ATLANTIC AMERICAN CORP
Form 10-K
March 26, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011
or

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

Commission file number 0-3722

ATLANTIC AMERICAN CORPORATION
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of exchange
Common Stock, par value $1.00 per share	NASDAQ Global Market

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

None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x
	(Do not check if a smaller reporting company)		

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

The aggregate market value of voting and nonvoting common stock held by non-affiliates of the registrant as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was $13,668,943. For purposes hereof, beneficial ownership is determined under rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934, and the foregoing excludes value ascribed to common stock that may be deemed beneficially owned by the directors and executive officers of the registrant, some of whom may not be deemed to be affiliates upon judicial determination. On March 9, 2012 there were 21,274,241 shares of the registrant's common stock, par value $1.00 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the registrant's Proxy Statement for the 2012 Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year end, have been incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

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Explanatory Note Relating to December 31, 2010 Financial Statements

As previously disclosed by Atlantic American Corporation on March 26, 2012, in connection with the preparation by the Company of its annual report on Form 10-K for the year ended December 31, 2011 (the "2011 Form 10-K"), the Company determined that other than temporary impairments on certain equity securities were more appropriately recognized as of December 31, 2010 than December 31, 2011. As a result, the Company determined that the previously issued financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2010 should no longer be relied upon, and that the Company would restate its financial results as of and for the year ended December 31, 2010. Such restated financial results are included in this 2011 Form 10-K and a detailed discussion of the financial statement line items impacted is disclosed in Note 1 of Notes to Consolidated Financial Statements.

PART I

Item 1. Business

The Company

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

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

Property and Casualty Operations

American Southern comprises the Company's property and casualty operations and its primary product lines are as follows:

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

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

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

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

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American Southern provides tailored business automobile insurance coverage, on a multi-year contract basis, to state governments, local municipalities and other large motor pools and fleets ("block accounts") that can be specifically rated and underwritten. The size of the block accounts insured by American Southern are generally such that individual class experience can be determined, which allows for customized policy terms and rates. American Southern is licensed to do business in 32 states and the District of Columbia. While the majority of American Southern's premiums are derived from its automobile lines of business, American Southern also offers personal property, inland marine and general liability coverages. Additionally, American Southern directly provides surety bond coverage for school bus transportation and subdivision construction, as well as performance and payment bonds.

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

	Year Ended December 31,	
	2011	2010
	(In thousands)	
Automobile liability	$16,709	$14,399
Automobile physical damage	7,736	6,883
General liability	4,009	5,057
Property	2,086	2,479
Surety	6,974	6,121
Total	$37,514	$34,939

Life and Health Operations

Bankers Fidelity comprises the life and health operations of the Company and offers a variety of life and supplemental health products with a focus on the senior markets. Products offered by Bankers Fidelity include ordinary and term life insurance, Medicare supplement and other accident and health insurance products. Health insurance products, primarily Medicare supplement insurance, accounted for 84.0% of Bankers Fidelity's net earned premiums in 2011 while life insurance, including both whole and term life insurance policies, accounted for the balance. In terms of the number of policies written in 2011, 82.1% were health insurance policies and 17.9% were life insurance policies.

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

	Year Ended December 31,	
	2011	2010
	(In thousands)	
Life insurance	$11,192	$11,258
Medicare supplement	54,444	46,816
Other accident and health	4,321	4,600
Total health insurance	58,765	51,416
Total	$69,957	$62,674

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

Medicare Supplement Insurance includes 7 of the 11 standardized Medicare supplement policies created under the Medicare Improvements for Patients and Providers Act of 2008 ("MIPPA"), which are designed to provide insurance coverage for certain expenses not covered by the Medicare program, including copayments and deductibles.

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

Marketing

Property and Casualty Operations

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

Life and Health Operations

Bankers Fidelity markets its policies through three distribution channels all of which utilize commissioned, independent agents. The three channels utilized include the traditional independent agent, broker-agents typically interested in a specific product of Bankers Fidelity and special market agents which promote workplace, association and/or branded products.

In the traditional independent agent arrangement, Bankers Fidelity enters into contractual arrangements with various regional sales directors and general agents responsible for marketing and other sales activities, who also, in turn, recommend appointment of other independent agents. The standard agreements set forth the commission arrangements and are terminable without cause by either party upon notice. Regional sales directors and general agents receive an override commission on sales made by agents sponsored by them. Management believes utilizing experienced agents, as well as independent general agents who recruit and train their own agents, is cost effective. All independent agents are compensated primarily on a commission basis. Using independent agents also enables Bankers Fidelity to effectively expand or contract its sales force without incurring significant expense.

With the traditional independent agents, the company utilizes a lead generation system that rewards qualified agents with leads in accordance with certain production criteria. In addition, a protected territory is established for qualified agents, which entitles them to all leads produced within that territory. The territories are zip code or county based and encompass sufficient geographic territory designed to produce an economically serviceable senior population. The Company believes that offering a lead generation system solves an agent's most important dilemma -- prospecting -- and allows Bankers Fidelity to build long-term relationships with agents who view Bankers Fidelity as their primary company. In addition, management believes that Bankers Fidelity's product line is less sensitive to competitor pricing and commissions because of the perceived value of the protected territory and the lead generation system. In protected geographical areas, production per agent has historically compared favorably to unprotected areas served by the general brokerage division.

Products of Bankers Fidelity compete directly with products offered by other insurance companies, and agents may represent multiple insurance companies. Broker-agents generally are not interested in developing relationships with any one particular insurance company but are more interested in matching a specific product with the specific needs of their clients. These agents, while a source of business, do not participate in the company's lead generation system; but can qualify for other incentives that Bankers Fidelity offers to its traditional independent agents.

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Bankers Fidelity also has a number of agents, some of whom belong to marketing organizations that solicit business from various groups including employers, trade associations and/or other organizations. Depending on the group's needs, these agents may target one specific product or a group of Bankers Fidelity's products to market to a group's members. Bankers Fidelity has also established a comprehensive worksite marketing program to diversify its distribution methods. These agents also do not participate in the company's lead generation system; but can also qualify for other incentives that Bankers Fidelity offers to its traditional independent agents.

Bankers Fidelity, in an effort to motivate all of its registered agents to market its products, offers the following: competitive products and commission structures, efficient claims service, prompt payment of commissions that vest immediately, simplified policy issuance procedures, periodic sales incentive programs and, as described above, for the traditional independent agents, protected sales territories determined based on specific counties and/or zip codes.

Bankers Fidelity has implemented an agent qualification process and had 2,153 licensed agents as of December 31, 2011. The agents concentrate their sales activities in both the accident and health or life insurance product lines. During 2011, approximately 820 of the licensed agents wrote policies on behalf of Bankers Fidelity.

Underwriting

Property and Casualty Operations

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

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

Life and Health Operations

Bankers Fidelity issues a variety of products for both life and health insurance markets, with a focus on senior life products typically with small face amounts of between $3,000 and $50,000, and Medicare supplement insurance. The majority of its products utilize "Yes" or "No" applications that are underwritten on a non-medical basis. Bankers Fidelity offers products to all age groups; however, its primary marketing focus is the senior market which is generally defined as individuals 65 years of age or older. For life products offered to other than the senior market, Bankers Fidelity may require medical information, such as medical examinations, subject to published age guidelines and coverage limits. Approximately 95% of the annualized premiums for both life and health insurance sold during 2011 were derived from insurance written on a non-medical basis. For the senior market, Bankers Fidelity offers life products primarily on a simplified policy issue basis with coverage amounts up to $50,000 for preferred rates, up to $35,000 for standard rates and up to $20,000 for graded death benefits and modified rates. Bankers Fidelity retains a maximum coverage amount of $100,000 with respect to any individual life policy (see "Reinsurance").

Applications for insurance are reviewed to determine the face amount, age, medical history and any other necessary information. Bankers Fidelity utilizes information obtained directly from the insured, the Medical Information Bureau ("M.I.B."), paramedical testing, and/or medical records. Bankers Fidelity may also utilize investigative services to supplement and substantiate information. For certain limited coverages, Bankers Fidelity has adopted simplified policy issuance procedures by which an application containing a variety of health related questions is submitted. For these plans, Bankers Fidelity obtains M.I.B. and prescription drug utilization reports and conducts a telephone interview, however, will generally not request paramedical testing or medical records.

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Policyholder and Claims Services

The Company believes that prompt, efficient policyholder and claims services are essential to its continued success in marketing its insurance products (see "Competition"). Additionally, the Company believes that its insureds are particularly sensitive to claims processing time and to the accessibility of qualified staff to answer inquiries. Accordingly, the Company's policyholder and claims services seek to offer expeditious disposition of service requests by providing toll-free access for all customers, 24-hour claim reporting services, and direct computer links with some of its largest accounts. The Company also utilizes a state-of-the-art automatic call distribution system to ensure that inbound calls to customer service support groups are processed efficiently. Operational data generated from this system allows management to further refine ongoing client service programs and service representative training modules.

Property and Casualty Operations

American Southern controls its claims costs by utilizing an in-house staff of claims supervisors to investigate, verify, negotiate and settle claims. Upon notification of an occurrence purportedly giving rise to a claim, a claim file is established. The claims department then conducts a preliminary investigation, determines whether an insurable event has occurred and, if so, updates the file for the findings and any required reserve adjustments. Frequently, independent adjusters and appraisers are utilized to service claims which require on-site inspections.

Life and Health Operations

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

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Reserves

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

	2011	2010
	(In thousands)	
Balance at January 1	$53,961	$50,112
Less: Reinsurance recoverables	(14,226)	(11,489)
Net balance at January 1	39,735	38,623
Incurred related to:		
Current year	73,980	69,779
Prior years (1)	(4,095)	(6,304)
Total incurred	69,885	63,475
Paid related to:		
Current year	51,316	47,749
Prior years	16,301	14,614
Total paid	67,617	62,363
Reserves acquired	299	-
Net balance at December 31	42,302	39,735
Plus: Reinsurance recoverables	15,673	14,226
Balance at December 31	$57,975	$53,961

(1) Favorable loss development from property and casualty operations for the years ended December 31, 2011 and 2010 was $3.1 million and $5.4 million, respectively. See Note 3 of Notes to Consolidated Financial Statements.

Reserves are set by line of business within each of the subsidiaries. At December 31, 2011, approximately 85% of the reserves related to property and casualty losses and approximately 15% related to life and health losses. The Company's property and casualty operations incur losses which may take extended periods of time to evaluate and settle. Issues with respect to legal liability, actual loss quantification, legal discovery and ultimate subrogation, among other factors, may influence the initial and subsequent estimates of loss. In the property and casualty operations, the Company's general practice is to reserve at the upper end of the determined reasonable range of loss if no other value within the range is determined to be more probable. The Company's life and health subsidiary generally incurs losses which are more readily quantified. Medical claims received are recorded in case reserves based on contractual terms using the submitted billings as a basis for determination. Life claims are recorded based on contract value at the time of notification to the Company; although policy reserves related to such contracts have been previously established. Individual case reserves are established by a claims processor on each individual claim and are periodically reviewed and adjusted as new information becomes known during the course of handling a claim. Regular internal periodic reviews are also performed by management to ensure that loss reserves are established and revised timely relative to the receipt of new or additional information. Lines of business for which loss data (e.g. paid losses and case reserves) emerge over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. The Company's long-tail line of business generally includes general liability while the short-tail lines of business generally include property and automobile coverages.

The Company's actuaries regularly review reserves for both current and prior accident years using the most current claims data. These regular reviews incorporate a variety of actuarial methods (discussed in Critical Accounting Policies) and judgments and involve a disciplined analysis. For most lines of business, certain actuarial methods and specific assumptions are deemed more appropriate based on the current circumstances affecting that line of business. These selections incorporate input from claims personnel and operating management on reported loss cost trends and other factors that could affect the reserve estimates.

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

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

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

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

Components of the Company’s reserves for losses and claims by product line at December 31, 2011 were as follows:

	Case	IBNR	Total
		(In thousands)	
Business automobile	$15,412	$10,207	$25,619
Personal automobile/physical damage	1,212	240	1,452
General & other liability	4,052	8,475	12,527
Other lines (including life)	5,057	4,762	9,819
Medicare supplement	183	6,611	6,794
Unallocated loss adjustment reserves	-	1,764	1,764
Total reserves for losses and claims	$25,916	$32,059	$57,975

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The Company's policy is to record reserves for losses and claims in amounts which approximate actuarial best estimates of ultimate values. Actuarial best estimates do not necessarily represent the midpoint value determined using the various actuarial methods; however, such estimates will fall between the estimated low and high end reserve values. The range of estimates developed in connection with the December 31, 2011 actuarial review indicated that reserves could be as much as 15.4% lower or as much as 10.9% higher. In the opinion of management, recorded reserves represent the best estimate of outstanding losses, although significant judgments are made in the derivation of reserve estimates and revisions to such estimates are expected to be made in future periods. Any such revisions could be material, and may materially adversely affect the Company's financial condition and results of operations in any future period.

Property and Casualty Operations

American Southern maintains loss reserves representing estimates of amounts necessary for payment of losses and LAE, and are not discounted. IBNR reserves are also maintained for future development. These loss reserves are estimates, based on known facts and circumstances at a given point in time, of amounts the insurer expects to pay on incurred claims. All balances are reviewed periodically by the Company's independent consulting actuary. Reserves for LAE are intended to cover the ultimate costs of settling claims, including investigation and defense of lawsuits resulting from such claims. Loss reserves for reported claims are based on a case-by-case evaluation of the type of claim involved, the circumstances surrounding the claim, and the policy provisions relating to the type of loss along with anticipated future development. The LAE for claims reported and claims not reported is based on historical statistical data and anticipated future development. Inflation and other factors which may affect claim payments are implicitly reflected in the reserving process through analysis and consideration of cost trends and reviews of historical reserve results.

American Southern establishes reserves for claims based upon: (a) management's estimate of ultimate liability and claims adjusters' evaluations for unpaid claims reported prior to the close of the accounting period, (b) estimates of IBNR claims based on past experience, and (c) estimates of LAE. If no value is determined to be more probable in estimating a loss after considering all factors, the Company's general practice is to reserve at the higher end of the determined reasonable range of loss. The estimated liability is periodically reviewed and updated, and changes to the estimated liability are recorded in the statement of operations in the year in which such changes become known.

The following table sets forth the development of reserves for unpaid losses and claims determined using generally accepted accounting principles of American Southern's insurance lines from 2001 through 2011. Specifically excluded from the table are the life and health division's claims reserves, which are included in the consolidated loss and claims reserves. The top line of the table represents the estimated cumulative amount of losses and LAE for claims arising in all prior years that were unpaid at the balance sheet date for each of the indicated periods, including an estimate of IBNR losses at the applicable date. The amounts represent initial reserve estimates at the respective balance sheet dates for the current and all prior years. The next portion of the table shows the cumulative amounts paid with respect to claims in each succeeding year. The lower portion of the table shows the re-estimated amounts of previously recorded reserves based on experience as of the end of each succeeding year.

The reserve estimates are modified as more information becomes known about the frequency and severity of claims for individual years. The "cumulative redundancy" for each year represents the aggregate change in such year's estimates through the end of 2011. Furthermore, the amount of the redundancy for any year represents the cumulative amount of the changes from initial reserve estimates for such year. Operations for any year may be affected, favorably or unfavorably, by the amount of the change in the estimate for such years; however, because such analysis is based on the reserves for unpaid losses and claims, before consideration of reinsurance, the total indicated redundancies may not ultimately be reflected in the Company's net income. Further, conditions and trends that have affected development of the reserves in the past may not necessarily occur in the future and there could be future events or actions that would impact future development which have not existed in the past. Accordingly, the accurate prediction of future redundancies based on the data in the following table is not possible.

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	Year Ended December 31,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	(Dollars In thousands)									
Reserve for Losses and LAE	$49,478	$46,092	$42,248	$44,928	$43,994	$45,655	$43,593	$42,310	$39,042	$44,428
Cumulative paid as of:										
One year later		15,183	10,486	13,627	11,630	18,010	14,254	16,521	13,772	15,825
Two years later			17,462	19,003	21,187	24,793	23,967	24,217	22,202	23,933
Three years later				22,197	23,993	29,338	27,235	28,775	26,673	28,487
Four years later					25,733	30,853	29,179	31,019	28,645	31,398
Five years later						31,486	30,629	31,594	30,257	32,820
Six years later							30,961	32,149	30,447	34,238
Seven years later								32,248	30,616	34,288
Eight years later									30,685	34,418
Nine years later										34,468
Ten years later										
Ultimate losses and LAE reestimated as of:										
End of year	$49,478	$46,092	$42,248	$44,928	$43,994	$45,655	$43,593	$42,310	$39,042	$44,428
One year later		39,999	32,563	31,649	33,663	35,590	34,897	37,280	35,706	42,235
Two years later			30,562	28,386	29,903	34,163	32,929	34,108	34,779	40,099
Three years later				27,570	29,077	33,499	31,560	33,338	31,710	39,260
Four years later					29,162	32,753	32,043	33,370	31,224	37,163
Five years later						33,049	32,085	33,090	31,049	37,133
Six years later							32,192	32,960	31,203	36,914
								32,986	31,246	37,008

Seven years later									
Eight years later								31,232	37,149
Nine years later									37,075
Ten years later									
Cumulative redundancy	$6,093	$11,686	$17,358	$14,832	$12,606	$11,401	$9,324	$7,810	$7,353
	13.2 %	27.7 %	38.6 %	33.7 %	27.6 %	26.2 %	22.0 %	20.0 %	16.6 %

Note: This analysis is based on reserves for unpaid losses and claims, before consideration of reinsurance; therefore the total indicated redundancies may not ultimately be reflected in the Company’s net income.

Life and Health Operations

Bankers Fidelity establishes liabilities for future policy benefits to meet projected future obligations under outstanding policies. These reserves are calculated to satisfy policy and contract obligations as they mature. The amount of reserves for insurance policies is calculated using assumptions for interest rates, mortality and morbidity rates, expenses, and withdrawals. Reserves are adjusted periodically based on published actuarial tables with modifications to reflect actual experience. The use of significantly different assumptions, or actual results that differ significantly from our estimates, could materialy adversely effect our liquidity, results of operations or financial condition. See Note 3 of Notes to Consolidated Financial Statements.

Reinsurance

The Company’s insurance subsidiaries may purchase reinsurance from unaffiliated insurers and reinsurers to reduce their potential liability on individual risks and to protect against catastrophic losses. In a reinsurance transaction, an insurance company transfers, or “cedes,” a portion or all of its exposure on insurance policies to a reinsurer. The reinsurer assumes the exposure in return for a portion of the premiums. The ceding of insurance does not legally discharge the insurer from primary liability for the full amount of policies written by it, and the ceding company will incur a loss if the reinsurer fails to meet its obligations under the reinsurance agreement.

Property and Casualty Operations

American Southern’s basic reinsurance treaties generally cover all claims in excess of specified per occurrence limitations. Limits per occurrence within the reinsurance treaties are as follows: Fire, inland marine, commercial automobile physical damage - $125,000 excess of $50,000 retention; and automobile liability and general liability - excess coverage of $2.0 million less retentions that may vary from $100,000 to $150,000 depending on the account. American Southern maintains a property catastrophe treaty with a $5.7 million limit excess of $300,000 retention. American Southern also issues individual surety bonds with face amounts generally up to $1.5 million, and limited to $5.0 million in aggregate per account, that are not reinsured.

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Life and Health Operations

Bankers Fidelity has entered into reinsurance contracts ceding the excess of its retention to several primary reinsurers. Maximum retention by Bankers Fidelity on any one individual in the case of life insurance policies is $100,000. At December 31, 2011, $22.6 million of the $265.1 million of life insurance in force at Bankers Fidelity was reinsured, generally under yearly renewable term agreements. Certain prior year reinsurance agreements also remain in force although they no longer provide reinsurance for new business.

Competition

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

Property and Casualty Operations

The businesses in which American Southern engages are highly competitive. The principal areas of competition are pricing and service. Many competing property and casualty companies, which have been in business longer than American Southern, offer more diversified lines of insurance and have substantially greater financial resources. Management believes, however, that the policies it sells are competitive with those providing similar benefits offered by other insurers doing business in the states in which American Southern operates. American Southern attempts to develop strong relationships with its existing agents and, consequently, believes it is generally privy to new opportunities and programs with existing agents.

Life and Health Operations

The life and health insurance business also remains highly competitive and includes a large number of insurance companies, many of which have substantially greater financial resources than Bankers Fidelity or the Company. Bankers Fidelity offers life insurance products, Medicare supplement and other accident and health insurance products with a focus on the senior market. Bankers Fidelity believes that its primary competitors are Blue Cross / Blue Shield, Globe Life and Accident Insurance Company, Lincoln Heritage Life Insurance Company, Mutual of Omaha, Oxford Life Insurance Company, United Commercial Travelers of America, United World Life Insurance Company and Woodman of the World. Bankers Fidelity competes with these as well as other insurers on the basis of premium rates, policy benefits and service to policyholders. Bankers Fidelity also competes with other insurers to attract and retain the allegiance of its independent agents through commission and sales incentive arrangements, accessibility and marketing assistance, lead programs, reputation, and market expertise. In order to better compete, Bankers Fidelity offers a proprietary lead generation system to attract and retain traditional independent agents. Bankers Fidelity also actively seeks opportunities in niche markets, developing long-term relationships with a select number of independent marketing organizations promoting worksite marketing and selective association endorsements. Bankers Fidelity has a track record of successfully competing in its chosen markets by establishing relationships with independent agents and providing proprietary marketing initiatives as well as providing outstanding service to policyholders. Bankers Fidelity believes that it competes effectively on the bases of policy benefits, services and market segmentation.

Ratings

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

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

American Southern. American Southern and its wholly-owned subsidiary, American Safety Insurance Company, are each, as of the date of this report, rated “A” (Excellent) by A.M. Best.

Bankers Fidelity. Bankers Fidelity is, as of the date of this report, rated “B++” (Good) by A.M. Best.

Regulation

In common with all domestic insurance companies, the Company’s insurance subsidiaries are subject to regulation and supervision in the jurisdictions in which they do business. Statutes typically delegate regulatory, supervisory, and administrative powers to state insurance commissioners. The method of such regulation varies, but regulation relates generally to the licensing of insurers and their agents, the nature of and limitations on investments, approval of policy forms, reserve requirements, the standards of solvency to be met and maintained, deposits of securities for the benefit of policyholders, and periodic examinations of insurers and trade practices, among other things. The Company’s products generally are subject to rate regulation by state insurance commissions, which require that certain minimum loss ratios be maintained. Certain states also have insurance holding company laws which require registration and periodic reporting by insurance companies controlled by other corporations licensed to transact business within their respective jurisdictions. The Company’s insurance subsidiaries are subject to such legislation and are registered as controlled insurers in those jurisdictions in which such registration is required. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the registered insurers and all subsidiaries of such corporations, as well as prior notice to, or approval by, the state insurance commissioners of intercorporate transfers of assets (including payments of dividends by the insurance subsidiaries in excess of specified amounts) within the holding company system.

Most states require that rate schedules and other information be filed with the state’s insurance regulatory authority, either directly or through a rating organization with which the insurer is affiliated. The regulatory authority may disapprove a rate filing if it determines that the rates are inadequate, excessive, or discriminatory. The Company has historically experienced no significant regulatory resistance to its applications for rate adjustments; however, the Company cannot provide any assurance that it will not receive any objections to any applications in the future.

A state may require that acceptable securities be deposited for the protection either of policyholders located in those states or of all policyholders. As of December 31, 2011, securities with an amortized cost of $6.1 million were on deposit either directly with various state authorities or with third parties pursuant to various custodial agreements on behalf of the Company’s insurance subsidiaries.

Virtually all of the states in which the Company’s insurance subsidiaries are licensed to transact business require participation in their respective guaranty funds designed to cover claims against insolvent insurers. Insurers authorized to transact business in these jurisdictions are generally subject to assessments of up to 4% of annual direct premiums written in that jurisdiction to pay such claims, if any. The likelihood and amount of any future assessments cannot be estimated until an insolvency has occurred.

NAIC Ratios

The National Association of Insurance Commissioners (the “NAIC”) was established to, among other things, provide guidelines to assess the financial strength of insurance companies for state regulatory purposes. The NAIC conducts annual reviews of the financial data of insurance companies primarily through the application of 13 financial ratios prepared on a statutory basis. The annual statements are submitted to state insurance departments to assist them in monitoring insurance companies in their state and to set forth a desirable range in which companies should fall in each such ratio.

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The NAIC suggests that insurance companies which fall outside of the "usual" range in four or more financial ratios are those most likely to require analysis by state regulators. However, according to the NAIC, it may not be unusual for a financially sound company to have several ratios outside the "usual" range, and in normal years the NAIC expects 15% of the companies it tests to be outside the "usual" range in four or more categories.

For the year ended December 31, 2011, American Southern and Bankers Fidelity were within the NAIC "usual" range for all 13 financial ratios.

Risk-Based Capital

Risk-based capital ("RBC") is used by rating agencies and regulators as an early warning tool to identify weakly capitalized companies for the purpose of initiating further regulatory action. The RBC calculation determines the amount of adjusted capital needed by a company to avoid regulatory action. "Authorized Control Level Risk-Based Capital" ("ACL") is calculated, and if a company's adjusted capital is 200% or lower than ACL, it is subject to regulatory action. At December 31, 2011, the Company's insurance subsidiaries exceeded the RBC regulatory levels.

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Investments

Investment income represents a significant portion of the Company's operating and total income. Insurance company investments are subject to state insurance laws and regulations which limit the concentration and types of investments. The following table provides information on the Company's investments as of the dates indicated.

	December 31,			
	2011		2010	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government agencies and authorities	$35,922	15.7 %	$46,630	25.3 %
States, municipalities and political subdivisions	17,030	7.4	21,007	11.4
Public utilities	9,610	4.2	14,732	8.0
All other corporate bonds	147,349	64.1	81,635	44.2
Redeemable preferred stock	7,437	3.2	7,644	4.1
Total fixed maturities(1)	217,348	94.6	171,648	93.0
Common and non-redeemable preferred stocks(2)	8,348	3.6	8,524	4.6
Policy loans(3)	2,246	1.0	2,200	1.2
Other invested assets(4)	567	0.3	980	0.5
Real estate	38	0.0	38	0.0
Investments in unconsolidated trusts	1,238	0.5	1,238	0.7
Total investments	$229,785	100.0 %	$184,628	100.0 %

(1) Fixed maturities are carried on the balance sheet at estimated fair value. Certain fixed maturities do not have publicly quoted prices, and are carried at estimated fair value as determined by management. Total adjusted cost of fixed maturities was $198.5 million as of December 31, 2011 and $171.9 million as of December 31, 2010.

(2) Equity securities are carried on the balance sheet at estimated fair value. Total adjusted cost of equity securities was $7.5 million as of December 31, 2011 and $7.7 million as of December 31, 2010.

(3) Policy loans are valued at historical cost.

(4) Investments in other invested assets are accounted for using the equity method. Total cost of other invested assets was $0.6 million as of December 31, 2011 and $1.0 million as of December 31, 2010.

Estimated fair values are determined as discussed in Note 1 of Notes to Consolidated Financial Statements.

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

	Year Ended December 31, 2011	Restated 2010
	(Dollars in thousands)	
Average investments(1)	$ 224,396	$ 219,040
Net investment income	10,410	9,579
Average yield on investments	4.6 %	4.4 %
Realized investment gains (losses), net(2)	27	(741)

(1) Calculated as the average of cash and investment balances (at amortized cost) at the beginning of the year and at the end of each of the succeeding four quarters.
(2) Includes other than temporary impairment charges in 2011 and 2010 of $1.2 million and $2.3 million, respectively, related to the write-down in the cost basis of certain bonds and common stocks. See Notes 1and 2 of Notes to Consolidated Financial Statements.

Management's recent investment strategy has been to increase the investment in high quality, higher yielding corporate bonds and, to a lesser extent, in dividend yielding common and preferred stocks.

Employees

The Company and its subsidiaries employed 121 people at December 31, 2011. Of the 121 people employed at December 31, 2011, 119 were full-time.

Financial Information by Industry Segment

Each of American Southern and Bankers Fidelity operate with relative autonomy and each company is evaluated on its individual performance. American Southern operates in the Property and Casualty insurance market, while Bankers Fidelity operates in the Life and Health insurance market. Each segment derives revenue from the collection of premiums, as well as from investment income. Substantially all revenue other than that in the corporate and other segment is from external sources. See Note 14 of Notes to Consolidated Financial Statements.

Available Information

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

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Executive Officers of the Registrant

The table below and the information following the table set forth, for each executive officer of the Company as of December 31, 2011, his name, age, positions with the Company and business experience for the past five years, as well as any prior service with the Company.

Name	Age	Positions with the Company	Director or Officer Since
Hilton H. Howell, Jr.	49	Chairman of the Board, President & CEO	1992
John G. Sample, Jr.	55	Senior Vice President, CFO and Secretary	2002

Officers are elected annually and serve at the discretion of the board of directors.

Mr. Howell has been President and Chief Executive Officer of the Company since May 1995, and prior thereto served as Executive Vice President of the Company from October 1992 to May 1995. He has been a Director of the Company since October 1992 and effective February 24, 2009, assumed the title of Chairman of the board of directors. He is also a director, and serves as chief executive officer, of Gray Television, Inc. and was a director of Triple Crown Media, Inc. until December 2009.

Mr. Sample has served as Senior Vice President and Chief Financial Officer of the Company since July 2002 and Secretary since May 2010. Prior to joining the Company in July 2002, he had been a partner of Arthur Andersen LLP since 1990. Mr. Sample is also a director of 1st Franklin Financial Corporation.

Forward-Looking Statements

Certain of the statements contained herein are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Exchange Act of 1933, and Section 21E of the Securities Exchange Act of 1934, and include estimates and assumptions related to, among other things, economic, competitive and legislative developments. The forward-looking statements are subject to changes and uncertainties which are, in many instances, beyond the Company’s control and have been made based upon management’s current expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management’s expectations or that the effect of future developments on the Company will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the occurrence or outcome of various factors. These factors include, among others: significant changes in general economic conditions; disruption to the financial markets; unanticipated increases in the rate, number and amounts of claims outstanding; the possible occurrence of terrorist attacks; the level of performance of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; changes in the stock markets, interest rates or other financial markets, including the potential effect on the Company’s statutory capital levels; the uncertain effect on the Company of regulatory and market-driven changes in practices relating to the payment of incentive compensation to brokers, agents and other producers; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of regulatory developments, including those which could increase the Company’s business costs and required capital levels; the Company’s ability to distribute its products through distribution channels, both current and future; the uncertain effect of emerging claim and coverage issues; and the effect of assessments and other surcharges for guaranty funds and other mandatory pooling arrangements. Many of such factors are beyond the Company’s ability to control or predict. As a result, the Company’s actual financial condition and results of operations could differ materially from those expressed in any forward-looking statements made by the Company. Undue reliance should not be placed upon forward-looking statements contained herein. The Company does not intend to publicly update any forward-looking statements that may be made from time to time by, or on behalf of, the Company.

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Item 1A. Risk Factors

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the information required by this Item.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Leased Properties. The Company leases space for its principal offices and for some of its insurance operations in an office building located in Atlanta, Georgia, from Delta Life Insurance Company under a lease which continues until either party provides written notice of cancellation at least twelve months in advance of the actual termination date. The lease, which commenced on November 1, 2007, provides for rent adjustments on every fifth anniversary of the commencement date. Under the current terms of the lease, the Company occupies approximately 49,586 square feet of office space. Delta Life Insurance Company, the owner of the building, is controlled by J. Mack Robinson, the majority shareholder of the Company. The terms of the lease are believed by Company management to be comparable to terms which could be obtained by the Company from unrelated parties for comparable rental property.

American Southern leases space for its office in a building located in Atlanta, Georgia. The lease term expires May 31, 2019. Under the terms of the lease, American Southern occupies approximately 17,014 square feet.

The Company believes that its current properties are in good condition, and are sufficient for the operations of its business.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is quoted on the Nasdaq Global Market (Symbol: AAME). As of March 9, 2012, there were 4,075 shareholders of record. The following table sets forth, for the periods indicated, the high and low sales prices of the Company's common stock as reported on the Nasdaq Global Market.

Year Ended December 31,	High	Low
2011		
1st quarter	$ 2.25	$ 1.84
2nd quarter	2.23	1.82
3rd quarter	2.11	1.62
4th quarter	2.05	1.26
2010		
1st quarter	$ 1.60	$ 1.15
2nd quarter	1.99	1.06
3rd quarter	1.92	1.15
4th quarter	2.05	1.43

During 2011, the Company paid a special cash dividend of $0.02 per share. On February 21, 2012, the Company's board of directors declared an annual cash dividend of $0.02 per share that will be payable to shareholders of record as of the close of business on March 30, 2012. Payment of dividends in the future will be at the discretion of the Company's board of directors and will depend upon the financial condition, capital requirements, earnings of the Company, any restrictions contained in any agreements by which the Company is bound, as well as other factors as the board of directors may deem relevant. The Company's primary recurring source of cash for the payment of dividends is dividends from its subsidiaries; although as of December 31, 2011, the Parent held unrestricted cash and investment balances of $26.7 million. Under the insurance code of the state in which each insurance subsidiary is domiciled, dividend payments to the Company by its insurance subsidiaries, without the prior approval of the Insurance Commissioner of the applicable state, are limited to the greater of 10% of statutory surplus or statutory net income of such subsidiary before recognizing realized investment gains. At December 31, 2011, American Southern had $38.0 million of statutory surplus and Bankers Fidelity had $32.1 million of statutory surplus.

Issuer Purchases of Equity Securities

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

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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 December 31, 2011.

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
October 1 – October 31, 2011	200	$ 1.88		200	403,488
November 1 – November 30, 2011	1,126,453 (1)	1.56	(1)	1,126,453	402,309
December 1 – December 31, 2011	-	-		-	402,309
Total	1,126,653	$ 1.56		1,126,653	

(1) Includes 1,125,274 shares of Company common stock acquired by the Company other than pursuant to the Repurchase Plan on November 21, 2011 in a privately negotiated transaction with an individual shareholder. Total consideration for this repurchase was $1.75 million, or approximately $1.56 per share.

Stock Performance Graph

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the information required by this Item.

Item 6. Selected Financial Data

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the information required by this Item.

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

The following is management's discussion and analysis of the financial condition and results of operations of Atlantic American Corporation ("Atlantic American" or the "Parent") and its subsidiaries (collectively with the Parent, the "Company") for the years ended December 31, 2011 and 2010, as restated (See Note 1 of Notes to Consolidated Financial Statements). This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere herein.

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

Critical Accounting Policies

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

Unpaid loss and loss adjustment expenses comprised 28% of the Company's total liabilities at December 31, 2011. This liability includes estimates for: 1) unpaid losses on claims reported prior to December 31, 2011, 2) future development on those reported claims, 3) unpaid ultimate losses on claims incurred prior to December 31, 2011 but not yet reported and 4) unpaid loss adjustment expenses for reported and unreported claims incurred prior to December 31, 2011. Quantification of loss estimates for each of these components involves a significant degree of judgment and estimates may vary, materially, from period to period. Estimated unpaid losses on reported claims are developed based on historical experience with similar claims by the Company. Development on reported claims, estimates of unpaid ultimate losses on claims incurred prior to December 31, 2011 but not yet reported, and estimates of unpaid loss adjustment expenses are developed based on the Company's historical experience, using actuarial methods to assist in the analysis. The Company's actuaries develop ranges of estimated development on reported and unreported claims as well as loss adjustment expenses using various methods, including the paid-loss development method, the reported-loss development method, the paid Bornhuetter-Ferguson method and the reported Bornhuetter-Ferguson method. Any single method used to estimate ultimate losses has inherent advantages and disadvantages due to the trends and changes affecting the business environment and the Company's administrative policies. Further, a variety of external factors, such as legislative changes, medical cost inflation, and others may directly or indirectly impact the relative adequacy of liabilities for unpaid losses and loss adjustment expenses. The Company's approach is to select an estimate of ultimate losses based on comparing results of a variety of reserving methods, as opposed to total reliance on any single method. Unpaid loss and loss adjustment expenses are reviewed periodically for significant lines of business, and when current results differ from the original assumptions used to develop such estimates, the amount of the Company's recorded liability for unpaid loss and loss adjustment expenses is adjusted. In the event the Company's actual reported losses in any period are materially in excess of the previously estimated amounts, such losses, to the extent reinsurance coverage does not exist, could have a material adverse effect on the Company's results of operations.

Future policy benefits comprised 31% of the Company's total liabilities at December 31, 2011. These liabilities relate primarily to life insurance products and are based upon assumed future investment yields, mortality rates, and withdrawal rates after giving effect to possible risks of adverse deviation. The assumed mortality and withdrawal rates are based upon the Company's experience. If actual results differ from the initial assumptions, the amount of the Company's recorded liability could require adjustment.

Deferred acquisition costs comprised 8% of the Company's total assets at December 31, 2011. Deferred acquisition costs are commissions, premium taxes, and other costs that vary with and are primarily related to the acquisition of new and renewal business and are generally deferred and amortized. The deferred amounts are recorded as an asset on the balance sheet and amortized to expense in a systematic manner. Traditional life insurance and long-duration health insurance deferred policy acquisition costs are amortized over the estimated premium-paying period of the related policies using assumptions consistent with those used in computing the related liability for policy benefit reserves. The deferred acquisition costs for property and casualty insurance and short-duration health insurance are amortized over the effective period of the related insurance policies. Deferred policy acquisition costs are expensed when such costs are deemed not to be recoverable from future premiums (for traditional life and long-duration health insurance) and from the related unearned premiums and investment income (for property and casualty and short-duration health insurance). Assessments of recoverability for property and casualty and short-duration health insurance are extremely sensitive to the estimates of a subsequent year's projected losses related to the unearned premiums. Projected loss estimates for a current block of business for which unearned premiums remain to be earned may vary significantly from the indicated losses incurred in any previous calendar year.

Receivables are amounts due from reinsurers, insureds and agents, and any sales of investment securities not yet settled, and comprised 8% of the Company's total assets at December 31, 2011. Insured and agent balances are evaluated periodically for collectibility. Annually, the Company performs an analysis of the creditworthiness of the reinsurers with whom the Company contracts using various data sources. Failure of reinsurers to meet their obligations due to insolvencies, disputes or otherwise could result in uncollectible amounts and losses to the Company. Allowances for uncollectible amounts are established, as and when a loss has been determined probable, against the related receivable. Losses are recognized by the Company when determined on a specific account basis and a general provision for loss is made based on the Company’s historical experience.

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Cash and investments comprised 83% of the Company's total assets at December 31, 2011. Substantially all of the Company's investments are in bonds and common and preferred stocks, the values of which are subject to significant market fluctuations. The Company carries all investments as available for sale and, accordingly, at their estimated fair values. The Company owns certain fixed maturities that do not have publicly quoted values, but had an estimated fair value as determined by management of $2.0 million at December 31, 2011. Such values inherently involve a greater degree of judgment and uncertainty and therefore ultimately greater price volatility than the value of securities with publicly quoted market values. On occasion, the value of an investment may decline to a value below its amortized purchase price and remain at such value for an extended period of time. When an investment's indicated fair value has declined below its cost basis for a period of time, the Company evaluates such investment for an other than temporary impairment. 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. If an other than temporary impairment is deemed to exist, then the Company will write down the amortized cost basis of the investment to its estimated fair value. While any such write down does not impact the reported value of the investment in the Company's balance sheet, it is reflected as a realized investment loss in the Company's consolidated statements of operations.

The Company determines the fair values of certain financial instruments based on the fair value hierarchy established in Accounting Standards Codification ("ASC") 820-10-20, Fair Value Measurements and Disclosures ("ASC 820-10-20"). The fair values for fixed maturity and equity securities are largely determined by either independent methods prescribed by the National Association of Insurance Commissioners, which do not differ materially from nationally quoted market prices, when available, or independent broker quotations. See Note 2 and Note 15 of the accompanying notes to consolidated financial statements with respect to assets and liabilities carried at fair value and information about the inputs used to value those financial instruments, by hierarchy level, in accordance with ASC 820-10-20.

Deferred income taxes comprised 2% of the Company's total liabilities at December 31, 2011. Deferred income taxes reflect the effect of temporary differences between assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for tax purposes. These deferred income taxes are measured by applying currently enacted tax laws and rates. Valuation allowances are recognized to reduce the deferred tax asset to the amount that is deemed more likely than not to be realized. In assessing the likelihood of realization, management considers estimates of future taxable income and tax planning strategies.

Refer to Note 1 of "Notes to Consolidated Financial Statements" for details regarding the Company's significant accounting policies.

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Overall Corporate Results

	Year Ended December 31, 2011	Restated 2010
	(In thousands)	
Revenue		
Property and Casualty:		
American Southern	$42,390	$39,328
Life and Health:		
Bankers Fidelity	75,366	67,357
Corporate and Other	576	204
Total revenue	$118,332	$106,889
Income (loss) before income taxes		
Property and Casualty:		
American Southern	$4,366	$4,419
Life and Health:		
Bankers Fidelity	5,191	2,018
Corporate and Other	(6,242)	(5,816)
Income before income taxes	$3,315	$621
Net income	$3,290	$990

On a consolidated basis, the Company had net income of $3.3 million, or $0.12 per diluted share, in 2011, compared to restated net income of $1.0 million, or $0.02 per diluted share, in 2010. Included in net income in 2011 and 2010 were realized investment losses of $1.2 million and $2.3 million, respectively, related to the write-down in the cost basis of certain bonds and equity securities due to other than temporary impairments. In 2011, operating income (income before income taxes and realized gains or losses) was $3.3 million compared to $1.4 million in 2010. The increase in operating income during 2011 was primarily due to an increase in premium revenue and investment income, while maintaining a relatively consistent level of fixed expenses.

Total revenue was $118.3 million in 2011 as compared to $106.9 million in 2010. Premium revenue increased to $107.5 million in 2011 from $97.6 million in 2010. The increase in premiums was primarily due to increases in Medicare supplement and commercial automobile business. The increase in investment income was primarily attributable to a higher average balance of fixed maturities held by the Company in 2011 as compared to 2010. Also, included in total revenue were realized investment gains of $27,000 in 2011 compared to realized investment losses of $0.7 million in 2010. The magnitude of realized investment gains and losses in any year is a function of the timing of trades of investments relative to the markets themselves as well as the recognition of any other than temporary impairments on investments.

Total expenses were $115.0 million in 2011 as compared to $106.3 million in 2010. Although total expenses increased, the Company’s overall underwriting results improved in 2011. As a percentage of premiums, insurance benefits and losses incurred and commissions and underwriting expenses were 96.0% and 97.3% in 2011 and 2010, respectively. The decrease in the ratio was primarily due to the increase in premium revenue in the life and health operations partially offset by higher loss ratios in the property and casualty operations.

The Company’s property and casualty operations are comprised of American Southern and the Company’s life and health operation consists of Bankers Fidelity.

A more detailed analysis of the operating companies and other corporate activities follows.

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UNDERWRITING RESULTS

American Southern

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

	Year Ended December 31, 2011	2010
	(Dollars in thousands)	
Gross written premiums	$45,513	$43,505
Ceded premiums	(6,494)	(5,505)
Net written premiums	$39,019	$38,000
Net earned premiums	$37,514	$34,939
Net losses and loss adjustment expenses	24,210	21,208
Underwriting expenses	13,814	13,701
Underwriting income (loss)	$(510)	$30
Loss ratio	64.6 %	60.7 %
Expense ratio	36.8	39.2
Combined ratio	101.4 %	99.9 %

Gross written premiums at American Southern increased $2.0 million, or 4.6%, during 2011 as compared to 2010. The increase in gross written premiums was primarily attributable to an increase in commercial automobile business generated from several significant agents as well as an increased production of performance bonds in the surety line of business. Partially offsetting the increase in gross written premiums was the decline in the general liability line of business due to the loss of an agency and decreases in artisan programs resulting from continued weakness in the construction industry. During 2011, American Southern experienced higher loss ratios in the commercial automobile line of business as compared to 2010. Due to the unfavorable loss experience in 2011, several agencies were cancelled by American Southern in the first quarter of 2012. These agencies on a combined basis produced approximately $6.8 million in annualized commercial automobile business. In an effort to increase gross written premiums and diversify its business, American Southern continually evaluates new underwriting programs and expects to be able to offset the decrease in business writings from these cancelled agents.

Ceded premiums increased $1.0 million, or 18.0%, during 2011 as compared to 2010. The increase in ceded premiums was primarily due to the increase in the related earned premiums. As American Southern's premiums are determined and ceded as a percentage of earned premiums, an increase in ceded premiums occurs when earned premiums increase. Also contributing to the increase in ceded premiums was an increase in commercial automobile earned premiums which have higher contractual cession rates than other lines of business as well as increased cession rates resulting from the renewal of the company's reinsurance agreement in the fourth quarter of 2011.

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

	Year Ended December 31, 2011	2010
	(In thousands)	
Automobile liability	$16,709	$14,399
Automobile physical damage	7,736	6,883
General liability	4,009	5,057

Property	2,086	2,479
Surety	6,974	6,121
Total net earned premiums	$ 37,514	$ 34,939

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Net earned premiums increased $2.6 million, or 7.4%, during 2011 as compared to 2010. The increase in net earned premiums during 2011 was primarily attributable to the increase in commercial automobile and surety business generated in the current year and the increased volume of commercial automobile premiums written in the second half of 2010 from a new agent. 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. The decrease in the general liability net earned premiums was due to the same reasons discussed previously. In 2011, American Southern’s five principal states in terms of premium revenue were Alabama, Florida, Georgia, Ohio, and Texas, and accounted for approximately 65% of total earned premiums for 2011.

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

The combined ratio for American Southern increased to 101.4% in 2011 from a combined ratio of 99.9% in 2010. The loss ratio increased to 64.6% in 2011 from 60.7% in 2010. The increase in the loss ratio during 2011 was primarily attributable to increases in the frequency and severity of claims in the commercial automobile line of business. Partially offsetting the increase in the loss ratio was more favorable loss development in the general liability and surety lines of business in 2011 as compared to 2010. The expense ratio decreased to 36.8% in 2011 from 39.2% in 2010. The decrease in the expense ratio 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. Also contributing to the decrease in the expense ratio in 2011 was a non-recurring charge of $0.3 million in 2010 that resulted from the termination and final settlement of the company’s qualified defined benefit pension plan. No similar charge was recorded in 2011.

In establishing reserves, American Southern initially reserves for losses at the higher end of the reasonable range if no other value within the range is determined to be more probable. Selection of such an initial loss estimate is an attempt by management to give recognition that initial claims information received generally is not conclusive with respect to legal liability, is generally not comprehensive with respect to magnitude of loss and generally, based on historical experience, will develop more adversely as time and information develops. However, as a result, American Southern generally experiences reserve redundancies when analyzing the development of prior year losses in a current period. At December 31, 2011, the range of estimates developed in connection with the loss reserves for American Southern indicated that reserves could be as much as 17.2% lower or as much as 12.0% higher. Development from prior years’ reserves has historically reduced the current year loss ratio; however, such reduction in the current year loss ratio is generally offset by the reserves established in the current year for current period losses. American Southern’s estimated net reserve redundancies for the years ended December 31, 2011 and 2010 were $3.1 million and $5.4 million, respectively. To the extent reserve redundancies vary between years, there is an incremental impact on the results of operations from American Southern and the Company. The indicated redundancy in 2011 was $2.3 million less than that in 2010. After considering the impact on contingent commissions and other related accruals, the $2.3 million decline in the redundancy resulted in a decline in income from operations before tax of approximately $1.4 million in 2011 as compared to 2010. Management believes that such differences will continue in future periods but is unable to determine if or when incremental redundancies will increase or decrease, until the underlying losses are ultimately settled.

Contingent commissions, if contractually applicable, are ultimately payable to agents based on the underlying profitability of a particular insurance contract or a group of insurance contracts, and are periodically evaluated and accrued as earned. Approximately 80% of American Southern's business provides for contractual commission arrangements which compensate the company's agents in relation to the loss ratios of the business they write. By structuring its business in this manner, American Southern provides its agents with an economic incentive to place profitable business with American Southern. In periods in which loss reserves reflect favorable development from prior years' reserves, there is generally a highly correlated increase in commission expense also related to the prior year business. Accordingly, favorable loss development from prior years, while anticipated to continue in future periods, is not an indicator of significant additional profitability in the current year.

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Bankers Fidelity

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

	Year Ended December 31,	
	2011	2010
	(In thousands)	
Medicare supplement	$ 54,444	$ 46,816
Other health products	4,321	4,600
Life insurance	11,192	11,258
Total earned premiums	69,957	62,674
Insurance benefits and losses	49,404	45,646
Underwriting expenses	20,771	19,693
Total expenses	70,175	65,339
Underwriting loss	$ (218)	$ (2,665)

Premium revenue at Bankers Fidelity increased $7.3 million, or 11.6%, during 2011 as compared to 2010. Premiums from the Medicare supplement line of business increased $7.6 million, or 16.3%, in 2011 as compared to 2010, due primarily to a significant 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 decreased $0.3 million, or 6.1%, during 2011 as compared to 2010, primarily as a result of decreased business activities with group associations, partially offset by an increase in the sales of short-term care products. Premiums from the life insurance line of business decreased slightly in 2011 from 2010 due to the redemption and settlement of existing policy obligations exceeding the level of new sales activity. In 2011, the company's five principal states in terms of premium revenue, Georgia, Indiana, Ohio, Pennsylvania, and Utah, were consistent with those in 2010 and accounted for approximately 49% of total premiums for 2011.

Benefits and losses increased $3.8 million, or 8.2%, during 2011 as compared to 2010. As a percentage of premiums, benefits and losses were 70.6% in 2011 compared to 72.8% in 2010. The decrease in the loss ratio was primarily attributable to more favorable loss experience in the Medicare supplement line of business in 2011 as compared to 2010. Also contributing to the decrease in the loss ratio was the increase in recent years' new life business, which mitigated higher claims associated with the continued aging of the existing life business.

Underwriting expenses increased $1.1 million, or 5.5%, during 2011 as compared to 2010. The increase in underwriting expenses during 2011 was primarily attributable to increased commission and underwriting costs associated with the higher volume of business as well as increases in advertising and agency related expenses. As a percentage of earned premiums, these expenses were 29.7% in 2011 compared to 31.4% in 2010. The decrease in the expense ratio was primarily due to the increase in earned premiums coupled with a relatively consistent level of fixed general and administrative expenses.

The indicated underwriting loss of $0.2 million in 2011 and $2.7 million in 2010 does not take into account investment income, which is a significant component in evaluating profitability; particularly in the life insurance business.

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Investment Income and Realized Gains (Losses)

Investment income increased $0.9 million, or 8.7%, in 2011 as compared to 2010. The increase in investment income was primarily attributable to a higher average balance of fixed maturities held by the Company in 2011 as compared to 2010. During 2010, a large number of fixed maturities held by the Company were redeemed by the issuers in accordance with the contractual terms thereof, the proceeds from which were generally reinvested in lower yielding cash equivalents until higher yielding quality replacement investments could be made.

The Company had net realized investment gains of $27,000 in 2011 compared to net realized investment losses of $0.7 million in 2010. The net realized investment gains in 2011 resulted from the disposition of several of the Company's investments in fixed maturities and a $0.3 million gain from the sale of an outparcel of land held within one of the Company's real estate partnership investments. Partially offsetting the 2011 realized investment gains was an other than temporary impairment charge of $1.2 million related to certain of the Company's investments in certain bonds and equity securities. The net realized investment losses in 2010 were primarily attributable to an other than temporary impairment charge of $2.3 million related to certain equity securities, partially offset by the gains on sales of certain fixed maturities and equity securities. 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. See Note 2 of Notes to Consolidated Financial Statements.

Interest Expense

Interest expense remained relatively unchanged in 2011 as compared to 2010. Interest expense on the Company's bank debt and outstanding trust preferred obligations is directly related to the average London Interbank Offered Rate ("LIBOR"), which likewise has remained relatively unchanged over the past two years.

Other Expenses

Other expenses (commissions, underwriting expenses, and other expenses) increased $2.0 million, or 5.4%, in 2011 as compared to 2010. The increase in other expenses during 2011 was primarily attributable to increased commission and underwriting costs in the life and health operation associated with the higher volume of business as well as increases in advertising and agency related expenses. Also contributing to the increase in other expenses during 2011 was an increase in discretionary compensation accruals of $0.4 million related to the Company's improved operating performance. Partially offsetting the increase in other expenses in 2011 was the $0.3 million decrease in commission accruals at American Southern due to recent loss experience. 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 submit to the company. During periods in which the loss ratio increases, commissions and underwriting expenses will decrease, and conversely, during periods in which the loss ratio decreases, commissions and underwriting expenses will increase. Also, during 2010, the Company terminated its qualified defined benefit pension plan and distributed the accumulated benefits to participating employees. In connection with the termination and final settlement of the qualified defined benefit pension plan, the Company incurred a non-recurring charge of $0.3 million. No similar charge was recorded in 2011. As a percentage of earned premiums, other expenses were 36.1% in 2011 as compared with 37.7% in 2010. The decrease in the expense ratio was primarily due to the increase in earned premiums coupled with a relatively consistent level of fixed general and administrative expenses.

Income Taxes

The primary differences between the effective tax rate and the federal statutory income tax rate 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 year estimated DRD is adjusted as underlying factors change and can vary from 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 reserved.

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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 December 31, 2011, the Parent had approximately $26.7 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.

Dividend payments to the Parent by its insurance subsidiaries are subject to annual limitations and are restricted to the greater of 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. At December 31, 2011, the Parent's insurance subsidiaries had an aggregate statutory surplus of $70.1 million.

The Parent provides certain administrative, purchasing and other services to each of its subsidiaries. The amounts charged to and paid by the subsidiaries for these services were $5.1 million and $5.0 million in 2011 and 2010, respectively. In addition, the Parent has a formal tax-sharing agreement with each of its insurance subsidiaries. A net total of $1.6 million and $1.2 million were paid to the Parent under the tax sharing agreements in 2011 and 2010, respectively. Dividends were paid to Atlantic American by its subsidiaries totaling $6.5 million in each of 2011 and 2010. As a result of the Parent's tax loss carryforwards, which totaled approximately $4.1 million at December 31, 2011, it is anticipated that the tax sharing agreements will continue to provide the Parent with additional funds to assist in meeting its cash flow obligations.

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 2011, 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.

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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 December 31, 2011, the effective interest rate was 4.54%. 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 2011, 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.

At December 31, 2011, 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. During 2010, the Company paid $0.5 million in Series D Preferred Stock dividends. As of December 31, 2011 and 2010, the Company had accrued, but unpaid, dividends, on the Series D Preferred Stock of $0.5 million and $22,556, respectively. The 2011 Series D Preferred Stock dividend of $0.5 million was paid in January 2012.

Net cash provided by operating activities was $9.1 million in 2011 compared to $4.9 million in 2010. Cash and cash equivalents decreased from $28.3 million at December 31, 2010 to $21.3 million at December 31, 2011. The decrease in cash and cash equivalents during 2011 was primarily due to an increased level of investing exceeding normal sales and maturities. Also contributing to the decrease was the repurchase of the Company's common stock resulting from a privately negotiated transaction with an individual shareholder. Total consideration for this repurchase was $1.75 million. Cash and cash equivalents at December 31, 2011 of $21.3 million are believed to be sufficient to meet the Company's near-term needs.

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

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New Accounting Pronouncements

See “Recently Issued Accounting Standards” in Note 1 of Notes to Consolidated Financial Statements.

Impact of Inflation

Insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such losses and expenses, are known. Consequently, the Company attempts, in establishing its premiums, to anticipate the potential impact of inflation. If, for competitive reasons, premiums cannot be increased to anticipate inflation, this cost would be absorbed by the Company. Inflation also affects the rate of investment return on the Company’s investment portfolio with a corresponding effect on investment income.

Off-Balance Sheet Arrangements

In the normal course of business, the Company has structured borrowings that, in accordance with accounting principles generally accepted in the United States of America, are recorded on the Company’s balance sheet at an amount that differs from the ultimate contractual obligation. See Note 6 of Notes to Consolidated Financial Statements.

Contractual Obligations

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the table of contractual obligations required by this Item.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and in Item 10(f)(1) of Regulation S-K, we have elected to comply with certain scaled disclosure reporting obligations, and therefore do not have to provide the information required by this Item.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Atlantic American Corporation
Atlanta, Georgia

We have audited the accompanying consolidated balance sheets of Atlantic American Corporation and subsidiaries (the "Company") as of December 31, 2011 and 2010 (Restated) and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended. In connection with our audits of the financial statements, we have also audited schedules II, III, IV and VI. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedules based on our audits.

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

As described in Note 1 to the consolidated financial statements, the Company has restated its 2010 consolidated financial statements to correct an overstatement of net income, retained earnings and accumulated other comprehensive loss.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlantic American Corporation and subsidiaries at December 31, 2011 and 2010 (Restated), and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

BDO USA, LLP

Atlanta, Georgia
March 26, 2012

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2011	Restated 2010
	(Dollars in thousands, except per share data)	
ASSETS		
Cash and cash equivalents	$21,285	$28,325
Investments	229,785	184,628
Receivables:		
Reinsurance	15,673	14,301
Investment sales pending settlement	3	15,438
Insurance premiums and other, net of allowance for doubtful accounts of $405 and $442 in 2011 and 2010, respectively	8,286	7,051
Deferred income taxes, net	-	3,228
Deferred acquisition costs	24,259	21,239
Other assets	706	1,228
Goodwill	2,128	2,128
Total assets	$302,125	$277,566
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance reserves and policyholder funds	$147,194	$137,902
Accounts payable and accrued expenses	14,100	15,733
Deferred income taxes, net	3,316	-
Debt payable	41,238	41,238
Total liabilities	205,848	194,873
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock, $1 par, 4,000,000 shares authorized; Series D preferred, 70,000 shares issued and outstanding; $7,000 redemption value	70	70
Common stock, $1 par, 50,000,000 shares authorized; 22,400,894 and 22,373,900 shares issued; 21,274,241 shares and 22,257,035 shares outstanding in 2011 and 2010, respectively	22,401	22,374
Additional paid-in capital	57,136	57,129
Retained earnings	6,179	3,886
Accumulated other comprehensive income (loss)	12,244	(604)
Treasury stock, at cost, 1,126,653 shares in 2011 and 116,865 shares in 2010	(1,753)	(162)
Total shareholders' equity	96,277	82,693
Total liabilities and shareholders' equity	$302,125	$277,566

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

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ATLANTIC AMERICAN CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
		Restated
	2011	2010
	(Dollars in thousands, except per share data)	
Revenue:		
Insurance premiums	$ 107,471	$ 97,613
Investment income	10,587	9,737
Realized investment gains (losses), net	27	(741)
Other income	247	280
Total revenue	118,332	106,889
Benefits and expenses:		
Insurance benefits and losses incurred	73,614	66,854
Commissions and underwriting expenses	29,536	28,099
Interest expense	2,599	2,612
Other	9,268	8,703