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

# FORM 10-Q

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

For the quarterly period ended September 30, 2013

OR

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

Commission File Number 0-3722

# ATLANTIC AMERICAN CORPORATION

(*Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Georgia** | **58-1027114** |
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **4370 Peachtree Road, N.E.,**<br>**Atlanta, Georgia** | **30319** |
| *(Address of principal executive offices)* | *(Zip Code)* |

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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 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 ☐ (Do not check if a smaller reporting company) 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 total number of shares of the registrant's Common Stock, $1 par value, outstanding on November 8, 2013, was 21,201,142.

**ATLANTIC AMERICAN CORPORATION**

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## PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

## ATLANTIC AMERICAN CORPORATION
## CONDENSED CONSOLIDATED BALANCE SHEETS
*(Dollars in thousands, except per share data)*

### ASSETS

| | *Unaudited* September 30, 2013 | December 31, 2012 |
|---|---|---|
| Cash and cash equivalents | $ 37,252 | $ 18,951 |
| Investments: | | |
| Fixed maturities (cost: $191,629 and $201,986) | 193,030 | 230,508 |
| Common and non-redeemable preferred stocks (cost: $13,432 and $10,477) | 16,945 | 12,205 |
| Other invested assets (cost: $648 and $565) | 648 | 565 |
| Policy loans | 2,327 | 2,338 |
| Real estate | 38 | 38 |
| Investment in unconsolidated trusts | 1,238 | 1,238 |
| Total investments | 214,226 | 246,892 |
| Receivables: | | |
| Reinsurance | 16,621 | 18,768 |
| Insurance premiums and other (net of allowance for doubtful accounts: $353 and $379) | 17,135 | 6,330 |
| Deferred income taxes, net | 1,626 | - |
| Deferred acquisition costs | 27,689 | 26,133 |
| Other assets | 1,018 | 975 |
| Goodwill | 2,128 | 2,128 |
| Total assets | $ 317,695 | $ 320,177 |

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| Insurance reserves and policyholder funds: | | |
| Future policy benefits | $ 68,937 | $ 66,932 |
| Unearned premiums | 32,032 | 22,637 |
| Losses and claims | 64,852 | 62,873 |
| Other policy liabilities | 1,383 | 2,116 |
| Total insurance reserves and policyholder funds | 167,204 | 154,558 |
| Accounts payable and accrued expenses | 12,223 | 11,481 |
| Deferred income taxes, net | - | 7,164 |
| Junior subordinated debenture obligations | 41,238 | 41,238 |
| Total liabilities | 220,665 | 214,441 |
| Commitments and contingencies (Note 8) | | |
| Shareholders' equity: | | |
| Preferred stock, $1 par, 4,000,000 shares authorized; Series D preferred, shares issued and outstanding: 65,000 and 70,000; redemption value: $6,500 and $7,000 | 65 | 70 |
| Common stock, $1 par, 50,000,000 shares authorized; shares issued: 22,400,894; shares outstanding: 21,251,203 and 21,216,542 | 22,401 | 22,401 |
| Additional paid-in capital | 57,096 | 57,180 |
| Retained earnings | 17,396 | 8,621 |
| Accumulated other comprehensive income | 3,194 | 19,571 |
| Unearned stock grant compensation | (567) | - |
| Treasury stock, at cost: 1,149,691 and 1,184,352 shares | (2,555) | (2,107) |
| Total shareholders' equity | 97,030 | 105,736 |
| Total liabilities and shareholders' equity | $ 317,695 | $ 320,177 |

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

**ATLANTIC AMERICAN CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
*(Unaudited; Dollars in thousands, except per share data)*

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|---|---|
| Revenue: | | | | |
| Insurance premiums | $ 38,385 | $ 32,381 | $ 107,777 | $ 94,654 |
| Investment income | 2,534 | 2,880 | 8,213 | 8,618 |
| Realized investment gains, net | 2,283 | - | 8,415 | 1,428 |
| Other income | 45 | 41 | 140 | 106 |
| Total revenue | 43,247 | 35,302 | 124,545 | 104,806 |
| Benefits and expenses: | | | | |
| Insurance benefits and losses incurred | 26,786 | 22,289 | 75,147 | 68,056 |
| Commissions and underwriting expenses | 10,396 | 8,962 | 30,081 | 23,965 |
| Interest expense | 442 | 662 | 1,457 | 1,977 |
| Other expense | 2,934 | 2,433 | 8,097 | 7,278 |
| Total benefits and expenses | 40,558 | 34,346 | 114,782 | 101,276 |
| Income before income taxes | 2,689 | 956 | 9,763 | 3,530 |
| Income tax expense (benefit) | 9 | (128) | 201 | 8 |
| Net income | 2,680 | 1,084 | 9,562 | 3,522 |
| Preferred stock dividends | (118) | (127) | (364) | (381) |
| Net income applicable to common shareholders | $ 2,562 | $ 957 | $ 9,198 | $ 3,141 |
| Earnings per common share (basic) | $ .12 | $ .05 | $ .43 | $ .15 |
| Earnings per common share (diluted) | $ .12 | $ .04 | $ .42 | $ .15 |

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

**ATLANTIC AMERICAN CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
*(Unaudited; Dollars in thousands)*

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net income | $ 2,680 | $ 1,084 | $ 9,562 | $ 3,522 |
| Other comprehensive income (loss): | | | | |
| Available-for-sale securities: | | | | |
| Gross unrealized holding gain (loss) arising in the period | (3,912) | 6,562 | (16,921) | 13,037 |
| Related income tax effect | 1,369 | (2,297) | 5,922 | (4,563) |
| Less: reclassification adjustment for net realized gains included in net income (1) | (2,283) | - | (8,415) | (1,428) |
| Related income tax effect (2) | 799 | - | 2,945 | 500 |
| Net effect on other comprehensive income (loss) | (4,027) | 4,265 | (16,469) | 7,546 |
| Derivative financial instrument: | | | | |
| Fair value adjustment to derivative financial instrument | - | 188 | 141 | 534 |
| Related income tax effect | - | (66) | (49) | (187) |
| Net effect on other comprehensive income (loss) | - | 122 | 92 | 347 |
| Total other comprehensive income (loss), net of tax | (4,027) | 4,387 | (16,377) | 7,893 |
| Total comprehensive income (loss) | $ (1,347) | $ 5,471 | $ (6,815) | $ 11,415 |

(1) Realized gains on available-for-sale securities recognized in realized investment gains, net on the accompanying condensed consolidated statements of operations.

(2) Income tax effect on reclassification adjustment for net realized gains included in income tax expense (benefit) on the accompanying condensed consolidated statements of operations

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

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**ATLANTIC AMERICAN CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**
*(Unaudited; Dollars in thousands)*

| Nine Months Ended September 30, 2013 | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Unearned Stock Grant Compensation | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2012 | $ 70 | $ 22,401 | $ 57,180 | $ 8,621 | $ 19,571 | $ - | $ (2,107) | $ 105,736 |
| Net income | - | - | - | 9,562 | - | - | - | 9,562 |
| Other comprehensive loss, net of tax | - | - | - | - | (16,377) | - | - | (16,377) |
| Preferred stock redeemed | (5) | - | (495) | - | - | - | - | (500) |
| Dividends on common stock | - | - | - | (423) | - | - | - | (423) |
| Dividends accrued on preferred stock | - | - | - | (364) | - | - | - | (364) |
| Restricted stock grants | - | - | 393 | - | - | (704) | 311 | - |
| Amortization of unearned compensation | - | - | - | - | - | 137 | - | 137 |
| Purchase of shares for treasury | - | - | - | - | - | - | (867) | (867) |
| Issuance of shares under stock plans | - | - | 18 | - | - | - | 108 | 126 |
| Balance, September 30, 2013 | $ 65 | $ 22,401 | $ 57,096 | $ 17,396 | $ 3,194 | $ (567) | $ (2,555) | $ 97,030 |
| | | | | | | | | |
| **Nine Months Ended September 30, 2012** | | | | | | | | |
| Balance, December 31, 2011 | $ 70 | $ 22,401 | $ 57,136 | $ 6,179 | $ 12,244 | $ - | $ (1,753) | $ 96,277 |
| Net income | - | - | - | 3,522 | - | - | - | 3,522 |
| Other comprehensive income, net of tax | - | - | - | - | 7,893 | - | - | 7,893 |
| Dividends on common stock | - | - | - | (425) | - | - | - | (425) |
| Dividends accrued on preferred stock | - | - | - | (381) | - | - | - | (381) |
| Purchase of shares for treasury | - | - | - | - | - | - | (556) | (556) |
| Issuance of shares under stock plans | - | - | 25 | - | - | - | 81 | 106 |
| Balance, September 30, 2012 | $ 70 | $ 22,401 | $ 57,161 | $ 8,895 | $ 20,137 | $ - | $ (2,228) | $ 106,436 |

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

**ATLANTIC AMERICAN CORPORATION**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
*(Unaudited; Dollars in thousands)*

| | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 9,562 | $ 3,522 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of deferred acquisition costs | 7,862 | 7,932 |
| Acquisition costs deferred | (9,418) | (9,587) |
| Realized investment gains | (8,415) | (1,428) |
| Increase in insurance reserves | 12,646 | 4,511 |
| Compensation expense related to share awards | 137 | - |
| Depreciation and amortization | 450 | 341 |
| Deferred income tax expense (benefit) | 28 | (323) |
| Increase in receivables, net | (5,870) | (1,568) |
| Increase (decrease) in other liabilities | 519 | (1,606) |
| Other, net | 49 | (86) |
| Net cash provided by operating activities | 7,550 | 1,708 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Proceeds from investments sold, called or matured | 107,681 | 34,358 |
| Investments purchased | (95,004) | (36,672) |
| Additions to property and equipment | (262) | (159) |
| Net cash provided by (used in) investing activities | 12,415 | (2,473) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Redemption of Series D preferred stock | (500) | - |
| Payment of dividends on Series D preferred stock | - | (508) |
| Payment of dividends on common stock | (423) | (425) |
| Proceeds from shares issued under stock plans | 126 | 106 |
| Purchase of shares for treasury | (867) | (556) |
| Net cash used in financing activities | (1,664) | (1,383) |
| Net increase (decrease) in cash and cash equivalents | 18,301 | (2,148) |
| Cash and cash equivalents at beginning of period | 18,951 | 21,285 |
| Cash and cash equivalents at end of period | $ 37,252 | $ 19,137 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Cash paid for interest | $ 1,522 | $ 1,981 |
| Cash paid for income taxes | $ 486 | $ 180 |

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

**ATLANTIC AMERICAN CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
*(Unaudited; Dollars in thousands, except per share amounts)*

**Note 1.** Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Atlantic American Corporation (the "Parent") and its subsidiaries (collectively with the Parent, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The accompanying statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for audited annual financial statements. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The unaudited condensed consolidated financial statements included herein and these related notes should be read in conjunction with the Company's consolidated financial statements, and the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. The Company's financial condition and results of operations as of and for the three month and nine month periods ended September 30, 2013 are not necessarily indicative of the financial condition or results of operations that may be expected for the year ending December 31, 2013 or for any other future period.

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

**Note 2.** Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). The main objective of ASU 2013-02 is to enhance disclosures for reclassification adjustments including changes in accumulated other comprehensive income ("AOCI") balances by component and significant items reclassified out of AOCI. ASU 2013-02 does not change the requirements for reporting net income or other comprehensive income in financial statements. However, the ASU requires an entity to provide enhanced disclosures to present separately by component reclassifications out of AOCI. In addition, an entity is also required to provide a tabular disclosure of the effect of items reclassified out of AOCI on the respective line items of net income, but only if the item reclassified is required under GAAP to be reclassified to net income in its entirety. For other reclassification items that are not required under GAAP to be reclassified directly to net income in their entirety, ASU 2013-02 only requires a cross-reference to other disclosures required under GAAP for those items. The Company adopted ASU 2013-02 effective January 1, 2013. Since ASU 2013-02 was a disclosure only update, its adoption did not have a material impact on the Company's financial condition or results of operations. See Condensed Consolidated Statements of Comprehensive Income and Note 11 for expanded disclosures.

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**Note 3.** Segment Information

The Company's primary operating subsidiaries, American Southern Insurance Company and American Safety Insurance Company (together known as "American Southern") and Bankers Fidelity Life Insurance Company ("Bankers Fidelity") operate in two principal business units, each focusing on specific products. American Southern operates in the property and casualty insurance market, while Bankers Fidelity operates in the life and health insurance market. Each business unit is managed independently and is evaluated on its individual performance. The following sets forth the revenue and income before income taxes for each business unit for the three month and nine month periods ended September 30, 2013 and 2012.

| **Revenues** | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| American Southern | $ 14,994 | $ 10,482 | $ 40,231 | $ 32,633 |
| Bankers Fidelity | 28,036 | 24,604 | 83,097 | 71,542 |
| Corporate and Other | 217 | 216 | 1,217 | 631 |
| Total revenue | $ 43,247 | $ 35,302 | $ 124,545 | $ 104,806 |

| **Income Before Income Taxes** | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| American Southern | $ 1,912 | $ 233 | $ 6,531 | $ 1,993 |
| Bankers Fidelity | 2,445 | 2,230 | 7,169 | 6,005 |
| Corporate and Other | (1,668) | (1,507) | (3,937) | (4,468) |
| Income before income taxes | $ 2,689 | $ 956 | $ 9,763 | $ 3,530 |

**Note 4.** Credit Arrangements

**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.

The financial structure of each of Atlantic American Statutory Trust I and II as of September 30, 2013 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 September 30, 2013 | 18,042 | 23,196 |
| Balance December 31, 2012 | 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 | Yes | Yes |
| 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 5.** Derivative Financial Instruments

The Company had a zero cost interest rate collar with Wells Fargo Bank, National Association, which terminated on March 4, 2013, the stated maturity date, by its terms. There were no balances outstanding under the zero cost interest rate collar at that time.

**Note 6.** Earnings Per Common Share

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

| | Three Months Ended September 30, 2013 | | |
|---|---|---|---|
| | Income | Shares (In thousands) | Per Share Amount |
| *Basic Earnings Per Common Share:* | | | |
| Net income | $ 2,680 | 21,299 | |
| Less preferred stock dividends | (118) | - | |
| Net income applicable to common shareholders | 2,562 | 21,299 | $ .12 |
| *Diluted Earnings Per Common Share:* | | | |
| Effect of Series D preferred stock | 118 | 1,629 | |
| Net income applicable to common shareholders | $ 2,680 | 22,928 | $ .12 |

| | Three Months Ended September 30, 2012 | | |
|---|---|---|---|
| | Income | Shares (In thousands) | Per Share Amount |
| *Basic Earnings Per Common Share:* | | | |
| Net income | $ 1,084 | 21,212 | |
| Less preferred stock dividends | (127) | - | |
| Net income applicable to common shareholders | 957 | 21,212 | $ .05 |
| *Diluted Earnings Per Common Share:* | | | |
| Effect of dilutive stock options | - | 76 | |
| Net income applicable to common shareholders | $ 957 | 21,288 | $ .04 |

| | Nine Months Ended September 30, 2013 | | |
|---|---|---|---|
| | Income | Shares (In thousands) | Per Share Amount |
| *Basic Earnings Per Common Share:* | | | |
| Net income | $ 9,562 | 21,250 | |
| Less preferred stock dividends | (364) | - | |
| Net income applicable to common shareholders | 9,198 | 21,250 | $ .43 |
| *Diluted Earnings Per Common Share:* | | | |
| Effect of dilutive stock options | - | 19 | |
| Effect of Series D preferred stock | 364 | 1,629 | |
| Net income applicable to common shareholders | $ 9,562 | 22,898 | $ .42 |

| | Nine Months Ended September 30, 2012 | | |
|---|---|---|---|
| | Income | Shares (In thousands) | Per Share Amount |
| *Basic Earnings Per Common Share:* | | | |
| Net income | $ 3,522 | 21,253 | |
| Less preferred stock dividends | (381) | - | |
| Net income applicable to common shareholders | 3,141 | 21,253 | $ .15 |
| *Diluted Earnings Per Common Share:* | | | |
| Effect of dilutive stock options | - | 66 | |
| Net income applicable to common shareholders | $ 3,141 | 21,319 | $ .15 |

The assumed conversion of the Company's Series D preferred stock was excluded from the earnings per common share calculation for the three month and nine month periods ended September 30, 2012 since its impact would have been antidilutive.

**Note 7.** Income Taxes

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Federal income tax provision at statutory rate of 35% | $ 941 | $ 335 | $ 3,417 | $ 1,236 |
| Dividends received deduction | (41) | (45) | (119) | (127) |
| Small life insurance company deduction | (107) | (375) | (185) | (612) |
| Other permanent differences | 9 | 12 | 27 | 28 |
| Change in asset valuation allowance due to change in judgment relating to realizability of deferred tax assets | (799) | 24 | (2,945) | (438) |
| Adjustment for prior years' estimates to actual | 6 | (79) | 6 | (79) |
| Income tax expense (benefit) | $ 9 | $ (128) | $ 201 | $ 8 |

The components of income tax expense (benefit) were:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Current - Federal | $ 76 | $ 213 | $ 173 | $ 331 |
| Deferred - Federal | 732 | (365) | 2,973 | 115 |
| Change in deferred tax asset valuation allowance | (799) | 24 | (2,945) | (438) |
| Total | $ 9 | $ (128) | $ 201 | $ 8 |

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and nine month periods ended September 30, 2013 and 2012 resulted from the dividends received deduction ("DRD"), the small life insurance company deduction ("SLD") and the change in deferred tax asset valuation allowance. The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's 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 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 deferred tax asset valuation allowance was due to the unanticipated utilization of certain capital loss carryforward benefits that had been previously reduced to zero through an existing valuation allowance reserve. The provision-to-filed return adjustments are generally updated at the completion of the third quarter of each fiscal year and were $6 and $79 in the three month and nine month periods ended September 30, 2013 and 2012, respectively.

**Note 8.** Commitments and Contingencies

From time to time, the Company is, and expects to continue to be, 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 financial condition or results of operations of the Company.

**Note 9.** Investments

The following tables set forth the carrying value, gross unrealized gains, gross unrealized losses and amortized cost of the Company's investments, aggregated by type and industry, as of September 30, 2013 and December 31, 2012.

Investments were comprised of the following:

| | September 30, 2013 | | | |
|---|---|---|---|---|
| | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Amortized Cost |
| Fixed maturities: | | | | |
| Bonds: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies and authorities | $ 12,024 | $ 700 | $ 40 | $ 11,364 |
| Obligations of states and political subdivisions | 11,084 | 806 | - | 10,278 |
| Corporate securities: | | | | |
| Utilities and telecom | 17,116 | 1,560 | 128 | 15,684 |
| Financial services | 45,856 | 1,486 | 696 | 45,066 |
| Other business – diversified | 67,635 | 889 | 2,322 | 69,068 |
| Other consumer – diversified | 36,955 | 584 | 1,410 | 37,781 |
| Total corporate securities | 167,562 | 4,519 | 4,556 | 167,599 |
| Redeemable preferred stocks: | | | | |
| Financial services | 2,168 | 2 | 30 | 2,196 |
| Other consumer – diversified | 192 | - | - | 192 |
| Total redeemable preferred stocks | 2,360 | 2 | 30 | 2,388 |
| Total fixed maturities | 193,030 | 6,027 | 4,626 | 191,629 |
| Equity securities: | | | | |
| Common and non-redeemable preferred stocks: | | | | |
| Utilities and telecom | 1,400 | 436 | - | 964 |
| Financial services | 6,796 | 499 | 510 | 6,807 |
| Other business – diversified | 170 | 123 | - | 47 |
| Other consumer – diversified | 8,579 | 2,965 | - | 5,614 |
| Total equity securities | 16,945 | 4,023 | 510 | 13,432 |
| Other invested assets | 648 | - | - | 648 |
| Policy loans | 2,327 | - | - | 2,327 |
| Real estate | 38 | - | - | 38 |
| Investments in unconsolidated trusts | 1,238 | - | - | 1,238 |
| Total investments | $ 214,226 | $ 10,050 | $ 5,136 | $ 209,312 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Amortized Cost |
| Fixed maturities: | | | | |
| Bonds: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies and authorities | $ 27,512 | $ 4,618 | $ - | $ 22,894 |
| Obligations of states and political subdivisions | 17,761 | 2,514 | - | 15,247 |
| Corporate securities: | | | | |
| Utilities and telecom | 17,921 | 3,128 | - | 14,793 |
| Financial services | 43,695 | 3,957 | 415 | 40,153 |
| Other business – diversified | 66,741 | 7,172 | 12 | 59,581 |
| Other consumer – diversified | 52,910 | 7,665 | 120 | 45,365 |
| Total corporate securities | 181,267 | 21,922 | 547 | 159,892 |
| Redeemable preferred stocks: | | | | |
| Financial services | 3,775 | 18 | 3 | 3,760 |
| Other consumer – diversified | 193 | - | - | 193 |
| Total redeemable preferred stocks | 3,968 | 18 | 3 | 3,953 |
| Total fixed maturities | 230,508 | 29,072 | 550 | 201,986 |
| Equity securities: | | | | |
| Common and non-redeemable preferred stocks: | | | | |
| Utilities and telecom | 1,298 | 334 | - | 964 |
| Financial services | 8,607 | 857 | 39 | 7,789 |
| Other business – diversified | 134 | 87 | - | 47 |
| Other consumer – diversified | 2,166 | 489 | - | 1,677 |
| Total equity securities | 12,205 | 1,767 | 39 | 10,477 |
| Other invested assets | 565 | - | - | 565 |
| Policy loans | 2,338 | - | - | 2,338 |
| Real estate | 38 | - | - | 38 |
| Investments in unconsolidated trusts | 1,238 | - | - | 1,238 |
| Total investments | $ 246,892 | $ 30,839 | $ 589 | $ 216,642 |

The amortized cost and carrying value of the Company’s investments in fixed maturities at September 30, 2013 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may call or prepay obligations with or without call or prepayment penalties.

| | September 30, 2013 | |
|---|---|---|
| | Carrying Value | Amortized Cost |
| Due in one year or less | $ - | $ - |
| Due after one year through five years | 8,895 | 8,233 |
| Due after five years through ten years | 96,603 | 96,100 |
| Due after ten years | 86,412 | 86,301 |
| Varying maturities | 1,120 | 995 |
| Totals | $ 193,030 | $ 191,629 |

The following table sets forth the carrying value, amortized cost, and net unrealized gains (losses) of the Company's investments, aggregated by industry, as of September 30, 2013 and December 31, 2012.

| | September 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Carrying Value | Amortized Cost | Unrealized Gains (Losses) | Carrying Value | Amortized Cost | Unrealized Gains |
| U.S. Treasury securities and obligations of U.S. Government agencies and authorities | $ 12,024 | $ 11,364 | $ 660 | $ 27,512 | $ 22,894 | $ 4,618 |
| Obligations of states and political subdivisions | 11,084 | 10,278 | 806 | 17,761 | 15,247 | 2,514 |
| Utilities and telecom | 18,516 | 16,648 | 1,868 | 19,219 | 15,757 | 3,462 |
| Financial services | 54,820 | 54,069 | 751 | 56,077 | 51,702 | 4,375 |
| Other business – diversified | 67,805 | 69,115 | (1,310) | 66,875 | 59,628 | 7,247 |
| Other consumer – diversified | 45,726 | 43,587 | 2,139 | 55,269 | 47,235 | 8,034 |
| Other investments | 4,251 | 4,251 | - | 4,179 | 4,179 | - |
| Investments | $ 214,226 | $ 209,312 | $ 4,914 | $ 246,892 | $ 216,642 | $ 30,250 |

The following tables present the Company's unrealized loss aging for securities by type and length of time the security was in a continuous unrealized loss position as of September 30, 2013 and December 31, 2012.

| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 3,235 | $ 40 | $ - | $ - | $ 3,235 | $ 40 |
| Corporate securities | 90,486 | 4,480 | 1,924 | 76 | 92,410 | 4,556 |
| Redeemable preferred stocks | 1,416 | 30 | - | - | 1,416 | 30 |
| Common and non-redeemable preferred stocks | 3,813 | 470 | 960 | 40 | 4,773 | 510 |
| Total temporarily impaired securities | $ 98,950 | $ 5,020 | $ 2,884 | $ 116 | $ 101,834 | $ 5,136 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Corporate securities | $ 8,806 | $ 147 | $ 1,600 | $ 400 | $ 10,406 | $ 547 |
| Redeemable preferred stocks | 1,216 | 3 | - | - | 1,216 | 3 |
| Common and non-redeemable preferred stocks | 3,494 | 39 | - | - | 3,494 | 39 |
| Total temporarily impaired securities | $ 13,516 | $ 189 | $ 1,600 | $ 400 | $ 15,116 | $ 589 |

The evaluation for an other than temporary impairment 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. Potential risks and uncertainties include, among other things, changes in general economic conditions, an issuer's financial condition or near term recovery prospects and the effects of changes in interest rates. In evaluating a potential impairment, the Company considers, among other factors, management's intent and ability to hold these securities until price recovery, the nature of the investment and the expectation of prospects for the issuer and its industry, the status of an issuer's continued satisfaction of its obligations in accordance with their contractual terms, and management's expectation as to the issuer's ability and intent to continue to do so, as well as ratings actions that may affect the issuer's credit status.

As of September 30, 2013, securities in an unrealized loss position primarily included certain of the Company's investments in fixed maturities within the other diversified business, other diversified consumer and financial services sectors. The Company does not currently intend to sell nor does it expect to be required to sell any of the securities in an unrealized loss position. Based upon the Company's expected continuation of receipt of contractually required principal and interest payments and its intent and ability to retain the securities until price recovery, as well as the Company's evaluation of other relevant factors, including those described above, the Company has deemed these securities to be temporarily impaired as of September 30, 2013.

The following describes the fair value hierarchy and provides information as to the extent to which the Company uses fair value to measure the value of its financial instruments and information about the inputs used to value those financial instruments. The fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels.

Level 1 Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. The Company's financial instruments valued using Level 1 criteria include cash equivalents and exchange traded common stocks.

Level 2 Observable inputs, other than quoted prices included in Level 1, for an asset or liability or prices for similar assets or liabilities. The Company's financial instruments valued using Level 2 criteria include substantially all of its fixed maturities, which consist of U.S. Treasury securities and U.S. Government securities, obligations of states and political subdivisions, and certain corporate fixed maturities, as well as its non-redeemable preferred stocks. In determining fair value measurements using Level 2 criteria, the Company utilizes various external pricing sources.

Level 3 Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk). Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. The Company's financial instruments valued using Level 3 criteria consist of a limited number of fixed maturities. As of September 30, 2013 and December 31, 2012, the value of the Company's fixed maturities valued using Level 3 criteria was $2,015 and $2,124. The use of different criteria or assumptions regarding data may have yielded materially different valuations.

As of September 30, 2013, financial instruments carried at fair value were measured on a recurring basis as summarized below:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Fixed maturities | $ - | $ 191,015 | $ 2,015 | $ 193,030 |
| Equity securities | 10,404 | 6,541 | - | 16,945 |
| Cash equivalents | 34,026 | - | - | 34,026 |
| Total | $ 44,430 | $ 197,556 | $ 2,015 | $ 244,001 |

As of December 31, 2012, financial instruments carried at fair value were measured on a recurring basis as summarized below:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Fixed maturities | $ - | $ 228,384 | $ 2,124 | $ 230,508 |
| Equity securities | 3,805 | 8,400 | - | 12,205 |
| Cash equivalents | 15,326 | - | - | 15,326 |
| Total | $ 19,131 | $ 236,784 | $ 2,124 | $ 258,039 |
| Liabilities: | | | | |
| Derivative financial instrument | $ - | $ - | $ 141 | $ 141 |

The following is a roll-forward of the financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month and nine month periods ended September 30, 2013.

| | Fixed Maturities | Derivative (Liability) |
|---|---|---|
| Balance, December 31, 2012 | $ 2,124 | $ (141) |
| Total unrealized gains (losses) included in other comprehensive income | (32) | 141 |
| Balance, March 31, 2013 | 2,092 | - |
| Total unrealized losses included in other comprehensive income | (58) | - |
| Balance, June 30, 2013 | 2,034 | - |
| Total unrealized losses included in other comprehensive income | (19) | - |
| Balance, September 30, 2013 | $ 2,015 | $ - |

The Company's fixed maturities valued using Level 3 inputs consist solely of issuances of pooled debt obligations of multiple, smaller financial services companies. They are not actively traded and valuation techniques used to measure fair value are based on future estimated cash flows (based on current cash flows) discounted at reasonable estimated rates of interest. There are no assumed prepayments and/or default probability assumptions as a majority of these instruments contain certain U.S. government agency strips to support repayment of the principal. Other qualitative and quantitative information received from the original underwriter of the pooled offerings is also considered, as applicable. The Company's derivative financial instrument was an interest rate collar which terminated on March 4, 2013, the stated maturity date, by its terms.

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**Note 10.** Fair Values of Financial Instruments

The estimated fair values have been determined by the Company using available market information from various market sources and appropriate valuation methodologies as of the respective dates. 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.

The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of the Company's financial instruments as of September 30, 2013 and December 31, 2012.

| | Level in Fair Value Hierarchy (1) | September 30, 2013 Carrying Amount | September 30, 2013 Estimated Fair Value | December 31, 2012 Carrying Amount | December 31, 2012 Estimated Fair Value |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash and cash equivalents | Level 1 | $ 37,252 | $ 37,252 | $ 18,951 | $ 18,951 |
| Fixed maturities | (1) | 193,030 | 193,030 | 230,508 | 230,508 |
| Equity securities | (1) | 16,945 | 16,945 | 12,205 | 12,205 |
| Other invested assets | Level 3 | 648 | 648 | 565 | 565 |
| Policy loans | Level 2 | 2,327 | 2,327 | 2,338 | 2,338 |
| Real estate | Level 2 | 38 | 38 | 38 | 38 |
| Investment in unconsolidated trusts | Level 2 | 1,238 | 1,238 | 1,238 | 1,238 |
| Liabilities: | | | | | |
| Junior subordinated debentures | Level 2 | 41,238 | 41,238 | 41,238 | 41,238 |
| Derivative financial instrument | Level 3 | - | - | 141 | 141 |

(1) See Note 9 for a description of the fair value hierarchy as well as a disclosure of levels for classes of these financial assets.

The fair value estimates as of September 30, 2013 and December 31, 2012 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 in a market exchange on any subsequent date.

**Note 11.** Accumulated Other Comprehensive Income

The following table sets forth the balance of each component of accumulated other comprehensive income as of September 30, 2013 and December 31, 2012, and the changes in the balance of each component thereof during the nine month period ended September 30, 2013, net of taxes.

| | Unrealized Gains on Available-for-Sale Securities | Derivative Financial Instrument | Total |
|---|---|---|---|
| Balance, December 31, 2012 | $ 19,663 | $ (92) | $ 19,571 |
| Other comprehensive income (loss) before reclassifications | (10,999) | 92 | (10,907) |
| Amounts reclassified from accumulated other comprehensive income | (5,470) | - | (5,470) |
| Net current-period other comprehensive income (loss) | (16,469) | 92 | (16,377) |
| Balance, September 30, 2013 | $ 3,194 | $ - | $ 3,194 |

Item 2.

## 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 with the Parent, the "Company") as of and for the three month and nine month periods ended September 30, 2013. This discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included elsewhere herein, as well as with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ significantly from those estimates. The Company has identified certain estimates that involve a higher degree of judgment and are subject to a significant degree of variability. The Company's critical accounting policies and the resultant estimates considered most significant by management are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. During the nine month period ended September 30, 2013, there were no changes to the critical accounting policies or related estimates from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

### Recently Issued Accounting Standards

For a discussion of recently issued accounting standards applicable, or expected to become applicable, to the Company, see Note 2 of the accompanying notes to the unaudited condensed consolidated financial statements.

### Overall Corporate Results

The following presents the Company's revenue, expenses and net income for the three month and nine month periods ended September 30, 2013 and the comparable periods in 2012:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | | |
| Insurance premiums | $ 38,385 | $ 32,381 | $ 107,777 | $ 94,654 |
| Investment income | 2,534 | 2,880 | 8,213 | 8,618 |
| Realized investment gains, net | 2,283 | - | 8,415 | 1,428 |
| Other income | 45 | 41 | 140 | 106 |
| Total revenue | 43,247 | 35,302 | 124,545 | 104,806 |
| Insurance benefits and losses incurred | 26,786 | 22,289 | 75,147 | 68,056 |
| Commissions and underwriting expenses | 10,396 | 8,962 | 30,081 | 23,965 |
| Other expense | 2,934 | 2,433 | 8,097 | 7,278 |
| Interest expense | 442 | 662 | 1,457 | 1,977 |
| Total benefits and expenses | 40,558 | 34,346 | 114,782 | 101,276 |
| Income before income taxes | $ 2,689 | $ 956 | $ 9,763 | $ 3,530 |
| Net income | $ 2,680 | $ 1,084 | $ 9,562 | $ 3,522 |

Management also considers and evaluates performance by analyzing the non-GAAP measure operating income, and believes it is a useful metric for investors, potential investors, securities analysts and others because it isolates the “core” results of the Company before considering certain items that are either beyond the control of management (such as taxes, which are subject to timing, regulatory and rate changes depending on the timing of the associated revenues and expenses) or are not expected to regularly impact the Company’s operational results (such as any realized investment gains, which are not a part of the Company’s primary operations and are, to an extent, subject to discretion in terms of timing of realization).

A reconciliation of net income to operating income for the three month and nine month periods ended September 30, 2013 and the comparable periods in 2012 is as follows:

| Reconciliation of Net Income to non-GAAP Measurement | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
|---|---|---|---|---|
| | (In thousands) | | | |
| Net income | $ 2,680 | $ 1,084 | $ 9,562 | $ 3,522 |
| Income tax expense (benefit) | 9 | (128) | 201 | 8 |
| Realized investment gains, net | (2,283) | - | (8,415) | (1,428) |
| Operating income | $ 406 | $ 956 | $ 1,348 | $ 2,102 |

On a consolidated basis, the Company had net income of $2.7 million, or $0.12 per diluted share, for the three month period ended September 30, 2013, compared to net income of $1.1 million, or $0.04 per diluted share, for the three month period ended September 30, 2012.  The Company had net income of $9.6 million, or $0.42 per diluted share, for the nine month period ended September 30, 2013, compared to net income of $3.5 million, or $0.15 per diluted share, for the nine month period ended September 30, 2012.  The increase in net income for the three month and nine month periods ended September 30, 2013 was primarily due to an increase in realized investment gains.  Premium revenue for the three month period ended September 30, 2013 increased $6.0 million, or 18.5%, to $38.4 million.  For the nine month period ended September 30, 2013, premium revenue increased $13.1 million, or 13.9%, to $107.8 million.  The increase in premium revenue for the three month and nine month periods ended September 30, 2013 was primarily attributable to an increase in Medicare supplement business in the life and health operations as well as an increase in the commercial automobile line of business in the property and casualty operations due to a significant new contract which incepted during the second quarter of 2013.  Operating income was $0.4 million in the three month period ended September 30, 2013 compared to $1.0 million in the three month period ended September 30, 2012.  Operating income in the nine month periods ended September 30, 2013 and 2012 was $1.3 million and $2.1 million, respectively.  The decrease in operating income for the three month and nine month periods ended September 30, 2013 was due primarily to higher losses in the Medicare supplement line of business, increases in advertising expense for television commercials and social media initiatives as well as expenses related to development of a worksite distribution channel and products.  Investment income also decreased as the Company sold several longer-term investments in an attempt to shorten the average maturity of the portfolio.  Partially offsetting these factors was increased profitability in the property and casualty operations due to more favorable loss experience in the nine month period ended September 30, 2013 as compared to the same period in 2012 as well as lower interest expense due to the expiration in March 2013 of an interest rate collar.

A more detailed analysis of the individual operating companies and other corporate activities is provided below.

**American Southern**

The following summarizes American Southern's premiums, losses, expenses and underwriting ratios for the three month and nine month periods ended September 30, 2013 and the comparable periods in 2012:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in thousands) | | | |
| Gross written premiums | $ 10,919 | $ 10,885 | $ 48,009 | $ 32,464 |
| Ceded premiums | (1,856) | (1,910) | (5,703) | (5,729) |
| Net written premiums | $ 9,063 | $ 8,975 | $ 42,306 | $ 26,735 |
| Net earned premiums | $ 13,137 | $ 9,362 | $ 33,418 | $ 28,840 |
| Net loss and loss adjustment expenses | 9,154 | 6,471 | 21,533 | 21,228 |
| Underwriting expenses | 3,929 | 3,778 | 12,167 | 9,413 |
| Underwriting income (loss) | $ 54 | $ (887) | $ (282) | $ (1,801) |
| Loss ratio | 69.7% | 69.1% | 64.4% | 73.6% |
| Expense ratio | 29.9 | 40.4 | 36.4 | 32.6 |
| Combined ratio | 99.6% | 109.5% | 100.8% | 106.2% |

Gross written premiums at American Southern increased slightly during the three month period ended September 30, 2013, and $15.5 million, or 47.9%, during the nine month period ended September 30, 2013, over the comparable periods in 2012. The increase in gross written premiums for the three month period ended September 30, 2013 was primarily due to new programs within the property and general liability lines of business as well as an increase in surety business. The increase in gross written premiums for the nine month period ended September 30, 2013 was primarily attributable to an increase in commercial automobile written premiums of which $13.7 million resulted from a new state contract awarded to American Southern in the second quarter of 2013 through a competitive bidding process.

Ceded premiums decreased slightly during the three month and nine month periods ended September 30, 2013 from the comparable periods in 2012. American Southern's ceded premiums are determined as a percentage of earned premiums and generally will increase when earned premiums increase. However, the change in ceded premiums for the three month and nine month periods ended September 30, 2013 was disproportionate to the increase in related earned premiums due to a separate reinsurance agreement with different terms to reinsure the commercial automobile business from the new state contract referenced previously.

The following presents American Southern's net earned premiums by line of business for the three month and nine month periods ended September 30, 2013 and the comparable periods in 2012 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | | |
| Commercial automobile | $ 9,714 | $ 6,371 | $ 23,711 | $ 19,231 |
| General liability | 964 | 745 | 2,589 | 2,691 |
| Property | 742 | 523 | 1,941 | 1,521 |
| Surety | 1,717 | 1,723 | 5,177 | 5,397 |
| Total | $ 13,137 | $ 9,362 | $ 33,418 | $ 28,840 |

Net earned premiums increased $3.8 million, or 40.3%, during the three month period ended September 30, 2013, and $4.6 million, or 15.9%, during the nine month period ended September 30, 2013, over the comparable periods in 2012. The increase in net earned premiums for the three month and nine month periods ended September 30, 2013 was primarily attributable to the increase in commercial automobile earned premiums from the new state contract referenced previously. Partially offsetting the increase in net earned premiums during the nine month period ended September 30, 2013 was a decrease in general liability earned premiums resulting from the cancellation of certain general liability programs in 2012 as well as a decline in surety earned premiums. Premiums are earned ratably over their respective policy terms, and therefore premiums earned in the current year are related to policies written during both the current year and immediately preceding year.

Net loss and loss adjustment expenses at American Southern increased $2.7 million, or 41.5%, during the three month period ended September 30, 2013, and $0.3 million, or 1.4%, during the nine month period ended September 30, 2013, over the comparable periods in 2012. As a percentage of premiums, net loss and loss adjustment expenses were 69.7% in the three month period ended September 30, 2013, compared to 69.1% in the three month period ended September 30, 2012. For the nine month period ended September 30, 2013, this ratio decreased to 64.4% from 73.6% in the comparable period of 2012. The slight increase in the loss ratio for the three month period ended September 30, 2013 was primarily due to an increase in losses in the commercial automobile line of business as well as unfavorable loss development in the surety line of business. The decrease in the loss ratio for the nine month period ended September 30, 2013 was due to more favorable loss experience in significantly all lines of business. During the nine month period ended September 30, 2012, American Southern experienced increases in the frequency and severity of claims in the commercial automobile line of business and higher claims in the general liability line of business which did not recur in the comparable 2013 period. The improvement in the 2013 year to date loss ratio was primarily attributable to actions taken in prior periods to better rationalize American Southern's book of business and to strengthen the underwriting guidelines with respect to new and renewal business.

Underwriting expenses increased $0.2 million, or 4.0%, during the three month period ended September 30, 2013, and $2.8 million, or 29.3%, during the nine month period ended September 30, 2013, over the comparable periods in 2012. As a percentage of premiums, underwriting expenses were 29.9% in the three month period ended September 30, 2013, compared to 40.4% in the three month period ended September 30, 2012. For the nine month period ended September 30, 2013, this ratio increased to 36.4% from 32.6% in the comparable period of 2012. The decrease in the expense ratio for the three month period ended September 30, 2013 was primarily due to the significant increase in earned premium from the new state contract referenced previously coupled with a relatively consistent level of fixed general and administrative expenses. Additionally, the low level of acquisition costs associated with this new state contract contributed to the decrease in the expense ratio during the 2013 third quarter. The increase in the expense ratio for the nine month period ended September 30, 2013 was primarily attributable to American Southern's variable commission structure, which compensates the company's agents in relation to the loss ratios of the business they write. During periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. During the nine month period ended September 30, 2013, these commissions at American Southern increased $2.8 million from the comparable period in 2012 due to the more favorable loss experience.

**Bankers Fidelity**

The following summarizes Bankers Fidelity's earned premiums, losses, expenses and underwriting ratios for the three month and nine month periods ended September 30, 2013 and the comparable periods in 2012:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | (Dollars in thousands) | | | |
| Medicare supplement | $ 21,276 | $ 18,720 | $ 62,340 | $ 53,339 |
| Other health products | 1,174 | 1,133 | 3,484 | 3,367 |
| Life insurance | 2,798 | 3,166 | 8,535 | 9,108 |
| Total earned premiums | 25,248 | 23,019 | 74,359 | 65,814 |
| Insurance benefits and losses | 17,632 | 15,818 | 53,614 | 46,828 |
| Underwriting expenses | 7,960 | 6,557 | 22,315 | 18,709 |
| Total expenses | 25,592 | 22,375 | 75,929 | 65,537 |
| Underwriting income (loss) | $ (344) | $ 644 | $ (1,570) | $ 277 |
| Loss ratio | 69.8% | 68.7% | 72.1% | 71.2% |
| Expense ratio | 31.5 | 28.5 | 30.0 | 28.4 |
| Combined ratio | 101.3% | 97.2% | 102.1% | 99.6% |

Premium revenue at Bankers Fidelity increased $2.2 million, or 9.7%, during the three month period ended September 30, 2013, and $8.5 million, or 13.0%, during the nine month period ended September 30, 2013, over the comparable periods in 2012. Premiums from the Medicare supplement line of business increased $2.6 million, or 13.7%, during the three month period ended September 30, 2013, and $9.0 million, or 16.9%, during the nine month period ended September 30, 2013, due primarily to an increase in business generated from the company's existing agents and newly appointed agents as well as continued active management and implementation of rate increases on renewal business, as appropriate. Other health product premiums increased slightly during the same comparable periods, primarily as a result of new sales of the company's short-term care products. Premiums from the life insurance line of business decreased $0.4 million, or 11.6%, during the three month period ended September 30, 2013, and $0.6 million, or 6.3%, during the nine month period ended September 30, 2013 due to the redemption and settlement of existing policy obligations exceeding the level of new sales activity.

Benefits and losses increased $1.8 million, or 11.5%, during the three month period ended September 30, 2013, and $6.8 million, or 14.5%, during the nine month period ended September 30, 2013, over the comparable periods in 2012. As a percentage of premiums, benefits and losses were 69.8% in the three month period ended September 30, 2013, compared to 68.7% in the three month period ended September 30, 2012. For the nine month period ended September 30, 2013, this ratio increased to 72.1% from 71.2% in the comparable period of 2012. The increase in the loss ratio for the three month and nine month periods ended September 30, 2013 was primarily attributable to higher losses in the Medicare supplement line of business; although rate increases have helped mitigate the impact of higher medical costs.

Underwriting expenses increased $1.4 million, or 21.4%, during the three month period ended September 30, 2013, and $3.6 million, or 19.3%, during the nine month period ended September 30, 2013, over the comparable periods in 2012. As a percentage of premiums, underwriting expenses were 31.5% in the three month period ended September 30, 2013, compared to 28.5% in the three month period ended September 30, 2012. For the nine month period ended September 30, 2013, this ratio increased to 30.0% from 28.4% in the comparable period of 2012. The increase in the expense ratio for the three month and nine month periods ended September 30, 2013 was primarily attributable to increases in advertising and agency related expenses as well as development of a worksite distribution channel and products to broaden our overall product offering. Advertising expenses in the three month and nine month periods ended September 30, 2013 increased $0.2 million and $0.9 million, respectively, over the comparable periods in 2012 and included charges for television commercials and social media initiatives. Expenses related to the development of the worksite distribution channel and product increased $0.5 million in the three month and nine month periods ended September 30, 2013 as compared to the same periods in 2012.

## INVESTMENT INCOME AND REALIZED GAINS

Investment income decreased $0.3 million, or 12.0%, during the three month period ended September 30, 2013, and $0.4 million, or 4.7%, during the nine month period ended September 30, 2013, from the comparable periods in 2012. The decrease in investment income for the three month and nine month periods ended September 30, 2013 was primarily attributable to the sale of a number of the Company's investments in longer-term fixed maturities due to rising long-term interest rates. At September 30, 2013, the carrying value of the Company's fixed maturities with a maturity in excess of ten years was $86.4 million as compared to $181.6 million at December 31, 2012. The Company was not able to reinvest the proceeds from the sale of fixed maturities at equivalent interest rates, resulting in a decrease in yield on invested assets and a lower average balance of fixed maturities held by the Company.

The Company had net realized investment gains of $8.4 million during the nine month period ended September 30, 2013, compared to net realized investment gains of $1.4 million in the nine month period ended September 30, 2012. The net realized investment gains in the nine month period ended September 30, 2013 was primarily due to the sale of a number of the Company's investments in longer-term fixed maturities discussed previously. The net realized investment gains in the nine month period ended September 30, 2012 also resulted from the disposition of several of the Company's investments in fixed maturities, although in lesser amounts. Management continually evaluates the Company's investment portfolio and, as may be determined to be appropriate, makes adjustments for impairments and/or will divest investments.

## INTEREST EXPENSE

Interest expense decreased $0.2 million, or 33.2%, during the three month period ended September 30, 2013, and $0.5 million, or 26.3%, during the nine month period ended September 30, 2013, from the comparable periods in 2012. The decrease in interest expense for the three month and nine month periods ended September 30, 2013 was primarily due to the termination of the Company's zero cost interest rate collar with Wells Fargo Bank, National Association ("Wells Fargo") on March 4, 2013, the stated maturity date, by its terms. The interest rate collar had a London Interbank Offered Rate ("LIBOR") floor of 4.77%. As a result of interest rates remaining below the LIBOR floor, the Company was required to make payments to Wells Fargo under the interest rate collar for all periods presented, through the maturity date.

## OTHER EXPENSES

Other expenses (commissions, underwriting expenses, and other expenses) increased $1.9 million, or 17.0%, during the three month period ended September 30, 2013, and $6.9 million, or 22.2%, during the nine month period ended September 30, 2013, over the comparable periods in 2012. The increase in other expenses for the three month and nine month periods ended September 30, 2013 was primarily attributable to an increase in commission and underwriting costs in the life and health operations associated with the higher volume of business, expenses related to development of a worksite distribution channel and products as well as increases in advertising and agency related expenses. Also contributing to the increase in other expenses for the nine month period ended September 30, 2013 were increased commission accruals at American Southern due to recent favorable loss experience. During the nine month period ended September 30, 2013, these commissions at American Southern increased $2.8 million over the comparable period in 2012. The majority of American Southern's business is structured in a way that agents are compensated based upon the loss ratios of the business they place with the company. During periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase, and conversely, during periods in which the loss ratio increases, commissions and underwriting expenses will generally decrease. On a consolidated basis, as a percentage of earned premiums, other expenses decreased to 34.7% in the three month period ended September 30, 2013 from 35.2% in the three month period ended September 30, 2012. For the nine month period ended September 30, 2013, this ratio increased to 35.4% from 33.0% in the comparable period of 2012. The slight decrease in the expense ratio for the three month period ended September 30, 2013 was due to the increase in earned premiums coupled with a relatively consistent level of overall fixed general and administrative expenses. The increase in the expense ratio for the nine month period ended September 30, 2013 was primarily attributable to the increase in commission accruals, advertising expenses and worksite product development expenses discussed previously.

## INCOME TAXES

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and nine month periods ended September 30, 2013 and 2012 resulted from the dividends received deduction ("DRD"), the small life insurance company deduction ("SLD") and the change in deferred tax asset valuation allowance. The current estimated DRD is adjusted as underlying factors change and can vary from estimates based on, but not limited to, actual distributions from investments as well as the amount of the Company's 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 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 $3.0 million and is ultimately phased out at $15.0 million. The change in deferred tax asset valuation allowance was due to the unanticipated utilization of certain capital loss carryforward benefits that had been previously reduced to zero through an existing valuation allowance reserve. The provision-to-filed return adjustments are generally updated at the completion of the third quarter of each fiscal year, after the Company's tax return for the previous year is filed with the IRS.

## 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 proceeds from the sale and maturity of its invested assets. The Company believes that, within each operating company, 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, as described below, 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, as well as the repurchase of shares and payments of any dividends as may be authorized and approved by the Company's board of directors from time to time. At September 30, 2013, the Parent had approximately $28.9 million of unrestricted cash and investments.

The Parent's insurance subsidiaries reported statutory net income of $5.9 million for the nine month period ended September 30, 2013 compared to statutory net income of $3.0 million for the nine month period ended September 30, 2012. Statutory results are impacted by the recognition of all costs of acquiring business. In a scenario in which the Company is growing, statutory results are generally lower than results determined under GAAP. Statutory results for the Company's property and casualty operations may differ from the Company's results of operations under GAAP due to the deferral of acquisition costs for financial reporting purposes. The Company's life and health operations' statutory results may differ from GAAP results primarily due to the deferral of acquisition costs for financial reporting purposes, as well as the use of different reserving methods.

Over 90% of the invested assets of the Parent's insurance subsidiaries are invested in marketable securities that can be converted into cash, if required; however, the use of such assets by the Company is limited by state insurance regulations. Dividend payments to a parent corporation by its wholly owned 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 September 30, 2013, American Southern had $39.0 million of statutory surplus and Bankers Fidelity had $34.7 million of statutory surplus. In 2013, dividend payments by the Parent's insurance subsidiaries in excess of $9.6 million would require prior approval.

The Parent provides certain administrative and other services to each of its insurance subsidiaries. The amounts charged to and paid by the subsidiaries include reimbursements for various shared services and other expenses incurred directly on behalf of the subsidiaries by the Parent. In addition, there is in place a formal tax-sharing agreement between the Parent and its insurance subsidiaries. It is anticipated that this agreement will provide the Parent with additional funds from profitable subsidiaries due to the subsidiaries' use of the Parent's tax loss carryforwards, which totaled approximately $2.5 million at September 30, 2013.

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 deferrable interest debentures ("Junior Subordinated Debentures"). The outstanding $18.0 million and $23.2 million of Junior Subordinated Debentures mature on December 4, 2032 and May 15, 2033, respectively, are callable quarterly, in whole or in part, only at the option of the Company, and have an interest rate of three-month LIBOR plus an applicable margin. The margin ranges from 4.00% to 4.10%. At September 30, 2013, the effective interest rate was 4.3%. 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 has not made such an election.

The Company intends to pay its obligations under the Junior Subordinated Debentures using existing cash balances, dividend and tax-sharing payments from the operating subsidiaries, or from potential future financing arrangements.

The Company had a zero cost interest rate collar with Wells Fargo, which terminated on March 4, 2013, the stated maturity date, by its terms.

At September 30, 2013, the Company had 65,000 shares of Series D Preferred Stock ("Series D Preferred Stock") outstanding. All of the shares of Series D Preferred Stock are held by an affiliate of the Company's controlling shareholder. The outstanding shares of 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 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 1,629,000 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 the nine month period ended September 30, 2013, the Company redeemed 5,000 shares of the Series D Preferred Stock at the stated value of $100 per share, for an aggregate payment of $0.5 million. At September 30, 2013, the Company had accrued but unpaid dividends on the Series D Preferred Stock totaling $0.4 million.

Cash and cash equivalents increased from $19.0 million at December 31, 2012 to $37.3 million at September 30, 2013. The increase in cash and cash equivalents during the nine month period ended September 30, 2013 was primarily attributable to net cash provided by investing activities of $12.4 million resulting from the sale and maturity of securities exceeding investment purchases. Also contributing to the increase in cash and cash equivalents was net cash provided by operating activities of $7.6 million. Partially offsetting the increase was the redemption of 5,000 shares of Series D Preferred Stock for $0.5 million, dividends paid on the Company's common stock of $0.4 million and the purchase of shares for treasury for $0.9 million.

The Company believes that existing cash balances as well as the dividends, fees, and tax-sharing payments it receives from its subsidiaries and, if needed, additional borrowings from financial institutions, 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.

## Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the "Exchange Act") reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and may not be detected. 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 Exchange Act). 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 the end of the period covered by this report.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

*This report contains and references certain information that constitutes forward-looking statements as that term is defined in the federal securities laws. Those statements, to the extent they are not historical facts, should be considered forward-looking statements, and are subject to various risks and uncertainties. Such forward-looking statements are made based upon management's current assessments of various risks and uncertainties, as well as assumptions made in accordance with the "safe harbor" provisions of the federal securities laws. The Company's actual results could differ materially from the results anticipated in these forward-looking statements as a result of such risks and uncertainties, including those identified in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, subsequent quarterly reports on Form 10-Q and the other filings made by the Company from time to time with the Securities and Exchange Commission. The Company undertakes no obligation to update any forward-looking statement as a result of subsequent developments, changes in underlying assumptions or facts, or otherwise.*

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# PART II. OTHER INFORMATION

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

On October 30, 2012, the Board of Directors of the Company approved a plan that allows for the repurchase of up to 750,000 shares of the Company's common stock (the "Repurchase Plan") on the open market or in privately negotiated transactions, as determined by an authorized officer of the Company. Any such repurchases can be made from time to time in accordance with applicable securities laws and other requirements.

Other than pursuant to the Repurchase Plan, no purchases of common stock of the Company were made by or on behalf of the Company during the periods described below.

The table below sets forth information regarding repurchases by the Company of shares of its common stock on a monthly basis during the three month period ended September 30, 2013.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| July 1 – July 31, 2013 | 23,620 | $ 3.82 | 23,620 | 573,756 |
| August 1 – August 31, 2013 | 23,985 | 3.91 | 23,985 | 549,771 |
| September 1 – September 30, 2013 | 40,560 | 4.03 | 40,560 | 509,211 |
| **Total** | 88,165 | $ 3.94 | 88,165 | |

## Item 6. Exhibits

| | |
|---|---|
| 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. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

## SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

Date: November 13, 2013

By: /s/ John G. Sample, Jr.
John G. Sample, Jr.
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

## EXHIBIT INDEX

| Exhibit Number | Title |
|---|---|
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| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

**EXHIBIT 31.1**

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-Q 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: November 13, 2013

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

**EXHIBIT 31.2**

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-Q 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: November 13, 2013

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

**EXHIBIT 32.1**

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

Pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q of Atlantic American Corporation (the "Company") for the quarterly period ended September 30, 2013, 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: November 13, 2013 | /s/ Hilton H. Howell, Jr.<br>Hilton H. Howell, Jr.<br>President and Chief Executive Officer |
| Date: November 13, 2013 | /s/ John G. Sample, Jr.<br>John G. Sample, Jr.<br>Senior Vice President and<br>Chief Financial Officer |

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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.