NOVAMED INC
Form DEF 14A
April 20, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant **x**
Filed by a Party other than the Registrant **o**

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-12

NOVAMED, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1. Title of each class of securities to which transaction applies:

---

2. Aggregate number of securities to which transaction applies:

---

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

---

4. Proposed maximum aggregate value of transaction:

---

5. Total fee paid:

---

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1. Amount Previously Paid:

---

2. Form, Schedule or Registration Statement No.:

---

3. Filing Party:

---

4. Date Filed:

April 23, 2004

Dear Stockholder:

On behalf of the Board of Directors, I cordially invite you to attend the 2004 Annual Meeting of Stockholders of NovaMed, Inc., to be held at The Drake Hotel, 140 East Walton Place, Chicago, Illinois 60611, on May 26, 2004, at 2:00 p.m. Central Time.

We have changed our name from NovaMed Eyecare, Inc. to NovaMed, Inc. We believe our new name better reflects our plans to expand our surgical facilities business beyond eye care and into additional medical specialties.

The attached Notice of Annual Meeting and Proxy Statement describe the election of two directors which is the only matter that we expect to be acted upon at the Annual Meeting.

Whether or not you plan to attend the Annual Meeting, it is important that your shares be represented. Regardless of the number of shares you own, please vote now, either by telephone or the Internet as provided in the enclosed instructions, or by signing and dating the enclosed proxy

card and promptly return it to us in the enclosed postage paid envelope. If you sign and return your proxy card without specifying your choices, your shares will be voted in accordance with the recommendations of the Board of Directors contained in the Proxy Statement.

We look forward to seeing you on May 26, 2004, and encourage you to vote as soon as possible.

Sincerely,

Stephen J. Winjum
President, Chief Executive Officer and
Chairman of the Board of Directors

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 26, 2004

To the Stockholders of
NovaMed, Inc.:

The Annual Meeting of Stockholders of NovaMed, Inc. (the Company) will be held at 2:00 p.m. Central Time, on Wednesday, May 26, 2004, at The Drake Hotel, 140 East Walton Place, Chicago, Illinois 60611, for the following purposes:

(1) To elect two Class II directors to the Company s Board of Directors; and

(2) To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The foregoing items of business are more fully described in the accompanying Proxy Statement.

The Board of Directors has fixed the close of business on April 7, 2004, as the record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting.

By order of the Board of Directors,

John W. Lawrence, Jr.
Secretary

Chicago, Illinois
April 23, 2004

ALL STOCKHOLDERS ARE URGED TO ATTEND THE MEETING IN PERSON OR BY PROXY. WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE MEETING, PLEASE VOTE NOW, EITHER BY TELEPHONE OR THE INTERNET AS PROVIDED IN THE ENCLOSED INSTRUCTIONS, OR BY COMPLETING, SIGNING AND DATING THE ENCLOSED PROXY CARD AND RETURNING IT PROMPTLY IN THE ENCLOSED POSTAGE PAID ENVELOPE FURNISHED FOR THAT PURPOSE.

NovaMed, Inc.
980 North Michigan Avenue, Suite 1620
Chicago, Illinois 60611
(312) 664-4100

PROXY STATEMENT

The accompanying proxy is solicited by the Board of Directors (the Board of Directors) of NovaMed, Inc., a Delaware corporation (the Company), for use at the Annual Meeting of Stockholders (the Annual Meeting) to be held at 2:00 p.m. Central Time, Wednesday, May 26, 2004, at The Drake Hotel, 140 East Walton Place, Chicago, Illinois 60611, and any adjournments or postponements thereof. This Proxy Statement and accompanying form of proxy are first being mailed to stockholders on or about April 23, 2004.

Record Date and Outstanding Shares The Board of Directors has fixed the close of business on April 7, 2004 as the record date (the Record Date) for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting or any adjournments thereof. As of the Record Date, the Company had outstanding 20,992,794 shares of its common stock, par value $.01 per share (the Common Stock). Each outstanding share of Common Stock is entitled to one vote on all matters to come before the Annual Meeting.

Voting of Proxies Stephen J. Winjum and Scott T. Macomber, the persons named as proxies on the proxy card accompanying this Proxy Statement, were selected by the Board of Directors to serve in such capacity. Messrs. Winjum and Macomber are executive officers of the Company and Mr. Winjum is also a director of the Company. The shares represented by each executed and returned proxy will be voted in accordance with the directions indicated thereon, or, if no direction is indicated, such proxy will be voted in accordance with the recommendations of the Board of Directors contained in this Proxy Statement. Each stockholder giving a proxy has the power to revoke it at any time before the shares it represents are voted. Revocation of a proxy is effective upon receipt by the Secretary of the Company of either (1) an instrument revoking the proxy or (2) a duly executed proxy bearing a later date. Additionally, a stockholder may change or revoke a previously executed proxy by voting in person at the Annual Meeting (attendance at the Annual Meeting will not, by itself, revoke a proxy).

If you are a registered stockholder (i.e. you hold your NovaMed stock in certificate form), you may vote by mail, telephone or the Internet. To vote by mail, please sign and return the enclosed form of proxy. To vote by telephone or the Internet, follow the instructions attached to your proxy card. By voting by telephone or the Internet, you will appoint Messrs. Winjum and Macomber as your proxies with the same authority as if you had signed and returned the enclosed form of proxy. The deadline for voting by telephone or the Internet is 11:59 p.m., Eastern Time, on May 25, 2004.

If your shares are held in a stock brokerage account or by a bank or other nominee (sometimes referred to as being held in street name), you are considered the beneficial owner of those shares. Your broker, bank or other nominee is considered the stockholder of record of those shares and is forwarding these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other nominee how to vote, and you are also invited to attend the Annual Meeting. However, because you are not the stockholder of record, you may not directly vote those shares unless you obtain a signed proxy from the record holder giving you the right to do so. Your broker, bank or other nominee has enclosed or provided a voting instruction card for you to use in directing it how to vote your shares. If you are a beneficial owner of shares and do not provide your broker, as stockholder of record, with voting instructions and the broker does not have discretionary authority to vote on a particular matter, your shares will constitute broker non-votes for that matter.

Required Vote The vote of a plurality of the shares of Common Stock voted in person or by proxy is required to elect the nominees for the Class II directors. Stockholders are not allowed to cumulate their votes in the election of directors.

Quorum; Abstentions and Broker Non-Votes The required quorum for the transaction of business at the Annual Meeting is a majority of the shares of Common Stock issued and outstanding as of the Record Date. Votes

cast by proxy or in person at the Annual Meeting will be tabulated by the election inspectors appointed for the meeting, and the election inspectors will determine whether or not a quorum is present. Abstentions and broker non-votes will be included in determining the presence of a quorum. Abstentions and broker non-votes will have no effect on the vote for directors.

Annual Report to Stockholders The Company s Annual Report to Stockholders for the year ended December 31, 2003, containing financial and other information pertaining to the Company, is being furnished to stockholders simultaneously with this Proxy Statement.

PROPOSAL 1

ELECTION OF DIRECTORS

The Company s Board of Directors currently consists of six directors. Article V of the Company s Certificate of Incorporation provides that the Board of Directors will be divided into three classes, with each class serving for a term of three years. At the Annual Meeting, two Class II directors will be elected for a term of three years expiring at the Company s 2007 Annual Meeting of Stockholders. Both of the nominees are presently serving as directors of the Company. See Nominees below.

The four directors whose terms of office do not expire in 2004 will continue to serve after the Annual Meeting until such time as their respective terms of office expire or their successors are duly elected and qualified. See Other Directors below.

If at the time of the Annual Meeting any of the nominees should be unable or decline to serve, the persons named in the proxy will vote for such substitute nominee or nominees as the Board of Directors recommends, or vote to allow the vacancy created thereby to remain open until filled by the Board of Directors, as the Board of Directors recommends. The Board of Directors has no reason to believe that any nominee will be unable or decline to serve as a director if elected.

NOMINEES

The names of the nominees for the office of director, together with certain information concerning the nominees, are set forth below:

Name	Age	Position with Company	Served as Director Since	Term Expires
Robert J. Kelly (1)(2)	59	Director	2004	2007
C.A. Lance Piccolo (1)(2)	63	Director	2000	2007

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

Mr. Kelly has been a director of the Company since April 9, 2004. The Board of Directors appointed Mr. Kelly to fill a vacancy with an initial term that would expire at the Company s 2004 Annual Meeting of Stockholders. Mr. Kelly is currently an independent consultant. From 2000 to 2001, Mr. Kelly served as Executive Vice President and Chief Financial Officer of Celarix, Inc., a company that provides enterprise level solutions for logistics over the Internet. From 1997 to 2000, Mr. Kelly served as Chief Financial Officer of Summit Autonomous, Inc., a manufacturer of excimer lasers that was acquired by Alcon Laboratories, Inc. in 2000. Previously, from 1992 to 1997, Mr. Kelly served as Chief Financial Officer of Bull HN Information Systems, Inc., the U.S. subsidiary of Groupe Bull, an international information technology company based in France.

Mr. Piccolo has been a director of the Company since November 2000. Mr. Piccolo has been President and Chief Executive Officer of HealthPic Consultants, Inc., a strategic healthcare consulting firm, since 1997. In 1996 Mr. Piccolo served as Chairman and Chief Executive Officer of Caremark International, Inc., a 1992 spin-off from Baxter International, Inc. Mr. Piccolo also currently serves as a member of the Board of Directors of Caremark Rx Inc. and Crompton Corp.

The Board of Directors recommends that stockholders vote FOR each nominee for election as a Class II director.

OTHER DIRECTORS

The following persons will continue to serve as directors of the Company after the Annual Meeting until their terms of office expire (as indicated below) or until their successors are duly elected and qualified.

Name	Age	Position with Company	Served as Director Since	Term Expires
R. Judd Jessup (1)(2)	56	Director	1998	2005
Scott H. Kirk, M.D.	51	Director	1995	2005
Steven V. Napolitano	44	Director	1997	2005
Stephen J. Winjum	40	President, Chief Executive Officer and Chairman	1995	2006

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

Mr. Jessup has been a director of the Company since November 1998. He is currently Chief Executive Officer of US Labs, a national reference laboratory specializing in cancer testing. He is currently a director of CorVel Corporation, an independent nationwide provider of medical cost containment and managed care services. From 1994 to 1996 he served as President of the HMO Division of FHP International Corporation, a diversified health care services company.

Dr. Kirk has been a director of the Company since August 1995 and its National Medical Director since May 2002. Dr. Kirk has practiced ophthalmology in the Chicago area since 1982, and is currently practicing in River Forest, Illinois on behalf of Kirk Eye Center, S.C., a professional entity whose eye care professionals had been parties to long-term services agreements with the Company since January 1996. In March 2002, the Company terminated its services agreement with the Kirk Eye Center and Dr. Kirk. Dr. Kirk is currently a member of the board of directors of the Accreditation Association for Ambulatory Health Care and the Outpatient Ophthalmic Surgery Society.

Mr. Napolitano has been a director of the Company since January 1997. Mr. Napolitano is a senior partner in the law firm of Katten Muchin Zavis Rosenman where he has practiced since 1995. Mr. Napolitano is a member of the firm s board of directors and executive committee, and is also a co-chair of the firm s Private Equity and Emerging Growth Company practice group. The Company has retained, and continues to retain, Katten Muchin Zavis Rosenman as outside legal counsel.

Mr. Winjum has served as President, Chief Executive Officer and a member of the Board of Directors of the Company since founding the Company in March 1995. In May 1998, the Board of Directors established the position of Chairman, and Mr. Winjum has served in such capacity ever since.

Messrs. Jessup, Kelly, Napolitano and Piccolo are directors who are neither officers or employees of the Company or its subsidiaries nor individuals having any other relationship with the Company which, in the opinion of the Board of Directors, would interfere with the exercise of such director s independent judgment in carrying out their responsibilities as directors.

Director Compensation At its December 2003 meeting, the Board of Directors approved an increase in the cash compensation paid to outside directors for attendance at meetings. Each outside director, which would exclude Mr. Winjum, will be paid $3,000 per meeting attended in person (representing an increase from $2,000 per meeting). The fee paid to each outside director for telephonic meetings did not change and remains at $1,000 per telephonic meeting in which he participates. Cash compensation is only paid for meetings of the Board of Directors; no cash compensation is paid for committee meetings. In addition to cash compensation, outside directors have received stock option grants from time to time. Most recently, on March 17, 2004, the Company granted to all outside directors other than Mr. Kelly options to acquire 25,000 shares of the Company s common stock. These

options vest monthly over a 48-month period. Upon his appointment to the Board on April 9, 2004, Mr. Kelly also received options to acquire 25,000 shares of the Company s common stock that also vest over a 48-month period. The Company also reimburses its directors for their reasonable out-of-pocket expenses incurred in attending Board of Director and committee meetings.

Meetings During the year ended December 31, 2003, the Board of Directors held six meetings. Each of the Company s current directors attended at least 75% of the aggregate number of board meetings held and the total number of committee meetings on which he served that were held during 2003.

Committees of the Board of Directors The Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating Committee, each comprised entirely of directors who are neither officers or employees of the Company or its subsidiaries nor individuals having any other relationship with the Company which, in the opinion of the Board of Directors, would interfere with the exercise of such director s independent judgement in carrying out their responsibilities as directors. Messrs. Jessup, Kelly and Piccolo serve as the three members of the Audit Committee and Compensation Committee, with Mr. Kelly being added to both committees effective as of April 9, 2004. Mr. Kelly replaced Mr. Napolitano as a member of the Audit Committee. Messrs. Jessup and Piccolo serve as the two members of the Nominating Committee.

The Audit Committee generally has the responsibility for assessing processes related to risks and control environment, overseeing financial reporting, evaluating the independent audit process, evaluating internal accounting controls, overseeing the selection of the Company s independent auditors, approving audit and permissible non-audit services and reporting to the Board of Directors regarding all of the foregoing. The Audit Committee operates under a written charter adopted by the Board of Directors that was attached as an appendix to the Company s proxy statement for the 2003 Annual Meeting of Stockholders. The Audit Committee held eight meetings in 2003. The Board of Directors, in its business judgment, has determined that all of the members of the Audit Committee are independent under NASDAQ listing standards. The Board of Directors has determined that Mr. Kelly is an audit committee financial expert as defined under SEC rules. Also see Report of the Audit Committee of the Board of Directors.

The Compensation Committee generally has responsibility for recommending to the Board of Directors guidelines and standards relating to the determination of executive and key employee compensation, reviewing the Company s executive compensation policies, recommending to the Board of Directors compensation for the Company s executive officers, and reporting to the Board of Directors regarding the foregoing. The Compensation Committee also has responsibility for administering the Company s stock option plans which includes determining the number of options to be granted to the Company s executive officers and key employees and reporting to the Board of Directors regarding the foregoing. The Compensation Committee held one meeting in 2003. See Report of the Compensation Committee of the Board of Directors.

The Board of Directors formed the Nominating Committee at its meeting in November 2003. The Nominating Committee operates under a written charter adopted by the Board of Directors that is attached to this proxy statement as Appendix A. The Board of Directors, in its business judgment, has determined that all of the members of the Nominating Committee are independent under NASDAQ listing standards. The Nominating Committee generally has the responsibility for: periodically reviewing the composition and structure of the Board so that the proper skills and experience are represented; identifying, recruiting and recommending candidates for election to the Board of Directors; recommending to the Board of Directors the membership of the various committees of the Board of Directors; and reviewing the compensation of the directors and making recommendations to the Board of Directors regarding such compensation. The Nominating Committee has the authority to hire and pay consultants or search firms to assist in the process of identifying and evaluating candidates. No such consultants or search firms have been used by the Nominating Committee to date and, accordingly, no fees have been paid to consultants or search firms.

The Nominating Committee interviewed and evaluated Mr. Kelly. Based on this evaluation, the Nominating Committee, along with Mr. Winjum and Scott T. Macomber as executive officers of the Company, recommended Mr. Kelly to the Board of Directors as a candidate for nomination. On April 9, 2004, the Board of Directors appointed Mr. Kelly to fill a vacancy on the Board of Directors with an initial term that will expire at the Company s 2004 Annual Meeting of Stockholders.

The Nominating Committee will consider candidates for the Board from any reasonable source, including stockholder recommendations that are tendered in accordance with the Company s By-laws. In nominating directors, the Nominating Committee considers a variety of factors, including whether an individual has experience as a senior executive of a company in the healthcare industry or at a public corporation, experience in the management or leadership of a substantial business enterprise or such other professional experience as the Board determines to qualify an individual for service on the Board. The Board also strives to achieve an effective balance and range of experience and expertise, including operational and financial expertise. In considering candidates for the Board, the Nominating Committee will evaluate the entirety of each candidate s credentials. There are no specific minimum qualifications that must be met by a potential nominee. Stockholders who wish to nominate an individual for election as a director at an annual meeting of stockholders must comply with the provisions in the Company s By-laws regarding stockholder nominations. Generally, stockholder nominations must be made in writing and delivered or mailed to the Secretary of

NovaMed, Inc. not less than 45 days nor more than 75 days prior to the first anniversary of the date on which the proxy statement for the preceding year s annual meeting of stockholders was mailed. Each stockholder nomination must contain the following information: (a) the name and address of each proposed nominee, all information relating to such person as would be required to be disclosed in solicitation of proxies for the election of the nominee pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended; (b) the nominee s written consent to serve as a director if elected; (c) the name and address of the nominating stockholder; (d) the number of shares of Common Stock that are owned and of record by such stockholder; and (e) whether such stockholder intends to deliver a proxy statement and form of proxy to holders of a sufficient number of holders of shares of Common Stock to elect such nominee or nominees. Nominations for the 2005 Annual Meeting must be received not later than March 9, 2005. Nominations not made in accordance with all of the requirements contained in the Company s By-laws will be disregarded. The Company does not have any other procedures for stockholders to submit nominees directly to the Board of Directors.

Stockholder Communications with Directors Stockholders wishing to contact any member (or all members) of the Board of Directors, any committee of the Board, or any chair of any such committee may do so by mail, addressed, either by name or title, to the Board of Directors or to any such individual directors or group or committee of directors. All such correspondences should be sent to our principal office. Stockholder communications to directors will first be opened by the Company Secretary s office for the purpose of determining whether the contents represent a message to our directors before being forwarded to the addressee. In addition, the Company Secretary s office will make, if necessary, sufficient copies of the contents to be forwarded to each director who is a member of the group or committee to which the communication is addressed. However, certain kinds of information, such as materials in the nature of advertising, promotions of a product or service, and patently offensive material, will not be forwarded to our directors.

Code of Ethics The Board of Directors has adopted a compliance plan for the Company that includes a code of ethics that applies to the Company s principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Company will furnish a copy of its compliance plan to any person without charge, upon written request to the Company s Secretary.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table contains information regarding the beneficial ownership of the Common Stock as of March 31, 2004, by:

each person or group of affiliated persons known by us to beneficially own more than 5% of the outstanding shares of the Common Stock

each of the Company s directors

each of the Company s Named Officers (as defined below)

all of the Company s directors and executive officers as a group

Unless otherwise indicated below the persons in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission.

Name and Address (1)	Number of Shares	Percent of Shares
Five Percent Stockholder:		
Kirk Family Limited Partnership (2) c/o Kirk Eye Center, S.C. 7427 Lake Street River Forest, Illinois 60305	2,338,977	11.15%
Directors and Officers:		
Stephen J. Winjum (3)	2,514,663	11.12%
Scott T. Macomber (4)	245,628	1.16%

Name and Address (1)	Number of Shares	Percent of Shares
E. Michele Vickery (5)	477,359	2.23%
Scott H. Kirk, M.D. (6)	2,458,174	11.69%
R. Judd Jessup (7)	231,433	1.10%
Steven V. Napolitano (8)	168,000	*
C.A. Lance Piccolo (9)	152,375	*
Robert J. Kelly	4,300	*
All Executive Officers and Directors		
As a Group:		
(8 people) (10)	6,251,932	26.54%

---

* Less than 1%

(1) Unless otherwise indicated, the address of the beneficial owners is c/o NovaMed, Inc., 980 North Michigan Avenue, Suite 1620, Chicago, Illinois 60611.

(2) The general partner of the Kirk Family Limited Partnership is Kirk Eye Center, S.C. Scott H. Kirk, M.D., a member of the Board of Directors, and his brother, Kent A. Kirk, M.D., are the shareholders of Kirk Eye Center, S.C.

(3) Includes 1,636,563 options which are exercisable within 60 days of March 31, 2004.

(4) Includes 221,458 options which are exercisable within 60 days of March 31, 2004.

(5) Includes 388,333 options which are exercisable within 60 days of March 31, 2004.

(6) Includes 2,338,977 shares of common stock held by the Kirk Family Limited Partnership and 50,000 options which are exercisable within 60 days of March 31, 2004.

(7) Includes 106,358 shares of common stock which are held by R. Judd Jessup and Charlene Lynne Jessup, as Trustees for the R. Judd Jessup and Charlene Lynne Jessup Living Trust u/a/d May 6, 1991. Includes 1,600 shares held by Mr. Jessup s family members. Mr. Jessup disclaims beneficial ownership of all 1,600 of these shares. Also includes 46,875 options which are exercisable within 60 days of March 31, 2004.

(8) Includes 100,000 options which are exercisable within 60 days of March 31, 2004.

(9) Includes 134,375 options which are exercisable within 60 days of March 31, 2004.

(10) Includes 2,577,604 options which are exercisable within 60 days of March 31, 2004.

EXECUTIVE OFFICERS

The table below identifies executive officers of the Company who are not identified in the tables entitled Election of Directors Nominees or Other Directors.

Name	Age	Position
Scott T. Macomber	49	Executive Vice President and Chief Financial Officer
E. Michele Vickery	49	Executive Vice President Operations

Mr. Macomber joined the Company as Executive Vice President and Chief Financial Officer in October 2001. From January 2000 to October 2001, Mr. Macomber was Senior Vice President and Chief Financial Officer of Extended Care Information Network, Inc., a health care information technology company located in Northbrook, Illinois. In 1999, Mr. Macomber served as Executive Vice President and Chief Financial Officer of PeopleServe, Inc., a privately held health care services provider located in Dublin, Ohio. From before its initial public offering in 1992 through 1998, Mr. Macomber served as Senior Vice President and Chief Financial Officer of Vitalink Pharmacy Services, Inc., an institutional pharmacy provider located in Naperville, Illinois. Mr. Macomber also spent 12 years in various financial, acquisition and

development positions at Manor Care, Inc., one of the largest long-term care providers in the industry. Mr. Macomber received his B.A. degree from the University of Vermont in 1976 and M.B.A. from the University of Michigan in 1979.

Ms. Vickery has been the Company s Executive Vice President Operations since March 1997. From 1990 to 1996, Ms. Vickery was employed by Surgical Care Affiliates (SCA), a company specializing in the management of outpatient surgery centers, as a Regional Vice President from 1990 until 1992, and as one of two Senior Vice Presidents of Operations from 1992 to 1996. Upon the acquisition of SCA by HealthSouth in 1996, Ms. Vickery continued as a Senior Vice President of the Surgery Division of HealthSouth until joining the Company. Ms. Vickery received her B.S.N. from Case Western Reserve University in 1978, and her B.A. from Wittenberg University in 1976.

Subject to the terms of their employment agreements, the executive officers serve at the discretion of the Board of Directors. Each of the executive officers has an employment agreement with the Company. See Executive Compensation Employment Agreements.

Section 16(a) Beneficial Ownership Reporting Compliance Section 16 of the Securities Exchange Act of 1934, as amended, requires the Company s executive officers (as defined under Section 16), directors and persons who beneficially own greater than 10% of a registered class of the Company s equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based solely on a review of the forms it has received and on written representations from certain reporting persons that no such forms were required for them, the Company believes that during 2003 all Section 16 filing requirements applicable to its officers, directors and 10% beneficial owners were complied with by such reporting persons.

EXECUTIVE COMPENSATION

The following table provides information concerning the annual and long-term compensation for services in all capacities to the Company for the years ended December 31, 2003, 2002 and 2001, of those persons who were (i) during 2003, the chief executive officer of the Company and (ii) at December 31, 2003, the two other most highly compensated (based upon combined salary and cash incentive compensation) executive officers of the Company whose total salary and bonus exceeded $100,000 during 2003 (collectively, the Named Officers).

Summary Compensation Table

		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Other Annual Comp.**	**Securities Underlying Options**	**All Other Compensation**
Stephen J. Winjum	2003	$343,269	$154,000	$15,900	175,000	
President, Chief Executive	2002	$325,000	$190,450	$12,780	240,000	
Officer and Chairman of the Board	2001	$325,000		$34,980	325,000	
Scott T. Macomber (1)	2003	$237,308	$ 74,480	$ 6,900	45,000	
Executive Vice President and	2002	$230,000	$ 89,346	$ 3,780	90,000	
Chief Financial Officer	2001	$ 42,462		$ 580	250,000	
E. Michele Vickery	2003	$230,000	$ 67,850	$ 6,900	15,000	
Executive Vice President	2002	$230,000	$ 57,100	$ 3,780	90,000	
Operations	2001	$230,000		$ 7,903	100,000	

(1) Mr. Macomber joined the Company as Executive Vice President and Chief Financial Officer in October 2001.

Option Grants in 2003 The following table provides information on grants of stock options to the Named Officers during 2003. The Company has never issued stock appreciation rights.

Option Grants in 2003

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term (2)	
Name	**Options (1)**	**% of Total Options**	**Exercise or Base Price**	**Expiration Date**	**5% ($)**	**10% ($)**
Stephen J. Winjum	175,000	33.46%	$1.27	3/20/13	$139,772	$354,209
Scott T. Macomber	45,000	8.60%	$1.27	3/20/13	$ 35,941	$ 91,082
E. Michele Vickery	15,000	2.87%	$1.27	3/20/13	$ 11,980	$ 30,361

(1) All options are non-qualified stock options.

(2) Potential realizable value is presented net of the option exercise price but before any federal or state income taxes associated with exercise. These amounts represent certain assumed rates of appreciation only. Actual gains will be dependent on the future performance of the Common Stock and the option holder s continued employment through the vesting period. The amounts reflected in the table may not necessarily be achieved.

Aggregated Option Exercises in 2003 and Year-End 2003 Option Values None of the Named Officers exercised any options during the year ended December 31, 2003. The following table provides information regarding each of the Named Officer s unexercised options at December 31, 2003. There were no stock appreciation rights exercised in, or outstanding as of the end of, 2003.

Fiscal Year-End Option Values

		Number of Securities Underlying Unexercised Options at Fiscal Year End (#)				
			>	647	1,315	1,287
Other	2,376	2,328	4,845	4,583		
Total benefits and expenses	34,099	28,741	66,930	56,168		
Income before income taxes	854	332	2,574	960		
Income tax expense	73	140	136	299		
Net income	781	192	2,438	661		
Preferred stock dividends	(127)	(127)	(254)	(254)		
Net income applicable to common shareholders	$654	$65	$2,184	$407		
Net income per common share (basic and diluted)	$.03	$-	$.10	$.02		

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$781	$192	$2,438	$661
Other comprehensive income (loss):				
Available-for-sale securities:				
Gross unrealized holding gain arising in the period	7,921	3,470	6,475	2,248
Related tax expense	(2,772)	(1,215)	(2,266)	(787)
Less: reclassification adjustment for net realized gains included in net income	470	70	1,428	71
Related tax expense	(164)	(25)	(500)	(25)
Net effect on other comprehensive income	4,843	2,210	3,281	1,415
Derivative financial instrument:				
Fair value adjustment to derivative financial instrument	193	74	346	265
Related tax expense	(67)	(26)	(121)	(93)
Net effect on other comprehensive income	126	48	225	172
Total other comprehensive income, net of tax	4,969	2,258	3,506	1,587
Total comprehensive income	$5,750	$2,450	$5,944	$2,248

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

Table of Contents

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

Six Months Ended June 30, 2012	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, December 31, 2011	$70	$22,401	$57,136	$6,179	$ 12,244	$(1,753)	$96,277
Net income	-	-	-	2,438	-	-	2,438
Other comprehensive income, net of tax	-	-	-	-	3,506	-	3,506
Dividends on common stock	-	-	-	(426)	-	-	(426)
Dividends accrued on preferred stock	-	-	-	(254)	-	-	(254)
Purchase of shares for treasury	-	-	-	-	-	(49)	(49)
Issuance of shares for stock options	-	-	22	-	-	78	100
Balance, June 30, 2012	$70	$22,401	$57,158	$7,937	$ 15,750	$(1,724)	$101,592
Six Months Ended June 30, 2011							
Balance, December 31, 2010	$70	$22,374	$57,129	$3,886	$ (604)	$(162)	$82,693
Net income	-	-	-	661	-	-	661
Other comprehensive income, net of tax	-	-	-	-	1,587	-	1,587
Dividends on common stock	-	-	-	(445)	-	-	(445)
Dividends accrued on preferred stock	-	-	-	(254)	-	-	(254)
Purchase of shares for treasury	-	-	-	-	-	(54)	(54)
Balance, June 30, 2011	$70	$22,374	$57,129	$3,848	$ 983	$(216)	$84,188

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

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$2,438	$661
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of deferred acquisition costs	5,490	5,384
Acquisition costs deferred	(6,680)	(6,064)
Realized investment gains	(1,428)	(71)
Increase (decrease) in insurance reserves	2,078	(499)
Depreciation and amortization	220	187
Deferred income tax expense	18	295
Decrease (increase) in receivables, net	1,945	(416)
Decrease in other liabilities	(3,235)	(513)
Other, net	(144)	(7)
Net cash provided by (used in) operating activities	702	(1,043)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold, called or matured	32,849	26,884
Investments purchased	(31,947)	(28,987)
Additions to property and equipment	(148)	(28)
Net cash provided by (used in) investing activities	754	(2,131)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	100	-
Payment of dividends on Series D Preferred Stock	(508)	-
Payment of dividends on common stock	(426)	(445)
Purchase of shares for treasury	(49)	(54)
Net cash used in financing activities	(883)	(499)
Net increase (decrease) in cash and cash equivalents	573	(3,673)
Cash and cash equivalents at beginning of period	21,285	28,325
Cash and cash equivalents at end of period	$21,858	$24,652
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$1,314	$1,293
Cash paid for income taxes	$80	$-

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

Table of Contents

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, 2011. The Company's results of operations for the three month and six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012 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 June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05"). ASU 2011-05 requires all nonowner changes in stockholders' equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. If an entity elects the single continuous statement method of presentation, the entity is required to present the components of net income and total net income, the components of other comprehensive income and a total for other comprehensive income, along with the total of comprehensive income in that statement. In the two separate statement approach, an entity is required to present components of net income and total net income in the statement of net income. The statement of other comprehensive income would then immediately follow the statement of net income and would include the components of other comprehensive income and a total for other comprehensive income, along with a total for comprehensive income. Regardless of the presentation an entity chooses, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income ("ASU 2011-12"). The amendments in ASU 2011-12 are being made to allow the FASB time to evaluate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. The Company adopted all the requirements in ASU 2011-05 not affected by ASU 2011-12 on January 1, 2012. See Condensed Consolidated Statements of Comprehensive Income.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"). This guidance resulted in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and International Financial Reporting Standards. While many of the amendments to GAAP are not expected to have a significant effect on practice, this guidance changes some fair value measurement principles and disclosure requirements. ASU 2011-04 is applied prospectively. For public entities, this guidance is effective during the interim and annual periods beginning after December 15, 2011. The Company adopted ASU 2011-04 on January 1, 2012. See Note 10 for expanded disclosures.

Table of Contents

In October 2010, the FASB issued ASU No. 2010-26, Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ("ASU 2010-26") which specifies which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. In accordance with ASU 2010-26, incremental direct costs of contract acquisition are capitalized. Advertising costs are included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in Subtopic 340-20, Other Assets and Deferred Costs – Capitalized Advertising Costs, are met. All other acquisition related costs, including costs incurred by the insurer in soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts, and product development, are expensed as incurred. If the initial application of ASU 2010-26 results in the capitalization of acquisition costs that had not been capitalized previously, the entity may elect not to capitalize those types of costs. ASU 2010-26 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. ASU 2010-26 was required to be applied prospectively upon adoption; although retrospective application to all prior periods presented upon the date of adoption is also permitted, but not required. The Company adopted ASU 2010-26 on January 1, 2012 on a prospective basis. Adoption of ASU 2010-26 did not have a material impact on the Company's financial condition or results of operations.

Table of Contents

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 (loss) before tax for each business unit for the three month and six month periods ended June 30, 2012 and 2011.

Revenues	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
American Southern	$10,887	$10,906	$22,151	$21,482
Bankers Fidelity	23,857	17,960	46,938	35,293
Corporate and Other	209	207	415	353
Total revenue	$34,953	$29,073	$69,504	$57,128

Income (loss) before income taxes	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
American Southern	$1,045	$1,189	$1,760	$2,517
Bankers Fidelity	1,159	548	3,775	1,433
Corporate and Other	(1,350)	(1,405)	(2,961)	(2,990)
Income before income taxes	$854	$332	$2,574	$960

Note 4. Credit Arrangements

Bank Debt

At June 30, 2012, the Company had a revolving credit facility (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), pursuant to which the Company is able to borrow or reborrow up to $5,000, subject to the terms and conditions thereof. 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 2.00%. Interest on amounts outstanding is payable quarterly. 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 certain redemptions, as well as minimum risk-based capital levels. Upon the occurrence of an event of default, Wells Fargo may terminate the Credit Agreement and declare all amounts outstanding due and payable in full. During the six month period ended June 30, 2012, there was no balance outstanding under this Credit Agreement and the Company was in compliance with all financial covenants of the Credit Agreement. The termination date of this Credit Agreement is August 31, 2012.

Table of Contents

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 June 30, 2012 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 June 30, 2012	18,042	23,196
Balance December 31, 2011	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

On February 21, 2006, the Company entered into a zero cost interest rate collar with Wells Fargo 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 Company began making payments to Wells Fargo under the zero cost interest rate collar on June 4, 2008. As a result of interest rates remaining below the LIBOR floor rate of 4.77% through June 30, 2012, these payments to Wells Fargo have continued. While the Company may be exposed to counterparty risk should Wells Fargo fail to perform its obligations under this agreement, based on the current level of interest rates coupled with the current macroeconomic outlook, the Company believes that its current exposure to nonperformance risks is minimal.

The estimated fair value and related carrying value of the Company’s interest rate collar at June 30, 2012 was a liability of approximately $530 with a corresponding decrease in accumulated other comprehensive income in shareholders’ equity, net of deferred tax.

Table of Contents

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 June 30, 2012		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$781	21,272	
Less preferred stock dividends	(127)		
Net income applicable to common shareholders	654	21,272	$.03
Diluted Earnings Per Common Share:			
Effect of dilutive stock options		79	
Net income applicable to common shareholders	$654	21,351	$.03

	Three Months Ended June 30, 2011		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$192	22,238	
Less preferred stock dividends	(127)		
Net income applicable to common shareholders	65	22,238	$-
Diluted Earnings Per Common Share:			
Effect of dilutive stock options		168	
Net income applicable to common shareholders	$65	22,406	$-

	Six Months Ended June 30, 2012		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$2,438	21,273	
Less preferred stock dividends	(254)		
Net income applicable to common shareholders	2,184	21,273	$.10
Diluted Earnings Per Common Share:			
Effect of dilutive stock options		84	
Net income applicable to common shareholders	$2,184	21,357	$.10

Table of Contents

	Six Months Ended June 30, 2011		
	Income	Shares (In thousands)	Per Share Amount
Basic Earnings Per Common Share:			
Net income	$661	22,246	
Less preferred stock dividends	(254)		
Net income applicable to common shareholders	407	22,246	$.02
Diluted Earnings Per Common Share:			
Effect of dilutive stock options		127	
Net income applicable to common shareholders	$407	22,373	$.02

The assumed conversion of the Company's Series D Preferred Stock was excluded from the earnings per common share calculation for all periods presented 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 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Federal income tax provision at statutory rate of 35%	$299	$116	$901	$336
Dividends received deduction	(38)	(21)	(82)	(70)
Small life insurance company deduction	(32)	20	(237)	-
Other permanent differences	8	25	16	33
Change in asset valuation allowance due to change in judgment relating to realizability of deferred tax assets	(164)	-	(462)	-
Income tax expense	$73	$140	$136	$299

The components of the income tax expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Current - Federal	$22	$(11)	$118	$4
Deferred - Federal	215	151	480	295
Change in deferred tax asset valuation allowance	(164)	-	(462)	-
Total	$73	$140	$136	$299

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and six month periods ended June 30, 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 the estimates based on, but not limited to, actual 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 deferred tax asset valuation allowance was

primarily due to the unanticipated utilization of certain capital loss carryforward benefits that had been previously reduced to zero through an existing valuation allowance reserve.

Table of Contents

Note 8. Commitments and Contingencies

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 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 June 30, 2012 and December 31, 2011.

Investments were comprised of the following:

	June 30, 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	$27,203	$4,297	$-	$22,906
Obligations of states and political subdivisions	17,694	2,434	-	15,260
Corporate securities:				
Utilities and telecom	17,593	2,743	-	14,850
Financial services	40,522	1,865	553	39,210
Other business – diversified	62,382	5,338	112	57,156
Other consumer – diversified	50,200	7,121	64	43,143
Total corporate securities	170,697	17,067	729	154,359
Redeemable preferred stocks:				
Utilities and telecom	1,504	4	-	1,500
Financial services	4,768	45	36	4,759
Other consumer – diversified	193	-	-	193
Total redeemable preferred stocks	6,465	49	36	6,452
Total fixed maturities	222,059	23,847	765	198,977
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,333	369	-	964
Financial services	6,694	908	3	5,789
Other business – diversified	125	78	-	47
Other consumer – diversified	2,003	401	75	1,677
Total equity securities	10,155	1,756	78	8,477
Other invested assets	572	-	-	572
Policy loans	2,282	-	-	2,282
Real estate	38	-	-	38
Investments in unconsolidated trusts	1,238	-	-	1,238
Total investments	$236,344	$25,603	$843	$211,584

Table of Contents

	December 31, 2011			
	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	$35,922	$4,186	$-	$31,736
Obligations of states and political subdivisions	17,030	1,757	-	15,273
Corporate securities:				
Utilities and telecom	18,598	2,736	-	15,862
Financial services	34,900	725	1,346	35,521
Other business – diversified	56,553	5,043	152	51,662
Other consumer – diversified	46,908	6,170	12	40,750
Total corporate securities	156,959	14,674	1,510	143,795
Redeemable preferred stocks:				
Utilities and telecom	2,668	168	-	2,500
Financial services	4,576	29	462	5,009
Other consumer – diversified	193	-	-	193
Total redeemable preferred stocks	7,437	197	462	7,702
Total fixed maturities	217,348	20,814	1,972	198,506
Equity securities:				
Common and non-redeemable preferred stocks:				
Utilities and telecom	1,203	239	-	964
Financial services	5,148	558	199	4,789
Other business – diversified	115	68	-	47
Other consumer – diversified	1,882	205	-	1,677
Total equity securities	8,348	1,070	199	7,477
Other invested assets	567	-	-	567
Policy loans	2,246	-	-	2,246
Real estate	38	-	-	38
Investments in unconsolidated trusts	1,238	-	-	1,238
Total investments	$229,785	$21,884	$2,171	$210,072

The amortized cost and carrying value of the Company's investments in fixed maturities at June 30, 2012 by contractual maturity were as follows. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2012	
	Carrying Value	Amortized Cost
Due in one year or less	$ 1,535	$ 1,499
Due after one year through five years	4,619	4,220
Due after five years through ten years	37,670	35,723
Due after ten years	177,054	156,541
Varying maturities	1,181	994
Totals	$ 222,059	$ 198,977

- 14 -

Table of Contents

The following table sets forth the carrying value, amortized cost, and net unrealized gains or losses of the Company's investments aggregated by industry as of June 30, 2012 and December 31, 2011.

	June 30, 2012			December 31, 2011		
	Carrying Value	Amortized Cost	Unrealized Gains	Carrying Value	Amortized Cost	Unrealized Gains (Losses)
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$27,203	$22,906	$4,297	$35,922	$31,736	$4,186
Obligations of states and political subdivisions	17,694	15,260	2,434	17,030	15,273	1,757
Utilities and telecom	20,430	17,314	3,116	22,469	19,326	3,143
Financial services	51,984	49,758	2,226	44,624	45,319	(695)
Other business – diversified	62,507	57,203	5,304	56,668	51,709	4,959
Other consumer – diversified	52,396	45,013	7,383	48,983	42,620	6,363
Other investments	4,130	4,130	-	4,089	4,089	-
Investments	$236,344	$211,584	$24,760	$229,785	$210,072	$19,713

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 June 30, 2012 and December 31, 2011.

	June 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$13,554	$205	$1,476	$524	$15,030	$729
Redeemable preferred stocks	-	-	1,883	36	1,883	36
Common and non-redeemable preferred stocks	622	75	997	3	1,619	78
Total temporarily impaired securities	$14,176	$280	$4,356	$563	$18,532	$843

Table of Contents

	December 31, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$30,675	$1,112	$1,602	$398	$32,277	$1,510
Redeemable preferred stocks	-	-	2,807	462	2,807	462
Common and non-redeemable preferred stocks	824	176	1,245	23	2,069	199
Total temporarily impaired securities	$31,499	$1,288	$5,654	$883	$37,153	$2,171

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 June 30, 2012, securities in an unrealized loss position primarily included certain of the Company's investments in fixed maturities within the financial services sector. 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 June 30, 2012.

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 significantly all of its fixed maturities, which consist of U.S. Treasury securities and U.S. Government securities, municipal bonds, 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). The Company's financial instruments valued using Level 3 criteria include certain fixed maturities and a zero cost interest rate collar. Fair value is based on criteria that use assumptions or other data that are not readily observable from objective sources. As of June 30, 2012, the value of the Company's fixed maturities valued using Level 3 criteria was $2,099 and the value of the zero cost interest rate

collar was a liability of $530 (See Note 5). The use of different criteria or assumptions regarding data may have yielded different valuations.

Table of Contents

As of June 30, 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	$ -	$ 219,960	$ 2,099	$ 222,059
Equity securities	3,660	6,495	-	10,155
Cash equivalents	18,598	-	-	18,598
Total	$ 22,258	$ 226,455	$ 2,099	$ 250,812
Liabilities:				
Derivative	$ -	$ -	$ 530	$ 530

As of December 31, 2011, 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	$ -	$ 215,313	$ 2,035	$ 217,348
Equity securities	3,374	4,974	-	8,348
Cash equivalents	19,519	-	-	19,519
Total	$ 22,893	$ 220,287	$ 2,035	$ 245,215
Liabilities:				
Derivative	$ -	$ -	$ 876	$ 876

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 six month periods ended June 30, 2012.

	Fixed Maturities	Derivative (Liability)
Balance, December 31, 2011	$ 2,035	$ (876)
Total unrealized gains (losses) included in comprehensive income	(61)	153
Balance, March 31, 2012	1,974	(723)
Total unrealized gains included in comprehensive income	125	193
Balance, June 30, 2012	$ 2,099	$ (530)

Table of Contents

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. As the derivative is an interest rate collar, changes in valuation are more closely correlated with changes in interest rates and, accordingly, values are estimated using projected cash flows at current interest rates discounted at a reasonably estimated rate of interest. At June 30, 2012, the value of the derivative was determined based on the difference between the contractual interest rate of 4.77% and the current 3-month LIBOR rate of 0.47%. Fair value quotations are also obtained and considered, as applicable, from the counterparty to the transaction.

Note 10. Fair Values of Financial Instruments

The estimated fair value amounts 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 June 30, 2012 and December 31, 2011.

		June 30, 2012		December 31, 2011	
	Level in Fair Value Hierarchy (1)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	$21,858	$21,858	$21,285	$21,285
Fixed maturities	(1)	222,059	222,059	217,348	217,348
Equity securities	(1)	10,155	10,155	8,348	8,348
Other invested assets	Level 3	572	572	567	567
Policy loans	Level 2	2,282	2,282	2,246	2,246
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	Level 3	530	530	876	876

(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 June 30, 2012 and December 31, 2011 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.

Table of Contents

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 six month periods ended June 30, 2012. 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, 2011.

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 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 critical 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, 2011. During the six month period ended June 30, 2012, there were no changes to the critical accounting policies or related estimates previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Recently Issued Accounting Standards

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

OVERALL CORPORATE RESULTS

On a consolidated basis, the Company had net income of $0.8 million, or $0.03 per diluted share, for the three month period ended June 30, 2012, compared to net income of $0.2 million, or nil per diluted share, for the three month period ended June 30, 2011. The Company had net income of $2.4 million, or $0.10 per diluted share, for the six month period ended June 30, 2012, compared to net income of $0.7 million, or $0.02 per diluted share, for the six month period ended June 30, 2011. The increase in net income for the three month and six month periods ended June 30, 2012 was primarily due to an increase in premium revenue, investment income and realized investment gains, in conjunction with maintaining a relatively consistent level of fixed general and administrative expenses. Premium revenue for the three month period ended June 30, 2012 increased $5.4 million, or 20.6%, to $31.6 million. For the six month period ended June 30, 2012, premium revenue increased $10.7 million, or 20.6%, to $62.3 million. The increase in premium revenue was primarily attributable to an increase in Medicare supplement business in the life and health operations. Operating income (income before income taxes and realized investment gains) was $0.4 million in the three month period ended June 30, 2012 compared to $0.3 million in the three month period ended June 30, 2011. Operating income in the six month periods ended June 30, 2012 and 2011 was $1.1 million and $0.9 million, respectively. While the life and health operations experienced significant growth in premium revenue and related profitability during the three month and six month periods ended June 30, 2012, operating income was moderated by

unfavorable loss experience in the property and casualty operations.

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

Table of Contents

American Southern

The following is a summary of American Southern's premiums for the three month and six month periods ended June 30, 2012 and the comparable periods in 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Gross written premiums	$12,030	$12,247	$21,579	$19,817
Ceded premiums	(1,904)	(1,507)	(3,819)	(2,974)
Net written premiums	$10,126	$10,740	$17,760	$16,843
Net earned premiums	$9,666	$9,731	$19,478	$19,164

Gross written premiums at American Southern decreased $0.2 million, or 1.8%, during the three month period ended June 30, 2012 from the three month period ended June 30, 2011, and increased $1.8 million, or 8.9%, during the six month period ended June 30, 2012, over the comparable period in 2011. The decrease in gross written premiums for the three month period ended June 30, 2012 was due primarily to a decrease in the general liability line of business. The increase in gross written premiums for the six month period ended June 30, 2012 was primarily attributable to increases of $1.8 million in commercial automobile business written by a newly appointed agency and $1.6 million in commercial automobile business written by an existing agency. Partially offsetting the increase in gross written premiums for the six month period ended June 30, 2012 was a decrease of $1.8 million in commercial automobile written premiums resulting from the cancellation of two agencies in the first quarter of 2012 due to unfavorable loss experience.

Ceded premiums increased $0.4 million, or 26.3%, during the three month period ended June 30, 2012, and $0.8 million, or 28.4%, during the six month period ended June 30, 2012, over the comparable periods in 2011. The increase in ceded premiums for the three month and six month periods ended June 30, 2012 was primarily due to increased cession rates as well as an increase in commercial automobile earned premiums which have higher contractual cession rates than other lines of business.

The following presents American Southern's net earned premiums by line of business for the three month and six month periods ended June 30, 2012 and the comparable periods in 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Commercial automobile	$6,540	$6,454	$12,860	$12,569
General liability	783	1,067	1,946	2,200
Property	556	495	998	1,003
Surety	1,787	1,715	3,674	3,392
Total	$9,666	$9,731	$19,478	$19,164

Net earned premiums decreased slightly during the three month period ended June 30, 2012 from the three month period ended June 30, 2011, and increased $0.3 million, or 1.6%, during the six month period ended June 30, 2012, over the comparable period in 2011. The decrease in net earned premiums for the three month period ended June 30, 2012 was primarily attributable to the continued decline in the general liability line of business. The increase in net earned premiums for the six month period ended June 30, 2012 was primarily due to the volume of commercial

automobile and surety business written in the current year and during 2011. 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.

Table of Contents

The following sets forth American Southern's loss and expense ratios for the three month and six month periods ended June 30, 2012 and for the comparable periods in 2011:

	Three Months Ended June 30,		Six Month Ended June 30,	
	2012	2011	2012	2011
Loss ratio	69.7 %	59.6 %	75.8 %	57.9 %
Expense ratio	32.1 %	40.2 %	28.9 %	41.1 %
Combined ratio	101.8 %	99.8 %	104.7 %	99.0 %

The loss ratio for the three month period ended June 30, 2012 increased to 69.7% from 59.6% in the three month period ended June 30, 2011 and to 75.8% in the six month period ended June 30, 2012 from 57.9% in the comparable period of 2011. The increase in the loss ratio for the three month and six month periods ended June 30, 2012 was attributable to increases in the frequency and severity of claims in substantially all lines of business during 2012 as compared to the same periods in 2011.

The expense ratio for the three month period ended June 30, 2012 decreased to 32.1% from 40.2% in the three month period ended June 30, 2011 and to 28.9% in the six month period ended June 30, 2012 from 41.1% in the comparable period of 2011. The decrease in the expense ratio for the three month and six month periods ended June 30, 2012 was primarily due 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 increases, commissions and underwriting expenses will generally decrease, and conversely, during periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase. During the three month and six month periods ended June 30, 2012, these commissions at American Southern decreased $0.9 million and $2.2 million, respectively, from the comparable periods in 2011 due to the unfavorable loss experience.

Bankers Fidelity

The following summarizes Bankers Fidelity's earned premiums for the three month and six month periods ended June 30, 2012 and the comparable periods in 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Medicare supplement	$17,745	$12,510	$34,619	$24,764
Other health	1,116	1,065	2,234	2,106
Life	3,065	2,891	5,942	5,585
Total	$21,926	$16,466	$42,795	$32,455

Premium revenue at Bankers Fidelity increased $5.5 million, or 33.2%, during the three month period ended June 30, 2012, and $10.3 million, or 31.9%, during the six month period ended June 30, 2012, over the comparable periods in 2011. Premiums from the Medicare supplement line of business increased $5.2 million, or 41.8%, during the three month period ended June 30, 2012, and $9.9 million, or 39.8%, during the six month period ended June 30, 2012, due primarily to an increase in business generated from the company's core producers, new business issued in the state of Missouri, and rate increases on renewal business. Other health products premiums increased slightly during the same comparable periods, primarily as a result of increased sales of the company's short-term care product. Premiums from the life insurance line of business increased $0.2 million, or 6.0%, during the three month period ended June 30, 2012,

and $0.4 million, or 6.4%, during the six month period ended June 30, 2012 due to normal new sales activity.

Table of Contents

The following summarizes Bankers Fidelity's operating expenses for the three month and six month periods ended June 30, 2012 and the comparable periods in 2011 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Benefits and losses	$16,357	$12,418	$31,010	$23,754
Commissions and other expenses	6,339	4,994	12,152	10,106
Total expenses	$22,696	$17,412	$43,162	$33,860

Benefits and losses increased $3.9 million, or 31.7%, during the three month period ended June 30, 2012, and $7.3 million, or 30.5%, during the six month period ended June 30, 2012, over the comparable periods in 2011. As a percentage of premiums, benefits and losses decreased to 74.6% in the three month period ended June 30, 2012 from 75.4% in the three month period ended June 30, 2011. For the six month period ended June 30, 2012, this ratio decreased to 72.5% from 73.2% in the comparable period in 2011. The decrease in the loss ratio for the three month and six month periods ended June 30, 2012 was primarily attributable to more favorable loss experience in the Medicare supplement line of business during 2012 as compared to the same periods in 2011.

Commissions and other expenses increased $1.3 million, or 26.9%, during the three month period ended June 30, 2012, and $2.0 million, or 20.2%, during the six month period ended June 30, 2012, over the comparable periods in 2011. The increase in commissions and other expenses was primarily attributable to the increased level of premiums earned as well as increases in advertising and agency related expenses. As a percentage of premiums, these expenses decreased to 28.9% in the three month period ended June 30, 2012 from 30.3% in the three month period ended June 30, 2011. For the six month period ended June 30, 2012, this ratio decreased to 28.4% from 31.1% in the comparable period in 2011. The decrease in the expense ratio for the three month and six month periods ended June 30, 2012 was primarily due to the increase in earned premiums coupled with a relatively consistent level of fixed general and administrative expenses.

INVESTMENT INCOME AND REALIZED GAINS

Investment income increased $0.2 million, or 6.1%, during the three month period ended June 30, 2012, and $0.5 million, or 9.1%, during the six month period ended June 30, 2012, over the comparable periods in 2011. The increase in investment income was primarily attributable to an increase in yield on invested assets and a higher average balance of fixed maturities held by the Company in the three month and six month periods ended June 30, 2012 as compared to the same periods of 2011.

The Company had net realized investment gains of $1.4 million during the six month period ended June 30, 2012, compared to net realized investment gains of $0.1 million in the six month period ended June 30, 2011. The significant increase in net realized investment gains for the six month period ended June 30, 2012 was primarily due to the sale of several of the Company's investments in fixed maturities during the 2012 period. 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 increased slightly during the three month and six month periods ended June 30, 2012 from the comparable periods in 2011. The increase in interest expense was due to an increase in the London Interbank Offered Rate ("LIBOR"), as the interest rates on the Company's bank debt and outstanding trust preferred obligations are directly

related to LIBOR.

Table of Contents

OTHER EXPENSES

Other expenses (commissions, underwriting expenses, and other expenses) increased $0.5 million, or 4.8%, during the three month period ended June 30, 2012 over the three month period ended June 30, 2011, and decreased $0.2 million, or 0.9%, during the six month period ended June 30, 2012, from the comparable period in 2011. The increase in other expenses for the three month period ended June 30, 2012 was primarily due to increased commission and underwriting costs in the life and health operations associated with increased premiums as well as increases in advertising and agency related expenses. The decrease in other expenses for the six month period ended June 30, 2012 was primarily attributable to decreased commission accruals at American Southern due to recent loss experience. During the three month and six month periods ended June 30, 2012, these commissions at American Southern decreased $0.9 million and $2.2 million, respectively, from the comparable periods in 2011. 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 increases, commissions and underwriting expenses will generally decrease, and conversely, during periods in which the loss ratio decreases, commissions and underwriting expenses will generally increase. Partially offsetting the decrease in other expenses in the six month period ended June 30, 2012 were increased commission and underwriting costs in the life and health operations resulting from the higher volume of business discussed previously. On a consolidated basis, as a percentage of earned premiums, other expenses decreased to 32.7% in the three month period ended June 30, 2012 from 37.7% in the three month period ended June 30, 2011. For the six month period ended June 30, 2012, this ratio decreased to 31.9% from 38.8% in the comparable period of 2011. The decrease in the expense ratio for the three month and six month periods ended June 30, 2012 was primarily attributable to the increase in earned premiums coupled with a relatively consistent level of fixed general and administrative expenses and a reduction in American Southern's commission accruals discussed previously.

INCOME TAXES

The primary differences between the effective tax rate and the federal statutory income tax rate for the three month and six month periods ended June 30, 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 the estimates based on, but not limited to, actual 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 $3.0 million and is ultimately phased out at $15.0 million. The change in deferred tax asset valuation allowance was primarily due to the unanticipated utilization of certain capital loss carryforward benefits that had been previously reduced to zero through an existing valuation allowance reserve.

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, proceeds from the sale and maturity of its invested assets and, if necessary, available borrowings under the Credit Agreement (defined below). 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. At June 30, 2012, the Parent had approximately $25.8 million of unrestricted cash and investments. The Company believes that traditional funding sources for the Parent, combined with current cash and investments, should provide sufficient liquidity for the Company for the foreseeable future.

The Parent's insurance subsidiaries reported statutory net income of $1.0 million for the six month period ended June 30, 2012 compared to statutory net income of $3.2 million for the six month period ended June 30, 2011. 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 generally accepted accounting principles ("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.

Table of Contents

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 June 30, 2012, American Southern had $37.7 million of statutory surplus and Bankers Fidelity had $33.1 million of statutory surplus. In 2012, dividend payments by the Parent's insurance subsidiaries in excess of $7.8 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 $4.6 million at June 30, 2012.

In addition to these internal funding sources, the Company maintains its revolving credit facility (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), pursuant to which the Company is able to, subject to the terms and conditions thereof, borrow or reborrow up to $5.0 million. 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 2.00%. Interest on amounts outstanding is payable quarterly. 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 certain redemptions, as well as minimum risk-based capital levels. Upon the occurrence of an event of default, Wells Fargo may terminate the Credit Agreement and declare all amounts outstanding due and payable in full. During the six month period ended June 30, 2012, there was no balance outstanding under this Credit Agreement and the Company was in compliance with all financial covenants of the Credit Agreement. The termination date of this Credit Agreement is August 31, 2012. While the Company currently believes that it would be able to timely enter into a replacement credit facility, on substantially similar terms, there are currently no plans to renew or replace the Credit Agreement upon its scheduled termination. No assurances can be provided, however, that the Company will be able to enter into a new credit facility in the future at times, or on terms, acceptable to the Company.

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 June 30, 2012, the effective interest rate was 4.5%. 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.

During 2006, the Company entered into a zero cost interest rate collar with Wells Fargo 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 Company began making payments to Wells Fargo under the zero cost interest rate collar on June 4, 2008. As a result of interest rates remaining below the LIBOR floor rate of 4.77% through June 30, 2012, these payments to Wells Fargo have continued. While the Company may be exposed to counterparty risk should Wells Fargo fail to perform its obligations under this agreement, based on the current level of interest rates coupled with the current macroeconomic outlook, the Company believes that its current exposure to nonperformance risks is minimal.

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

Table of Contents

At June 30, 2012, the Company had 70,000 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 1,754,000 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. At June 30, 2012, the Company had accrued but unpaid dividends on the Series D Preferred Stock totaling $0.3 million.

Net cash provided by operating activities was $0.7 million in the six month period ended June 30, 2012, compared to net cash used in operating activities of $1.0 million in the six month period ended June 30, 2011. Cash and cash equivalents increased from $21.3 million at December 31, 2011 to $21.9 million at June 30, 2012. The increase in cash and cash equivalents during the six month period ended June 30, 2012 was primarily due to cash provided by operating activities as well as normal sales and maturities exceeding the purchase of investments. Partially offsetting the increase were dividends paid on the Company's Series D Preferred Stock and common stock in the six month period ended June 30, 2012 of $0.5 million and $0.4 million, respectively.

The Company believes that the dividends, fees, and tax-sharing payments it receives from its subsidiaries 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. As previously disclosed, as a result of the determination on March 26, 2012, that an other than temporary impairment on certain equity securities was more appropriately recognized in the fourth quarter of 2010 rather than in 2011 and that the Company would restate its financial statements for the quarter and year ended December 31, 2010, management, including the Chief Executive Officer and Chief Financial Officer, has concluded that, due to the material weakness in internal control over financial reporting in the area of other than temporary impairments for investments, the Company's disclosure controls and procedures were not effective as of December 31, 2011. Also as previously disclosed, subsequent to

December 31, 2011, and immediately following management's identification of the above-referenced weakness, management implemented steps to remediate the material weakness. These efforts involved, among others, development of a more robust quarterly analysis of investments which have fair values less than their historical costs and adoption of stricter policies with respect to unrealized losses on investments, particularly common stocks. Based on the foregoing, 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.

Except as described above, 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.

Table of Contents

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, 2011, 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.

PART II. OTHER INFORMATION

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

On May 2, 1995, the Board of Directors of the Company approved a 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 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.

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 June 30, 2012.

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
April 1 – April 30, 2012	-	$ -	-	402,187
May 1 – May 31, 2012	2,307	2.90	2,307	399,880
June 1 – June 30, 2012	14,958	2.80	14,958	384,922
Total	17,265	$ 2.82	17,265	

Table of Contents

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. *

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.

Table of Contents

SIGNATURES

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

ATLANTIC AMERICAN CORPORATION
(Registrant)

Date: August 10, 2012	By:	/s/ John G. Sample, Jr.
		John G. Sample, Jr.
		Senior Vice President and Chief Financial Officer
		(Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit Number	Title
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. *

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.