair value of plan assets at end of year	<u>3,164</u>	<u>3,154</u>
Funded Status of Plan		
Funded status at end of year	(2,939)	(3,036)
Unrecognized net actuarial loss	1,322	1,634
Unrecognized prior service cost	(7)	(7)
Unrecognized net transition obligation	—	—
Additional minimum liability	(329)	(483)
Additional liability due to SFAS 158	(986)	(1,144)
Net amount recognized in accrued liabilities at end of year	<u>\$(2,939)</u>	<u>\$(3,036)</u>

The accumulated benefit obligation for all defined benefit plans at December 31, 2007 and 2006 was \$5,117 and \$5,046, respectively.

The weighted-average assumptions used to determine the benefit obligation at December 31, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Discount rate to determine the projected benefit obligation	5.75%	5.50%
Projected annual salary increases	4.50%	4.50%

Included in the above is one plan which is unfunded. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for this plan were \$2,017, \$1,681, and \$0, respectively, as of December 31, 2007 and \$1,986, \$1,586, and \$0, respectively, as of December 31, 2006.

Components of Net Periodic Benefit Cost

Net periodic pension cost for the Company's qualified and non-qualified defined benefit plans for the years ended December 31, 2007, 2006 and 2005 included the following components:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Service cost	\$ 204	\$ 237	\$ 177
Interest cost	330	314	298
Expected return on plan assets	(216)	(193)	(185)
Net amortization	112	155	142
	<u>\$ 430</u>	<u>\$ 513</u>	<u>\$ 432</u>

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The weighted-average assumptions used to determine the net periodic benefit cost for the years ended December 31, 2007, 2006 and 2005 were as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Discount rate to determine the net periodic benefit cost	5.75%	5.50%	5.75%
Expected long-term rate of return on plan assets used to determine net periodic pension cost	7.00%	7.00%	7.00%
Projected annual salary increases	4.50%	4.50%	4.50%

The qualified defined benefit plan assets were invested in the AIM Basic Balanced Fund (the “Fund”), the prospectus for which indicates an average annual return of approximately 7% since its inception; accordingly, a 7.00% rate of return was used to calculate the periodic benefit cost for 2007. The Fund normally invests at least 65% of its assets in equity securities and at least 30% of its assets in fixed income securities that are investment grade at the time of purchase. The remaining assets of the Fund are allocated to other investments at the Fund manager’s discretion, based upon current business, economic and market conditions.

The Company’s investment strategy with respect to pension assets is to invest the assets in accordance with ERISA and fiduciary standards. The long-term primary investment objectives are to: 1) provide for a reasonable amount of long-term growth of capital, without undue exposure to risk, and protect the assets from erosion of purchasing power, and 2) provide investment results that meet or exceed the actuarially assumed long-term rate of return. The Fund does not include any equity securities of the Company in its portfolio at any time.

Expected Cash Flows

The Company expects to contribute \$299 for all defined benefit plans in 2008.

Estimated Future Benefit Payments

Estimated future benefit payments as of December 31, 2007 were as follows:

Pension Benefits

2008	\$ 224
2009	\$ 224
2010	\$ 258
2011	\$ 289
2012	\$ 317
2013 — 2017	\$2,371

Note 11. Preferred Stock

The Company had 134,000 shares of Series B Preferred Stock (“Series B Preferred Stock”) outstanding at December 31, 2007 and 2006, having a stated value of \$100 per share. All of the shares of Series B Preferred Stock are held by affiliates of the Company’s Chairman. Annual dividends on the Series B Preferred Stock are \$9.00 per share and are cumulative. Dividends accrue whether or not declared by the Board of Directors. The Series B Preferred Stock is not currently convertible, but may become convertible into shares of the Company’s common stock under certain circumstances. In such event, the Series B Preferred Stock would be convertible into an aggregate of approximately 3,358,000 shares of the Company’s common stock at a conversion rate of \$3.99 per share. The Series B Preferred Stock is redeemable solely at the option of the Company. As of December 31, 2007 and 2006, the Company had accrued but unpaid dividends on the Series B Preferred Stock of \$14,472 and \$13,266, respectively.

The Company had 7,000 shares of Series D Preferred Stock (“Series D Preferred Stock”) outstanding at December 31, 2007 and 2006. All of the shares of Series D Preferred Stock are held by affiliates of the Company’s Chairman. The outstanding shares of Series D Preferred Stock have a stated value of \$100 per

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share; accrue annual dividends at a rate of \$7.25 per share (payable in cash or shares of the Company's common stock at the option of the board of directors of the Company) and are cumulative. In certain circumstances, the shares of the Series D Preferred Stock may be convertible into an aggregate of approximately 1,754,000 shares of the Company's common stock, subject to certain adjustments and provided that such adjustments do not result in the Company issuing more than approximately 2,703,000 shares of common stock without obtaining prior shareholder approval; and are redeemable solely at the Company's option. The Series D Preferred Stock is not currently convertible. During 2007, the Company issued common stock in lieu of Series D Preferred Stock dividend payments of \$0.6 million. Accordingly, as of December 31, 2007, the Company did not have any unpaid dividends on the Series D Preferred Stock. As of December 31, 2006, the Company had accrued but unpaid dividends on the Series D Preferred Stock of \$127.

Note 12. Earnings Per Common Share

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

	For the Year Ended December 31, 2007		
	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Income from continuing operations before preferred stock dividends	\$11,585	21,606	
Less preferred stock dividends	(1,691)	—	
Income from continuing operations applicable to common shareholders	9,894	21,606	\$ 0.46
Diluted Earnings Per Common Share			
Effect of dilutive stock options	—	346	
Income from continuing operations applicable to common shareholders	\$ 9,894	21,952	\$ 0.45

	For the Year Ended December 31, 2006		
	Income	Shares	Per Share Amount
Basic Earnings Per Common Share			
Income from continuing operations before preferred stock dividends	\$ 7,166	21,419	
Less preferred stock dividends	(1,333)	—	
Income from continuing operations applicable to common shareholders	5,833	21,419	\$ 0.27
Diluted Earnings Per Common Share			
Effect of dilutive stock options	—	330	
Effect of Series B and D Preferred Stock	1,333	5,112	
Income from continuing operations applicable to common shareholders	\$ 7,166	26,861	\$ 0.27

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	For the Year Ended December 31, 2005		
	Income	Shares	Per Share Amount
Basic and Diluted Loss Per Common Share			
Income from continuing operations before preferred stock dividends	\$ 1,132	21,305	
Less preferred stock dividends	(1,206)	—	
Loss from continuing operations applicable to common shareholders	<u>\$ (74)</u>	<u>21,305</u>	<u>\$ —</u>

The assumed conversion of the Series B Preferred Stock was excluded from the earnings per common share calculation for 2007 and 2005 since its impact was antidilutive. The assumed conversion of the Series D Preferred Stock was excluded from the earnings per common share calculation for 2007 since its impact was antidilutive. In 2005, all outstanding stock options were excluded from the earnings per common share calculation since their impact was antidilutive.

Note 13. Statutory Reporting

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

The amount of statutory net income and surplus (shareholders’ equity) from continuing operations for the Parent’s insurance subsidiaries for the years ended December 31 were as follows:

	2007	2006	2005
Life and Health, net income	\$11,961	\$ 3,173	\$ 5,135
Property and Casualty, net income	8,466	5,955	6,410
Statutory net income(1)	<u>\$20,427</u>	<u>\$ 9,128</u>	<u>\$11,545</u>
Life and Health, surplus	\$33,810	\$34,467	\$33,881
Property and Casualty, surplus	38,213	34,938	31,041
Statutory surplus	<u>\$72,023</u>	<u>\$69,405</u>	<u>\$64,922</u>

(1) Automotive sector impairments of \$7,198 were recorded in the first quarter of 2006 for statutory purposes.

Under the insurance code of the state of jurisdiction under which each insurance subsidiary operates, dividend payments to the Parent by its insurance subsidiaries are subject to certain limitations without the prior approval of the applicable state’s Insurance Commissioner. The Parent received dividends of \$5,576, \$7,786 and \$11,942 in 2007, 2006, and 2005, respectively, from its subsidiaries. In 2008, dividend payments by insurance subsidiaries in excess of \$13,263 would require prior approval.

Note 14. Related Party and Other Transactions

In the normal course of business the Company has engaged in transactions with its Chairman and his affiliates from time to time. These transactions include the leasing of office space as well as certain investing and financing activities.

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The Company leases approximately 65,489 square feet of office and covered garage space from an entity which is an affiliate of the Company and its Chairman. During the years ended December 31, 2007, 2006, and 2005, the Company paid \$1,066, \$1,069 and \$1,065, respectively, under these leases.

Certain financing for the Company has been provided by affiliates of the Company's Chairman, in the form of investments in the Series B and the Series D Preferred Stock (See Note 11).

The Company has in the past made mortgage loans to finance properties owned by Leath Furniture, LLC ("Leath"), which, prior to July 11, 2006, was owned by an affiliate of the Chairman. At December 31, 2007 and 2006, the balance of mortgage loans owed by Leath to the Company's insurance subsidiary was \$0 and \$1,378, respectively. For 2007, 2006, and 2005, interest paid by Leath on the mortgage loans totaled \$79, \$184, and \$250, respectively.

In accordance with terms of the SPA with Columbia, certain investments held by the discontinued operations were required to be disposed of at any time prior to the completion of the sale. Effective November 30, 2007, an investment in a real estate joint venture was sold by Georgia Casualty to an affiliate of the Company's Chairman. In connection with the sale, management obtained an independent appraisal of the underlying real estate assets. Further, subsequent to December 31, 2007, substantially all of the shares of Triple Crown Media, Inc. ("Triple Crown") and Gray Television, Inc. ("Gray") held by the discontinued operations were acquired by the Parent at their quoted or estimated market values.

Certain members of management are shareholders and on the Board of Directors of Triple Crown and Gray. On August 3, 2005, Gray announced a plan to spin-off its newspaper publishing and wireless businesses to its shareholders. The new company formed as a result of the spin-off, Triple Crown, then acquired Bull Run Corporation ("Bull Run"). In connection with the spin-off, the Company received one share of Triple Crown common stock for every ten shares of Gray common stock and for every ten shares of Gray Class A common stock owned. In connection with the Bull Run acquisition, the Company received 0.0289 shares of Triple Crown common stock for each share of Bull Run common stock owned by it and one share of Triple Crown Series A preferred stock for each share of Bull Run Series D preferred stock owned by it. The exchange of Bull Run Series D preferred stock for Triple Crown Series A preferred stock resulted in a realized loss of \$591. At December 31, 2007 and 2006, the Company (including its discontinued operations) owned 54,732 shares of Triple Crown common stock, 388,060 shares of Gray Class A common stock and 106,000 shares of Gray common stock. At December 31, 2007, the Company (including its discontinued operations) owned 2,360 shares of Triple Crown Series A preferred stock. At December 31, 2006, the Company (including its discontinued operations) owned 175 shares of Gray Series C preferred stock and 2,360 shares of Triple Crown Series A preferred stock. On May 22, 2007, Gray Television redeemed the Company's investment in Gray Television Series C preferred stock at a price of \$10,000 per share plus accrued but unpaid dividends thereon. There was no gain or loss on the transaction. The aggregate carrying value of these investments in Triple Crown and Gray at December 31, 2007 was \$1,642 and \$4,149, respectively. The aggregate carrying value of these investments in Triple Crown and Gray at December 31, 2006 was \$2,086 and \$5,701, respectively.

In 1998, American Southern formed the American Auto Insurance Agency (the "Agency") in a joint venture with Carolina Motor Club, Inc. to market personal automobile insurance to the members of the automobile club. American Southern at all times held a 50% interest in the joint venture, accounted for using the equity method and reflected as an operating activity, and underwrote a majority of the standard automobile business written by the Agency. This program, which began writing business in 1999, had gross written premiums of approximately \$0, \$2,550 and \$8,615 in 2007, 2006, and 2005, respectively. The Company has, in the past funded its pro rata share of operations. Effective October 1, 2005, this joint venture was terminated due to unfavorable underwriting results and, consequently, a significant decrease in gross written premiums occurred during 2006.

Note 15. Segment Information

The Parent's primary insurance subsidiaries operate with relative autonomy and each company is evaluated based on its individual performance. American Southern operates in the Property and Casualty

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insurance market, while Bankers Fidelity operates in the Life and Health insurance market. All segments derive revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources.

	American Southern	Bankers Fidelity	Corporate & Other	Discontinued Operations	Adjustments & Eliminations	Consolidated
<i>December 31, 2007</i>						
Insurance premiums	\$ 41,575	\$ 56,249	\$ —		\$ —	\$ 97,824
Insurance benefits and losses incurred	18,399	40,302	—		—	58,701
Expenses deferred	(8,398)	(1,333)	—		—	(9,731)
Amortization and depreciation expense	9,460	1,767	—		—	11,227
Other expenses	18,123	17,817	16,515		(8,778)	43,677
Total expenses	37,584	58,553	16,515		(8,778)	103,874
Underwriting income (loss)	3,991	(2,304)				
Investment income, including net realized gains	5,450	18,351	4,372		(3,824)	24,349
Other income	21	58	5,674		(4,954)	799
Income (loss) from continuing operations before income taxes	\$ 9,462	\$ 16,105	\$ (6,469)		\$ —	\$ 19,098
Total revenues	\$ 47,046	\$ 74,658	\$ 10,046		\$ (8,778)	\$ 122,972
Goodwill	\$ 1,350	\$ 778	\$ 260		\$ —	\$ 2,388
Total assets	\$116,473	\$129,968	\$ 110,465	\$ 196,154	\$ (94,806)	\$ 458,254

	American Southern	Bankers Fidelity	Corporate & Other	Discontinued Operations	Adjustments & Eliminations	Consolidated
<i>December 31, 2006</i>						
Insurance premiums	\$ 50,660	\$ 58,920	\$ —		\$ —	\$ 109,580
Insurance benefits and losses incurred	23,440	42,020	—		—	65,460
Expenses deferred	(11,087)	(677)	—		—	(11,764)
Amortization and depreciation expense	12,523	2,045	—		—	14,568
Other expenses	21,092	17,301	17,710		(8,633)	47,470
Total expenses	45,968	60,689	17,710		(8,633)	115,734
Underwriting income (loss)	4,692	(1,769)				
Investment income, including net realized gains	5,914	8,450	4,341		(3,695)	15,010
Other income	19	73	5,614		(4,938)	768
Income (loss) from continuing operations before income taxes	\$ 10,625	\$ 6,754	\$ (7,755)		\$ —	\$ 9,624
Total revenues	\$ 56,593	\$ 67,443	\$ 9,955		\$ (8,633)	\$ 125,358
Goodwill	\$ 1,350	\$ 778	\$ 880		\$ —	\$ 3,008
Total assets	\$122,292	\$128,246	\$ 113,837	\$ 194,248	\$ (99,471)	\$ 459,152

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	American Southern	Bankers Fidelity	Corporate & Other	Discontinued Operations	Adjustments & Eliminations	Consolidated
<i>December 31, 2005</i>						
Insurance premiums	\$ 51,447	\$ 65,904	\$ —		\$ —	\$ 117,351
Insurance benefits and losses incurred	24,827	46,374	—		—	71,201
Expenses deferred	(12,582)	(709)	—		—	(13,291)
Amortization and depreciation expense	12,715	2,401	—		—	15,116
Other expenses	23,200	17,981	16,326		(7,938)	49,569
Total expenses	48,160	66,047	16,326		(7,938)	122,595
Underwriting income (loss)	3,287	(143)				
Investment income, including net realized gains	4,818	5,816	3,072		(2,983)	10,723
Automotive sector investments impairment charge	(3,733)	(3,465)	—		—	(7,198)
Other income	393	—	5,667		(4,955)	1,105
Income (loss) from continuing operations before income taxes	\$ 4,765	\$ 2,208	\$ (7,587)		\$ —	\$ (614)
Total revenues	\$ 52,925	\$ 68,255	\$ 8,739		\$ (7,938)	\$ 121,981
Goodwill	\$ 1,350	\$ 778	\$ 880		\$ —	\$ 3,008
Total assets	\$123,919	\$128,225	\$ 99,663	\$ 201,745	\$ (92,186)	\$ 461,366

Note 16. Disclosures About Fair Value of Financial Instruments

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

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Cash and cash equivalents, including short-term investments	\$ 36,909	\$ 36,909	\$ 17,606	\$ 17,606
Fixed maturities	167,927	167,927	164,382	164,382
Common and non-redeemable preferred stocks	5,335	5,335	22,476	22,476
Mortgage loans	—	—	1,379	1,564
Policy and student loans	1,958	1,958	1,949	1,949
Other invested assets	1,563	1,563	1,735	1,735
Real estate	38	38	38	38
Investments in unconsolidated trusts	1,238	1,238	1,238	1,238
Liabilities:				
Debt payable to bank	12,750	12,750	12,750	12,750
Junior Subordinated Debentures	41,238	41,238	41,238	41,238

The fair value estimates as of December 31, 2007 and 2006 were 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.

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

Cash and Cash Equivalents, including Short-term Investments

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

Fixed Maturities, Common and Non-Redeemable Preferred Stocks and Publicly Traded Other Invested Assets

The carrying amount is determined in accordance with methods prescribed by the NAIC, which do not differ materially from nationally quoted market prices. Certain non-redeemable preferred stocks that do not have quoted values are carried at estimated fair value as determined by management.

Non-publicly Traded Invested Assets

The fair value of investments in certain limited partnerships which are included in other invested assets on the consolidated balance sheet, were determined by officers of those limited partnerships.

Mortgage Loans

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

Debt Payable and Junior Subordinated Debentures

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

Note 17. Reconciliation of Other Comprehensive Income (Loss)

The Company's comprehensive income (loss) consists of net income (loss), unrealized gains and losses on securities available for sale, fair value adjustments from the ownership of a derivative financial instrument and minimum additional pension liability, net of applicable income taxes. Other than net income (loss), the other components of comprehensive income (loss) for the years ended December 31, 2007, 2006 and 2005 were as follows:

	December 31,		
	2007	2006	2005
Net realized gains (losses) on investment securities included in income (loss) from continuing operations	\$ 12,627	\$ 3,084	\$ (7,303)
Net realized gains (losses) on investment securities included in income (loss) from discontinued operations	3,225	3,607	(3,153)
Total net realized gains (losses) on investment securities included in net income (loss)	<u>\$ 15,852</u>	<u>\$ 6,691</u>	<u>\$(10,456)</u>
Other components of comprehensive income (loss):			
Net pre-tax unrealized gains (losses) on investment securities arising during year	\$ (3,697)	\$ 6,031	\$(17,005)
Reclassification adjustment for net realized (gains) losses on investment securities	<u>(15,852)</u>	<u>(6,691)</u>	<u>10,456</u>
Net pre-tax unrealized gains (losses) on investment securities recognized in other comprehensive income (loss)	(19,549)	(660)	(6,549)
Fair value adjustment to derivative financial instrument	(575)	(165)	—
Minimum pension liability adjustment	312	(928)	(160)
Deferred income tax attributable to other comprehensive income (loss)	<u>6,934</u>	<u>614</u>	<u>2,348</u>
	<u><u>\$(12,878)</u></u>	<u><u>\$(1,139)</u></u>	<u><u>\$ (4,361)</u></u>

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Note 18. Quarterly Financial Information (Unaudited)

The following table sets forth a summary of the quarterly unaudited results of operations for the two years in the period ended December 31, 2007:

	2007				2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	<u>\$28,287</u>	<u>\$27,753</u>	<u>\$28,516</u>	<u>\$38,416(1)</u>	<u>\$32,936</u>	<u>\$30,789</u>	<u>\$30,449</u>	<u>\$31,184</u>
Income from continuing operations before income taxes	\$ 891	\$ 1,305	\$ 2,432	\$ 14,470	\$ 2,652	\$ 1,703	\$ 2,333	\$ 2,936
Income tax expense	475	686	656	5,696	956	787	471	244
Income from continuing operations	416	619	1,776	8,774	1,696	916	1,862	2,692
Income (loss) from discontinued operations, net of tax	435	(185)	30	(4,613)	1,798	(1,175)	875	272
Net income (loss)	<u>\$ 851</u>	<u>\$ 434</u>	<u>\$ 1,806</u>	<u>\$ 4,161</u>	<u>\$ 3,494</u>	<u>\$ (259)</u>	<u>\$ 2,737</u>	<u>\$ 2,964</u>
Per common share data:								
Income from continuing operations	\$ —	\$ 0.01	\$ 0.06	\$ 0.38	\$ 0.07	\$ 0.03	\$ 0.07	\$ 0.11
Discontinued operations	0.02	(0.01)	—	(0.21)	0.08	(0.06)	0.04	0.01
Basic income (loss) per share	<u>\$ 0.02</u>	<u>\$ —</u>	<u>\$ 0.06</u>	<u>\$ 0.17</u>	<u>\$ 0.15</u>	<u>\$ (0.03)</u>	<u>\$ 0.11</u>	<u>\$ 0.12</u>
Income from continuing operations	\$ —	\$ 0.01	\$ 0.06	\$ 0.32	\$ 0.07	\$ 0.03	\$ 0.07	\$ 0.10
Discontinued operations	0.02	(0.01)	—	(0.17)	0.07	(0.06)	0.03	0.01
Diluted income (loss) per share	<u>\$ 0.02</u>	<u>\$ —</u>	<u>\$ 0.06</u>	<u>\$ 0.15</u>	<u>\$ 0.14</u>	<u>\$ (0.03)</u>	<u>\$ 0.10</u>	<u>\$ 0.11</u>

- (1) Includes a \$12.9 million realized gain from the disposition of the Company's investment in equity securities of Wachovia Corporation in the fourth quarter of 2007.

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

None.

Item 9a. *Controls and Procedures*

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of that date.

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. An internal control system over financial reporting has been designed to provide reasonable assurance regarding the reliability and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management recognizes that there are inherent limitations in the effectiveness of any internal control system. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 based upon the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on this evaluation, management believes that internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f) was effective as of December 31, 2007.

There have been no changes in our internal control over financial reporting that occurred during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report on this Annual Report.

Item 9b. *Other Information*

None.

PART III

With the exception of information relating to the Executive Officers of the Company, which is provided in Part I hereof, the information relating to securities authorized for issuance under equity compensation plans, which is included in Part II, Item 5 hereof, and the information relating to the Company's Code of Ethics, which is included below, all information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference to the sections entitled "Election of Directors", "Security Ownership of Certain Beneficial Owners and Management", "Section 16 (a) Beneficial Ownership Reporting Compliance", "Executive Compensation", "Certain Relationships and Related Transactions, and Director Independence" and "Ratification of Independent Registered Public Accounting Firm" to be contained in the Company's definitive proxy statement to be filed with the SEC within 120 days of the Company's fiscal year end and delivered in connection with the Company's Annual Meeting of Shareholders to be held on May 6, 2008.

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The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or any persons performing similar functions, as well as its directors and other employees. A copy of this Code of Ethics has been filed as an exhibit to the Company's annual report on Form 10-K for the year ended December 31, 2003 and is incorporated herein by this reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. Financial Statements:

See Index to Financial Statements contained in Item 8 hereof.

2. Financial Statement Schedules:

Schedule II — Condensed financial information of Registrant

Schedule III — Supplementary insurance information for the three years ended December 31, 2007

Schedule IV — Reinsurance for the three years ended December 31, 2007

Schedule VI — Supplemental information concerning property-casualty insurance operations for the three years ended December 31, 2007

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.

3. Exhibits*:

- 3.1 — Restated Articles of Incorporation of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 10-K for the year ended December 31, 2002].
- 3.1.1 — Amendment to Restated Articles of Incorporation of the registrant, as amended [incorporated by reference to Exhibit 3.1 to the registrant's Form 8-K dated October 4, 2006].
- 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].
- 3.2.1 — Amendment of Bylaws of the registrant, effective as of February 22, 2007 [incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K dated February 28, 2007].
- 10.01 — 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].
- 10.02 — Management Agreement between the 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].
- 10.03 — 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].
- 10.04** — Atlantic American Corporation 1992 Incentive Plan [incorporated by reference to Exhibit 4 to the registrant's Form S-8 filed on November 1, 1999].
- 10.05** — Atlantic American Corporation 1996 Director Stock Option Plan [incorporated by reference to Exhibit 4 to the registrant's Form S-8 filed on November 1, 1999].
- 10.06** — Atlantic American Corporation 2002 Stock Incentive Plan [incorporated by reference to Exhibit 4.1 to the registrant's Form S-8 filed on August 2, 2002].

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- 10.07** — Summary Terms of Consulting Arrangement between Atlantic American Corporation and Samuel E. Hudgins, entered into in June 2002 [incorporated by reference to Exhibit 10.23 to the registrant's Form 10-K for the year ended December 31, 2002].
 - 10.08 — Credit Agreement, dated as of December 22, 2006 between Atlantic American Corporation and Wachovia Bank, National Association [incorporated by reference to Exhibit 10.1 to the registrant's Form 8-K dated December 22, 2006].
 - 10.09 — Stock Purchase Agreement, dated as of December 26, 2007 between Atlantic American Corporation and Columbia Mutual Insurance Company.
 - 10.10 — Lease Agreement between Georgia Casualty & Surety Company, Bankers Fidelity Life Insurance Company, Atlantic American Corporation and Delta Life Insurance Company dated as of November 1, 2007.
 - 14.1 — Code of Ethics [incorporated by reference to Exhibit 14.1 to the registrant's Form 10-K for the year ended December 31, 2003].
 - 21.1 — Subsidiaries of the registrant.
 - 23.1 — Consent of BDO Seidman LLP, Independent Registered Public Accounting Firm.
 - 31.1 — Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 — Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 — Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * The registrant agrees to furnish to the Commission upon request a copy of any instruments defining the rights of securityholders of the registrant that may be omitted from filing in accordance with the Commission's rules and regulations.
- ** Management contract, compensatory plan or arrangement required to be filed pursuant to, Part IV, Item 15(c) of Form 10-K and Item 601 of Regulation S-K.

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ WILLIAM H. WHALEY, M.D.</u> William H. Whaley, M.D.	Director	March 31, 2008
<u>/s/ DOM H. WYANT</u> Dom H. Wyant	Director	March 31, 2008
<u>/s/ HAROLD K. FISCHER</u> Harold K. Fischer	Director	March 31, 2008

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

BALANCE SHEETS

	December 31,	
	2007	2006
	(In thousands)	
ASSETS		
Cash and short-term investments	\$ 9,220	\$ 9,388
Investment in subsidiaries	94,654	99,294
Investments in unconsolidated trusts	1,238	1,238
Deferred tax asset, net	3,268	967
Income taxes receivable from subsidiaries	4,888	1,386
Other assets	1,380	1,742
Net investment in discontinued operations	43,807	50,788
Total assets	<u>\$158,455</u>	<u>\$164,803</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other payables	\$ 16,673	\$ 16,627
Debt payable to bank	12,750	12,750
Junior subordinated debentures	41,238	41,238
Total liabilities	70,661	70,615
Shareholders' equity	87,794	94,188
Total liabilities and shareholders' equity	<u>\$158,455</u>	<u>\$164,803</u>

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
REVENUE			
Fees, rentals and interest income from subsidiaries	\$ 4,954	\$ 4,939	\$ 4,948
Distributed earnings from subsidiaries	5,576	7,786	11,942
Other	656	745	188
Total revenue	11,186	13,470	17,078
GENERAL AND ADMINISTRATIVE EXPENSES	7,429	8,989	9,281
INTEREST EXPENSE	4,160	4,605	3,611
	(403)	(124)	4,186
INCOME TAX BENEFIT(1)	526	997	6,085
	123	873	10,271
EQUITY IN UNDISTRIBUTED EARNINGS (LOSSES) OF CONTINUING OPERATIONS, NET	11,462	6,293	(9,139)
EQUITY IN EARNINGS (LOSSES) OF DISCONTINUED OPERATIONS, NET	(4,333)	1,770	(4,307)
NET INCOME (LOSS)	<u>\$ 7,252</u>	<u>\$ 8,936</u>	<u>\$ (3,175)</u>

- (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.

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

ATLANTIC AMERICAN CORPORATION
(Parent Company Only)

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 7,252	\$ 8,936	\$(3,175)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized investment gains	(533)	(439)	(72)
Depreciation and amortization	702	692	776
Compensation expense related to share awards	68	70	65
Equity in undistributed (earnings) losses of continuing operations	(11,462)	(6,293)	9,139
Equity in (earnings) losses of discontinued operations	4,333	(1,770)	4,307
(Increase) decrease in intercompany taxes	(3,502)	1,696	(663)
Deferred income tax expense (benefit)	3,711	981	(2,959)
(Decrease) increase in other liabilities	(1,607)	291	406
Other, net	249	163	217
Net cash (used in) provided by operating activities	<u>(789)</u>	<u>4,327</u>	<u>8,041</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital contribution to subsidiaries	—	—	(50)
Additions to property and equipment	(411)	(173)	(153)
Net cash used in investing activities	<u>(411)</u>	<u>(173)</u>	<u>(203)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of Series D Preferred Stock	—	7,000	—
Purchase of treasury shares	(23)	(70)	(132)
Proceeds from bank financing	36,000	15,750	—
Repayments of debt	(36,000)	(13,250)	(1,750)
Proceeds from exercise of stock options	19	16	34
Financing of discontinued operations	1,036	(6,560)	(4,200)
Net cash provided by (used in) financing activities	<u>1,032</u>	<u>2,886</u>	<u>(6,048)</u>
Net (decrease) increase in cash	(168)	7,040	1,790
Cash at beginning of year	9,388	2,348	558
Cash at end of year	<u>\$ 9,220</u>	<u>\$ 9,388</u>	<u>\$ 2,348</u>
Supplemental disclosure:			
Cash paid for interest	<u>\$ 4,195</u>	<u>\$ 4,711</u>	<u>\$ 3,470</u>
Cash (received) paid for income taxes	<u>\$ 450</u>	<u>\$ (76)</u>	<u>\$ 300</u>

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

<u>Segment</u>	<u>Deferred Acquisition Costs</u>	<u>Future Policy Benefits, Losses, Claims and Loss Reserves</u>	<u>Unearned Premiums</u>	<u>Other Policy Claims and Benefits Payable</u>
	(In thousands)			
December 31, 2007:				
Bankers Fidelity	\$ 15,644	\$ 63,258	\$ 3,332	\$ 1,878
American Southern	3,186	43,994	15,616	—
	<u>\$ 18,830</u>	<u>\$ 107,252(1)</u>	<u>\$ 18,948</u>	<u>\$ 1,878</u>
December 31, 2006:				
Bankers Fidelity	\$ 16,024	\$ 61,655	\$ 3,494	\$ 1,816
American Southern	4,194	45,655	21,696	—
	<u>\$ 20,218</u>	<u>\$ 107,310(2)</u>	<u>\$ 25,190</u>	<u>\$ 1,816</u>
December 31, 2005:				
Bankers Fidelity	\$ 16,957	\$ 61,580	\$ 4,011	\$ 2,445
American Southern	5,194	43,593	26,185	—
	<u>\$ 22,151</u>	<u>\$ 105,173(3)</u>	<u>\$ 30,196</u>	<u>\$ 2,445</u>

(1) Includes future policy benefits of \$55,548 and losses and claims of \$51,704.

(2) Includes future policy benefits of \$52,019 and losses and claims of \$55,291.

(3) Includes future policy benefits of \$51,356 and losses and claims of \$53,817.

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION

<u>Segment</u>	<u>Premium Revenue</u>	<u>Net Investment Income</u>	<u>Benefits, Claims, Losses and Settlement Expenses</u>	<u>Amortization of Deferred Acquisition Costs</u>	<u>Other Operating Expenses</u>	<u>Casualty Premiums Written</u>
	(In thousands)					
December 31, 2007:						
Bankers Fidelity	\$ 56,249	\$ 6,091	\$ 40,302	\$ 1,713	\$ 16,538	\$ —
American Southern	41,575	5,497	18,399	9,406	9,779	35,972
Other	—	15	—	—	7,737	—
	<u>\$ 97,824</u>	<u>\$ 11,603</u>	<u>\$ 58,701</u>	<u>\$ 11,119</u>	<u>\$ 34,054</u>	<u>\$ 35,972</u>
December 31, 2006:						
Bankers Fidelity	\$ 58,920	\$ 6,097	\$ 42,020	\$ 1,610	\$ 17,059	\$ —
American Southern	50,660	5,516	23,440	12,087	10,441	46,274
Other	—	209	—	—	9,077	—
	<u>\$109,580</u>	<u>\$ 11,822</u>	<u>\$ 65,460</u>	<u>\$ 13,697</u>	<u>\$ 36,577</u>	<u>\$ 46,274</u>
December 31, 2005:						
Bankers Fidelity	\$ 65,904	\$ 5,866	\$ 46,374	\$ 1,927	\$ 17,746	\$ —
American Southern	51,447	4,821	24,827	12,240	11,093	52,983
Other	—	15	—	—	8,388	—
	<u>\$117,351</u>	<u>\$ 10,702</u>	<u>\$ 71,201</u>	<u>\$ 14,167</u>	<u>\$ 37,227</u>	<u>\$ 52,983</u>

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES

REINSURANCE

	<u>Direct Amount</u>	<u>Ceded To Other Companies</u>	<u>Assumed From Other Companies</u> (In thousands)	<u>Net Amounts</u>	<u>Percentage of Amount Assumed To Net</u>
Year ended December 31, 2007:					
Life insurance in force	\$272,308	\$ (36,543)	\$ —	\$235,765	
Premiums —					
Bankers Fidelity	\$ 56,340	\$ (350)	\$ 259	\$ 56,249	0.5%
American Southern	38,381	(6,856)	10,050	41,575	24.2%
Total premiums	<u>\$ 94,721</u>	<u>\$ (7,206)</u>	<u>\$ 10,309</u>	<u>\$ 97,824</u>	<u>10.5%</u>
Year ended December 31, 2006:					
Life insurance in force	\$269,306	\$ (37,238)	\$ —	\$232,068	
Premiums —					
Bankers Fidelity	\$ 58,692	\$ (73)	\$ 301	\$ 58,920	0.5%
American Southern	50,599	(9,369)	9,430	50,660	18.6%
Total premiums	<u>\$109,291</u>	<u>\$ (9,442)</u>	<u>\$ 9,731</u>	<u>\$109,580</u>	<u>8.9%</u>
Year ended December 31, 2005:					
Life insurance in force	\$276,996	\$ (33,025)	\$ —	\$243,971	
Premiums —					
Bankers Fidelity	\$ 65,734	\$ (191)	\$ 361	\$ 65,904	0.5%
American Southern	51,935	(9,028)	8,540	51,447	16.6%
Total premiums	<u>\$117,669</u>	<u>\$ (9,219)</u>	<u>\$ 8,901</u>	<u>\$117,351</u>	<u>7.6%</u>

ATLANTIC AMERICAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTAL INFORMATION CONCERNING
PROPERTY-CASUALTY INSURANCE OPERATIONS

<u>Year Ended</u>	<u>Deferred Policy Acquisition</u>	<u>Reserves</u>	<u>Unearned Premium</u>	<u>Earned Premium</u>	<u>Net Investment Income</u>	<u>Claims and Claim Adjustment Expenses Incurred Related To</u>		<u>Amortization of Deferred Acquisition Costs</u>	<u>Paid Claims and Claim Adjustment Expenses</u>	<u>Premiums Written</u>
						<u>Current Year</u>	<u>Prior Years</u>			
						(In thousands)				
December 31, 2007	\$ 3,186	\$43,994	\$15,616	\$41,575	\$ 5,497	\$27,009	\$(8,610)	\$ 9,406	\$ 20,723	\$35,972
December 31, 2006	\$ 4,194	\$45,655	\$21,696	\$50,660	\$ 5,516	\$30,174	\$(6,734)	\$ 12,087	\$ 20,815	\$46,274
December 31, 2005	\$ 5,194	\$43,593	\$26,185	\$51,447	\$ 4,821	\$30,037	\$(5,210)	\$ 12,240	\$ 23,513	\$52,983

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STOCK PURCHASE AGREEMENT

by and between

ATLANTIC AMERICAN CORPORATION

and

COLUMBIA MUTUAL INSURANCE COMPANY

Dated December 26, 2007

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (the "Agreement") is made and entered into as of this 26th day of December, 2007, by and between ATLANTIC AMERICAN CORPORATION, a Georgia corporation ("Seller"), and COLUMBIA MUTUAL INSURANCE COMPANY, a Missouri corporation ("Purchaser").

WHEREAS, upon and subject to the terms and conditions set forth herein, Seller wishes to sell to Purchaser, and Purchaser wishes to purchase from Seller, all of the issued and outstanding shares of stock (the "Shares") of GEORGIA CASUALTY & SURETY COMPANY, a Georgia corporation ("Georgia Casualty"), ASSOCIATION CASUALTY INSURANCE COMPANY, a Texas corporation ("Association Casualty") and ASSOCIATION RISK MANAGEMENT GENERAL AGENCY, INC., a Texas corporation ("ARMGA" and collectively with Georgia Casualty and Association Casualty, the "Subsidiaries"), each a wholly-owned subsidiary of Seller; and

WHEREAS, Seller owns 100% of the outstanding capital stock of Georgia Casualty, Association Casualty and ARMGA;

NOW, THEREFORE, in consideration of the premises and the mutual representations, warranties, covenants and promises contained herein and other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

PURCHASE AND SALE OF THE SHARES; THE CLOSING

1.1 Purchase and Sale of the Shares. Subject to the terms and conditions of this Agreement, at the Closing (as hereinafter defined), Seller shall sell, assign, transfer and deliver to Purchaser, and Purchaser shall purchase from Seller, all of the Shares, and Purchaser shall pay to Seller as consideration therefor the following amounts, subject to adjustment pursuant to Section 1.2 and, if applicable, Section 4.2(h) (collectively, the "Purchase Price"):

(a) in respect of Georgia Casualty and Association Casualty, an amount equal to the statutory capital and surplus of Georgia Casualty and Association Casualty as of December 31, 2007 to be set forth in the 2007 Annual Statement and computed in accordance with NAIC statutory accounting principles applied on a basis consistent with the December 31, 2006 statutory Annual Statement (the "Unaudited Statutory Capital and Surplus"), plus Four Million Five Hundred Thousand Dollars (\$4,500,000) to be allocated proportionally between the companies based upon the audited capital and surplus of said companies as of December 31, 2007.

(b) in respect of ARMGA, an amount equal to the GAAP book value of ARMGA as of December 31, 2007.

1.2 Post-Closing Adjustment. Upon Seller's delivery to Purchaser of the 2007 Audited Statements in accordance with Section 3.9:

(a) if the Unaudited Statutory Capital and Surplus exceeds the audited statutory capital and surplus of Georgia Casualty and Association Casualty as of December 31, 2007 as set forth in the 2007 Audited Statements and computed in accordance with NAIC statutory accounting principles applied on a basis consistent with the December 31, 2006 statutory Annual Statement (the "Audited Statutory Capital and Surplus"), then Seller shall pay to Purchaser the difference between the Unaudited Statutory Capital and Surplus and the Audited Statutory Capital and Surplus by means of a wire transfer of immediately available funds to such bank account in the United States as designated by Purchaser within two (2) days after the 2007 Audited Statements are delivered; and

(b) if the Audited Statutory Capital and Surplus exceeds the Unaudited Statutory Capital and Surplus, then Purchaser shall pay to Seller the difference between the Audited Statutory Capital and Surplus and the Unaudited Statutory Capital and Surplus by means of a wire transfer of immediately available funds to such bank account in the United States as designated by Seller within two (2) days after the 2007 Audited Statements are delivered.

1.3 Time and Place of the Closing. Subject to the terms and conditions of this Agreement, the closing of the transactions contemplated by this Agreement (the “Closing”) shall take place within five business days following the satisfaction or waiver of the conditions to Closing set forth herein, but in any event no later than March 31, 2008, unless the regulatory approvals required pursuant to Article IV have not been obtained by such date in which case the Closing shall take place no later than the date mutually agreed to in writing by Purchaser and Seller to provide for additional time to obtain such approvals, or such other later date as mutually agreed in writing by Purchaser and Seller (the “End Date”), at 9:30 a.m., EST (the date and time of the Closing being referred to herein as the “Closing Date”) at the offices of Troutman Sanders LLP in Atlanta, Georgia.

1.4 Deliveries by Seller at the Closing. At the Closing, Seller shall deliver, or cause to be delivered, to Purchaser (i) certificates representing all of the Shares, duly endorsed in blank or accompanied by stock powers duly executed in blank, and (ii) unless previously delivered, all other documents required herein to be delivered by Seller at the Closing.

1.5 Deliveries by Purchaser at the Closing. At the Closing, Purchaser (i) shall pay to Seller the Purchase Price by means of a wire transfer of immediately available funds to such bank account in the United States as designated by Seller; and (ii) shall deliver to Seller, unless previously delivered, all other documents required herein to be delivered by Purchaser to Seller at the Closing.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of Seller. Seller hereby represents and warrants to Purchaser as follows:

(a) Organization and Good Standing. Seller and each of the Subsidiaries are duly organized, validly existing and in good standing under the laws of their respective jurisdiction of organization.

(b) Corporate Authorization. This Agreement has been duly authorized, executed and delivered by or on behalf of Seller and Seller is duly authorized to enter into this Agreement, to perform its respective obligations hereunder, and to consummate the transactions contemplated hereby.

(c) Enforceability. This Agreement is a legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors’ rights generally or general principles of equity.

(d) Non-Contravention. Neither the execution and delivery of this Agreement by Seller nor the consummation by Seller of the transactions contemplated hereby will constitute a material violation of or a material default under, or materially conflict with, (i) the articles of incorporation, bylaws or other organizational or governing documents of Seller or the Subsidiaries, (ii) any law, judgment, decree, order, regulation or rule of any court or governmental agency or authority applicable to Seller or the Subsidiaries or any of their respective properties or assets (collectively, “Applicable Law”), or (iii) any indenture, mortgage, loan or credit agreement, or any material contract, commitment, agreement, understanding, arrangement or restriction of any kind by which Seller or the Subsidiaries is bound, other than the Pledge Agreement (defined below) or the Guaranty Agreement (defined below).

(e) Brokerage. No broker, finder or other similar independent agent other than Benfield Advisory Inc. has acted for Seller in connection with this Agreement and the transactions contemplated hereby. All fees payable to Benfield Advisory, Inc. in connection with the transactions contemplated by this Agreement shall be paid by Seller.

(f) Capitalization. Georgia Casualty’s authorized capital stock consists solely of 10,000,000 shares of common stock, par value \$1.00 per share, 2,000,000 of which are currently issued and outstanding. Association Casualty’s authorized capital stock consists solely of 1,500,000 shares of common stock, par value \$2.00 per share, 900,000 of which are currently issued and outstanding. ARMGA’s authorized capital stock consists solely of 100,000 shares of common stock, par value \$1.00 per share, 1,000 of which are currently issued and outstanding. Pursuant to a pledge agreement by and between Seller and Wachovia Bank, National Association (“Bank”) dated as of December 22,

2006 (the "Pledge Agreement"), Seller has pledged the Shares of Georgia Casualty and Association Casualty to Bank. On the date hereof, no other liens, charges, proxies, encumbrances or security interests (collectively, "Liens") exist on the Shares and, except for the Pledge Agreement, Seller has title to the Shares free and clear of all Liens. In accordance with Section 4.2(f), Seller shall cause Bank to release the Shares from the Pledge Agreement prior to or at the Closing so that, at the time Seller transfers the Shares held by it to Purchaser, Seller shall have title to the Shares, free and clear of all Liens. The Shares constitute all of the issued and outstanding shares of capital stock of the Subsidiaries, and there are no outstanding options, warrants or rights to purchase from Seller or the Subsidiaries any shares of capital stock of the Subsidiaries.

(g) Transfer of Title of Shares. The transfer of the Shares to Purchaser in accordance with the terms of this Agreement will pass title to the Shares to Purchaser, free and clear of all Liens, other than Liens which may arise other than by reason of the actions or inactions of Seller.

(h) Qualification. Each of the Subsidiaries is duly qualified or licensed to do business and is in good standing in each jurisdiction listed on Schedule 2.1(h).

(i) SEC Filings and Financial Statements.

(i) Seller has heretofore delivered to Purchaser copies of Seller's (x) Annual Report on Form 10-K for the fiscal year ended December 31, 2006, (y) Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007. Since December 31, 2005, Seller has timely filed all reports, registration statements and other documents required to be filed with the SEC under the rules and regulations of the SEC, and all such reports, registration statements and other documents have complied in all material respects, as of their respective filing and effective dates, as the case may be, with all applicable requirements of the Securities Act of 1933, as amended (the "Securities Act") and the Securities Exchange Act of 1934, as amended. As of their respective filing and effective dates, none of such reports, registration statements or other documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(ii) Seller has delivered, or to the extent applicable with respect to the 2007 Annual Statement will deliver prior to the Closing, to Purchaser complete and correct copies of the following statutory financial statements:

(A) the Annual Statements of Georgia Casualty filed with the Georgia Insurance Department and Association Casualty filed with the Texas Insurance Department for the years ending December 31, 2004, 2005 and 2006 and, in the event that the Closing occurs after March 1, 2008, for the year ending December 31, 2007 (the "2007 Annual Statement"), together with the exhibits and schedules thereto (collectively, the "Annual Statements");

(B) the Quarterly Statements of Georgia Casualty filed with the Georgia Insurance Department and of Association Casualty filed with the Texas Insurance Department for the quarters ending March 31, 2007, June 30, 2007 and September 30, 2007, together with the exhibits and schedules thereto (collectively, the "Quarterly Statements"); and

(C) the audited statutory balance sheets of Georgia Casualty and Association Casualty on an unconsolidated basis as of and for the years ended December 31, 2004, 2005 and 2006, and the audited statutory statements of operations, changes in capital and surplus, and cash flows of Georgia Casualty and Association Casualty on an unconsolidated basis as of and for the years ended December 31, 2004, 2005 and 2006 (such financial statements, including all notes and schedules thereto, the independent auditors' report of Deloitte & Touche LLP thereon (with respect to the financial

statements for the years ended December 31, 2004 and 2005) and the independent auditors' report of BDO Seidman, LLP thereon (with respect to the financial statements for the years ended December 31, 2006), being the "Audited Statutory Statements") (the balance sheet as of December 31, 2006 included in the Audited Statutory Statements is referred to herein as the "2006 Balance Sheet").

The statutory financial statements contained in the Annual Statements (and with respect to clause (ii) below, other items contained in the Annual Statements) and the Audited Statutory Statements (i) have been prepared in conformity with SAP using comparable estimates and assumptions applied on a consistent basis with the December 31, 2006 financial statements, except that the financial statements contained in the Quarterly Statements are unaudited, (ii) are true, correct and complete and in accordance with the books and records of Georgia Casualty and Association Casualty, and (iii) present fully and fairly, on a SAP basis, the financial condition, assets and liabilities of each of Georgia Casualty and Association Casualty, as the case may be, as of the respective dates thereof and the results of operations and cash flows for the respective periods indicated. The financial statements contained in the Quarterly Statements include all adjustments necessary for a fair presentation of the financial position of each of Georgia Casualty and Association Casualty, respectively, and the results of their respective operations for the interim period presented, subject to normal recurring year-end adjustments and the omission of footnote disclosures.

(j) Absence of Certain Changes. Since September 30, 2007, there has been no occurrence having, or which would reasonably be expected to result in, a Material Adverse Effect on the Subsidiaries. Since September 30, 2007, the business of the Subsidiaries has been conducted only in the ordinary and usual course consistent with past practice, except with respect to the transactions contemplated by this Agreement. A "Material Adverse Effect" shall mean any condition, change or effect (or series of related conditions, changes or effects) that individually or in the aggregate is substantially or significantly different from the usual and customary norms of the condition specified, or which is substantially or significantly adverse to (i) the business, operations, condition (financial or otherwise) or results of operations of the person specified; (ii) the validity or enforceability of this Agreement; or (iii) the ability of either of the parties to perform their obligations under this Agreement, provided, however, that a Material Adverse Effect shall not include changes generally affecting companies operating in the industry in which the person specified operates or any general economic conditions, except to the extent that such changes disproportionately have a greater adverse impact on the person specified as compared to the adverse impact such changes have on other persons operating in the same industry.

(k) Reserves. All losses and loss adjustment expenses established and reflected in the Annual Statement for the year ended December 31, 2006, the Quarterly Statement for the quarter ended September 30, 2007 and the 2006 Balance Sheet in respect of the Subsidiaries' insurance policies were determined in accordance with generally accepted actuarial standards, were based on actuarial estimates and assumptions that were reasonable and appropriate to the relevant insurance policies and were recorded in compliance with the applicable requirements of the Georgia Insurance Code and the Texas Insurance Code, as applicable, and each of the foregoing statements will be true with respect to the 2007 Annual Statement upon its completion, and make good, sufficient and adequate provision (under commonly accepted actuarial standards consistently applied and fairly stated in accordance with sound actuarial principles) to cover the total amount of all reasonably anticipated claims, expenses and other liabilities of the Subsidiaries under all policies issued by said Subsidiaries on the respective dates of said Annual Statements, and Quarterly Statement, including the 2007 Annual Statement upon its completion.

(1) Tax Matters.

(i) Each of the Subsidiaries has filed all Tax Returns and all income and other material Tax Returns that they were required to file. All such Tax Returns were correct and complete in all material respects. All Taxes shown as due on such Tax Returns have been paid. There are no liens for Taxes (other than Taxes not yet due and payable) upon any of the assets of the Subsidiaries.

(ii) The United States federal income Tax Returns of the Subsidiaries and the Seller have not been audited or examined by the U.S. Internal Revenue Service and no waivers of statute of limitations have

been given with respect to any Taxes of the Subsidiaries. There is no material dispute or claim concerning any Tax liability of the Subsidiaries claimed or raised by any Tax authority.

(iii) None of the Subsidiaries is a party to any agreement, contract, arrangement, or plan that has resulted or would result in the payment of any “excess parachute payment” within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the “Code”). None of the Subsidiaries has been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii). The Subsidiaries are currently members of a consolidated group for federal income tax purposes of which Seller is the parent corporation and are also parties to a tax sharing agreement. Except with respect to the members of such group, none of the Subsidiaries is a party to or bound by any tax allocation or sharing agreement or has liability for the Taxes of any person under Treas. Regs Section 1.1502-6 as a transferee or successor, by contract, or otherwise.

(iv) None of the Subsidiaries has distributed stock of another person, or has had its stock distributed by another person, in a transaction that was purported or intended to be governed in whole or in part by Code Section 355 or Code Section 361.

(v) None of the Subsidiaries has been or is presently in material violation of any applicable law relating to the payment or withholding of taxes. Each of the Subsidiaries has duly and timely withheld from employee salaries, wages or other compensation and paid over to the appropriate taxing authorities all amounts required to be so withheld and paid over for all periods under all applicable laws.

For purposes of this Agreement, “Tax” or “Taxes” means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding social security, unemployment, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

For purposes of this Agreement, “Tax Return” means any return, declaration, report, or information return or statement relating to taxes, including any schedule or attachment thereto, and including any amendment thereto.

(m) Pending Litigation or Proceedings. Except for claims under insurance contracts against the Subsidiaries in the ordinary course of business, there are no claims, suits, actions, proceedings, arbitrations or investigations now pending, or to the Knowledge of Seller threatened, against or otherwise relating to or involving any of the Subsidiaries or any of their properties, the outcome of which would reasonably be expected to have a Material Adverse Effect on the Subsidiaries. With respect to the Subsidiaries (i) no investigation or examination by any insurance regulatory authority is pending, and (ii) no such investigation or examination has occurred since the date upon which Seller acquired the Shares, other than routine insurance department exams. With respect to the Subsidiaries, no fine or penalty imposed by an insurance regulatory authority since the date upon which Seller acquired the Shares is currently unpaid or outstanding. “Knowledge of Seller” shall mean those facts known by any of the officers or directors of Seller, the Subsidiaries or any affiliate of Seller.

(n) Compliance with Applicable Laws. None of the Subsidiaries is in violation of any Applicable Law, except for possible violations that would not, individually or in the aggregate, have or be reasonably likely to have a Material Adverse Effect on the Subsidiaries. Each of the Subsidiaries holds all licenses, permits and registrations required to conduct its business, and all such licenses, permits and registrations are valid and in full force and effect, except for those the absence of which are not reasonably likely to have a Material Adverse Effect on the Subsidiaries. Each of the Subsidiaries is in compliance with all such licenses, permits and registrations, except for possible failures to be so in compliance which are not reasonably likely to have a Material Adverse Effect on the Subsidiaries.

(o) Consents and Approvals. Except as set forth on Schedule 2.1(o), except as required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the “Hart-Scott-Rodino Act”), and except for the approval of the Georgia Insurance Department, the Texas

Insurance Department and the Missouri Insurance Department, the execution, delivery and performance of this Agreement by Seller and the consummation of the transactions contemplated hereby do not require any consent, approval or authorization of, or registration or filing with, any person or Governmental Entity (as hereinafter defined).

(p) Legal Investments. The Subsidiaries have good and valid title to all bonds, stocks and other investments owned beneficially or of record, free and clear of any liens or other encumbrances. All such bonds, stocks and other investments are permissible investments for the Subsidiaries under the Georgia Insurance Code and the Texas Insurance Code, as applicable.

(q) Insurance Issued. All insurance policies and contracts issued by the Subsidiaries now in force (other than policies and contracts issued under applicable surplus lines laws) are on forms and at rates approved by the insurance regulatory authority of the state or jurisdiction where issued or have been filed with and not objected to by such authority within the period provided for objection.

(r) Material Contracts. Except as set forth in Schedule 2.1(r), Seller has made available to Purchaser complete and correct copies of (i) all reinsurance agreements currently in effect that have been entered into within the past fifteen (15) years and will provide prior to the Closing evidence of all reinsurance coverage currently in effect pursuant to reinsurance agreements that were entered into prior to such period; (ii) all loan or credit agreements, mortgages, indentures, or other agreements for borrowed money currently in effect; (iii) all employment or compensation agreements currently in effect with officers, directors, employees, agents (other than insurance agents), consultants and independent contractors; and (iv) each other contract, lease, agreement or legal commitment of any kind currently in effect, oral or written, formal or informal, pursuant to which any of the Subsidiaries owes or could owe more than \$75,000 per calendar year or which limits the ability of any of the Subsidiaries to engage in any line of business or to provide services to any person (the agreements described in (i)-(iv) are collectively the "Material Contracts"). All Material Contracts currently in effect are in full force and effect, and none of the Subsidiaries is in default under, nor has any event occurred which with the passage of time or giving of notice or both would result in any of the Subsidiaries being in default under, any of the terms thereof.

(s) Employee Benefit Plans. The Subsidiaries sponsor no "employee benefit plans" (as defined in Section 3(3) of the Employee Retirement Security Act of 1974, as amended ("ERISA"), including the rules and regulations thereunder and hereinafter the "Employee Benefit Plans"). The employees of the Subsidiaries participate in the Employee Benefit Plans of Seller that are set forth on Schedule 2.1(s). Except as set forth on Schedule 2.1(s) and except as required by Applicable Law, neither Seller nor the Subsidiaries nor their affiliates has any contract, plan or commitment, whether legally binding or not, to create any additional benefit plan or to modify any existing benefit plan. To the Knowledge of Seller, all benefit plans applicable to employees of the Subsidiaries comply with all applicable provisions of ERISA and regulations promulgated thereto.

(t) Transactions with Related Parties. Except as set forth on Schedule 2.1(t), none of the Seller, any affiliate of the Seller or any officer or director of the Subsidiaries:

- (i) has borrowed money or loaned money to any of the Subsidiaries which will not be repaid on or before Closing;
- (ii) has any contractual or other claim against any of the Subsidiaries; or
- (iii) has any interest in any property or assets used by the Subsidiaries in their respective businesses.

(u) Labor Relations. (a) No employee of any of the Subsidiaries is represented by any union or other labor organization; (b) there is no unfair labor practice complaint against any of the Subsidiaries actually pending or, to the Knowledge of Seller, overtly threatened before the National Labor Relations Board; and (c) there is no labor strike, dispute, slow down or stoppage actually pending or, to the Knowledge of Seller, threatened against or involving any of the Subsidiaries.

(v) Insurance. All of the Subsidiaries' properties and assets of an insurable nature and of a character usually insured by companies of similar size and in similar businesses are insured by the Subsidiaries in such amounts and against such losses, casualties or risks as is (a) usual in such companies and for such properties, assets and businesses, or (b) required by any Applicable Law.

(w) Books and Records. The books and records of the Subsidiaries accurately reflect in all material respects the business or condition of the Subsidiaries and have been maintained in all material respects in accordance with good business and bookkeeping practices.

(x) No Undisclosed Liabilities. Except to the extent reflected in (i) the Annual Statement for the year ended December 31, 2006 if the Closing occurs prior to March 1, 2008 or the Annual Statement for the year ended December 31, 2007 if the Closing occurs after March 1, 2008, (ii) the Quarterly Statement for the quarter ended September 30, 2007, (iii) the Audited Statutory Statement for the year ended December 31, 2006, (iv) the 2007 Unaudited Statements or (v) Section 3.11 of this Agreement, there are no undisclosed liabilities as of the date of said statements that individually or in the aggregate have or may reasonably be expected to have a Material Adverse Effect on any of the Subsidiaries.

Except as set forth in this Section 2.1, Seller makes no express or implied representations or warranties with respect to the business, operations, condition (financial or otherwise), assets, liabilities or prospects of the Subsidiaries or any of its direct or indirect subsidiaries or any of the transactions contemplated hereby.

2.2 Representations and Warranties of Purchaser. Purchaser hereby represents and warrants to Seller as follows:

(a) Organization and Good Standing. Purchaser is duly organized, validly existing and in good standing under the laws of its state of organization.

(b) Authorization. This Agreement has been duly authorized and delivered by or on behalf of Purchaser and Purchaser is duly authorized to enter into this Agreement, to perform its respective obligations hereunder, and to consummate the transactions contemplated hereby.

(c) Enforceability. This Agreement is a legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally or general principles of equity.

(d) Non-Contravention. Neither the execution and delivery of this Agreement nor the consummation by Purchaser of the transactions contemplated hereby will constitute a material violation of or a material default under, or materially conflict with, (i) the Articles of Incorporation or Bylaws or other organizational or governing documents of Purchaser, (ii) to the Knowledge of Purchaser, any law, judgment, decree, order, regulation or rule of any court or governmental agency or authority applicable to Purchaser or any of its respective properties or assets, or (iii) any indenture, mortgage, loan or credit agreement, or any material contract, commitment, agreement, understanding, arrangement or restriction of any kind by which Purchaser is bound. With respect to Purchaser, "Knowledge" shall mean those facts known by any of the officers or directors of Purchaser.

(e) Brokerage. No broker, finder or other similar independent agent has acted for Purchaser in connection with this Agreement and the transactions contemplated hereby.

(f) Investment Intent. Purchaser is purchasing the Shares for its own account, and with no intention of distributing or reselling said securities or any part thereof in any transaction that would be in violation of the securities laws of the United States of America or any state thereof, without prejudice, however, to Purchaser's right at all times to sell or otherwise dispose of all or any part of said securities pursuant to an effective registration statement under the Securities Act, and applicable state securities laws, or under an exemption from such registration available under the Securities Act and other applicable state securities laws and subject, nevertheless, to the disposition of Purchaser's property being at all times within Purchaser's control.

(g) Pending Litigation or Proceedings. There are no claims, suits, actions, proceedings, arbitrations or investigations pending or, to the Knowledge of Purchaser, threatened, against or otherwise relating to or involving Purchaser or any of its properties, the outcome of which would reasonably be expected to affect the ability of Purchaser to consummate the transactions contemplated by this Agreement or to have a Material Adverse Effect on Purchaser.

(h) Consents and Approvals. Except as required under the Hart-Scott-Rodino Act, and except for the approval of the Georgia Insurance Department, the Texas Insurance Department and the Missouri Insurance Department, the execution, delivery and performance of this Agreement by Purchaser and the consummation of the transactions contemplated hereby do not require any consent, approval or authorization of, or registration or filing with, any person or Governmental Entity.

Except as set forth in this Section 2.2, Purchaser makes no express or implied representations or warranties with respect to the business, operations, condition (financial or otherwise), assets, liabilities or prospects of Purchaser or any of its direct or indirect subsidiaries or any of the transactions contemplated hereby.

ARTICLE III OTHER AGREEMENTS

3.1 Conduct of Business Pending Closing. Seller covenants and agrees that, prior to the Closing Date, unless Purchaser shall otherwise agree in writing or as otherwise expressly permitted or contemplated by this Agreement or required by law, it will cause the business of the Subsidiaries to be conducted only in the ordinary course consistent with past practice.

(a) Without limiting the generality of the foregoing, Seller covenants and agrees that, prior to the Closing Date, unless Purchaser shall otherwise agree in writing or as otherwise expressly permitted or contemplated by this Agreement or required by law, Seller shall not, and shall not permit the Subsidiaries to:

(i) amend the articles of incorporation or bylaws of the Subsidiaries;

(ii) issue or sell any shares of, or rights of any kind to acquire any shares of or to receive any payment based on the value of, the Subsidiaries' capital stock or any securities convertible into shares of any such capital stock, or redeem or make any payment or other distribution upon or with respect to any shares of capital stock of the Subsidiaries;

(iii) incur any indebtedness of the Subsidiaries for borrowed money;

(iv) agree to any merger or consolidation of or involving the Subsidiaries or sale of all or substantially all of the assets of the Subsidiaries or any similar reorganization, arrangement or business combination of or involving the Subsidiaries;

(v) enter into any contract or other agreement which could materially and adversely affect Seller's ability to perform its obligations under this Agreement, or amend or modify any existing contract or other agreement in a manner which could have any such effect;

(vi) enter into any contract or other agreement relating to the direct or indirect guarantee by the Subsidiaries (other than the endorsement of negotiable instruments for collection in the ordinary course of business) of or in respect of indebtedness for borrowed money or other financial obligations of any other person or entity;

(vii) declare or pay any dividend (other than routine monthly dividends paid by Georgia Casualty to Seller in amounts not to exceed \$100,000 per month);

(viii) increase the compensation or benefits of officers or employees of the Subsidiaries or pay any bonuses except for normal and customary increases made or bonuses paid or accrued in accordance with past practices;

(ix) except in the ordinary course of business, create or incur any lien, encumbrance, mortgage, pledge, charge or security interest whatsoever on any of the Subsidiaries' properties; or, except for the issuance of insurance contracts or policies and the settlement of insurance claims in the ordinary course of business, incur or assume any guaranty or other liability to discharge an obligation of another;

(x) enter into or terminate any Material Contracts (other than the 2008 reinsurance agreements), except with the written permission of Purchaser which shall not be unreasonably withheld and which shall be deemed given if Purchaser shall not have denied permission within three (3) business days of any such request, and except as provided in Section 4.2(i) of this Agreement;

(xi) except for outstanding commitments made prior to the date of this Agreement as set forth on Schedule 3.1(xi), make any expenditure for fixed assets in excess of \$25,000 for any single item or \$100,000 in the aggregate;

(xii) do or fail to do anything that will cause a breach of, or default under, any Material Contract;

(xiii) make any change of a material nature in the Subsidiaries' accounting or reserving procedures, methods, policies or practices or the manner in which the Subsidiaries maintain their records; or

(xiv) invest any of the funds of the Subsidiaries in any investment other than securities designated as Category 1 Securities, or approved money market funds in the Purposes and Procedures Manual of the National Association of Insurance Commissioners Securities Valuation Office.

(b) Seller further covenants and agrees that, prior to the closing date, Seller will:

(i) use commercially reasonable efforts to preserve intact the Subsidiaries' present business organization, reputation, and policyholder relations;

(ii) use commercially reasonable efforts to keep available the services of the Subsidiaries' current officers, employees, agents, consultants, and other similar representatives;

(iii) use commercially reasonable efforts to maintain all licenses, qualifications, and authorizations of the Subsidiaries to do business in each jurisdiction in which it is so licensed, qualified, or authorized;

(iv) use commercially reasonable efforts to continue all current marketing and selling activities relating to the business, operations, or affairs of the Subsidiaries;

(v) exercise commercially reasonable efforts to maintain and protect the confidential and proprietary nature of all of each of the Subsidiaries' policyholder lists, lists of the Subsidiaries' agents and producers, billing records and commission statements, marketing plans, lists of prospective customers or agents, and other materials relating to the Subsidiaries' sales and marketing practices or in force business, all of which, upon the request of the Purchaser, shall be marked or designated by the Subsidiaries as "confidential and proprietary information;"

(c) Seller will cause the books and records of the Subsidiaries to be maintained in the usual manner and consistent with past practice and will not permit a material change in any underwriting, investment, actuarial, financial reporting, or accounting practice or policy of the Subsidiaries or in any assumption underlying such practice or policy, or in any method of calculating any bad debt, contingency, or other reserve for financial reporting purposes or for other accounting purposes (including, without limitation, any practice, policy, assumption, or method relating to or

affecting the determination of the Subsidiaries' investment income, reserves or other similar amounts, or operating ratios with respect to expenses, losses, or premiums).

(d) Seller will cause the Subsidiaries to:

(i) cause all reserves and other similar amounts with respect to insurance contracts established or reflected in the books and records of the Subsidiaries to be (1) computed and reflected on a basis consistent with those reserves and other similar amounts and reserving methods followed by the Subsidiaries as of December 31, 2006 and (2) good, sufficient and adequate (under commonly accepted actuarial standards consistently applied and fairly stated in accordance with sound actuarial principles) to cover the total amount of all reasonably anticipated matured and unmatured benefits, dividends, losses, claims, expenses, and other liabilities of the Subsidiaries under all insurance contracts pursuant to which the Subsidiaries have or will have any liability (including, without limitation, any liability arising under or as a result of any reinsurance, coinsurance, or other similar contract); and

(ii) continue to own admitted assets that qualify as legal reserve assets under all applicable insurance laws in an amount at least equal to the required reserves of each of the Subsidiaries and other similar amounts.

(e) The Subsidiaries will continue to comply, in all material respects, with all Applicable Laws.

3.2 Regulatory Filings and Approvals.

(a) Each of Purchaser and Seller shall make and diligently pursue, and shall cooperate fully with each other in making and pursuing, all filings and requests for licenses, requests and approvals of any federal, state or local department, agency, commission, board, bureau or administrative or regulatory authority or instrumentality (each a "Governmental Entity") as shall be reasonably necessary or advisable in order to consummate the transactions contemplated by this Agreement as promptly as practicable, and shall use all reasonable efforts to obtain all such licenses, consents and approvals as promptly as practicable and to thereafter maintain all such licenses, consents and approvals in full force and effect until the transactions contemplated by this Agreement have been consummated. Any filing fees for filings or requests which may be required for the consummation of the transactions contemplated by this Agreement shall be paid by the party required to make said filing or request.

(b) Purchaser shall use commercially reasonable efforts to file a "Form A Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer" (a "Form A Statement") with the Georgia Insurance Department and the Texas Insurance Department with respect to the transactions contemplated hereby within three (3) calendar weeks after the date this Agreement is fully executed.

(c) Purchaser and Seller acknowledge and agree that American Southern Insurance Company, a wholly-owned subsidiary of Seller ("American Southern"), shall be released at the Closing from all of its obligations under that certain Unconditional Guaranty Agreement by and between Association Casualty and American Southern dated January 8, 2007 (the "Guaranty Agreement"), which was entered into as a requirement for Association Casualty to obtain a license to do business in North Carolina. At or prior to the Closing, Purchaser shall, or shall cause its affiliates to, take whatever action is necessary to maintain Association Casualty's license to do business in North Carolina and, in the event that Purchaser fails to maintain such license, Seller shall not be responsible for any liabilities or any breaches or inaccuracies of its representations, warranties or other agreements contained in this Agreement or the disclosure schedules hereto that are a direct result of Purchaser's failure to maintain such license.

3.3 Access. From the date hereof through the Closing Date, upon reasonable notice, Seller shall (i) afford the officers, employees and authorized agents and representatives of Purchaser reasonable access, during normal business hours, to the books and records of the Subsidiaries and (ii) furnish to the officers, employees and authorized agents and representatives of Purchaser such additional information regarding the Subsidiaries as Purchaser may from time to time request; provided, however, that such investigation shall not unreasonably interfere with the business or operations of the Subsidiaries or Seller.

3.4 Further Actions.

(a) Subject to the rights of each party pursuant to Section 5.1 hereof, each of the parties hereto shall use all commercially reasonable efforts to cause the conditions precedent to the respective obligations of the other party hereto to be fully satisfied so that the Closing may occur at the earliest practicable date; provided, however, that if the Closing occurs, the obligations of each of the parties pursuant to this Section 3.4(a) shall be deemed to have been satisfied.

(b) Upon and following the Closing Date, each party shall, if reasonably requested by the other party, execute and deliver such further instruments or agreements and take such other reasonable actions as may be necessary or desirable (i) to convey or transfer more effectively to Purchaser the Shares, or (ii) otherwise to effectuate the intent of the covenants and agreements of the parties herein.

3.5 Notice of Proceedings. Each of Seller and Purchaser shall promptly notify the other of, and provide to the other all reasonably requested information relating to, any claim, action, suit, proceeding or governmental or regulatory investigation commenced or, to its actual Knowledge, threatened against, relating to or involving or otherwise affecting such party or any of its subsidiaries, as the case may be, which, if pending on the date hereof, would have made any representation of such party hereunder false or which otherwise relates to the execution of this Agreement or the consummation of any of the transactions contemplated hereby.

3.6 Non-Solicitation. Seller will not, and will not cause or permit the Subsidiaries to, solicit any proposal or offer from any third party relating to the acquisition of all or substantially all of the capital stock or assets of the Subsidiaries (including any acquisition structured as a merger, consolidation or share exchange); provided, however that, after giving notice thereof to Purchaser, Seller and the Subsidiaries and each of their officers and directors shall be entitled to participate in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any unsolicited effort or attempt by any third party to do or seek to do any of the foregoing, in each case as and to the extent that their fiduciary duties may require (as determined in good faith by any such person taking such action). Purchaser further acknowledges and agrees that (i) any proposal or offer with respect to the stock or assets of the Subsidiaries which is not solicited in violation of this Section 3.6 and any discussions or negotiations not prohibited by this Section 3.6 shall not constitute a breach of this Agreement or interference with this Agreement or the within described contractual arrangement by Seller, any of its officers, directors or employees or any such third party, and (ii) Purchaser shall not take or cooperate with any other person or party in taking any action to enjoin or otherwise interfere with any such discussions or negotiations or to assert any liability on the part of Seller, any of its officers, directors or employees or any such third party resulting therefrom.

3.7 Certain Tax Matters.

(a) Seller shall prepare or cause to be prepared and Seller shall file or cause to be filed all Tax Returns for the Subsidiaries for all periods ending on or prior to the Closing Date, and shall pay such Tax as shown as due on such Tax Returns. Purchaser shall prepare or cause to be prepared all Tax Returns with respect to any taxable period that includes, but does not end on the Closing Date (a "Straddle Period"). Purchaser shall permit Seller to review and comment on each Tax Return described in the preceding sentence and shall consider Seller's comments in good faith. Purchaser shall file or cause to be filed the Tax Returns in a timely manner. With respect to Taxes relating to the Straddle Period, Seller shall be responsible for the portion of such Taxes relating to the portion of the Straddle Period ending on the Closing Date (in the case of income taxes, determined on a closing of the books basis, and in the case of other taxes, on a per diem basis), and the Purchaser shall be responsible for Taxes relating to the portion of the Straddle Period starting on the Closing Date.

(b) Purchaser and its affiliates (including the Subsidiaries) shall, upon receipt of notice of any claim, proceeding or audits regarding Taxes relating to a Tax period ending on or prior to the Closing Date or any Straddle Period, shall immediately give a copy of such notice to Seller. Seller shall be entitled to control any claim, proceeding or audit for tax periods ending prior to the Closing Date, and Seller shall be responsible for any additional tax liability that may be assessed. Purchaser shall be entitled to control any claim, proceeding or audit for any Straddle Period; provided, that Seller shall be entitled, at its expense, to participate in any such claim, proceeding or audit; and provided, further, that, to the extent Seller would be responsible for any potential portion of a tax liability pursuant to the last

sentence of Section 3.7(a) resulting from any such claim, proceeding or audit, Purchaser shall not settle any such claim, proceeding or audit without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed. Purchaser shall not file any amended Tax Return with respect to the Subsidiaries relating to Tax Periods ending on or prior to the Closing Date without the prior written consent of Seller, which shall not be unreasonably withheld or delayed.

(c) Purchaser, Seller and their affiliates shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns pursuant to this Section 3.7 and any audit, litigation or other proceeding with respect to such Taxes.

3.8 Employee Matters. Purchaser shall, and shall cause any of its subsidiaries or affiliates to, recognize the service of each employee of the Subsidiaries, immediately prior to the Closing Date, who remain in the active employment of the respective Subsidiaries after the Closing Date (the “Continuing Employees”), as if such service had been performed with Purchaser or its subsidiaries or affiliates with respect to any plans or programs in which Continuing Employees are eligible to participate after the Closing Date (i) for purposes of eligibility to participate, eligibility for early retirement and vesting (but not for benefit accrual unless required by applicable law) under any retirement plan, (ii) for purposes of eligibility for, and amount of, vacation, (iii) for purposes of eligibility and participation under any health or welfare plan with the exception of the long term disability plan, and (iv) for benefit determination purposes under any severance plan.

3.9 Delivery of 2007 Audited Statements. Seller shall deliver to Purchaser the audited statutory balance sheets of Georgia Casualty and Association Casualty on an unconsolidated basis as of and for the year ended December 31, 2007, and the audited statutory statements of operations, changes in capital and surplus, and cash flows of Georgia Casualty and Association Casualty on an unconsolidated basis as of and for the year ended December 31, 2007 (such financial statements, including all notes and schedules thereto and the independent auditors’ report of BDO Seidman, LLP thereon, being the “2007 Audited Statements”), promptly upon the completion of the 2007 Audited Statements.

3.10 Retained Litigation.

(a) Purchaser and Seller acknowledge and agree that Seller shall retain all rights to pursue in the name of Georgia Casualty and Association Casualty that certain litigation pending in Case No. 1:06-cv-00954-KS-RHW in the United States District Court for the Southern District of Mississippi, Southern Division (the “Retained Litigation”), including the sole and exclusive right to control the prosecution of the Retained Litigation (including the settlement thereof).

(b) Purchaser and Seller acknowledge and agree that Seller shall be entitled to any and all rewards or proceeds resulting from the Retained Litigation (including from the settlement thereof). Purchaser and Seller acknowledge and agree that Seller shall bear the responsibility for, and shall indemnify Purchaser against, all costs and expenses incurred in connection with Seller’s pursuit of the Retained Litigation, including any liabilities that may arise therefrom.

(c) To the extent requested by Seller, Purchaser agrees to cooperate, and shall cause the Subsidiaries to cooperate, with Seller in its pursuit of the Retained Litigation, including by making available such of its or the Subsidiaries’ employees and officers and books and records that the Seller determines are necessary to pursue the Retained Litigation.

3.11 Fees for Seller Services. From the date hereof through the Closing Date, Seller shall continue to provide to the Subsidiaries the intercompany services that Seller and its affiliates have historically provided to the Subsidiaries consistent with past practice and the Subsidiaries shall reimburse Seller and its affiliates for the costs of such services; provided, however, that the Subsidiaries shall not reimburse Seller and its affiliates for amounts for such services in excess of Three Hundred Seventy-Five Thousand Dollars (\$375,000) in the aggregate for each calendar month during the period from January 1, 2008 through the Closing Date and said amount includes the dividends, if any, paid by Georgia Casualty to Seller referred to in Section 3.1(a)(vii) hereto. In the event that the Closing occurs on a date other than the last day of a month, said amount shall be prorated for said month. Seller and Purchaser acknowledge and agree that such monthly reimbursements shall be paid by the Subsidiaries to Seller or its affiliates within one month after such services

are performed, including with respect to the month in which the Closing occurs in which case such fees for the period from the beginning of such month through the Closing Date shall be paid within one month after the Closing Date.

ARTICLE IV
CONDITIONS TO CLOSING

4.1 Conditions to Obligations of Seller. The obligations of Seller to effect the transactions contemplated by this Agreement shall be subject to the fulfillment of the following conditions:

(a) the representations and warranties made by Purchaser in this Agreement that are qualified as to materiality or Material Adverse Effect shall be true and correct, and the representations and warranties made by Purchaser in this Agreement that are not so qualified shall be true and correct in all material respects, as of the date of this Agreement; and all such representations and warranties, certifications and statements of Purchaser that are qualified as to materiality or Material Adverse Effect shall be true and correct, and all such representations and warranties, certifications and statements of Purchaser that are not so qualified shall be true and correct in all material respects, as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except that representations and warranties made with respect to a specified date need only be true and correct as of such date), and Seller shall have received a certificate to such effect signed by an authorized officer of Purchaser;

(b) Purchaser shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by it at or prior to the Closing, and Seller shall have received a certificate to such effect signed by an authorized officer of Purchaser;

(c) the transactions contemplated hereby shall have been approved or not disapproved at the conclusion of all applicable waiting periods, as the case may be, by the Georgia Insurance Commissioner, the Texas Insurance Commissioner and the Missouri Insurance Commissioner and each such approval shall remain in effect, and such other licenses, consents and approvals of any Governmental Entity as are required by law in order to permit each of the parties hereto to consummate the transactions contemplated by this Agreement shall have in each case been obtained and not rescinded (other than with respect to the matters set forth in Section 3.2(c)), and any and all applicable waiting periods imposed by law shall have expired;

(d) no order entered or law promulgated or enacted by any court, legislature or other Governmental Entity shall be in effect which would prevent the consummation of the transactions contemplated hereby, and no claim, action, suit or proceeding shall have been commenced and be pending which seeks to restrain, prevent, materially delay or restructure the transactions contemplated hereby or which otherwise questions the validity or legality of such transactions;

(e) the waiting period under the Hart-Scott-Rodino Act (and any extension thereof) shall have expired or terminated, if applicable;

(f) Purchaser shall have obtained approval of a Form A Statement with the Georgia Insurance Department and the Texas Insurance Department with respect to the transactions contemplated hereby, and shall have obtained written or verbal approval of the Missouri Insurance Department to acquire the Subsidiaries; and

(g) at or prior to the Closing, Purchaser shall have, or shall have caused its affiliates to, use commercially reasonable efforts to maintain Association Casualty's license to do business in North Carolina and American Southern shall be released from all of its obligations under the Guaranty Agreement.

4.2 Conditions to Obligations of Purchaser. The obligations of Purchaser to effect the transactions contemplated by this Agreement shall be subject to the fulfillment of the following conditions:

(a) the representations and warranties made by Seller in this Agreement and any disclosure schedule that are qualified as to materiality or Material Adverse Effect shall be true and correct, and the representations and

warranties made by Seller in this Agreement that are not so qualified shall be true and correct in all material respects, as of the date of this Agreement; and all such representations and warranties, certifications and statements of Seller that are qualified as to materiality or Material Adverse Effect shall be true and correct, and all such representations and warranties, certifications and statements of Seller that are not so qualified shall be true and correct in all material respects, as of the Closing Date with the same effect as though such representations and warranties had been made on and as of the Closing Date (except for any such representations or warranties that are no longer true and correct as a direct result of Purchaser's failure to maintain Association Casualty's license to do business in North Carolina in accordance with Section 3.2 (c), and except that representations and warranties made with respect to a specified date need only be true and correct as of such date), and Purchaser shall have received a certificate to such effect signed by an authorized officer of Seller;

(b) Seller shall have performed and complied with all agreements and conditions required by this Agreement to be performed or complied with by Seller at or prior to the Closing, and Purchaser shall have received a certificate to such effect signed by an authorized officer of Seller;

(c) the transactions contemplated hereby shall have been approved or not disapproved at the conclusion of all applicable waiting periods, as the case may be, by the Georgia Insurance Commissioner, the Texas Insurance Commissioner and the Missouri Insurance Commissioner and each such approval shall remain in effect, and such other licenses, consents and approvals of any Governmental Entity as are required by law in order to permit each of the parties hereto to consummate the transactions contemplated by this Agreement shall have in each case been obtained and not rescinded (other than with respect to the matters set forth in Section 3.2(c)), and any and all applicable waiting periods imposed by law shall have expired;

(d) no order entered or law promulgated or enacted by any court, legislature or other Governmental Entity shall be in effect which would prevent the consummation of the transactions contemplated hereby, and no claim, action, suit or proceeding shall have been commenced and be pending which seeks to restrain, prevent, materially delay or restructure the transactions contemplated hereby or which otherwise questions the validity or legality of such transactions;

(e) the waiting period under the Hart-Scott-Rodino Act (and any extension thereof) shall have expired or terminated, if applicable;

(f) at or prior to the Closing, Seller shall cause Bank to release the Shares of Georgia Casualty and Association Casualty from the Pledge Agreement; and

(g) from and after the date hereof, there shall have been no material adverse change in the financial condition, operations or prospects of the Subsidiaries.

(h) prior to the Closing, Seller shall cause the Subsidiaries to dispose of the securities listed on Schedule 4.2(h); provided, in the event that such securities are sold after December 31, 2007, the Purchase Price shall be (i) increased by the amount, if any, that the sales price received for such securities exceeds the book adjusted carrying value for such securities shown on the Annual Statements of the Subsidiaries for the year ended December 31, 2007 (the "Book Value"), net of tax, or (ii) decreased by the amount, if any, that the Book Value exceeds the sales price for such securities, net of tax;

(i) simultaneous with the Closing, Seller shall, and shall cause the Subsidiaries to, terminate all management agreements, cost allocation agreements and leases, whether written or otherwise, between any of the Subsidiaries and Seller or any of its affiliates, and the Subsidiaries other than the contracts referred to in Section 4.2(k) hereof;

(j) Purchaser and Seller shall have entered into a mutually agreeable Non-Competition Agreement in the form attached hereto as Exhibit A; and

(k) Seller shall have entered into contracts with the Subsidiaries and/or Purchaser on terms mutually agreeable to Purchaser and Seller pursuant to which Seller or its affiliates shall provide to the Subsidiaries and/or Purchaser certain services to be mutually agreed upon by Purchaser and Seller.

ARTICLE V

TERMINATION, AMENDMENT AND WAIVER

5.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written consent of Purchaser and Seller;

(b) by either party hereto if a material breach of or failure to perform any representation, warranty, covenant or agreement on the part of the other party set forth in this Agreement (other than such material breaches on the part of Seller that are a direct result of Purchaser's failure to maintain Association Casualty's license to do business in North Carolina in accordance with Section 3.2(c)) shall have occurred and such breach has not been waived by the non-breaching party or cured to the reasonable satisfaction of the non-breaching party within 30 days of the non-breaching party's written notice to the breaching party thereof;

(c) by either party hereto, upon written notice to the other party hereto, if the party giving such notice determines, in such party's sole good faith judgment, that any condition to the consummation by such party of the transactions contemplated by this Agreement set forth in Section 4.1 with respect to Seller and Section 4.2 with respect to Purchaser has become impossible to be fulfilled;

(d) by either party hereto, if the Closing shall not have occurred by the End Date; provided, however, that no party may terminate this Agreement pursuant to this Section 5.1(d) if such party's breach of its obligations under this Agreement proximately caused the failure of the Closing to occur by such date;

(e) by either party hereto, upon payment to the other party hereto of the Break-Up Fee in accordance with Section 5.2(a); or

(f) by either party hereto, if any regulatory approvals described in Section 4.2(c) have been denied or refused, notwithstanding the best efforts of the party having responsibility for obtaining such regulatory approvals.

5.2 Effect of Termination; Termination Fee.

(a) In the event of any termination of this Agreement as provided in Section 5.1, this Agreement shall have no further force and effect, and there shall be no liability on the part of either party hereto or its officers or directors hereunder, except (i) that the provisions of this Section 5.2 and Sections 6.3, 6.4, 6.5, 6.6, 6.8, 6.10, 6.11, 6.12 and 6.14 shall survive any such termination; (ii) that this section 5.2 shall not relieve either party from liability for any willful breach of any representation or warranty set forth herein or any breach prior to such termination of any covenant or agreement contained herein, (iii) as provided in Section 5.2(b) and (iv) as provided in Section 5.2(c).

(b) In order for either party hereto to terminate this Agreement pursuant to Section 5.1(e), such party shall pay to the other party hereto a break-up fee in the amount of Two Million Dollars (\$2,000,000) (the "Break-Up Fee") by means of a wire transfer of immediately available funds to such bank account designated by the other party and such termination shall be effective upon receipt by the non-terminating party of the Break-Up Fee.

(c) If the Closing shall not have occurred by the End Date, Purchaser shall pay to Seller the Break-Up Fee by means of a wire transfer of immediately available funds to such bank account designated by Seller within two (2) business days following such date; provided, however, that Purchaser shall not be required to pay to Seller the Break-Up Fee pursuant to this Section 5.2(c) if (i) any of Seller's representations or warranties that are qualified as to materiality or Material Adverse Effect are untrue, or any of Seller's representations or warranties that are not so qualified are untrue in any material respect, as of the date made or as of the End Date (except for any representations or warranties that are untrue as a direct result of Purchaser's failure to maintain Association Casualty's license to do business in North

Carolina in accordance with Section 3.2(c)); (ii) Seller has violated any of the covenants or agreements contained in Article III of this Agreement in any material respect; or (iii) any of the conditions to Closing contained in Sections 4.2(a) through (i) hereof have not occurred or Seller has failed to execute the Non-Competition Agreement referred to in Section 4.2(j) or the agreements referred to in Section 4.2(k).

5.3 Amendment. This Agreement may be amended by mutual consent of the parties hereto at any time prior to the Closing Date; provided, however, that any amendment must be by an instrument or instruments in writing signed and delivered on behalf of each of the parties hereto.

5.4 Extension; Waiver. At any time prior to the Closing Date, any party hereto which is entitled to the benefits hereof may (i) extend the time for performance of any of the obligations or other acts of the other party hereto; (ii) in whole or in part, waive any inaccuracy in the representations and warranties of the other party hereto contained herein or in any document delivered pursuant hereto, and (iii) in whole or in part, waive compliance with any of the agreements of the other party hereto or conditions to the obligations of such party contained herein. Any such agreement on the part of either party hereto to any extension or waiver shall be valid only if set forth in an instrument in writing signed and delivered on behalf of the party granting such extension or waiver.

ARTICLE VI GENERAL PROVISIONS

6.1 Survival of Representations, Warranties and Agreements. The representations, warranties and agreements contained in this Agreement, any exhibits and schedules hereto, and in any certificates delivered pursuant to this Agreement shall survive for a period of twenty-four (24) months following the Closing Date, and neither party shall have any right or claim against the other party after such period by virtue of any breach or violation of any such representation, warranty or agreement; provided, however, that (i) nothing contained herein shall limit any covenant or agreement of the Parties that by its terms contemplates performance after the Closing Date; (ii) Section 3.10 shall survive indefinitely and (iii) in all cases, any representation, warranty, covenant or agreement that is the subject of a claim which is asserted by the party seeking indemnification pursuant to Section 6.2 in a reasonably detailed writing delivered to the other party or parties, as the case may be, prior to the expiration of the applicable survival period shall survive with respect to such claim or dispute until the final resolution thereof.

6.2 Indemnification.

(a) Indemnification by Seller. Subject to the conditions and provisions of Sections 3.2(c) and 6.2(c), (d) and (f), from and after the Closing Date, Seller agrees to indemnify, defend and hold Purchaser, the Subsidiaries and their officers, directors, employees, agents and shareholders (the “Purchaser Indemnified Parties”) harmless from and against and in any respect of any loss, liability, claim, obligation, damage or deficiency (a “Loss”) arising out of or resulting from (i) any misrepresentation or breach of the representations, warranties or certifications of Seller contained in or made pursuant to this Agreement, or (ii) any breach by Seller of any covenants of Seller contained in or made pursuant to this Agreement.

(b) Indemnification by Purchaser. Subject to the conditions and provisions of Sections 6.2(c), (d) and (f), from and after the Closing Date, Purchaser agrees to indemnify, defend and hold Seller and Seller’s officers, directors, employees, agents and shareholders (the “Seller Indemnified Parties”) harmless from and against and in any respect of any Loss arising out of or resulting from (i) any misrepresentation or breach of the representations, warranties or certifications of Purchaser contained in or made pursuant to this Agreement, or (ii) any breach by Purchaser of any covenants of Purchaser contained in or made pursuant to this Agreement.

(c) Limitations on Indemnification.

(i) Seller shall not be liable to the Purchaser Indemnified Parties in respect of any indemnification under Section 6.2(a) except to the extent that the aggregate Losses of the Purchaser Indemnified Parties under Section 6.2(a) exceed \$250,000 (the “Basket Amount”), in which event the Purchaser Indemnified Parties may claim indemnification for all Losses of the Purchaser Indemnified Parties.

(ii) Purchaser acknowledges and agrees that the maximum aggregate liability of Seller pursuant to Section 6.2(a) to the Purchaser Indemnified Parties and any third parties for any and all Losses shall not exceed \$7,500,000; provided, however, that nothing in this Section 6.2(c)(ii) shall be construed to constitute a waiver or limitation of any claims by Purchaser based on fraud, willful misconduct or bad faith of Seller.

(iii) The Purchaser Indemnified Parties' right to indemnification pursuant to Section 6.2(a) on account of any Losses will be reduced by all insurance or other third party indemnification proceeds actually received by the Purchaser Indemnified Parties. The Purchaser Indemnified Parties shall use their commercially reasonable efforts to claim and recover any Losses suffered by the Purchaser Indemnified Parties under any such insurance policies or other third party indemnities. The Purchaser Indemnified Parties shall remit to Seller any such insurance or other third party proceeds which are paid to the Purchaser Indemnified Parties with respect to Losses for which the Purchaser Indemnified Parties have been previously compensated pursuant to Section 6.2(a).

(iv) Purchaser shall not be liable to the Seller Indemnified Parties in respect of any indemnification under Section 6.2(b) except to the extent that the aggregate Losses of the Seller Indemnified Parties under Section 6.2(a) exceed the Basket Amount, in which event the Seller Indemnified Parties may claim indemnification for all Losses of the Seller Indemnified Parties.

(v) Seller acknowledges and agrees that the maximum aggregate liability of Purchaser pursuant to Section 6.2(b) to the Seller Indemnified Parties and any third parties for any and all Losses shall not exceed \$7,500,000; provided, however, that nothing in this Section 6.2(c)(iv) shall be construed to constitute a waiver or limitation of any claims by Seller based on fraud, willful misconduct or bad faith of Purchaser.

(vi) The Seller Indemnified Parties' right to indemnification pursuant to Section 6.2(b) on account of any Losses will be reduced by all insurance or other third party indemnification proceeds actually received by the Seller Indemnified Parties. The Seller Indemnified Parties shall use their commercially reasonable efforts to claim and recover any Losses suffered by the Seller Indemnified Parties under any such insurance policies or other third party indemnities. The Seller Indemnified Parties shall remit to Purchaser any such insurance or other third party proceeds which are paid to the Seller Indemnified Parties with respect to Losses for which the Seller Indemnified Parties have been previously compensated pursuant to Section 6.2(b).

(vii) No claim for indemnification may be made pursuant to this Section 6.2 after the expiration of the applicable survival period set forth in Section 6.1.

(d) Conditions of Indemnification. The obligations and liabilities of Seller and of Purchaser hereunder with respect to their respective indemnities pursuant to this Section 6.2, resulting from any Losses, shall be subject to the following terms and conditions:

(i) The party seeking indemnification (the "Indemnified Party") must give the other party or parties, as the case may be (the "Indemnifying Party"), notice of any such Losses promptly after the Indemnified Party receives notice thereof; provided that the failure to give such notice shall not affect the rights of the Indemnified Party hereunder except to the extent that the Indemnifying Party shall have suffered actual damage by reason of such failure.

(ii) The Indemnifying Party shall have the right to undertake, by counsel or other representatives of its own choosing (reasonably acceptable to the Indemnified Party), the defense of such Losses at the Indemnifying Party's risk and expense; provided, however, that as a condition to the exercise of such right to undertake defense of such Losses, the Indemnifying Party shall, as between the Indemnifying Party and the Indemnified Party, assume the liability for such Losses, without regard to the limitations set forth in Section 6.2(c)(ii) or Section 6.2(c)(v), as applicable.

(iii) In the event that the Indemnifying Party shall elect not to undertake such defense, or, within a reasonable time after notice from the Indemnified Party of any such Losses, shall fail to defend, the Indemnified Party (upon further written notice to the Indemnifying Party) shall have the right to undertake the

defense, compromise or settlement of such Losses, by counsel or other representatives of its own choosing, on behalf of and for the account and risk of the Indemnifying Party (subject to the right of the Indemnifying Party to assume defense of such Losses at any time prior to settlement, compromise or final determination thereof (with counsel reasonably acceptable to the Indemnified Party)). In such event, the Indemnifying Party shall pay to the Indemnified Party, in addition to the other sums required to be paid hereunder, the costs and expenses incurred by the Indemnified Party in connection with such defense, compromise or settlement as and when such costs and expenses are so incurred.

(iv) Notwithstanding anything contained in this Section 6.2(d) to the contrary, (a) if any third party alleges the right to or seeks any remedy other than money damages or other money payments, the Indemnified Party shall have the right, at the cost and expense of the Indemnifying Party, to participate in and direct the defense, compromise or settlement of the Losses, (b) the Indemnifying Party shall not, without the Indemnified Party's written consent, settle or compromise any Losses or consent to entry of any judgment which does not include as an unconditional term thereof the giving by the claimant or the plaintiff to the Indemnified Party of a release from all liability in respect of such Losses in form and substance reasonably satisfactory to the Indemnified Party, (c) in the event that the Indemnifying Party undertakes defense of any Losses, the Indemnified Party, by counsel or other representative of its own choosing and at its sole cost and expense, shall have the right to consult with the Indemnifying Party and its counsel or other representatives concerning such Losses and the Indemnifying Party and the Indemnified Party and their respective counsel or other representatives shall cooperate with respect to such Losses, (d) in the event that the Indemnifying Party undertakes defense of any Losses, the Indemnifying Party shall have an obligation to keep the Indemnified Party informed of the status of the defense of such Losses and furnish the Indemnified Party with all documents, instruments and information that the Indemnified party shall reasonably request in connection therewith, and (e) in the event that both the Indemnified Party and the Indemnifying Party are parties (directly or through interpleader) to any Losses giving rise to indemnification hereunder and the Indemnified Party is advised by counsel that there is or may be a conflict of interest in the representation of both the Indemnified Party and the Indemnifying Party by one firm of counsel, the Indemnified Party shall be entitled to assume, at the sole cost and expense of the Indemnifying Party, the defense, compromise and settlement (subject to clause (b) of this Section 6.2(d)(iv) above) of such Loss with counsel (in addition to local counsel) reasonably satisfactory to the Indemnifying Party.

(v) In the event that an Indemnified Party has a good faith basis for a claim for indemnification which does not involve a claim against it by a third party (a "Direct Claim"), the Indemnified Party shall notify the Indemnifying Party in writing of such Direct Claim with reasonable promptness, specifying, to the extent known, the nature, circumstances and amount of such Direct Claim, including with particularity the specific representation and warranty or covenant and agreement alleged to have been breached; provided, that the failure to give such notice shall not affect the rights of the Indemnified Party hereunder except to the extent that the Indemnifying Party shall have suffered actual damage by reason of such failure. If the Indemnifying Party notifies the Indemnified Party that it disputes an Indemnified Party's right of indemnification with respect to a particular Direct Claim, the parties shall use their reasonable efforts to negotiate a resolution of such dispute promptly. Except to the extent of the limitations on indemnification set forth in this Section 6.2, nothing in this Section 6.2(d)(v) shall be deemed to prevent any Indemnified Party from initiating litigation under this Agreement with respect to any Direct Claim disputed by the Indemnifying Party for the purpose of establishing the Indemnified Party's right to indemnification hereunder.

(e) Exclusive Remedy. Except with respect to fraud, willful misconduct or bad faith, from and after the Closing Date, the indemnification rights provided in Section 6.2 of this Agreement shall be the sole and exclusive remedy available under contract, tort or any other legal theory to Purchaser, Seller or any other person with respect to any Losses, including any debts, liabilities, damages, obligations, claims, demands, judgments, and settlements, whether asserted by third parties or incurred or sustained in the absence of third-party claims, including all costs and expenses, including interest, penalties, attorneys' fees and any amounts paid in investigation, defense or settlement of any of the foregoing incurred or sustained pursuant to or in connection with this Agreement or the transactions contemplated hereby.

(f) Exception to Indemnification. Notwithstanding anything to the contrary contained herein, if the Closing occurs no claim for indemnification may be asserted under this Agreement or any document delivered in connection herewith with respect to any matter which the indemnifying party can prove was discovered or known by the party otherwise entitled to seek indemnification on or before the Closing Date.

6.3 Notices. All notices and other communications required to be given hereunder shall be in writing and shall be deemed to have been duly given upon delivery, if delivered by hand; if given by mail, three (3) days after the date of mailing, postage prepaid, certified or registered mail to a party hereto at the address set forth below; if given by facsimile, upon transmission to the number set forth below provided written confirmation is sent to the address below; if given by overnight delivery service addressed to the address set forth below, the business day following the day on which such notice is sent:

If to Seller:

Atlantic American Corporation
4370 Peachtree Road, NE
Atlanta, Georgia 30319
Attention: Mr. Hilton H. Howell, Jr.
Facsimile: (404) 266-8107
Email: hhh@atlam.com

with a copy to:

Troutman Sanders LLP
Bank of America Plaza
600 Peachtree Street, N.E.
Suite 5200
Atlanta, Georgia 30308-2216
Attention: Neal H. Ray, Esq.
Facsimile: (404) 962-6857
Email: neal.ray@troutmansanders.com

If to Purchaser:

Columbia Mutual Insurance Company
2102 White Gate Drive
Columbia, MO 65202
Attention: Mr. Robert J. Wagner
Facsimile: (573) 474-5865
Email: bwagner@colinsgrp.com

with a copy to:

Columbia Mutual Insurance Company
2102 White Gate Drive
Columbia, MO 65202
Attention: Mr. Gary Thompson
Facsimile: (573) 474-5865
Email: gthompson@colinsgrp.com

Either party hereto may change its address for purposes of receiving notice pursuant to this Agreement by giving notice of such new address to the other party hereto.

6.4 Fees and Expenses. Each of the parties shall pay its own expenses incurred in connection with the preparation, negotiation, execution, delivery and performance of this Agreement, whether or not the transactions contemplated hereby are consummated.

6.5 Interpretation. The article and section headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement. Terms used in the plural include the singular, and vice versa, unless the context otherwise requires.

6.6 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF GEORGIA, WITHOUT REGARD FOR ITS CONFLICT OF LAWS DOCTRINE.

6.7 Counterparts. This Agreement may be executed in one or more identical counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument. Telecopy transmissions of signatures shall be deemed to constitute originals.

6.8 Entire Agreement. This Agreement (together with the Schedules hereto) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof; provided that the Confidentiality Agreement dated October 2, 2007, by and between Seller and Purchaser relating to certain Confidential Information (as defined therein) shall not be superseded by this Agreement and shall remain in effect hereafter or otherwise with respect to the subject matter hereof.

6.9 Assignment. This Agreement shall not be assigned by any party by operation of law or otherwise without the prior written consent of each other party hereto. Any purported assignment in violation of this provision shall be null and void.

6.10 Binding Effect. The terms and provisions of this Agreement shall be binding upon, inure to the benefit of, and be enforceable by or against the parties and their respective legal representatives, heirs, successors and permitted assigns.

6.11 Severability. If any part of this Agreement or other agreement entered into pursuant hereto is contrary to, prohibited by or deemed invalid under applicable law or regulation, such provision shall be inapplicable and deemed omitted to the extent so contrary, prohibited or invalid, but the remainder of this Agreement shall not be invalidated thereby and shall be given full force and effect to the greatest extent permitted by law.

6.12 Publicity. Except as required by law or by the rules of any national securities exchange or the National Association of Securities Dealers, Inc., each of the parties hereto and their respective agents, representatives and employees will keep strictly confidential this Agreement and its contents, and all related discussions and negotiations regarding the subject matter hereof and, without the express written consent of each of Purchaser and Seller (which consent shall not be unreasonably withheld), shall not make any disclosure or announcement about the existence or contents of this Agreement or the transactions contemplated hereunder. Notwithstanding the foregoing, it is agreed and understood that (i) promptly following the execution of this Agreement Seller will prepare and disseminate a public announcement of the principal terms hereof, identifying the parties hereto, and (ii) Purchaser will be given a reasonable opportunity to review and comment upon such public announcement in advance of its dissemination.

6.13 Subsequent SEC Filings. After the Closing, the parties agree to furnish information to each other (on a SAP and/or GAAP basis) so that each party may prepare any filings required to be made with the SEC or any other Governmental Entity. The parties shall each be responsible for their own costs and expenses (including, without limitation, professional fees and expenses) incurred in preparing such filings.

6.14 Authorship. The parties agree that the terms and language of this Agreement were the result of negotiations between the parties, and as a result, there shall be no presumption that any ambiguities in this Agreement shall be resolved against any party. Any controversy over construction of this Agreement shall be decided without regard to events of authorship.

(Signatures appear on the following page)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

ATLANTIC AMERICAN CORPORATION

By: /s/ J. Mack Robinson
Name: J. Mack Robinson
Title: Chairman

COLUMBIA MUTUAL INSURANCE COMPANY

By: /s/ Robert J. Wagner
Name: Robert J. Wagner
Title: President

Exhibit A

Form of Non-Competition Agreement

<DOCUMENT>
<TYPE> EX-10.10
<FILENAME> g12502exv10w10.htm
<DESCRIPTION> EX-10.10 LEASE AGREEMENT
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LEASE AGREEMENT

This LEASE AGREEMENT, dated as of the First day of November, 2007, by and between DELTA LIFE INSURANCE CO., a Georgia corporation, with its mailing address at 4370 Peachtree Road, N.E., Atlanta, Georgia 30319 (hereinafter called the "Lessor"), and ATLANTIC AMERICAN CORPORATION, BANKERS FIDELITY LIFE INSURANCE COMPANY, and GEORGIA CASUALTY AND SURETY COMPANY, all Georgia corporations, with their mailing addresses at 4370 Peachtree Rd., N.E., Atlanta, Georgia 30319 (hereinafter collectively called the "Lessee");

WITNESSETH:

The Lessor hereby leases to the Lessee, and the Lessee hereby leases from the Lessor, the following described property, (hereinafter referred to as the "Premises"):

Space located in the Peachtree Insurance Center Building of approximately 65,489 square feet, being presently occupied by the Lessee, and located at the following address: 4370 Peachtree Road, N.E., Atlanta, Georgia 30319.

Lessor and Lessee agree this Lease includes Lessee's pro-rata share of parking spaces for conventional automobiles in the parking deck located at the rear of the building in which the Premises are located. Lessor reserves the right to make and enforce such rules and regulations as Lessor deems necessary and appropriate for the regulation of the use of such parking spaces. Lessor further reserves the right to relocate such spaces from time to time in order to accommodate Lessor's parking requirements.

1. TERM

The lease term shall commence as of the first day of the first month following approval by the Georgia Department of Insurance. (hereinafter called the "Term Commencement Date").

2. USE AND POSSESSION

It is understood that the Premises are to be used for general office purposes and for no other purpose without prior written consent of Lessor. Lessee shall not use the Premises for any unlawful purpose or so as to constitute a nuisance. The Lessee, at the expiration of the term, shall deliver up the Premises in good repair and condition, damages beyond the control of the Lessee, reasonable use, ordinary decay, wear and tear excepted. All alterations, additions or improvements (including, but not limited to, carpets, drapes and drape hardware) shall become the property of Lessor at the expiration of this Lease.

3. RENT

Lessee hereby covenants and agrees to pay to the Lessor, or to such other party as Lessor designates, without deduction, demand or set-off, an annual rent of \$622,146.00 (based upon a rate of \$9.50 per annum per square foot), in equal monthly installments, payable in advance beginning on the Term Commencement Date of this Lease and on the first day of each and every month thereafter of \$51,845.50 (hereinafter called "Rent"). Rent shall be paid to Lessor at the address set forth above, or at such other address as Lessor shall provide in writing. Rent will be adjusted in the manner set forth in Paragraph Four. Lessor may charge Lessee a late charge of three (3%) percent of such payment for each payment of rent or other sums due hereunder which are not received by the Lessor within ten (10) days of the applicable due date. No termination of this Lease prior to the normal ending hereof shall affect Lessor's right to collect rent for the period prior to such termination.

4. RENT ADJUSTMENT

Rent shall be adjusted on every fifth anniversary of the Term Commencement Date, in accordance with terms that the parties find mutually agreeable. In the absence of such agreement thirty days prior to each fifth anniversary, rent shall continue at the current rate until an agreeable rent is negotiated.

5. LEASE CANCELLATION

The lease shall be in effect continuously unless written notice of cancellation is provided by either party at least twelve months in advance of the actual termination date.

6. SALES AND USE TAX

The Lessee hereby covenants and agrees to pay monthly, as additional rent, any sales, use or other tax, excluding State and/or Federal Income Tax, now or hereafter imposed upon rents by the United States of America, the State, or any political subdivision thereof, to the Lessor, notwithstanding the fact that such statute, ordinance or enactment imposing the same may endeavor to impose the tax on the Lessor.

7. ORDINANCES AND REGULATIONS

The Lessee hereby covenants and agrees to comply with all the rules and regulations of the Board of Fire Underwriters. Officers or Boards of the City, County or State having jurisdiction over the Premises, and with all ordinances and regulations of governmental authorities wherein the Premises are located, at Lessee's sole cost and expense, but only insofar as any of such rules, ordinances and regulations pertain to the manner in which the Lessee shall use the Premises.

8. SERVICES

Lessor covenants and agrees to provide the necessary services in order for the Premises to be used as a general office building.

The Lessee does hereby agree to pay the pro-rata share of all real estate taxes, general maintenance expenses and upkeep of building, including necessary service contracts for heating and air-conditioning, elevator, music service, pest control, exterior maintenance, sanitary supplies, interior and exterior lighting, yard maintenance, yard equipment and repairs, water and sewerage service, electrical service, plumbing repairs, mechanical repairs, paving or parking deck repairs, garbage and sanitation service, redecorating or changes to common areas, janitorial service, window cleaning, and insurance coverage sufficient to cover the fair market value of the building and improvements. Insurance includes any liability coverage for the protection of the Lessor and Lessee. The Lessee also agrees to pay the pro-rata share of any other requirements such as maid service, additional security system, and/or any other items not specifically determined. The Lessee agrees to pay the pro-rata share of expense to Lessor on a current monthly basis. The Lessee hereby assumes complete responsibility for the direct maintenance cost and upkeep of its computer air-conditioning system. Lessor shall provide a reasonable amount of parking at its standard rates for Lessee's employees and visitors on Lessor's parking area adjacent to the building in which the Premises are situated.

If the Lessee shall require electrical current or install electrical equipment including, but not limited to, electrical heating, refrigeration equipment, electronic data processing machines, punch card machines, or machines or equipment using current which will in any way increase the amount of the electricity usually furnished for use in general office space, Lessee will obtain prior written approval from the Lessor and pay periodically for the additional direct expense involved, including any installation cost thereof.

Lessor shall in no way be liable for cessation of any of the above services caused by strike, accident or reasonable breakdown, nor shall Lessor be liable for damages from the stopping of elevators or elevator service, or any of the fixtures or equipment in the building being out of repair, or for injury to person or property, caused by any defects in the electrical equipment, heating, ventilating and air-conditioning system, elevators or water apparatus, or for any damages arising out of failure to furnish the services enumerated in this paragraph.

Lessor's obligation to furnish light, heat and power shall be conditioned upon the availability of adequate energy sources. Lessor shall have the right to reduce heat and lighting as required by any mandatory or voluntary fuel or energy saving, allocation or similar statute, regulation, order or program.

9. INSURANCE

Lessee shall carry all risk of physical loss insurance insuring its interest in Lessee's improvements in

the Premises and its interest in its furniture, equipment and supplies. Lessee shall also keep in full force and effect liability insurance protecting Lessee and Lessor with limits of liability in an amount to be determined by Lessor, to include fire damage and water damage legal liability. Lessor shall be furnished with evidence of such insurance, including evidence that Lessor is named as an additional insured under such policy. Such policy shall provide that it may not be canceled unless a minimum of thirty (30) days notice of such cancellation is given to Lessor.

Lessor and Lessee each hereby release the other from any and all liability or responsibility to the other or anyone claiming through or under them by way of subrogation or otherwise for any loss or damage to property caused by fire or other perils insured in policies of insurance covering such property, even if such loss or damage shall have been caused by the fault or negligence of the other party, or anyone for whom such party may be responsible, including, without limitation, any other tenants or occupants of the remainder of the building; provided, however, that this release shall be applicable and in force and effect only to the extent that such release shall be lawful at that time and in any event only with respect to loss or damage occurring during such time as the releasor's policy shall contain a clause or endorsement to the effect that any such release shall not adversely affect or impair said policies or prejudice the right of the releasor to recover thereunder, and then only to the extent of the insurance proceeds payable under such policies. Lessor and Lessee each agree that they will request their insurance carriers to include in their policies such a clause or endorsement. If extra costs shall be charged therefore, each party shall advise the other thereof and of the amount of the extra cost, and the other party, at its election, may pay the same, but shall not be obligated to do so. If such other party fails to pay such extra cost, the release provisions of this paragraph shall be inoperative against such other party to the extent necessary to avoid invalidation of such releasor's insurance.

10. ALTERATIONS

Lessee, by occupancy hereunder, accepts the Premises as being in good repair and condition. Lessee shall not make or suffer to be made any alterations, additions or improvements to or of the leased Premises, or any part thereof, without prior written consent of Lessor, which consent the Lessor covenants and agrees shall not be unreasonably withheld. In the event Lessor consents to the proposed alterations, additions, or improvements, the same shall be at Lessee's sole cost and expense, and Lessee shall hold Lessor harmless on account of the cost thereof and shall bond any mechanics or materialmen's lien which is filed on account of such work within fifteen (15) days of its filing. Any such alterations shall be made at such times and in such manner as not to unreasonably interfere with the occupations, use and enjoyment of the remainder of the building by the other tenants thereof. If required by Lessor, such alterations shall be removed by Lessee upon the termination or sooner expiration of the term of this Lease, and Lessee shall repair damage to the Premises caused by such removal, all at Lessee's cost and expense.

11. QUIET ENJOYMENT

The Lessor covenants and agrees that Lessee, in paying said monthly rent and performing the covenants herein, and subject to the provisions of Paragraph 18 of this Lease, shall and may peaceably and quietly hold and enjoy the said premises and common areas, including but not limited to parking areas, sidewalks, entrances, lobbies, restrooms and lounges for the term aforesaid.

12. LESSOR'S RIGHT TO INSPECT AND DISPLAY

The Lessor shall have the right, at reasonable times during the term of this Lease, to enter the Premises for the purpose of examining or inspecting same and of making such repairs or alterations therein as the Lessor shall deem necessary, without being liable to Lessee in any manner. The Lessor shall also have the right to enter the Premises at all reasonable hours for the purpose of displaying said premises to prospective tenants within ninety (90) days prior to the termination of this Lease.

13. DESTRUCTION OF PREMISES

(a) If the Premises are totally destroyed by fire or other casualties, both the Lessor and Lessee shall have the option of terminating this Lease or any renewal thereof, upon giving written notice at any time within thirty (30) days from the date of such destruction, and if the Lease be so terminated, all rent shall cease as of the date of such destruction and any prepaid rent shall be refunded.

(b) If such Premises are partially damaged by fire or other casualty, or totally destroyed thereby, and neither party elects to terminate this Lease within the provisions of paragraph (a) above or (c) below, then the Lessor agrees, at Lessor's sole cost and expense, to restore the Premises to a kind and quality substantially similar to that immediately prior to such destruction or damage. Said restoration shall be commenced within a reasonable time and completed without delay on the part of the Lessor and in any event shall be accomplished within 150 days from the date of the fire or other casualty. In such case, all rents paid in advance shall be apportioned as of the date of damage or destruction, and all rent thereafter accruing shall be equitably and appropriately suspended and adjusted according to the nature and extent of the destruction or damage, pending completion of rebuilding, restoration or repair, except that in the event the destruction or damage is, in Lessor's determination, so extensive as to make it unfeasible for the Lessee to conduct Lessee's business on the Premises, the rent shall be completely abated until the Premises are restored by the Lessor or until the Lessee resumes use and occupancy of the Premises, whichever shall first occur. The Lessor shall not be liable for any inconvenience or interruption of business of the Lessee occasioned by fire or other casualty.

(c) If the Lessor undertakes to restore, rebuild or repair the Premises, and such restoration, rebuilding or repair is not accomplished within 150 days, and such failure does not result from causes beyond the control of Lessor, the Lessee shall have the right to terminate this Lease by written notice to the Lessor within thirty (30) days after expiration of said 150 day period.

(d) Lessor shall not be liable to carry fire, casualty or extended damage insurance on the person or property of the Lessee or any person or property which may now or hereafter be placed in the Premises.

14. RULES AND REGULATIONS

Lessee will observe and comply with the Rules and Regulations set forth in Exhibit "A" hereof, which are incorporated herein by reference, and such amendments and additions thereto as Lessor may prescribe by written notice to Lessee.

15. CONDEMNATION

If during the term of this Lease or any renewal thereof, the whole of the Premises, or such portion thereof as will make the Premises unusable for the purpose leased, be condemned by public authority for public use, then, in either event, the term hereby granted shall cease and come to an end as of the date of the vesting of title in such public authority, or when possession is given to such public authority, whichever event last occurs. Upon such occurrence, the rent shall be apportioned as of such date, and any prepaid rent shall be returned to the Lessee. The Lessor shall be entitled to the entire award for such taking except to the extent prohibited by Georgia law. If a portion of the Premises is taken or condemned by authority for public use so as not to make the remaining portion of the premises unusable for the purposes leased, this Lease will not be terminated but shall continue. If any portion of the Premises on the interior of the building is so taken, the rent shall be equitably and fairly reduced or abated for the remainder of the term in proportion to the amount of the Premises taken. In no event shall the Lessor be liable to the Lessee for any business interruption, diminution in use, or for the value of any unexpired term of this Lease.

16. ASSIGNMENT AND SUBLEASE

The Lessee covenants and agrees not to encumber or assign this Lease or sublet all or any part of the Premises without the written consent of the Lessor. Such assignment shall in no way relieve the Lessee from any obligations hereunder for the payment of rents or the performance of the conditions, covenants and provisions of this Lease.

In no event shall Lessee assign or sublet the Premises for any terms, conditions and covenants other

than those contained herein. In no event shall this Lease be assigned or be assignable by operation of law or by voluntary or involuntary bankruptcy proceedings or otherwise, and in no event shall this Lease or any rights or privileges hereunder be an asset of Lessee under any bankruptcy, insolvency or reorganization proceedings. Lessor shall not be liable nor shall the Premises be subject to any mechanics, materialmen's or other type liens, and Lessee shall keep the Premises and property in which the Premises are situated free from any such liens and shall indemnify Lessor against and satisfy any such liens which may obtain because of acts of Lessee notwithstanding the foregoing provision.

17. HOLDOVER

It is further covenanted and agreed that if the Lessee, any assignee or sub-lessee shall continue to occupy the Premises after the termination of this Lease without prior written consent of the Lessor, such tenancy shall be Tenancy at Sufferance. Acceptance by the Lessor of rent after such termination shall not constitute a renewal of this Lease or a consent to such occupancy nor shall it waive Lessor's right of re-entry or any other right contained herein or otherwise available to Lessor at law or in equity.

18. ESTOPPEL CERTIFICATES

Lessee shall, within ten (10) days after request by Lessor, execute, acknowledge and deliver to Lessor a sworn, written statement regarding the status of this Lease, including the space occupied, the rentals paid hereunder, the amount of any security deposit held hereunder, and whether any defaults, off-sets or defenses exist in connection herewith.

19. SUBORDINATION AND ATTORNMENT

(a) Except as provided in Subparagraph (c) below with respect to mortgage subordination, this Lease and all rights of Lessee hereunder are and shall be subject and subordinate to the lien and security title of Lessor's Mortgage (defined herein below). Lessee recognizes and agrees to the rights of the holder of Lessor's Mortgage to foreclose or exercise the power of sale against the premises under Lessor's Mortgage.

(b) While subparagraph (a) above is self-operative, and no further instrument or subordination shall be necessary, Lessee shall, in confirmation of such subordination, upon demand, at any time or times, execute, acknowledge and deliver to Lessor or a holder of Lessor's Mortgage, any and all instruments requested by either of them to evidence such subordination.

(c) Lessee shall, upon demand, at any time or times, execute, acknowledge and deliver to a holder of Lessor's Mortgage, any and all instruments that may be necessary to make this Lease superior to the lien of Lessor's Mortgage.

(d) If a holder of Lessor's Mortgage shall hereafter succeed to the rights of Lessor under this Lease, whether through possession, foreclosure, deed-under-power, deed-in-lieu or otherwise, Lessee shall, at the option of such holder, attorn to and recognize such successor as Lessee's Lessor under this Lease without change in the terms and provisions of this Lease (provided that such successor shall not be bound by (i) any payment of rent or additional rent for more than one month in advance, except prepayments in the nature of security for the performance by Lessee of its obligations under this Lease, and then only if such prepayments have been deposited with and are under the control of such successor, or (ii) any provision or amendment or modification of this Lease, and shall promptly execute and deliver any instrument that may be necessary to evidence such attornment. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between each successor Lessor and Lessee, subject to all of the terms, covenants and conditions of this Lease.

(e) If Lessee fails at any time to execute, acknowledge and deliver any of the instruments provided for by Subparagraphs (b), (c) and (d) above within ten days after Lessor's notice to do so, Lessor, in addition to the remedies granted to Lessor in this Lease for a default, may execute, acknowledge and deliver any and all of such instruments as the attorney-in-fact of Lessee and in its name, place and stead, and Lessee hereby irrevocably appoints Lessor, its successors and assigns as such attorney-in-fact.

(f) From time to time and upon not less than five (5) days prior notice, Lessee shall execute, acknowledge and deliver to a holder of Lessor's Mortgage a statement in writing addressed to it certifying (i) that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same are in full force and effect as modified and specifying the modification), the date to which rent and other charges have been paid, and whether or not to the knowledge of the signer there exists any failure by Lessor to perform any term, covenant or condition contained in this Lease and, if so, specifying such failure. It is intended that any such statement may be relied upon by a holder of Lessor's Mortgage or a purchaser thereunder.

As used in this paragraph, the term "Lessor's Mortgage" means any of all mortgages, deeds to secure debt, deeds of trust or other instruments in the nature thereof which may now or hereafter affect or encumber Lessor's title to the Premises.

20. LESSOR'S LIABILITY

The extent of any liability of Lessor arising hereunder or from Lessee's use of the Premises and the real estate on which such Premises are located shall be limited to Lessor's interest in such real estate.

21. INDEMNIFICATION

The Lessor shall not be liable for any damage or injury to any person or property whether it be the person or property of the Lessee, the Lessee's employees, agents, guests, invitees or otherwise by reason of Lessee's occupancy of the Premises or because of fire, flood, windstorm, Acts of God or for any other reason. The Lessee agrees to indemnify and save harmless the Lessor from and against any and all loss, damage, claim, demand, liability or expense by reason of damage to person or property which may arise or be claimed to have arisen as a result of the occupancy or use of said Premises by the Lessee or by reason thereof or in connection therewith, or in any way arising on account of any injury or damage caused to any person or property on or in the Premises providing, however, that Lessee shall not indemnify as to the loss or damage due to willful fault of Lessor. If Lessee's use of the Premises causes Lessor's insurance premium for the building to be increased, the Lessee agrees to pay, as additional rent plus any applicable sales or use taxes, the entire cost of such increase.

22. CONSTRUCTION OF LANGUAGE

The terms lease, lease agreement or agreement shall be inclusive of each other, also to include renewals, extensions or modifications of the Lease. Words of any gender used in this Lease shall be held to include any other gender, and words in the singular shall be held to include the plural and the plural to include the singular, when the sense requires. The paragraph headings and titles are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

23. DEFAULT

In the event the Lessee shall default in the payment of rent or any other sums payable by the Lessee herein, and such default shall continue for a period of ten (10) days, or if the Lessee shall default in the performance of any other covenants or agreements of this Lease and such default shall continue for thirty (30) days after written notice thereof, or if the Lessee should become bankrupt or insolvent or any debtor proceedings be taken by or against the Lessee, then and in addition to any and all other legal remedies and rights, the Lessor may declare the entire balance of the rent for the remainder of the term to be due and payable and may collect the same by distress or otherwise, and Lessor shall have a lien on the personal property of the Lessee which is located in the Premises, and in order to protect its security interest in the said property Lessor may, without first obtaining a distress warrant, lock up the Premises in order to protect said interest in the secured property; or the Lessor may terminate this Lease and retake possession of the Premises; or enter the Premises and re-let the same without termination, in which latter event the Lessee covenants and agrees to pay any deficiency after Lessee is credited with the rent thereby obtained less all repairs and expenses (including the expenses of obtaining possession); or the Lessor may resort to any two or more of such remedies or rights or any other remedies available at law or in equity, and adoption of one or more such remedies or rights shall not necessarily prevent the enforcement of others concurrently or thereafter.

The Lessee also covenants and agrees to pay reasonable attorneys' fees and costs and expenses of the

Lessor, including court costs, if the Lessor employs an attorney to collect rent or enforce other rights of the Lessor herein in event of any breach as aforesaid, and the same shall be payable regardless of whether collection or enforcement is effected by suit or otherwise.

Rent and other sums due hereunder shall accrue interest at a rate per annum equal to fifteen percent (15.0%) per annum from and after ten (10) days after the applicable due date hereunder until paid-in-full. Such interest shall be due and payable by Lessee to Lessor upon demand and as a condition of cure.

24. SUCCESSORS AND ASSIGNS

Except as provided in paragraph 16 above, this Lease shall bind and inure to the benefit of the successors, assigns, heirs, executors, administrators and legal representatives of the parties hereto.

25. NON-WAIVER

No waiver of any covenant or condition of this Lease by either party shall be deemed to imply or constitute a further waiver of the same covenant or condition or any other covenant or condition of this Lease.

Lessee has only a usufruct under this agreement not subject to levy and sale; no estate shall pass out of Lessor.

26. NOTICES

For the purpose of notice or demand, the respective parties shall be served by certified or registered mail, return receipt requested, addressed to the Lessee at its mailing address as set further herein, or posted at the Premises, and to the Lessor at its mailing address as set forth on the first page. All notices shall be deemed given on the date delivered, if by hand delivery or posting, or on the date deposited in the mail, if mailed.

27. SPECIAL STIPULATIONS

Special stipulations, if any, set forth below or attached hereto shall control if in conflict with any of the foregoing provisions of this Lease.

28. MISCELLANEOUS

(a) Governing Law. This Lease shall be construed and enforced in accordance with the laws of the State of Georgia.

(b) Counterpart Copies. This agreement may be executed in two (2) or more counterpart copies, all of which counterparts shall have the same force and effect as if all parties hereto have

executed a single copy of this Lease.

(c) Entire Agreement. This Agreement contains the final and entire agreement between the parties hereto with respect to the lease of the Premises described herein, and is intended to be an integration of all prior negotiations and understandings. No party shall be bound by any term, condition, statement, warranty or representation, oral or written not contained herein. No change or modification of the Lease shall be valid unless the same is in writing and signed by the parties hereto. No waiver of any provision of this Lease shall be valid unless in writing and signed by the party against which it is sought to be enforced.

(d) Severability. If all or any portion of any of the provisions of this Lease shall be declared invalid by laws applicable thereto, then the performance of such offending provisions shall be excused by the parties hereto, and this Lease shall be valid and enforceable as to all other provisions thereof.

(e) Authority of Lessee. Lessee represents and warrants that Lessee and the person or persons executing this Lease, on behalf of Lessee, have the full and entire right, power and authority to execute this Lease and to perform the obligations hereunder.

IN WITNESS WHEREOF, Lessee and Lessor have caused this instrument to be executed under seal as of the date first above written, by their respective officers or parties thereunto duly authorized.

“LESSOR”

DELTA LIFE INSURANCE CO., a Georgia corporation

By: /s/ James B. Falkler Secretary/Treasurer
Title

Attest: /s/ Jeff Donahue Controller
Title

(SEAL)

“LESSEE”

ATLANTIC AMERICAN CORPORATION, a Georgia corporation

By: /s/ John G. Sample CFO
Title

Attest: /s/ Janie L. Ryan Secretary
Title

(SEAL)

BANKERS FIDELITY LIFE INSURANCE COMPANY, a Georgia corporation

By: /s/ Eugene Choate President
Title

Attest: /s/ Janie L. Ryan Assistant Secretary
Title

(SEAL)

GEORGIA CASUALTY AND SURETY COMPANY, a Georgia corporation

By: /s/ Dianne Morris President
Title

Attest: /s/ Janie L. Ryan Assistant Secretary
Title

(SEAL)

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EXHIBIT 21.1

Subsidiaries of the Registrant

Subsidiary	State of Formation
American Safety Insurance Company	Georgia
American Southern Insurance Company	Kansas
Association Casualty Insurance Company	Texas
Association Risk Management General Agency, Inc.	Texas
Bankers Fidelity Life Insurance Company	Georgia
Georgia Casualty & Surety Company	Georgia
Self-Insurance Administrators, Inc.	Georgia

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-90063, 333-90057 and 333-97567 of Atlantic American Corporation on Form S-8 of our report dated March 27, 2008 relating to the consolidated financial statements and financial statement schedules of Atlantic American Corporation appearing in this Annual Report on Form 10-K of Atlantic American Corporation as of and for each of the three years in the period ended December 31, 2007.

BDO SEIDMAN LLP

Atlanta, Georgia
March 27, 2008

<DOCUMENT>
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**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Hilton H. Howell, Jr., certify that:

1. I have reviewed this report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2008

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

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<TYPE> EX-31.2
<FILENAME> g12502exv31w2.htm
<DESCRIPTION> EX-31.2 SECTION 302 CERTIFICATION OF THE PFO
<TEXT>

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John G. Sample, Jr., certify that:

1. I have reviewed this report on Form 10-K of Atlantic American Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2008

/s/ John G. Sample, Jr.

John G. Sample, Jr.
Senior Vice President and
Chief Financial Officer

<DOCUMENT>
<TYPE> EX-32.1
<FILENAME> g12502exv32w1.htm
<DESCRIPTION> EX-32.1 SECTION 906 CERTIFICATIONS OF THE PEO AND PFO
<TEXT>

Certifications Pursuant to §906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of Atlantic American Corporation (the "Company") for the period ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: March 31, 2008

/s/ Hilton H. Howell, Jr.

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

Date: March 31, 2008

/s/ John G. Sample, Jr.

John G. Sample, Jr.
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.