ASSURANCEAMERICA CORP
Form 10-K
March 28, 2008

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ	**ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2007**
o	**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934**

Commission File Number: 0-6334

ASSURANCEAMERICA CORPORATION

NEVADA	**87-0281240**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
5500 Interstate North Pkwy., Suite 600, Atlanta, Georgia	**30328**
(Address of Principal Executive Offices)	*(Zip Code)*

Issuer s telephone number (770) 952-0200

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value $0.01 per share

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 þ

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 þ

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 þ No o

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

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

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

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act: Yes o No þ

The aggregate market value of the voting and non-voting common equity held by persons other than affiliates of the registrant as of June 30, 2007 was $16,300,301 based on a sale price of $1.00 per share.

There were 64,923,881 shares of the registrant s common stock outstanding as of March 15, 2008.

Documents Incorporated By Reference

Parts of the Registrant s definitive proxy statement for the 2008 Annual Meeting of Shareholders to be held on April 24, 2008 are incorporated by reference into Part III of this report.

Transitional Small Business Disclosure Format (check one): Yes o No þ

TABLE OF CONTENTS

		PAGE NUMBER
Forward Looking Statements		
	PART I	
1.	Description of Business	1
2.	Description of Property	8
3.	Legal Proceedings	8
4.	Submission of Matters to a Vote of Security Holders	8
	PART II	
5.	Market for Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities	8
6.	Selected Financial Data	9
7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	10
8.	Financial Statements and Supplementary Data	15
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	15
9A.	Controls and Procedures	15
9B.	Other Information	15
	PART III	
10.	Directors, Executive Officers, and Corporate Governance	16
11.	Executive Compensation	17
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	17
13.	Certain Relationships, Related Transactions and Director Independence	18
14.	Principal Accountant Fees and Services	18
	PART IV	
15.	Exhibits and Financial Statement Schedules	18
Signatures		21

EX-21.1 LIST OF SUBSIDIARIES
EX-31.1 SECTION 302 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
EX-31.2 SECTION 302 CERTIFICATION OF THE CONTROLLER
EX-32.1 SECTION 906 CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND THE CONTROLLER

Forward-Looking Statements

Statements in this report that are not historical fact are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed in this annual report. Without limiting the generality of the foregoing, words such as may, will, expect, believe, anticipate, intend, would, estimate, or continue or the negative, or other variations or comparable terminology are intended to identify forward-looking statements. The risks and uncertainties include, without limitation, uncertainties related to estimates and assumptions generally; inflation and other changes in economic conditions (including changes in interest rates and financial markets); pricing competition and other initiatives by competitors; ability to obtain regulatory approval for requested rate changes and the timing thereof; legislative and regulatory developments; risks related to the nature of the Company s business, such as the adequacy of its reserve for loss and loss adjustment expense; claims experience; the Company s limited experience in the insurance industry; ratings by industry services; catastrophe losses; reliance on key personnel; weather conditions (including the severity and frequency of storms, hurricanes, tornadoes and hail); changes in driving patterns and loss trends; acts of war and terrorist activities; court decisions and trends in litigation and health care and auto repair costs; and other matters described from time to time by the Company in this report, and other filings with the Securities and Exchange Commission. You are cautioned not to place reliance on these forward-looking statements. In addition, you should be aware that generally accepted accounting principles prescribe when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for a major contingency. Reported results may therefore appear to be volatile in certain accounting periods.

PART I

Item 1. *BUSINESS*

History

AssuranceAmerica Corporation, a Nevada corporation (the Company) (formerly Brainworks Ventures, Inc.), is an insurance holding company that was originally incorporated in 1969 under the laws of the state of Utah. AssuranceAmerica Corporation, a Georgia corporation (AssuranceAmerica Georgia), began the Company s current insurance business in 1998 through its subsidiary, TrustWay Insurance Agencies, LLC (TrustWay), a Delaware limited liability company (formerly AssetAmerica Insurance Agencies, LLC). In 1999, the Company formed another subsidiary, AssuranceAmerica Managing General Agency LLC (MGA), a Delaware limited liability company, that until 2003 provided all of the underwriting, claims and policyholder service functions for the Georgia nonstandard personal automobile program for Gateway Insurance Company of St. Louis, Missouri. In late 2002, the Company formed its subsidiary AssuranceAmerica Insurance Company (AAIC), a property and casualty insurance company and South Carolina corporation, that focuses on writing nonstandard automobile business.

On April, 1, 2003, the Company, then known as Brainworks Ventures, Inc., consummated a merger with AssuranceAmerica Georgia. To effect the merger, AA Holdings, LLC, a Delaware limited liability company, merged with and into AssuranceAmerica Georgia for the purpose of converting the limited liability company into a corporation. Thereafter, pursuant to an Agreement and Plan of Merger and Reorganization by and among the Company, AAHoldings Acquisition Sub, Inc., AAHoldings, LLC and AssuranceAmerica Georgia, dated April 1, 2003 (the Merger Agreement), the shareholders of AssuranceAmerica Georgia exchanged an aggregate of 19,508,902 shares of AssuranceAmerica Georgia common stock, no par value, on a 1-for-1 basis, for shares of common stock, $0.01 par value, per share, of the Company (Company Common Stock). Due to an insufficient number of authorized shares of Company Common Stock, the shareholders of AssuranceAmerica Georgia continued to hold

an aggregate of 23,241,098 shares of series A convertible preferred stock, no par value, of AssuranceAmerica Georgia (AssuranceAmerica Georgia Preferred Stock), which stock, pursuant to the terms of the Merger Agreement, was converted into shares of Company Common Stock, when the authorized number of shares of Company Common Stock was increased to a number sufficient to exchange each share of AssuranceAmerica Georgia Preferred Stock for one share of Company Common Stock. Upon conversion, the

former shareholders of AssuranceAmerica Georgia held a total of 42,790,000 shares of Company Common Stock. Such conversion occurred simultaneously with the increase in the number of authorized shares of Company Common Stock. A special meeting of the shareholders of the Company was held on June 26, 2003, to vote upon a proposal to increase the number of authorized shares of Company Common Stock to permit such conversion of the AssuranceAmerica Preferred Stock. The proposal was approved by the Company s shareholders. The Merger Agreement also effected a change in the executive officers of the Company and a majority change in the Board of Directors of the Company. As a result of the merger, the Company ceased its historical business in order to focus upon the insurance business of AssuranceAmerica Georgia.

Who We Are

We are a holding company which, through our wholly-owned insurance company, managing general agency, and retail agency network, primarily underwrites and distributes non-standard personal automobile insurance products to individuals, primarily in the southeastern United States. Non-standard personal automobile insurance is usually provided to insureds who are unable to obtain standard insurance coverage because of their payment history, driving record, age, vehicle type, or other factors. These policies generally require higher premiums than standard policies for comparable coverage. We offer products in seven states, including Georgia, South Carolina, Florida, Louisiana, Texas, Alabama, and Mississippi.

We began our current insurance business in 1998 through the acquisition of a series of retail insurance agencies located in Florida now known as TrustWay. In 1999, we organized MGA, which initially provided all of the underwriting, claims and policyholder service functions for the Georgia non-standard personal automobile program for an unaffiliated insurance company. In late 2002, we organized AAIC, which began underwriting nonstandard personal automobile policies in April 2003 and currently writes business in Florida, Georgia, Louisiana, South Carolina, Texas, Alabama, and Mississippi.

Our Business

We currently have three revenue producing operating subsidiaries, the combination of which we believe is vital to generating consistent profitability throughout the insurance cycle: AAIC, MGA and TrustWay. AAIC and MGA constitute what we refer to as our wholesale operations, while TrustWay constitutes what we refer to as our retail operations. We believe that this structure allows us to manage our growth strategies and respond to changing market conditions more effectively than if we were only a risk-bearing enterprise or only a distribution platform.

The following chart depicts our organizational structure and principal affiliates.

AAIC is a property and casualty insurance company domiciled in South Carolina that focuses on writing nonstandard automobile business in Alabama, Florida, Georgia, Louisiana, South Carolina, Texas, and Mississippi. It is also licensed to underwrite business in Arizona, West Virginia, Pennsylvania, Indiana, Illinois and Arkansas. We expect AAIC to begin writing business in two to four new states each year for the next several years, provided

that the underwriting environment remains positive and the capital and surplus of AAIC supports such growth. AAIC cedes 70% of its gross written premiums to four reinsurers, three of which are rated A- or better by A.M. Best and one of which is rated B++ by A.M. Best.

MGA markets AAIC s policies through more than 1600 independent insurance agencies. MGA provides all of the underwriting, accounting, product management, legal, policyholder administration and claims functions for AAIC and for two unaffiliated insurers that in 2007 retained a portion of the non-standard automobile insurance policies produced by MGA in Florida and Texas. MGA receives commissions and other administrative fees from AAIC and the unaffiliated insurance companies based on the amount of gross premiums produced for each respective company. Additionally, MGA receives various fees related to insurance transactions that vary according to state insurance laws and regulations.

TrustWay is comprised of 50 retail insurance agencies with 41 locations in Florida, 5 locations in Alabama, and 4 locations in Georgia. TrustWay has been appointed by a number of unaffiliated insurance carriers and AAIC, and primarily sells non-standard personal automobile insurance and related products and services. TrustWay receives commissions and various fees associated with the sale of the products and services from its appointing insurance carriers.

Our Industry

Personal auto insurance is the largest line of property and casualty insurance in the United States. In 2007, this market was estimated to be $164.4 billion by NAIC Market Share Reports. Personal auto insurance provides coverage to drivers for liability to others for both bodily injury and property damage and for physical damage to an insured s vehicle from collision and other perils. Personal auto insurance is comprised of preferred, standard and non-standard risks. Non-standard insurance is intended for drivers who, due to their driving record, age, vehicle type, payment history or other factors represent a higher than normal risk. As a result, customers that purchase non-standard auto insurance generally pay higher premiums for similar coverage than drivers who qualify for standard or preferred policies.

While there is no established industry-recognized demarcation between non-standard policies and all other personal auto policies, we believe that non-standard auto risks or specialty auto risks generally constitute approximately 15-20% of the overall personal automobile insurance market, with the exact percentage fluctuating according to competitive conditions in the market.

The personal auto insurance industry is cyclical, characterized by periods of price competition and excess capacity followed by periods of high premium rates and shortages of underwriting capacity. When underwriting standards for preferred and standard companies become more restrictive, more insureds seek non-standard coverage and the size of the non-standard market increases.

Our Products

Our non-standard insurance products provide customers with coverage for the minimum required statutory limits for bodily injury and property damage liability arising out of the operation of a motor vehicle. We also offer insurance coverage that affords protection for collision and physical damage to the insureds motor vehicles, bodily injury and property damage caused by uninsured motorists, medical payments, towing and labor, and accidental death and dismemberment.

Target Market

The typical purchaser of non-standard personal automobile insurance is highly sensitive to price and payment terms, but generally insensitive to insurer ratings. AAIC is not rated by A.M. Best. Our insureds typically purchase insurance from AAIC or one of its competitors because of a lack of other coverage options and will switch to a standard provider when able. Generally, the resulting customer non-renewals have historically been more than offset by new customers entering our markets.

Our market has a significant Hispanic component. We have done limited targeted marketing to reach the Hispanic population, but we plan to apply resources toward this in the future. This market demographic is prominent in the southeast and, as of December 31, 2007, represents approximately 20% of our policies in-force.

Wholesale Operations

Our wholesale operations are divided into four primary functional areas: Claims, Underwriting and Customer Service, Information Technology, and Product Development and Management.

Claims

Our Claims Division follows a tough but fair claims approach. AAIC seeks to pay the claims it owes in a fast, fair manner and strives to have the lowest cycle time for non-contested claims (the period of time from the initial claim report to settlement) in the industry. The non-standard personal automobile insurance market experiences a higher level of fraudulent or inflated claims than the standard or preferred market. Our Claims Division takes a hard stance on the claims AAIC does not owe and works to develop a reputation as a carrier which will aggressively fight such inflated or fraudulent claims. In order to accomplish these objectives, the Claims Division seeks the highest caliber associate, paying above prevailing market rates in order to attract and retain experienced professionals in every area of the Claims Division.

All claims are assigned to experienced claims personnel and the files are directed immediately to handling adjusters to reduce cycle time. The Claims Division is organized into five units to provide specialized file handling capability.

We make an effort to keep the file pending levels for our adjusters at below industry standards to reduce errors. All adjuster authority levels are determined based on the experience of the particular adjuster. We have a formalized reserving and audit processes, conduct periodic file audits, conduct a monthly reserve reconciliation process and complete quarterly reviews of every pending file.

The Claims Division has installed a new web-based claims system which is expected to create gains in productivity by streamlining the claims processes, and to provide a competitive advantage by utilizing immediate, real time data for evaluation purposes and the exchange of information with fraud fighting agencies.

Underwriting and Customer Service

The Underwriting and Customer Service Division services the needs of our agents and insureds. A number of the Customer Services associates are bilingual and work predominately on a Spanish call line providing service to our Spanish-speaking agents and insureds.

We emphasize the use of automation wherever possible to minimize costs. We have a phone messaging system that telephones policyholders to remind them of payments due and of pending cancellations. We send agents copies of policyholder notices electronically instead of mailing them and agents can make payments and process their own policy changes online, reducing the time spent by Customer Service performing these activities.

Product Development and Management

The Product Development and Management Division designs and prices each insurance product we offer, assists in the introduction of each new product to the agency force, monitors each product, and recommends rate changes, policy payment plans, new insurance coverages and variables. This division uses our data warehouse to analyze and follow each product from the point of sale through termination and claims settlement, if any. We perform a market

analysis for each new state prior to expanding operations. As part of the analysis, we produce and review actuarial studies, analyze required forms and coverages, and analyze rate and competitive environment studies. After reviewing this data, we prioritize potential expansion states.

Information Technology

The Information Technology Division is responsible for the management of the information technology functions of MGA and AAIC and also advises TrustWay on its information technology functions. This division is organized in three groups: Application Development, Business Intelligence and Infrastructure Support.

With respect to the Application Development group, our primary application is our policy management system (PTS), which was designed for the non-standard automobile insurance industry. This software application is an end-to-end, enterprise wide, real-time, web-based policy administration system. PTS manages and increases efficiencies among the most critical functions and throughout our entire organization.

By utilizing internet technologies, PTS provides a method to sell, quote, issue and manage policies from any location. PTS centralizes information and is designed to reduce workload, errors and costs associated with tracking and managing an insurance policy. It allows for control of user access to the database and opens communication channels through all levels of the organization. This system allows for the quoting, binding, initial premium collection, and printing of declarations pages, policies, endorsements and insurance ID cards at the point of sale at the agent s office.

PTS is designed to be scalable and is expected to be capable of handling millions of policies. This allows PTS to grow as our business grows. Additional lines of insurance may be added as needed. The agreement with the vendor of this software package grants us a perpetual license to the source code and the ability to develop derivatives and advance the product to meet business demands and react to changing market conditions.

The Business Intelligence group supports our central data warehouse. Our data warehouse integrates and cleanses data from multiple sources and is the main repository of our Company s historical data. It allows for complex reporting queries to be run without slowing down operational systems. This area also provides the Company with real time business intelligence through a set of processes, architectures, and technologies that transform raw data into actionable reports, gauge driven scorecards, and dashboards.

The Infrastructure Support group supports our voice and data networks, hosts our websites, policy administration system, the accounting system and the data warehouse. They are also responsible for the VOIP phone system and desktop support.

We have contracted with Sunguard Availability Services for our disaster recovery services, which include critical applications, voice systems and data recovery.

Retail Operations

Our entry into the insurance industry in January 1998 was through the acquisition of 33 retail agencies in Florida. We reduced the number of locations over time to 26, and have since acquired several additional insurance agencies. All of the retail operations currently operate under the TrustWay brand or as a division of TrustWay and consist of 50 independent non-standard automobile insurance agencies located in Florida (41), Alabama (5), and Georgia (4).

TrustWay actively writes new business with four to ten carriers depending upon the state or office.

We expect to grow the number of agency locations through the opening of additional offices, selected acquisitions, and increasing the average premium volume per location through improved marketing and retention efforts.

Reinsurance

In the normal course of business, AAIC seeks to reduce its overall risk levels by obtaining reinsurance from reinsurers. Reinsurance contracts do not relieve AAIC from its obligations to policyholders in the event that a reinsurer is unable to make its payments to AAIC. The Company periodically reviews the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies. AAIC cedes 70% of its gross written premium to four reinsurers, three of which are rated A-or better by A.M. Best and one of which is rated B++ by A.M. Best.

Reserves

AAIC establishes reserves for its estimated liability for unpaid losses and loss adjustment expenses on an individual case basis for all reported incidents. The reserve includes amounts for uncollected expenses, anticipated future claim development and losses incurred but not reported (based upon actuarial analysis of historical data). The Claims Department has standardized the process for setting and adjusting the reserving process and conducts file audits, monthly reserve reconciliation and a quarterly review of every pending file. Additionally, the reserves for loss and loss adjustment expenses are reviewed semi-annually by a consulting actuarial firm.

State Insurance Licenses

AAIC, MGA and TrustWay operate under licenses issued by various insurance authorities. Certain employees must be licensed as insurance agents or adjusters in any state where they perform a function requiring licensure. These licenses may be of perpetual duration or renewable periodically, provided the holder continues to meet applicable regulatory requirements. The licenses govern the kinds of insurance that may be written in the issuing state and the other services that may be provided. Such licenses are normally issued only after the filing of an appropriate application and the satisfaction of prescribed criteria. All licenses that are material to our businesses are in good standing.

Supervision and Regulation

Insurance companies are generally subject to regulation and supervision by insurance departments of the jurisdiction in which they are domiciled or licensed to transact business. The nature and extent of such regulation and supervision varies from jurisdiction to jurisdiction. Generally, an insurance company is subject to a higher degree of regulation and supervision in its state of domicile. State insurance departments have broad administrative power relating to licensing insurers and agents, regulating premium charges and policy forms, establishing reserve requirements, prescribing statutory accounting methods and the form and content of statutory financial reports, and regulating the type and amount of investments permitted. Rate regulation varies from file and use to prior approval to mandated rates.

Insurance departments are charged with the responsibility of ensuring that insurance companies maintain adequate capital and surplus and comply with a variety of operational standards. Insurance companies are generally required to file detailed annual and other reports with the insurance department of each jurisdiction in which they conduct business. Insurance departments are authorized to make periodic and other examinations of regulated insurers financial condition and operations to monitor financial stability of the insurers and to ensure adherence to statutory accounting principles and compliance with state insurance laws and regulations.

Insurance holding company laws enacted in many jurisdictions grant to insurance authorities the power to regulate acquisitions of insurers and certain other transactions and to require periodic disclosure of certain information. These laws impose prior approval requirements for transactions between regulated insurers and their affiliates and generally regulate dividend and other distributions, including management fees, loans, and cash advances, between regulated insurers and their affiliates.

Under state insolvency and guaranty laws, regulated insurers can be assessed or required to contribute to state guaranty funds to cover policyholder losses resulting from the insolvency of other insurers. Insurers are also required by many states, as a condition of doing business in the state, to provide coverage to certain risks which are not insurable in the voluntary market. These assigned risk plans generally specify the types of insurance and the level of coverage which must be offered to such involuntary risks, as well as the allowable premium. Many states also have involuntary market plans which hire a limited number of servicing carriers to provide insurance to involuntary risks. These plans, through assessments, pass underwriting and administrative expenses on to insurers that write voluntary

coverages in those states.

Insurance companies are generally required by insurance regulators to maintain sufficient surplus to support their writings. Although the ratio of writings to surplus that the regulators will allow is a function of a number of factors, including the type of business being written, the adequacy of the insurer s reserves, the quality of the insurer s assets and the identity of the regulator, the annual net premiums that an insurer may write are generally

limited in relation to the insurer s total policyholders surplus. Thus, the amount of an insurer s surplus may, in certain cases, limit its ability to grow its business. The National Association of Insurance Commissioners also has developed a risk-based capital (RBC) program to enable regulators to carry out appropriate and timely regulatory actions relating to insurers that show signs of weak or deteriorating financial condition. The RBC program consists of a series of dynamic surplus-related formulas which contain a variety of factors that are applied to financial balances based on a degree of certain risks, such as asset, credit and underwriting risks.

Many states have laws and regulations that limit an insurer s ability to exit a market. For example, certain states limit an automobile insurer s ability to cancel or non-renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit cancellation or non-renewal of policies and that subject program withdrawals to prior approval requirements may restrict an insurer s ability to exit unprofitable markets.

Regulation of insurance constantly changes as real or perceived issues and developments arise. Some changes may be due to economic developments, such as changes in investment laws made to recognize new investment vehicles; other changes result from such general pressures as consumer resistance to price increases and concerns relating to insurer rating and underwriting practices and solvency. In recent years, legislation and voter initiatives have been introduced, and in some areas adopted, which deal with use of non-public consumer information and use of financial responsibility and credit information in underwriting, insurance rate development, rate determination and the ability of insurers to cancel or non-renew insurance policies, reflecting concerns about consumer privacy, coverage, availability, prices and alleged discriminatory pricing. In addition, from time to time, the U.S. Congress and certain federal agencies investigate the current condition of the insurance industry to determine whether federal regulation is necessary.

In some states, the automobile insurance industry has been under pressure in past years from regulators, legislators or special interest groups to reduce, freeze, or set rates to or at a level that is not necessarily related to underlying costs, including initiatives to roll back automobile and other personal lines rates. This kind of activity has affected adversely, and in the future may affect adversely, the profitability and growth of the automobile insurance business in those jurisdictions, and may limit the ability to increase rates to compensate for increases in costs. Adverse legislative and regulatory activity limiting the ability to price automobile insurance adequately, or affecting the insurance operations adversely in other ways, may occur in the future. The impact of these regulatory changes on us cannot be predicted.

Statutory Accounting Principles

The Company s results are reported in accordance with accounting principles generally accepted in the United States of America (GAAP), which differ in certain respects from amounts reported under statutory accounting principles (SAP) prescribed by insurance regulatory authorities. Primarily, under GAAP:

1. Commissions, premium taxes and other variable costs incurred in connection with writing new and renewal business are capitalized and amortized on a pro rata basis over the period in which the related premiums are earned, rather than expensed as incurred, as required by SAP.

2. Certain assets are included in the consolidated balance sheets, but are non-admitted and charged directly against statutory surplus under SAP. These assets consist primarily of premium receivables that are outstanding over 90 days, federal deferred tax assets in excess of statutory limitations, furniture, equipment, application computer software, leasehold improvements and prepaid expenses.

3. Amounts related to ceded reinsurance, such as prepaid reinsurance premiums and reinsurance recoverables, are shown gross, rather than netted against unearned premium reserves and loss and loss adjustment expense reserves, respectively, as required by SAP.

4. Fixed-maturity securities, which are classified as available-for-sale, are reported at current market values, rather than at amortized cost, or the lower of amortized cost or market, depending on the credit quality of the specific security, as required by SAP. Equity securities are reported at quoted market values, which may differ from the NAIC market values as required by SAP.

5. Both current and deferred taxes are recognized in the income statement for GAAP, while deferred taxes are posted directly to surplus for SAP.

Investments

The Company employs a conservative approach to investment and capital management intended to ensure that there is sufficient capital to support all of the insurance premium that can be profitably written. The Company s portfolio is invested primarily in investment-grade fixed-income and equity securities.

Competition

Non-standard personal automobile insurance consumers typically purchase the statutory minimum limits of liability insurance required to register their vehicles. Accordingly, we believe that we primarily compete on the basis of price, the amount of down payment required to bind coverage, and payment terms. However, we also generally compete on the basis of consumer recognition, agency relationships, types of coverage offered, claims handling, financial stability, customer service and geographic availability. Because of the purchasing habits of our customers, the rate of policy retention is poor when compared to the retention rate of standard and preferred policies. Our success, therefore, depends in part on our ability to replace insureds that do not renew their policies.

We currently compete with many national, regional and local writers. The insurance underwriting and agency businesses are highly competitive. Many competitors are national in scope, larger, and better capitalized than we are. Some competitors have broad distribution networks of employed agents. Smaller regional insurance companies and local agents also compete vigorously at the local level. We believe our focus on the non-standard automobile market combined with competitive prices, payment terms and emphasis on customer service, gives us a competitive advantage.

Employees

As of December 31, 2007, we had 282 employees, whom we refer to as associates. All but one of whom were full-time.

Item 2. ***PROPERTIES***

The corporate headquarters of the Company is located at RiverEdge One, Suite 600, 5500 Interstate North Parkway, Atlanta, Georgia 30328. The Company currently leases its office space at the RiverEdge One facility under a 12-year lease that commenced on May 1, 2003.

The Company s agencies are all located in leased locations throughout Alabama, Florida and Georgia under short to medium term commercial leases. The Company believes these facilities to be sufficient for its current and future needs.

Item 3. ***LEGAL PROCEEDINGS***

The Company is not a party to any pending legal proceedings other than routine litigation that is incidental to its business.

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

There were no matters submitted for a vote of security holders during the fourth quarter of 2007.

PART II

Item 5. ***MARKET FOR COMMON EQUITY , RELATED STOCKHOLDER MATTERS AND PURCHASES OF EQUITY SECURITIES***

The Company Common Stock is quoted on the Over-the-Counter Bulletin Board (OTC-BB) under the symbol ASAM.OB There is currently a very limited trading market for the Company Common Stock. The

Table of Contents

following sets forth, for the respective periods indicated, the high and low bid prices of the Company Common Stock in the over-the-counter market, as reported and summarized by the OTC-BB. Such prices are based on inter-dealer bid and asked prices, without retail mark-up, mark-down, commissions or adjustments, and may not represent actual transactions.

Quarter Ended	Bid Prices	
	High	**Low**
2006 Fiscal Year:		
March 31, 2006	$ 1.80	$ 0.82
June 30, 2006	$ 1.81	$ 1.22
September 30, 2006	$ 1.25	$ 1.00
December 31, 2006	$ 1.12	$ 0.78
2007 Fiscal Year:		
March 31, 2007	$ 1.75	$ 0.80
June 30, 2007	$ 1.01	$ 0.83
September 30, 2007	$ 1.00	$ 0.60
December 31, 2007	$ 0.75	$ 0.36

The Company has never declared or paid cash dividends on the Company s Common Stock and currently intends to retain any future earnings for the operation and expansion of its business. Any determination to pay cash dividends on the Company s Common Stock will be at the discretion of the Board of Directors of the Company and will be dependent on the Company s financial condition, results of operations, contractual restrictions, capital requirements, business prospects and such other factors as the Company s Board of Directors deems relevant. Additionally, the payment of dividends or distributions from AAIC to the Company is restricted by the insurance laws and regulations of South Carolina.

In an event of default under the Junior Subordinated Indenture issued by the Company to AssuranceAmerica Capital Trust I, the Company may not pay any dividends on its common stock until the default has been cured or waived.

At March 15, 2008, there were approximately 781 holders of record of the Company Common Stock.

ITEM 6. *SELECTED FINANCIAL DATA*

Selected Quarterly Financial Information

	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2007				
Revenue	$ 15,167,804	$ 14,494,964	$ 14,414,713	$ 14,301,219
Income (loss) from operations	1,152,257	274,720	44,451	(689,179)
Net income (loss) attributable to common shareholders	639,124	120,392	(43,520)	(440,619)
Diluted net earnings (loss) per share attributable to common shareholders	0.010	0.002	(0.001)	(0.006)
2006				

Revenue	$ 15,376,950	$ 12,986,923	$ 13,127,204	$ 12,231,765
Income from operations	1,198,153	512,474	851,735	149,523
Net income attributable to common shareholders	669,971	237,169	699,307	2,703,952
Diluted net earnings per share attributable to common shareholders	0.010	0.004	0.011	0.041

Table of Contents

Item 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

Results of Operations

The Company reported net income of $.3 million for the year ended December 31, 2007 compared to net income of $4.7 million for the year ended December 31, 2006. The Company reported basic earnings per common share of $0.004 for the year ended December 31, 2007 compared to $0.080 for the year ended December 31, 2006. Fully diluted earnings per common share for the year ended December 31, 2007 was $0.004 compared to $0.075 for the year ended December 31, 2006. 2006 results include an income tax benefit of $2.0 million. Pre-tax earnings decreased $1.9 million for period ended December 31, 2007 compared to the comparable 2006 period.

Contributing factors towards the Company s 2007 decline in net income includes a decline in net income from the Company s retail operations. This factor was partially offset by increases in earned premium in AAIC and related increases in commission and fee income in the MGA. Increased loss and loss adjustment expenses (Loss Ratio) in AAIC, from 73.4% in 2006 to 74.3% in 2007 partially offset these increases in revenues. Fee income improvements in the MGA reflect fees associated with increased premium production in AAIC in the states of Florida, Louisiana, Texas and Alabama and fees associated with entry into the state of Texas through an unaffiliated insurance company. Commission and fee income declines in TrustWay are, in part, representative of changes in the regulatory environment in Florida as well as a decline in the construction industry. The state of Florida s mandatory insurance coverage for personal injury protection sunset in 2007, which contributed to a decline in revenue for the retail agencies. The personal injury protection has been reinstated by the state of Florida on January 1, 2008.

Revenues

Premiums

Gross premiums written for the year ended December 31, 2007 were $88.4 million. In the comparable period for 2006, AAIC recorded $69.1 million in gross premiums written. 2007 gross premiums written includes insurance premiums written directly by AAIC, direct premiums written, of $86.8 million, plus $1.6 million of premiums associated with the insurance risk transferred to AAIC by two unaffiliated insurance company s pursuant to a reinsurance contract, referred to as assumed premiums written. AAIC s recorded assumed premiums written was $0.3 million in the year ended December 31, 2006. The majority of our growth occurred in Florida, where AAIC began writing policies in early 2006. Entry into Florida accounted for $22.1 million of the increase, over the comparable 2006 period. Entry into the states of Louisiana and Mississippi during 2007 accounted for $4.4 million year-over-year increase in direct premiums written in AAIC. Georgia the state from which we receive the majority of our premiums, representing 40% of our direct written premium, declined $7.0 million due to a continued soft market and pricing pressures. Direct premiums written in South Carolina decreased 21% in 2007 from the prior year reflecting increased competition in the state. Policies in force increased 27% from December 31, 2006 to December 31, 2007. The Company cedes approximately 70% of its direct premiums written to its reinsurers. The amount ceded for the year ended December 31, 2007, was $59.8 million as compared to $47.0 million in 2006.

Premiums written refers to the total amount of premiums billed to the policyholder less the amount of premiums returned, generally as a result of cancellations, during a given period. Premiums written become premiums earned as the policy ages. Barring premium rate changes, if an insurance company writes the same mix of business each year, premiums written and premiums earned will be equal and the unearned premium reserve will remain constant. During periods of growth, the unearned premium reserve will increase, causing premiums earned to be less than premiums written. Conversely, during periods of decline, the unearned premium reserve will decrease, causing premiums earned to be greater than premiums written. The Company s net earned premium, after deducting reinsurance, was

$25.4 million for the year ended December 31, 2007 and compares to $20.9 million for the year ended December 31, 2006.

Commission and Fee Income

MGA and TrustWay produce and service non-standard personal automobile insurance business for AAIC and other insurers. We receive service fees for agency, underwriting, policy administration, and claims adjusting

services performed on behalf of these insurers. We also receive commission and service fee income in TrustWay on other insurance products produced for unaffiliated insurance companies on which we do not bear underwriting risk, including travel protection, vehicle protection and hospital indemnity insurance policies. Commission rates vary among carriers and are applied to written premium to determine commission income.

Commission income, as a result of business produced in both TrustWay and the MGA, for the year ended December 31, 2007 decreased $1.4 million compared to the same period ended December 31, 2006. The decrease primarily relates to the TrustWay agency commission income for the 2007 period over the comparable 2006 period, which was negatively impacted by the Florida regulatory change and the decline in the Florida construction industry, which supports many of our insureds in the state of Florida. The decrease was offset by commissions earned from two non-affiliated insurers from whom the Company generates premium. Also AAIC pays MGA commission on the 30% of premium which AAIC retains. The commission is subsequently eliminated upon consolidation. The amount eliminated was $6.7 million for the year ended December 31, 2007.

Managing general agent fees for the period ended December 31, 2007 were $10.9 million, an increase of $1.7 million when compared to the same period of 2006. Increases in the number of policies sold are the largest contributing factor.

Net Investment Income

Our investment portfolio is generally highly liquid and consists substantially of readily marketable, investment-grade debt and equity securities. Net investment income is primarily comprised of interest and dividends earned on these securities, net of related investment expenses. Net investment income increased to $0.8 million period ended December 31, 2007 from $0.7 million in the comparable 2006 period. This is primarily a result of an increase in average invested assets.

Expenses

Insurance Loss and Loss Adjustment Expenses

Insurance losses and loss adjustment expenses include payments made to settle claims, estimates for future claim payments and changes in those estimates for current and prior periods, as well as loss adjustment expenses incurred in connection with settling claims. Insurance losses and loss adjustment expenses are influenced by many factors, such as claims frequency and severity trends, the impact of changes in estimates for prior accident years, and increases in the cost of medical treatment and automobile repairs. The anticipated impact of inflation is considered when we establish our premium rates and set loss reserves. We perform a rolling quarterly actuarial analysis each month and establish or adjust (for prior accident quarters) reserves, based upon our estimate of the ultimate incurred losses and loss adjustment expenses to reflect loss development information and trends that have been updated for the most recent quarter s activity. Each month our estimate of ultimate loss and loss adjustment expenses is evaluated by accident quarter, by state and by major coverage grouping (e.g., bodily injury, physical damage) and changes in estimates are reflected in the period the additional information becomes known.

We have historically used reinsurance to manage our exposure to loss by ceding a portion of our gross losses and loss adjustment expenses to reinsurers. We remain obligated for amounts covered by reinsurance, however, in the event that the reinsurers do not meet their obligations under the agreements (due to, for example, disputes with the reinsurer or the reinsurer s insolvency). The Company cedes approximately 70% of its direct loss and loss adjustment expenses incurred to its reinsurers and the amount ceded for the year ended December 31, 2007, was $41.6 million.

After making deductions for the effect of reinsurance, losses and loss adjustment expenses were $18.9 million for the period ended December 31, 2007. As a percentage of earned premiums, this amount increased for the period ended

December 31, 2007, from 73.4% to 74.3%, when compared with the same period in 2006. The amount represents actual payments made and changes in estimated future payments to be made to or on behalf of its policyholders, including the expenses associated with settling claims. The increase in the year-over-year loss ratio is directly attributable to the Company s increase in writings and exposure in certain states.

Other Expenses

Other operating expenses, including selling and general and administrative expenses increased $3.1 million for the year ended December 31, 2007 when compared to the same period of 2006. These increases are associated, in part, with the growth of AAIC and related operations. AAIC and MGA experienced proportionate increases in selling costs as the premiums written increase. As a percentage of revenue, selling and general and administrative expenses for the twelve-month period ended December 31, 2007 increased from 61.6% to 62.0% when compared to the 2006 period. This increase is primarily attributable to the increase in production related to the MGA. Depreciation and amortization expense increased $0.1 million for the year ended December 31, 2007 when compared to the same period of 2006. This increase is associated with the increase in fixed and intangible assets, including the added depreciable and amortizable assets from three Alabama agency acquisitions in 2007.

Income Tax Expense (Benefit)

The provision for income taxes for the year ended December 31, 2007 in the amount of $.5 million consists of federal and state income taxes at an effective rate of 66%. The company experienced a higher tax rate due to the impact of incentive stock option compensation expense in 2007. The Company had a tax benefit of $2.0 million for the period ended December 31, 2006, representing an effective tax rate of negative 74%. The negative tax rate primarily results from a reversal of prior year valuation allowances on net operating loss carry-forwards and additional recognition of deferred tax assets realized in connection with the acquisition of The Insurance Center, Inc. subsequent to the acquisition. The recognition of these additional deferred tax assets, including the reversal of the valuation allowance were recorded in the fourth quarter of 2006.

Financial Condition

Investments and cash as of December 31, 2007, increased $2.2 million from investments and cash of $21.5 million as of December 31, 2006. The increase was due in part to $4.7 million in cash and income generated through operating activities. The increase was offset by $0.4 million in net investments made in agencies during the year: the purchase of the assets of Frontline Insurance Group, LLC on January 1, 2007, the purchases of Covenant Insurance Group, Inc. on September 30, 2007 and Bush Insurance, Inc. on October 31, 2007. The Company issued new promissory notes in connection with these acquisitions in the amount of $.2 million. The Company s investments of $17.6 million are primarily in direct obligations of the U.S. Treasury as well as those securities unconditionally guaranteed as to the payment of principal and interest by the United States government or any agency thereof and in high-quality corporate and municipal bonds of Georgia-based issuers. The Company s investment activities are made in accordance with the Company s policy. The objectives of the investment policy are to obtain favorable after-tax returns on investments through a diversified portfolio of fixed income, equity and real estate holdings. The Company s investment criteria and practices reflect the short-term duration of its contractual obligations with policyholders and regulators. Tax considerations include federal and state income tax as well as premium tax abatement and credit opportunities offered to insurance companies in the states where AAIC writes policies.

Premiums receivable as of December 31, 2007, increased $10.1 million to $28.8 million compared to December 31, 2006. The balance represents amounts due from AAIC s insured and the increase is directly attributable to the increase in AAIC s premium writings during 2007. The Company s policy is to write off receivable balances immediately upon cancellation or expiration, and the Company does not consider an allowance for doubtful accounts to be necessary.

Reinsurance recoverable as of December 31, 2007, increased $6.7 million, to $29.3 million compared to December 31, 2006. The increase is directly related to AAIC s continued growth. AAIC maintains a quota-share reinsurance treaty with its reinsurers in which it generally cedes 70% of both premiums and losses. The $29.3 million represents the reinsurers portion of losses and loss adjustment expense, both paid and unpaid. All amounts are

considered current.

Prepaid reinsurance premiums as of December 31, 2007, increased $7.1 million to $21.1 million compared to December 31, 2006. The increase results from AAIC s continued growth, and represents premiums ceded to its reinsurers which have not been fully earned.

Property and equipment, net of depreciation, decreased $.1 million as of December 31, 2007 from December 31, 2006 to $2.4 million. The decrease is attributable to depreciation on the purchase of computer software and hardware at the Company s corporate headquarters and furniture and leasehold improvements in both its agencies and corporate headquarters.

Other receivables as of December 31, 2007 increased $2.4 million to $2.9 million compared to December 31, 2006. The balances represent TrustWay receivables from insurance carriers for direct bill commissions and balances due to the MGA from insurance carriers for amounts owed in accordance with the terms of its managing general agency agreements. The change in the TrustWay receivables is directly attributable to the change in direct bill commissions from carriers as we transition more business from an agency bill basis to a direct bill basis. Policies issued under a direct bill basis traditionally have higher renewal rates than policies issued on an agency bill basis. The increase in the MGA receivables is directly attributable to increases in business placed by the MGA in the state of Florida and Texas on behalf of a two non-affiliated insurers.

Intangible assets as of December 31, 2007, increased $.3 million to $11.4 million from the balance of $11.1 million as of December 31, 2006. This increase is directly related to the Company s acquisition of three Alabama insurance agencies, less amortization of identifiable intangible assets for 2007.

Prepaid income tax decreased $0.5 million compared to the balance as of December 31, 2006. This decrease represents income tax refunds anticipated of $.6 million for 2007 less current taxes payable of $0.1 million.

Deferred tax assets decreased $.7 million compared to the balance as of December 31, 2006. This decrease primarily represents the utilization of net operating loss carry forwards available to the Company as of January 1, 2006 and an increase in deferred taxes for policy acquisition costs.

Accounts payable and accrued expenses as of December 31, 2007, increased $2.2 million from December 31, 2006 to $7.2 million. $.4 million of the balance represents the Company s liability due to carriers related to an increase in direct bill agency business, $0.7 million represents an increase in unclaimed property, $0.7 million represents an increase in accrued expenses for payroll and general expense and $.2 million represents an increase in deferred revenue.

Unearned premium as of December 31, 2007 increased $10.4 million to $31.0 million from December 31, 2006, and represents premiums written but not earned. This is directly attributable to the increase in AAIC s premium writings during 2007.

Unpaid losses and loss adjustment expenses increased $8.8 million to $33.7 million as of December 31, 2007 from $24.9 million at December 31, 2006. This amount represents management s estimates of future amounts needed to pay claims and related expenses and the increase correlates with the increase in AAIC s writings and anticipated future losses.

Reinsurance payable as of December 31, 2007 increased $8.4 million to $25.2 million, compared to the balance at December 31, 2006. The amount represents premiums owed to the Company s reinsurers. AAIC maintains two quota-share reinsurance treaties with its reinsurers in which it cedes 70% of the both premiums and losses for the majority of its states and 100% of a portion of its Florida business. The increase is directly attributable to the increase in AAIC s premium writings during 2007.

Provisional commission reserves represent the difference between our minimum ceding commission and the provisional amount paid by the reinsurers. These balances as of December 31, 2007 increased $0.6 million to $2.9 million, compared to the balance at December 31, 2006. The increase is related to increases in AAIC writings.

Notes payable as of December 31, 2007, decreased approximately $1.3 million compared to December 31, 2006. The change results from the certain notes issued totaling $.2 million in connection with three agency acquisitions made during 2007 less payments of $1.5 million paid on promissory notes.

On December 22, 2005, the Company, through a newly-formed Delaware statutory trust, AssuranceAmerica Capital Trust I (the Trust), a wholly-owned subsidiary of the Company, consummated the private placement of 5,000 shares of the Trust s floating rate capital securities, with a liquidation amount of $1,000 per capital security (the Capital Securities). In connection with the Trust s issuance and sale of the Capital Securities, the Company

purchased from the Trust 155 of the Trust s floating rate common securities, with a liquidation amount of $1,000 per common security (the Common Securities). The Trust used the proceeds from the issuance and sale of the Capital Securities and the Common Securities to purchase $5,155,000 in aggregate principal amount of the floating rate junior subordinated debentures of the Company (the Debentures). These debentures are classified as debt and are presented net of the discount to be amortized over the life of the debentures on the Company s statements of financial position. The interest paid and accrued on these debentures is classified as interest expense in the consolidated statements of operations.

Liquidity and Capital Resources

Net cash provided by operating activities for the year ended December 31, 2007, was $5.1 million compared to net cash provided by operating activities of $7.8 million for the same period of 2006.

Investing activities for the year ended December 31, 2007 consisted of the purchase of leasehold improvements and property and equipment in the amount of $.4 million in our headquarter s and in TrustWay, $.4 million for the purchase of three Alabama agencies during the year, and $4.9 million in net purchases of investments.

Financing activities for the year ended December 31, 2007 included the issuance of common stock resulting in additional capital of $0.1 million. Debt repayments for the year ended December 31, 2007 were $1.3 million and the Company issued new promissory notes in connection with the acquisition of three agencies in an amount totaling $.2 million.

The Company s liquidity and capital needs have been met in the past through premium, commission and fee income, loans from its Chairman, and its Chief Executive Officer, and issuance of its Series A Convertible Preferred Stock, Common Stock and Debt Securities. The Company s related party debt consists of unsecured promissory notes payable to its Chairman and its Chief Executive Officer. The promissory notes carry an interest rate of 8% per annum and provide for the repayment of principal on an annual basis. During the first nine months of 2005, the Company issued 840,000 shares of its Series A Convertible Preferred Stock for an aggregate consideration of $4.2 million. The Series A Convertible Stock paid a semi-annual dividend of $0.20 per share. All the series A convertable stock has been converted to common stock. During the fourth quarter of 2005, the Company issued 669,821 shares of its Common Stock for an aggregate consideration of $435,000. During the first quarter of 2006, the Company issued 600,000 shares of its Common Stock for an aggregate consideration of $390,000. During 2007, 840,000 shares of preferred stock converted to 8,400,000 shares of common stock.

On December 22, 2005, the Company, through a newly-formed Delaware statutory trust, AssuranceAmerica Capital Trust I (the Trust), consummated the private placement of 5,000 of the Trust s floating rate capital securities, with a liquidation amount of $1,000 per capital security (the Capital Securities). In connection with the Trust s issuance and sale of the Capital Securities, the Company purchased from the Trust 155 of the Trust s floating rate common securities, with a liquidation amount of $1,000 per common security (the Common Securities). The Trust used the proceeds from the issuance and sale of the Capital Securities and the Common Securities to purchase $5,155,000 in aggregate principal amount of the floating rate junior subordinated debentures of the Company (the Debentures). The Capital Securities mature on December 31, 2035, but may be redeemed at par beginning December 31, 2010 if and to the extent the Company exercises its right to redeem the Debentures. The Capital Securities require quarterly distributions by the Trust to the holders of the Capital Securities, at a floating rate of three-month LIBOR plus 5.75% per annum, reset quarterly. Distributions are cumulative and will accrue from the date of original issuance but may be deferred for a period of up to 20 consecutive quarterly interest payment periods if the Company exercises its right under the Indenture to defer the payment of interest on the Debentures.

The growth of the Company has and will continue to strain its liquidity and capital resources. AAIC is required by the state of South Carolina to maintain minimum Capital and Surplus of $3.0 million. As of December 31, 2007, AAIC s Capital and Surplus was $11.9 million.

Table of Contents

Off-Balance Sheet Arrangements

The Company did not have any off-balance sheet arrangements during the year ended December 31, 2007.

Item 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

All information required to be disclosed in Item 8 is incorporated by reference from the section entitled Index to Financial Statements in Item 15 of this Annual Report.

Item 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.*

We encountered no disagreements with accountants on accounting principles or disclosures.

Item 9A. *CONTROLS AND PROCEDURES*

As of the end of the period covered by this Annual Report on Form 10-K, the Company s Chief Executive Officer and its Acting Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Company s controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act)). Based upon that evaluation, the Company s Chief Executive Officer and Acting Chief Financial Officer have concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. There were no significant changes in the Company s internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

Management s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate. Based on this evaluation, management determined that, as of December 31, 2007, we maintained effective internal control over financial reporting.

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

Item 9B. ***OTHER INFORMATION***

None

Table of Contents

PART III

Item 10. ***DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE***

Except for information regarding executive officers, all information required to be disclosed in Item 10 is incorporated by reference from the Company s Proxy Statement for the Annual Meeting of Shareholders to be held on April 24, 2008 (Proxy Statement).

Executive Officers

The following table sets forth the name, age and position of each of our executive officers.

Name	Age	Positions Held
Guy W. Millner	72	Chairman
Lawrence (Bud) Stumbaugh	67	President and Chief Executive Officer
Gregory D. Woods	46	Controller and Acting Chief Financial Officer
Mark H. Hain	58	Senior Vice President, General Counsel and Secretary
Joseph J. Skruck	43	President, AssuranceAmerica Managing General Agency, LLC (a subsidiary of the Company)
Charlie Brock	53	Vice President Sales, AssuranceAmerica Managing General Agency, LLC (a subsidiary of the Company)
Scott Nelson	40	Regional Vice President Product Development, AssuranceAmerica Managing General Agency, LLC (a subsidiary of the Company)
Elise Quadrozzi	47	Senior Vice President Claims and Underwriting, AssuranceAmerica Managing General Agency, LLC (a subsidiary of the Company)
David Anthony	48	Vice President Information Technology, AssuranceAmerica Managing General Agency, LLC (a subsidiary of the Company)
Tony Pepsoski	40	Regional Vice President Product Development, AssuranceAmerica Managing General Agency, LLC (a subsidiary of the Company)

Biographies of Executive Officers

Guy W. Millner has served as the Chairman of the Board since June 2003. Mr. Millner served as Chairman of AA Holdings, LLC, the predecessor of AssuranceAmerica Corporation, a Georgia corporation, from 1999 to 2003. From 1961 to 1999, Mr. Millner served as Chairman of Norrell Corporation, a leading provider of staffing and outsourcing solutions.

Lawrence (Bud) Stumbaugh has served as the President and Chief Executive Officer and as a member of the Board of Directors since June 2003. He served as President and Chief Executive Officer of AA Holdings, LLC from 1998 to 2003. Prior to joining AA Holdings, LLC, Mr. Stumbaugh was President and Chief Executive Officer of Lawmark International Corporation.

Mark H. Hain has served as Senior Vice President, General Counsel and Secretary since August 2005. Prior to joining the Company, Mr. Hain was in the private practice of law for two years and was General Counsel for Computer Jobs.com, Inc. for two years. He served as Senior Vice President and General Counsel for Norrell Corporation from 1988 to 1999, and as General Counsel for American First Corporation, C.L. Frates & Co, Inc. and the Oklahoma Insurance Department prior to 1998.

Joseph J. (Joe) Skruck, CPCU, has served as the President and Chief Operating Officer of AssuranceAmerica Managing General Agency, LLC, an insurance subsidiary of the Company, since January 2002. He served as Senior Vice-President of Sun States Insurance Group from 1998 through 2001.

Charlie Brock has served as the Vice President Sales of AssuranceAmerica Managing General Agency, LLC, an insurance subsidiary of the Company since he joined the Company in December, 2007. He was Chief Marketing Officer and Vice President of Sales for Access Insurance Company from April 2007 to December 2007. He was the President and COO of Executrac, Inc., Atlanta, Ga, from 2003 to April 2007. Prior to 2003, Mr. Brock served in several capacities with The Coca-Cola Company, Frito-Lay and Proctor and Gamble.

Gregory D. Woods joined the Company in 2005 and serves as Controller and Acting Chief Financial Officer of the Company. Prior to joining the Company, he spent six years with Assurant Group in various financial management roles within the company. Mr. Woods also served as the Controller with Aon Specialty Corporation for three years. He has an insurance accounting career that spans over 20 years.

Elise A. Quadrozzi CPCU, AIC*,* joined the Company in 2003 and serves as Senior Vice President of Claims and Underwriting for the Company. She has an insurance career spanning over 21 years. She has held several senior level management positions, most recently as Director of Accident Management with AKZO Nobel Coatings Inc. from 2001 until she joined the Company.

David H. Anthony joined the Company as Vice President of Information Technology in March 2004. Mr. Anthony has 23 years of experience in the Information Technology industry with the last 12 focused in the area of consulting. Prior to joining the Company, he served as Vice President of CGI Information Systems and Management Consultants for four years.

Scott M. Nelson is the Vice President of Product Development for the Company. Prior to joining the Company in 2004, Mr. Nelson served as Assistant Vice-President, Product Management, for five years for Answer Financial in Encino, CA. Prior to Answer Financial, he managed several states for Windsor Insurance Company, a leading writer of non-standard auto insurance.

Tony Pepsoski is the Regional Vice President of Product Development for the Company. Prior to joining the company in April 2006, Tony was a Senior Product Manager at The Hartford, managing personal auto and homeowner products. Prior to The Hartford, he managed products for several states for Windsor Insurance Company, a leading writer of non-standard auto insurance.

Item 11. ***EXECUTIVE COMPENSATION***

All information required to be disclosed in Item 11 is incorporated by reference from the section entitled Executive Compensation in the Company s Proxy Statement.

Item 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

Except for information regarding the Company s equity compensation plans set forth below, all information required to be disclosed in Item 12 is incorporated by reference from the section entitled Security Ownership of Certain Beneficial Owners and Management in the Company s Proxy Statement.

Table of Contents

Equity Compensation Plan Information

The following table provides information as of December 31, 2007, with respect to the Company s compensation plans under which equity securities are authorized for issuance:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted- Average exercise price of outstanding Options		(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders(1)	4,946,665	$	0.80	2,239,335
Equity compensation plans not approved by stockholders			N/A	
Total	4,946,665	$	0.80	2,239,335

(1) Consists of options granted under the Company s 2000 Stock Option Plan.

Item 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE***

All information required to be disclosed in Item 13 is incorporated by reference from the section entitled Certain Relationships and Related Transactions in the Company s Proxy Statement.

Item 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES.***

All information required to be disclosed in Item 14 is incorporated by reference from the Company s Proxy Statement.

PART IV

Item 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

(a) Documents filed as part of this report:

(1) Financial Statements

The following financial statements of the Company, together with the Report of the Company s Independent Registered Public Accounting Firm dated March 25, 2008, are filed herewith:

	PAGE
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2007 and 2006	F-3
Consolidated Statements of Operations for the years ended December 31, 2007 and 2006	F-5
Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2007 and 2006	F-6
Consolidated Statements of Comprehensive Income for the years ended December 31, 2007 and 2006	F-8
Consolidated Statements of Cash Flows for the years ended December 31, 2007 and 2006	F-9
Notes to consolidated financial statements	F-10

(2) Financial Statement Schedules

All financial statement schedules are omitted, as the required information is inapplicable or the information is presented in the respective financial statements or related notes.

(3) Exhibits

Table of Contents

2.1	Agreement and Plan of Merger and Reorganization dated April 1, 2003, by and among the Company, AA Holdings Acquisition Sub, Inc., AA Holdings, LLC and AssuranceAmerica Corporation (incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed on April 16, 2003).
2.2	Asset Purchase Agreement by and between Trustway Insurance Agencies, LLC, AssuranceAmerica Corporation, Thomas-Cook Holding Company and James C. Cook (incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K dated August 3, 2004).
3.1	Amended And Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003).
3.2	Amendment to Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Appendix A to the Company s Definitive Proxy Statement filed on September 9, 2003).
3.3	By-Laws of the Company (incorporated by reference to the Company s Form 10 filed on May 30, 1972).
3.4	Amendment to the Company s By-Laws adopted February 14, 2001 (incorporated by reference to Exhibit 3ii to the Company s Quarterly Report on Form 10-QSB for the quarter ended December 31, 2000).
3.5	Amendment to the Company s By-Laws adopted June 26, 2003 (incorporated by reference to Exhibit 3.4 to the Company s Annual Report on Form 10-KSB/A for the year ended March 31, 2003).
3.6	Amendment to the Company s By-Laws adopted June 15, 2004 (incorporated by reference to Exhibit 3.6 to the Company s Annual Report on Form 10-KSB/A for the year ended December 31, 2004).
4.1	Certificate of Designations Establishing the Powers, Preferences, Limitations, Restrictions and Relative Rights of Series A Convertible Preferred Stock of AssuranceAmerica Corporation (incorporated by reference to Exhibit 4.1 to the Company s Quarterly Report on Form 10-QSB for the quarter ended June 30, 2004).
4.2	Amendment to Certificate of Designations Establishing the Powers, Preferences, Limitations, Restrictions and Relative Rights of Series A Convertible Preferred Stock of AssuranceAmerica Corporation (incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed on April 15, 2005).
4.3	Amended and Restated Trust Agreement dated December 22, 2005 (incorporated by reference to Exhibit 4.1 to the Company s Form 8-K filed on December 27, 2005).
4.4	Junior Subordinated Indenture dated December 22, 2005 (incorporated by reference to Exhibit 4.2 to the Company s Form 8-K filed on December 27, 2005).
10.1	Brainworks Ventures, Inc. Stock Option Plan (incorporated by reference to Exhibit A to the Company s Definitive Proxy Statement filed on October 20, 2000).
10.2	Amendment to the Brainworks Ventures, Inc. Stock Option Plan (incorporated by reference to Appendix 3 to the Company s Definitive Proxy Statement filed on April 11, 2006).
10.3	Promissory Note assumed by the Company to Guy W. Millner dated February 10, 2003 (incorporated by reference to Exhibit 10.2 to the Company s Form 10-KSB/A for the year ending December 31, 2004).
10.4	Promissory Note assumed by the Company to Lawrence Stumbaugh dated January 3, 2003 (incorporated by reference to Exhibit 10.3 to the Company s Form 10-KSB/A for the year ending December 31, 2004).
10.5	Promissory Note assumed by the Company to Guy W. Millner dated August 31, 2002 (incorporated by reference to Exhibit 10.4 to the Company s Form 10-KSB/A for the year ending December 31, 2004).
10.6	Employment Agreement between Agencies and James C. Cook dated July 31, 2004 (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K dated August 3, 2003).
10.7	Executive Employment Agreement between AssuranceAmerica General Agency, LLC and Joseph J. Skruck (incorporated by reference to Exhibit 10.1 to the Company s current report on Form 8-K dated March 8, 2006).
10.8	Stock Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on April 15, 2005).

10.9	Amendment to Stock Purchase Agreement (incorporated by reference to Exhibit 10.1 to the Company s Form 8-K filed on May 10, 2005).
10.10	Registration Rights Agreement (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on April 15, 2005).

10.11	Description of Executive Bonus Plan (incorporated by reference to Exhibit 10.1 of the Company s Form 10-QSB for the quarter ended June 30, 2005).
10.12	Guarantee Agreement dated December 22, 2005 (incorporated by reference to Exhibit 10.2 to the Company s Form 8-K filed on December 27, 2005).
10.13	Executive Employment Agreement between Sercap Holdings, LLC and Lawrence Stumbaugh effective July 10, 2002 and assumed by the Company effective April 1, 2003 (incorporated by reference to Exhibit 10.12 to the Company s Form 10KSB for the year ending December 31, 2005).
14.1	Code of Conduct (incorporated by reference to Exhibit 14.1 to the Company s Transition Report on Form 10-KSB for the transition period from April 1, 2003 to December 31, 2003).
16.1	Letter on change in certifying accountant as required by Item 304(a)(3) (incorporated by reference to Exhibit 16.2 to the Company s Form 8-K/A filed on December 20, 2006)
21.1	List of Subsidiaries
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Controller Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Controller Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

REGISTRANT:

ASSURANCEAMERICA CORPORATION

Date: March 28, 2008

By: /s/ Lawrence Stumbaugh

Lawrence Stumbaugh, Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Lawrence Stumbaugh Lawrence Stumbaugh	Chief Executive Officer and Director (Principal Executive Officer)	Date: March 28, 2008
/s/ Gregory Dean Woods Gregory Dean Woods	Controller and Acting Chief Financial Officer (Principal Financial and Accounting Officer)	Date: March 28, 2008
/s/ Guy W. Millner Guy W. Millner	Chairman of the Board of Directors	Date: March 28, 2008
/s/ Donald Ratajczak Donald Ratajczak	Director	Date: March 28, 2008
/s/ Quill O. Healey Quill O. Healey	Director	Date: March 28, 2008
/s/ John E. Cay, III John E. Cay, III	Director	Date: March 28, 2008
/s/ Kaaren J. Street Kaaren J. Street	Director	Date: March 28, 2008

/s/ Sam Zamarripa	Director	Date: March 28, 2008
Sam Zamarripa		
/s/ John Ray	Director	Date: March 28, 2008
John Ray		

Table of Contents

Index to Financial Statements

	PAGE
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2007 and 2006	F-3
Consolidated Statements of Operations for the years ended December 31, 2007 and 2006	F-5
Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2007 and 2006	F-6
Consolidated Statements of Comprehensive Income for the years ended December 31, 2007 and 2006	F-8
Consolidated Statements of Cash Flows for the years ended December 31, 2007 and 2006	F-9
Notes to consolidated financial statements	F-10

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
AssuranceAmerica Corporation

We have audited the consolidated balance sheets of AssuranceAmerica Corporation and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders equity, comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AssuranceAmerica Corporation and subsidiaries as of December 31, 2007 and 2006, 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.

We were not engaged to examine management s assertion about the effectiveness of AssuranceAmerica Corporation s internal control over financial reporting as of December 31, 2007 included in the accompanying Form 10-K and, accordingly, we do not express an opinion thereon.

Atlanta, Georgia
March 25, 2008

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (AUDITED)

	December 31, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 5,511,842	$ 8,185,539
Short-term investments	642,924	619,843
Long-term investments	14,838,738	10,446,830
Marketable equity securities	2,563,040	2,055,983
Other securities	155,000	155,000
Investment income due and accrued	158,981	117,363
Receivable from insureds	28,802,125	18,707,773
Reinsurance recoverable (including $6,077,396 and $5,130,845 on paid losses)	29,327,012	22,563,990
Prepaid reinsurance premiums	21,145,161	14,012,481
Deferred acquisition costs	2,130,323	800,125
Property and equipment (net of accumulated depreciation of $2,737,288 and $2,136,512)	2,360,747	2,481,660
Other receivables	2,966,287	585,999
Prepaid expenses	861,588	273,733
Intangibles (net of accumulated amortization of $2,240,233 and $1,824,334)	11,368,383	11,114,882
Security deposits	86,438	74,140
Prepaid income tax	148,677	668,677
Deferred tax assets	1,824,453	2,506,503
Other assets	361,419	374,365
Total assets	$ 125,253,138	$ 95,744,886

F-3

Table of Contents

	December 31, 2007	December 31, 2006
Liabilities and stockholders equity		
Accounts payable and accrued expenses	$ 7,184,132	$ 5,039,900
Unearned premium	30,991,565	20,614,781
Unpaid losses and loss adjustment expenses	33,660,814	24,904,492
Reinsurance payable	25,174,138	16,744,406
Provisional commission reserve	2,963,308	2,319,540
Notes payable and related party debt	4,482,862	5,797,122
Junior subordinated debentures payable	4,968,519	4,961,852
Capital lease obligations		265,670
Total liabilities	109,425,338	80,647,763
Commitments and contingencies		
Stockholders equity		
Common stock, $.01 par value (authorized 120,000,000 and 80,000,000, outstanding 64,803,881 and 56,072,971)	648,039	560,730
Preferred stock, $.01 par value (authorized 5,000,000, outstanding 0 and 840,000; liquidation preference $0 and $4,200,000)		8,400
Surplus-paid in	16,782,588	16,426,292
Accumulated deficit	(1,673,332)	(1,948,711)
Accumulated other comprehensive income:		
Net unrealized gains on investment securities, net of taxes	70,505	50,412
Total stockholders equity	15,827,800	15,097,123
Total liabilities and stockholders equity	$ 125,253,138	$ 95,744,886

See accompanying notes to consolidated financial statements.

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (AUDITED)

For the years ended December 31,

	2007	2006
Revenue:		
Gross premiums written	$ 88,395,199	$ 69,108,965
Ceded premiums written	(59,763,971)	(47,016,892)
Net premiums written	28,631,228	22,092,073
Increase in unearned premiums, net of prepaid reinsurance premiums	(3,244,105)	(1,239,097)
Net premiums earned	25,387,123	20,852,976
Commission income	20,870,068	22,232,993
Managing general agent fees	10,912,946	9,249,488
Net investment income	801,950	727,969
Net investment gains on securities	34,469	24,445
Other fee income	372,146	634,971
Total revenue	58,378,702	53,722,842
Expenses:		
Losses and loss adjustment expenses	18,864,642	15,318,922
Selling, general, and administrative	36,189,148	33,091,167
Stock option expense	333,694	429,351
Depreciation and amortization expense	1,185,271	1,030,165
Interest expense	1,013,364	1,141,368
Total operating expenses	57,586,119	51,010,973
Income before provision for income tax expense	792,583	2,711,869
Income tax provision (benefit)	517,204	(2,019,730)
Net income before dividends on preferred stock	275,379	4,731,599
Dividends on preferred stock		421,200
Net income attributable to common stockholders	$ 275,379	$ 4,310,399
Earnings per common share		
Basic	$ 0.004	0.080
Diluted	$ 0.004	0.075
Weighted average shares outstanding-basic	61,913,645	53,609,956
Weighted average shares outstanding-diluted	62,656,305	63,480,814

See accompanying notes to consolidated financial statements.

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (AUDITED)

For the years ended December 31, 2007 and 2006

	Common Stock	Preferred Stock	Paid in Capital	Accumulated Deficit	Accumulated Change in Other Comprehensive Income, Net of Taxes	Total
Balance, December 31, 2005	**$ 511,673**	**$ 12,660**	**$ 15,678,015**	**$ (6,259,110)**	$	**$ 9,943,238**
Stock issued	6,457		398,516			404,973
Stock issuance expenses			(41,250)			(41,250)
Conversion of preferred to common stock	42,600	(4,260)	(38,340)			
Stock option expense			429,351			429,351
Change in value of available-for-sale securities, net of taxes					50,412	50,412
Preferred dividends paid				(421,200)		(421,200)
Net income				4,731,599		4,731,599
Balance, December 31, 2006	**560,730**	**8,400**	**16,426,292**	**(1,948,711)**	50,412	**15,097,123**
Stock issued	3,309		113,292			116,601
Stock issuance expenses			(15,090)			(15,090)
Conversion of preferred to common stock	84,000	(8,400)	(75,600)			
Stock option expense			333,694			333,694
Change in value of					20,093	20,093

available-for-sale securities, net of taxes						
Net income				275,379		275,379
Balance, December 31, 2007	**$ 648,039**	**$**	**$ 16,782,588**	**$ (1,673,332)**	**$ 70,505**	**$ 15,827,800**

Table of Contents

Share Activity
(in thousands)

	2007	2006
Common stock		
Issued		
At beginning of year	56,073	51,167
Issued	331	646
Converted from preferred stock	8,400	4,260
At end of year	64,804	56,073
Preferred stock		
Issued		
At beginning of year	840	1,266
Converted to preferred stock	(840)	(426)
At end of year		840

See accompanying notes to consolidated financial statements.

F-7

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (AUDITED)

For the years ended December 31,

	2007	2006
Net income	**$ 275,379**	**$ 4,731,599**
Other comprehensive income:		
Change in unrealized gains of investments:		
Unrealized gains arising during the year	66,618	105,104
Reclassification adjustment for realized gains recognized during the year	(34,469)	(24,445)
Net change in unrealized gains	32,149	80,659
Deferred income tax effect on above changes	(12,056)	(30,247)
Other comprehensive income	**20,093**	**50,412**
Comprehensive income	**$ 295,472**	**$ 4,782,011**

See accompanying notes to consolidated financial statements.

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (AUDITED)

For the Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Net income	$ 275,379	$ 4,731,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Net investment gains	(34,469)	(24,445)
Depreciation and amortization	1,205,226	1,036,832
Stock-based compensation	333,694	429,351
Loss on disposal of property and equipment	137,928	18,602
Deferred tax provision (benefit)	669,994	(2,183,791)
Changes in assets and liabilities:		
Investment income due and accrued	(41,618)	(36,213)
Receivables	(12,474,640)	(3,367,517)
Prepaid expenses and other assets	(587,207)	(77,439)
Unearned premiums	10,376,784	4,040,308
Unpaid loss and loss adjustment expenses	8,756,322	9,794,618
Reinsurance payable	8,429,732	6,506,325
Reinsurance recoverable	(6,763,022)	(7,773,891)
Prepaid reinsurance premiums	(7,132,680)	(2,801,211)
Accounts payable and accrued expenses	2,146,202	(2,424,942)
Prepaid income taxes	520,000	(668,677)
Deferred acquisition costs	(1,330,197)	(1,586)
Provisional commission reserve	643,768	615,161
Net cash provided by operating activities	5,131,196	7,813,084
Cash flows from investing activities, net of effect of agency acquisitions:		
Purchases of property and equipment, net	(786,387)	(1,490,247)
Proceeds from sales, maturities and calls of investments	2,842,020	4,226,387
Purchases of investments	(7,745,206)	(8,704,104)
Cash paid for acquisition of agencies, net of cash acquired	(400,000)	(361,700)
Net cash used by investing activities, net of effect of agency acquisitions	(6,089,573)	(6,329,664)
Cash flows from financing activities:		
Repayments of notes payable	(1,551,160)	(1,954,746)
Preferred dividends paid		(421,200)
Proceeds from capital lease obligations		108,739
Repayments of capital lease obligations	(265,671)	(63,224)
Stock issued net of expenses	101,511	363,723
Net cash used by financing activities	(1,715,320)	(1,966,708)

Net decrease in cash and cash equivalents	(2,673,697)	(483,288)
Cash and cash equivalents, beginning of period	8,185,539	8,668,827
Cash and cash equivalents, end of period	$ 5,511,842	$ 8,185,539

See note 14 for supplemental cash flow information.

See accompanying notes to consolidated financial statements.

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(1) Description of Business

AssuranceAmerica Corporation, a Nevada corporation (the Company) is an insurance holding company whose business is comprised of AssuranceAmerica Insurance Company (AAIC), AssuranceAmerica Managing General Agency, LLC (MGA) and TrustWay Insurance Agencies, LLC (TrustWay), each wholly-owned. Trustway in turn, has an 80% interest in Trustway Partners Agencies of Alabama (TWPAA) The Company solicits and underwrites nonstandard private passenger automobile insurance. The Company is headquartered in Atlanta, Georgia.

(2) Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The accompanying consolidated financial statements include the accounts and operations of the Company. All material intercompany accounts and transactions have been eliminated. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP).

Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported financial statement balances as well as the disclosure of contingent assets and liabilities. Actual results could differ materially from those estimates used.

The Company s liability for unpaid losses and loss adjustment expenses (an estimate of the ultimate cost to settle claims both reported and unreported), although supported by actuarial projections and other data, is ultimately based on management s reasoned expectations of future events. Although considerable variability is inherent in these estimates, management believes that this liability is adequate. Estimates are reviewed regularly and adjusted as necessary. Such adjustments are reflected in current operations.

Goodwill represents the amount by which the cost of acquired net assets exceeds their related fair value. Other intangible assets include the costs of specifically identifiable intangible assets, primarily customer renewal lists. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, the carrying value of goodwill and other intangible assets is reviewed annually or whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. The Company uses an independent valuation firm to assist in its assessment of possible impairment of intangible assets. If the fair value of the operations to which goodwill relates is less than the carrying amount of those operations, including unamortized goodwill, the carrying amount of goodwill is reduced accordingly with a charge to expense. No impairment losses have been recognized in the 2007 or 2006 statement of operations.

Recognition of Revenues

Insurance premiums are recognized pro rata over the terms of the policies. The unearned portion of premiums is included in the Consolidated Balance Sheet as a liability for unearned premium. Commission income is recognized in the period the insurance policy is written and is reduced by an estimate of future cancellations. Installment and other fees are recognized in the periods the services are rendered.

Fair Value of Financial Instruments

The carrying amounts of the Company s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate fair value because of their short maturities. The carrying amounts of equity securities and long-term bonds purchased are adjusted to reflect the current market

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

value. The carrying value of the junior subordinated debentures approximates the fair value because the interest rate adjusts quarterly.

Deferred Acquisition Costs

Deferred acquisition costs (DAC) include premium taxes and commissions incurred in connection with the production of new and renewal business, less ceding commissions allowed by reinsurers. These costs are deferred and amortized over the period in which the related premiums are earned. The Company does not consider anticipated investment income in determining the recoverability of these costs. Based on current indications, management believes that these costs will be fully recoverable and, accordingly, no reduction in DAC has been recognized.

Contingencies

In the normal course of business, the Company is named as a defendant in lawsuits related to claims and other insurance policy issues. Some of the actions seek extra-contractual and/or punitive damages. These actions are vigorously defended unless a reasonable settlement appears appropriate. In the opinion of management, the ultimate outcome of known litigation is not expected to be material to the Company s financial condition, results of operations, or cash flows.

Start-Up Costs

Start-up costs are expensed when incurred.

Cash and Cash Equivalents

Cash and cash equivalents include cash demand deposits, money market accounts and bank certificates of deposit with a maturity of less than three months.

Property and Equipment

Property and equipment is recorded at cost and depreciated on a straight-line basis. The estimated useful lives used for depreciation purposes are: Furniture and fixtures 5 to 7 years; equipment 3 to 5 years; software currently in service 3 to 5 years; leasehold improvements over the remaining life of the lease, including options. Improvements, additions and major renewals which extend the life of an asset are capitalized. Repairs are expensed in the year incurred. Depreciation expense was $769,373 and $604,076 for the twelve months ended December 31, 2007 and 2006, respectively.

A summary of property and equipment is as follows:

	December 31, 2007	December 31, 2006
Furniture and equipment	$ 1,406,473	$ 1,337,210
Computer equipment	1,642,114	1,457,834

Computer software		1,016,864		769,488
Leasehold improvements		1,032,584		1,053,640
Less: accumulated depreciation		(2,737,288)		(2,136,512)
	$	2,360,747	$	2,481,660

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

Amortization of Intangible Assets

Intangible assets consist of non-competition agreements, renewal lists, restrictive covenants and goodwill. Intangible assets are stated at cost. Effective January 1, 2002, the Company adopted the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that goodwill and certain intangibles with indefinite lives no longer be amortized, but instead be tested for impairment at least annually. The non-competition agreements and restrictive covenants are amortized on a straight-line basis varying from 21/2 years to 5 years and the renewal lists are being amortized on a straight-line basis over periods ranging from 7 to 10 years. Amortization expense was $415,899 and $426,088 for the twelve months ended December 31, 2007 and 2006, respectively.

Intangible assets include the following:

	December 31, 2007	December 31, 2006
Goodwill	$ 9,188,991	$ 8,763,566
Non-compete clause	781,500	760,000
Renewal list	3,418,125	3,195,650
Restrictive covenants	220,000	220,000
	13,608,616	12,939,216
Less accumulated amortization	(2,240,233)	(1,824,334)
	$ 11,368,383	$ 11,114,882

The estimated aggregate amortization expense for each of the succeeding five fiscal years is:

2008	$ 425,002
2009	$ 382,515
2010	$ 348,777
2011	$ 347,277
2012	$ 344,082

Based upon its most recent analysis, the Company believes that no impairment of goodwill exists at December 31, 2007 or December 31, 2006.

Advertising

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2007 and 2006 was $1,180,562 and $1,189,397 respectively.

Stock Options

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-based Payment (SFAS 123R). The provisions of SFAS 123R require companies to expense in their financial statements the estimated fair value of awarded stock options after the effective date. The Company adopted this statement using the modified prospective application. For options granted and vested prior to the effective date, the Company continues to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and disclose the pro forma effects on net income had the fair value of these options been expensed. The disclosure provisions required by SFAS 123R are provided in Note 8.

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are established for temporary differences between the financial reporting bases and the tax bases of assets and liabilities, at the enacted tax rates expected to be in effect when the temporary differences are expected to be recovered or settled. The principal assets and liabilities that generate these temporary differences are unearned premiums, loss and loss adjustment expense reserves, deferred policy acquisition costs, operating loss and tax-credit carry forwards and non-deductible provisions for unearned revenue. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the enactment date.

The Company has entered into a tax sharing agreement with AAIC and TWPAA. The operating results for AAIC are included in the consolidated income tax return filed by the Company. The income tax provision is computed separately for AAIC and the Company. TrustWay and MGA are not tax paying entities for federal income tax purposes and their results are consolidated with the Company s tax return. AAIC only pays federal income tax.

(3) Investments

All of the Company s equity and long-term investment securities have been classified as available-for-sale because all of the Company s long-term securities are available to be sold in response to the Company s liquidity needs, changes in market interest rates and asset-liability management strategies, and other economic factors. Investments available-for-sale are stated at fair value on the balance sheet. Unrealized gains and losses are excluded from earnings and are reported as a component of other comprehensive income within shareholders equity, net of related deferred income taxes.

A decline in the fair value of an available-for-sale security below cost that is deemed other than temporary results in a charge to income, resulting in the establishment of a new cost basis for the security. Net unrealized gains for the twelve months ended December 31, 2007 and 2006 were $112,808 and $80,659, respectively.

Premiums and discounts are amortized or accreted, respectively, over the life of the related fixed maturity security as an adjustment to yield using a method that approximates the effective interest method. Dividends and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific-identification method for determining the cost of securities sold.

At December 31, 2007, long-term investments carried at market value of $3,637,557 and short-term investments of approximately $124,042 were pledged by one of the Company s subsidiaries under requirements of regulatory authorities.

A summary of investments follows as of:

	December 31, 2007		December 31, 2006	
Short-term investments and bank certificates of deposit	$	642,924	$	619,843
U.S. Treasury securities and				

obligations of U.S. government corporations and agencies		7,058,831		4,773,194
Obligations of states and political subdivisions		6,245,337		4,110,076
Corporate debt securities		1,534,570		1,563,560
Marketable equity securities		2,563,040		2,055,983
Total	$	18,044,702	$	13,122,656

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

The amortized cost, fair value and gross unrealized gains or losses of debt securities available-for-sale at December 31, 2007, by contractual maturity, is shown below:

Years to Maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Within one year	$ 777,246	$	$ 984	$ 776,262
One to five years	2,061,648	8,696	66	2,070,278
Five to ten years	2,109,702	41,453	41,587	2,109,568
Over ten years	9,890,759	62,862	70,991	9,882,630
Total	$ 14,839,355	$ 113,011	$ 113,628	$ 14,838,738

The amortized cost, fair value and gross unrealized gains or losses of securities available-for-sale at December 31, 2007 and 2006, by security type, is shown below:

Security type December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 7,011,785	$ 48,096	$ 1,050	$ 7,058,831
Obligations of states and political subdivisions	6,253,419	62,909	70,991	6,245,337
Corporate debt securities	1,574,151	2,006	41,587	1,534,570
Marketable equity securities	2,449,615	276,851	163,426	2,563,040
Total	$ 17,288,970	$ 389,862	$ 277,054	$ 17,401,778

Security type December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 5,295,497	$	$ 22,460	$ 5,273,037
Obligations of states and political subdivisions	4,045,076	70,010	5,010	4,110,076

Corporate debt securities	1,582,363		18,803	1,563,560
Marketable equity securities	1,999,061	70,611	13,689	2,055,983
Total	$ 12,921,997	$ 140,621	$ 59,962	$ 13,002,656

As of December 31, 2007, the Company has determined that all of the unrealized losses in the table above were temporary. There were no fundamental issues with any of these securities and the Company has the ability and intent to hold the securities until there is a recovery in fair value. There were no securities with unrealized losses of greater than 10% of book value.

The carrying amounts of individual assets are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. The company considers internal and external information, such as credit ratings in concluding that the impairments are not other than temporary.

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

The following table shows the gross unrealized losses and fair value of securities, aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2007 and 2006.

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Estimated Market Fair Value	Gross Unrealized Losses	Estimated Market Fair Value
December 31, 2007:				
U.S. Treasury and government agencies	$ 98	$ 177,246	$ 952	$ 1,098,391
Obligations of state and political entities	1,912	513,580	69,079	2,674,489
Corporate debt securities			41,587	497,750
Equity Securities	148,909	903,485	14,517	113,069
	$ 150,919	$ 1,594,311	$ 126,135	$ 4,383,699
December 31, 2006:				
U.S. Treasury and government agencies	$ 1,399	$ 851,788	$ 21,061	$ 3,817,510
Obligations of state and political entities	5,010	528,172		
Corporate debt securities	14,229	1,041,484	4,574	526,650
Equity Securities	13,689	479,886		
	$ 34,327	$ 2,901,330	$ 25,635	$ 4,344,160

The total proceeds received on investments amounted to $2,842,020 and $4,226,387 for the year 2007 and 2006, respectively. The company had realized gains and losses of $102,776 and $68,307 during 2007 and $33,770 and $9,325 for the same period last year.

(4) Losses and Loss Adjustment Expenses

The estimated liabilities for losses and loss adjustment expenses (LAE) include the accumulation of estimates for losses for claims reported prior to the balance sheet dates (case reserves), estimates (based upon actuarial analysis of historical data) of losses for claims incurred but not reported (IBNR) and for the development of case reserves to ultimate values, and estimates of expenses for investigating, adjusting and settling all incurred claims. Amounts reported are estimates of the ultimate costs of settlement, net of estimated salvage and subrogation. These estimated liabilities are subject to the outcome of future events, such as changes in medical and repair costs as well as economic and social conditions that impact the settlement of claims. Management believes that, given the inherent variability in any such estimates, the aggregate reserves are within a reasonable and acceptable range of adequacy. The methods of making such estimates and for establishing the resulting reserves are reviewed and updated quarterly and any resulting adjustments are reflected in current operations.

A summary of unpaid losses and loss adjustment expenses, net of reinsurance ceded, is as follows:

	December 31, 2007	December 31, 2006
Case basis	$ 4,200,577	$ 3,510,978
IBNR	6,210,621	3,960,369
Total	$ 10,411,198	$ 7,471,347

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

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

	2007	2006
Balance at January 1	$ 24,904,492	$ 15,109,874
Less reinsurance recoverables on unpaid losses	17,433,145	10,576,912
Net balance at January 1	7,471,347	4,532,962
Add Losses and LAE incurred, net, related to:		
Current year	19,087,643	15,159,788
Prior years	(223,000)	159,134
Net Losses and LAE incurred in the current year	18,864,642	15,318,922
Deduct Losses and LAE paid, net, related to:		
Current year	11,348,794	9,437,032
Prior years	4,576,000	2,943,505
Net claim payments in the current year	15,924,794	12,380,537
Net balance at December 31	10,411,198	7,471,347
Plus reinsurance recoverables on unpaid losses	23,249,616	17,433,145
Balance at December 31	$ 33,660,814	$ 24,904,492

The majority of the Company s net claim payments related to accidents occurring in the current year. As a result of changes in estimates of insured events in prior years, the net claims and claim adjustment expenses incurred decreased by $223,000 in 2007 reflecting lower than anticipated losses and increased by $159,134 for 2006 due to minor additional development.

(5) Reinsurance

In the normal course of business, the Company seeks to reduce its overall risk levels by obtaining reinsurance from other insurance enterprises or reinsurers. Reinsurance premiums and reserves on reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company periodically reviews the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies.

Reinsurance assets include balances due from other insurance companies under the terms of reinsurance agreements. Amounts applicable to ceded unearned premiums, ceded loss payments and ceded claims liabilities are reported as assets in the accompanying balance sheets. Under the reinsurance agreements the Company has two reinsurers that are required to collateralize the reinsurance recoverables. As of December 31, 2007 both reinsurers have provided a letter

of credit and a secured trust account to provide security sufficient to satisfy AAIC s obligations under the reinsurance agreement. The Company believes the fair value of its reinsurance recoverables approximates their carrying amounts.

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

The impact of reinsurance on the statements of operations for the period ended December 31 is as follows:

	2007	2006
Premiums written:		
Direct	$ 86,829,481	$ 68,825,601
Assumed	1,565,717	283,364
Ceded	59,763,970	47,016,892
Net	**$ 28,631,228**	**$ 22,092,073**
Premiums earned:		
Direct	$ 76,834,157	$ 64,768,234
Assumed	1,184,255	300,423
Ceded	52,631,289	44,215,681
Net	**$ 25,387,123**	**$ 20,852,976**
Losses and loss adjustment expenses incurred:		
Direct	$ 59,626,954	$ 51,008,247
Assumed	856,571	413
Ceded	41,618,883	35,689,738
Net	**$ 18,864,642**	**$ 15,318,922**

The impact of reinsurance on the balance sheets as of December 31 is as follows:

	2007	2006
Unpaid losses and loss adjustment expense:		
Direct	$ 33,391,172	$ 24,904,492
Assumed	269,642	
Ceded	23,249,616	17,433,145
Net	**$ 10,411,198**	**$ 7,471,347**
Unearned premiums:		
Direct	$ 30,495,191	$ 20,499,867
Assumed	496,374	114,914
Ceded	21,145,161	14,012,481
Net	**$ 9,846,404**	**$ 6,602,300**

The Company received $13,866,387 in commissions on premiums ceded during 2007. Had all of the Company s reinsurance agreements been cancelled at December 31, 2007, the Company would have returned $4,893,584 in reinsurance commissions to its reinsurers and its reinsurers would have returned $21,145,161 in unearned premiums to the Company. The company paid commissions of $417,942 on premiums assumed during 2007. Had all of the assumed agreements been cancelled at December 31, 2007, the Company would have received $118,380 in reinsurance commissions from its reinsurers and the Company would have returned $496,374 in unearned premiums its reinsurers.

Contingent Reinsurance Commission and Provisional Commission Reserve

The Company s primary reinsurance contract provides ceding commissions for premiums written which are subject to adjustment. The amount of ceding commissions, net of adjustments, is determined by the loss experience

F-17

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

for the reinsurance agreement term. The reinsurers provide commissions on a sliding scale with maximum and minimum achievable levels. The reinsurers pay the Company with the provisional commissions, before adjustment. The Company adjusts the commissions based on the current loss experience for the policy year premiums. This results in establishing a liability for the excess of provisional commissions retained compared to amounts recognized, which is subject to variation until the ultimate loss experience is determinable.

The total liability for excess provisional commissions received as of December 31, 2007 by policy year is:

Policy Year	Amount
2005	$ 3,162
2006	1,339,499
2007	1,620,647
Total	$ 2,963,308

(6) Long-Term Debt

Notes Payable, Related Party

The Company has various notes payable to related parties totaling to $2,537,295 at December 31, 2007. This Notes Payable debt consists primarily of unsecured promissory notes payable to its Chairman and its Chief Executive Officer. The promissory notes provide for the repayment of principal beginning in December 2004 in an amount equal to the greater of $1.1 million or an amount equal to 25% of the Company s net income after tax, plus non-cash items, less working capital. However, the promissory notes also permit the Company to postpone any and all payments under the promissory notes without obtaining the consent of the holders, and without giving notice or paying additional consideration. As a result of the acquisition of a Georgia insurance agency in 2004, the Company also has an unsecured promissory note payable to a former Division President of the Company. The promissory note carries an interest rate of 8% and provides for the repayment of principal in three equal annual installments beginning August 2005. The final principal payment was made August 1, 2007. On January 2007, the Company issued an unsecured promissory note in the amount $114,400 to a Division President who oversees the Company s Alabama agencies. The promissory note carries an interest rate of 8% interest payable in two annual installments beginning in January 1, 2009.

Other Notes Payable

As a result of the acquisitions of two Alabama insurance agencies in 2007, the Company also has unsecured promissory notes payable to the former owners. The first promissory note, executed in connection with the acquisition of The Covenant Insurance Group, Inc. effective September 7, 2007, carries an interest rate of 8%. This note provides for the payment of interest in four quarterly installments beginning September 6, 2007 through December 6, 2008. Amounts due under this note, as of December 31, 2007, total $90,000. The second promissory note, executed in connection with the acquisition of the assets of Bush Insurance, Inc. effective October 31, 2007, carries an interest rate of 8%, in the amount of $32,500 and is payable in full January 1, 2008. The company has a final principal payment

related to the acquisition of The Insurance Center in the amount of $1,567,000 due on July 1, 2008. Further, the company will make a final payment of $141,667 for the purchase of Tampa No-Fault Insurance Agency, Inc. on March 1, 2008.

Junior Subordinated Debentures

On December 22, 2005, the Company, through a newly-formed Delaware statutory trust, AssuranceAmerica Capital Trust I (the Trust), consummated the private placement of 5,000 of the Trust s floating rate Capital Securities, with a liquidation amount of $1,000 per capital security (the Capital Securities). In connection with the Trust s issuance and sale of the Capital Securities, the Company purchased from the Trust 155 of the Trust s floating

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

rate Common Securities, with a liquidation amount of $1,000 per common security (the Common Securities). The Trust used the proceeds from the issuance and sale of the Capital Securities and the Common Securities to purchase $5,155,000 in aggregate principal amount of the floating rate junior subordinated debentures of the Company (the Debentures). The Debentures bear interest at a floating rate of three-month LIBOR plus 5.75% per annum, reset quarterly. The Debentures and Capital Securities mature on December 31, 2035, but may be redeemed at par beginning December 31, 2010 if and to the extent the Company exercises its right to redeem the Debentures. The Capital Securities require quarterly distributions by the Trust to the holders of the Capital Securities, at a floating rate of three-month LIBOR plus 5.75% per annum, reset quarterly. Distributions are cumulative and will accrue from the date of original issuance but may be deferred for a period of up to 20 consecutive quarterly interest payment periods if the Company exercises its right under the Indenture to defer the payment of interest on the Debentures. The Company has guaranteed the obligations of the Trust.

Scheduled Maturities

The aggregate annual maturities of payments due on debt outstanding as of December 31 are as follows:

	Amount
2008	$ 2,907,811
2009	1,057,200
2010	519,518
2011	
2012	
2013 and thereafter	5,013,908
Total	$ 9,451,381

(7) Income Taxes

The provision for federal and state income taxes for the years ended are as follows:

	December 31,	
	2007	**2006**
Current	$ (152,790)	$ 164,061
Reversal of prior year valuation allowance		(2,266,000)
Deferred	669,994	82,209
Total provision for income taxes	$ 517,204	$ (2,019,730)

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

The provision for income taxes in the accompanying consolidated statements of operations differed from the statutory rate of 34% as follows:

	2007	2006
Income before income taxes	$ 792,583	$ 2,711,869
Income tax expense at statutory rate	$ 269,478	$ 922,035
Tax effect of:		
Tax exempt interest income	(67,485)	(31,395)
Incentive stock option expense	113,456	
Utilization of net operating loss carry-forwards		(482,460)
Reversal of prior year valuation allowance		(2,266,000)
State taxes, net of federal tax benefit	55,268	22,328
Other, net	146,487	(184,238)
Total income tax expense	$ 517,204	$ (2,019,730)

The balance sheets reflect net deferred income tax asset amounts that resulted from temporary differences as of December 31 as follows:

	2007	2006
Deferred income tax assets:		
Discounting of loss reserves	$ 217,000	$ 188,000
Federal operating loss carry-forward	813,000	1,051,000
Amortization of intangibles	703,000	781,000
Unearned premium reserves	738,000	495,000
Unearned commission reserves	225,000	220,000
Other	1,000	161,000
Gross deferred tax assets	$ 2,697,000	$ 2,896,000
Deferred income tax liabilities:		
Deferred acquisition costs	800,000	300,000
Depreciation	29,547	59,497
Unrealized gains on securities available for sale	43,000	30,000
Gross deferred tax liabilities	872,547	389,497
Net deferred tax assets	$ 1,824,453	$ 2,506,503

SFAS No. 109, Accounting for Income Taxes, requires that a valuation allowance be established when it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In making this determination, management considers all available positive and negative evidence affecting specific deferred tax assets, including the Company s past and anticipated future performance, the reversal of deferred tax liabilities and the implementation of tax planning strategies. Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of the deferred tax assets when significant negative evidence exists.

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

The Company has net operating loss carry-forwards that may be offset against future taxable income and tax credits that may be used against future income taxes. If not used, the carry-forwards will expire in varying amounts between the year 2015 and December 31, 2025. The loss carry-forwards at December 31, 2007 were $2,168,532. Utilization of part of the net operating losses carried forward will be limited under Section 382 of the Internal Revenue Code as the Company experienced an ownership change greater than 50% effective April 1, 2003, and on January 1, 2006 for carry-forwards related to the acquisition of The Insurance Center, Inc. Accordingly, certain net operating losses may not be realizable in future years due to this limitation.

The Company has unused net operating loss carry forwards available to offset future taxable income as follows:

Expires 2018	$ 124,903
Expires 2019	572,863
Expires 2020	920,162
Expires 2021	124,456
Expires 2022	166,999
Expires 2024	241,662
Expires 2025	17,487
	$ 2,168,532

On July 13, 2006, the FASB issued Interpretation No. 48 (FIN 48), the *Accounting for Uncertainty in Income Taxes an interpretation of FASB 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The evaluation of a tax position in accordance with FIN 48 is a two-step process. The Company must determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company should presume that the position will be examined by the appropriate taxing authority. A tax position that meets the more-likely-than-not threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company adopted the provisions of FIN 48 with respect to all of our tax positions as of December 31, 2007. The cumulative effect of applying FIN 48, which was zero, would have been reported as an adjustment in the opening balance of retained earnings at January 1, 2007.

Based on the judgment of management and its tax advisors, all items included in the inventory of tax positions have been determined to meet the more-likely-than-not standard and have been included at full value in the financial statements of the Company.

The Company classifies interest on income tax related balances as interest expense and classifies tax related penalties as operating expense. To date, the Company has not incurred any tax related interest or penalties.

(8) Capital Stock

Preferred Stock

During 2005, the Company issued 840,000 shares of its series A convertible preferred stock for an aggregate consideration of $4,200,000. The series A convertible stock pays a cumulative semi-annual dividend of $0.20 per share. Each outstanding share of preferred stock is convertible into ten shares of common stock automatically two years from the date of issuance, or at any time prior to such automatic conversion at the Holder s request, and has the voting rights of 10 common shares. The outstanding preferred stock will automatically convert, if not converted

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

sooner, at various times during 2007 with the last automatic conversion scheduled for May 24, 2007. During 2007 the remaining 840,000 shares of preferred stock converted to 8,400,000 shares of common stock.

Common Stock

During the first quarter of 2006, the Company issued 600,000 shares of common stock, $0.01 par value, through a private placement. During 2006, 426,000 shares of preferred stock converted to 4,260,000 shares of common stock, and during 2007, 840,000 shares were converted to 8,400,000 shares of common stock.

Stock-Based Compensation

The Company s 2000 Stock Option Plan provides for the granting of stock options to officers, key employees, directors, consultants, independent contractors and other agents at the discretion of the Board of Directors. The Company believes that such awards better align the interests of its associates with those of its shareholders. Options become exercisable at various dates, generally vesting over a five-year continuous period of service and have similar contractual terms. Certain employment agreements may provide for accelerated vesting if there is a change in control of the Company (as defined in the Plan). Generally, options are issued with exercise prices no less than the fair market value of the common stock at the time of the grant (or in the case of a ten-percent-or-greater stockholder, 110 percent of fair market value).

The aggregate number of common shares authorized under the plan is currently 7,500,000. Prior to the merger with AssuranceAmerica Corporation, a Georgia corporation, the Company had issued options to purchase 948,918 shares of common stock and, after the merger the Company had issued options to purchase 1,300,000 shares of common stock. In connection with such merger, the outstanding options to purchase shares of AssuranceAmerica common stock were exchanged on a one-for-one basis for options to purchase shares of the Company s common stock under the Company s 2000 Stock Option Plan. On April 27, 2006 the shareholders voted in favor of an amendment to the Company s 2000 Stock Option Plan to increase the number of shares available for issuance from 5,000,000 to 7,500,000.

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-based Payment (SFAS 123R). The provisions of SFAS 123R require companies to expense in their financial statements the estimated fair value of awarded stock options after the effective date. The Company adopted this statement using the modified prospective application. For options granted and vested prior to the effective date, the Company continues to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and disclose the pro forma effects on net income had the fair value of these options been expensed.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model using the assumptions noted in the following table. Expected volatilities are based on historical volatilities of the Company s stock. The Company uses historical data to estimate expected term and option forfeitures within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company does not provide for any expected dividends or discount for post-vesting restrictions in the model.

	2007	2006
Expected volatility	106%-120%	111%-119%
Weighted average volatility	113%	112%
Risk-free interest rate	2.00%-2.80%	1.90%-2.40%
Expected term (in years)	5.0	5.0

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

A summary of all stock option activity during 2007 and 2006 follows:

	2007			2006		
Options Outstanding	**Number of Shares**		**Weighted Average Exercise Price**	**Number of Shares**		**Weighted Average Exercise Price**
Beginning of year	5,347,225	$	0.85	4,215,628	$	0.97
Add (deduct):						
Granted	2,451,000	$	0.87	2,431,315	$	1.10
Exercised	(314,000)	$	0.44	(45,650)	$	0.33
Forfeited	(2,437,560)	$	0.88	(1,014,150)	$	0.86
Expired	(100,000)	$	4.35	(239,918)	$	5.56
End of year	4,946,665	$	0.80	5,347,225	$	0.85
Exercisable, end of year	1,524,883	$	0.57	1,394,782	$	0.76

The weighted-average grant date fair value of options granted during the twelve-months ended December 31, 2007 and December 31, 2006, using the Black-Scholes-Merton option-pricing model, was $0.6973 and $0.6817, respectively. The total intrinsic value of options exercised during the twelve months ended December 31, 2007 and December 31, 2006 was $162,000 and $60,091, respectively.

Total compensation cost for share-based payment arrangements recognized for the twelve month period ended December 31, 2007 and December 31, 2006 was $333,694 and $429,351, respectively.

As of December 31, 2007, the total compensation cost related to non-vested awards not yet recognized in the financial statements is $1,519,358. The Company expects to recognize the compensation cost over the weighted-average contractual term of 4.4 years.

For options granted and vested prior to the effective date, the Company continues to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), but disclose the pro forma effects on net income had the fair value of these options been expensed. The pro forma effect of the application of APB Opinion No. 25 for options granted and vested prior to January 1, 2006 was:

	For the Twelve Months Ended December 31, 2007	2006
Net income attributable to common stockholders, as reported	$ 275,379	$ 4,310,399
Compensation effect, net of tax effect	(131,588)	(214,692)

Pro forma net income (loss)	$	143,791	$	4,095,707
Basic and diluted net income attributable to common stockholders				
As reported Basic	$	0.004	$	0.080
Pro forma Basic	$	0.002	$	0.076
As reported Diluted	$	0.004	$	0.075
Pro forma Diluted	$	0.002	$	0.065

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

The following fully vested stock options and stock options expected to vest were outstanding or exercisable as of December 31, 2007:

	Options Outstanding	Options Exercisable
Number of shares	4,946,665	1,524,883
Weighted average exercise price	$ 0.80	$ 0.57
Aggregate intrinsic value	$ 326,600	$ 278,040
Weighted average remaining contractual term	4.43 years	1.92 years

The following stock options were outstanding or exercisable as of December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
< $1.00	3,806,665	4.59 years	$ 0.64	1,435,383	$ 0.50
$1.00 < $3.00	1,140,000	3.87 years	$ 1.31	89,500	$ 1.63
	4,946,665	4.43 years	$ 0.80	1,524,883	$ 0.57

(9) Risk

The following is a description of the most significant risks facing the Company and how it mitigates those risks:

(I) LEGAL/REGULATORY RISKS the risk that changes in the regulatory environment in which an insurer operates will create additional expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits, restrict underwriting practices and risk classifications, mandate rate reductions and refunds, and new legal theories or insurance company insolvencies through guaranty fund assessments may create costs for the insurer beyond those recorded in the financial statements. The Company attempts to mitigate this risk by monitoring proposed regulatory legislation and by assessing the impact of new laws. As the Company writes business only in five states, it is more exposed to this risk than some of its more geographically balanced competitors.

(II) CREDIT RISK the risk that issuers of securities owned by the Company will default or that other parties, including reinsurers to whom business is ceded, which owe the Company money, will not pay. The Company attempts to minimize this risk by adhering to a conservative investment strategy, maintaining reinsurance agreements with financially sound reinsurers with an A.M. Best rating of B++ or better, and by requiring a letter of credit or trust fund to secure reinsurance recoverables as well as provide for any amounts deemed uncollectible. As of December 31,

2007, there were no amounts deemed uncollectible.

(III) INTEREST RATE RISK the risk that interest rates will change and cause a decrease in the value of an insurer s investments. To the extent that liabilities come due more quickly than assets mature, an insurer might have to sell assets prior to maturity and potentially recognize a gain or a loss. The Company, in accordance with its investment policy, manages its investment portfolio duration according to expected liability duration needs. Since the Company s liabilities are predominantly short-term, the investment portfolio is also short-term duration. The investment policy requires that the duration of the investment portfolio will not diverge from the Company s liability duration by more than + 15%.

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

Concentration of Risk

The Company operates in Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina and Texas and is dependent upon the economies in those states. Automobiles insured through AAIC are principally in Alabama, Florida, Georgia, Louisiana, Mississippi, South Carolina and Texas. Premium rate increases generally must be approved by state insurance commissioners.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash. The Company maintains cash and cash equivalents with various financial institutions. The Company s policy is to maintain balances with high credit quality financial institutions. The Company has not sustained material credit losses from instruments held at financial institutions.

The Company maintains a relationship with five reinsurers. The Company performs periodic evaluations of the relative credit standing of each of these companies.

Regulatory Requirements and Restrictions

To retain its certificate of authority, the South Carolina Insurance Code requires that AAIC maintain capital and surplus at a minimum of $3.0 million. At December 31, 2007, AAIC s statutory capital and surplus was approximately $12.0 million. AAIC is required to adhere to a prescribed net premium-to-surplus ratio. At December 31, 2007, AAIC was in compliance with this requirement.

Under the South Carolina Insurance Code, AAIC must receive prior regulatory approval to pay a dividend in an amount exceeding ten percent 10% of policyholder surplus or net income, minus realized capital gains, whichever is greater.

The Company is required to comply with the NAIC risk-based capital (RBC) requirements. RBC is a method of measuring the amount of capital appropriate for an insurance company to support its overall business operations and to ensure that it has an acceptably low expectation of becoming financially impaired in light of its size and risk profile. NAIC s RBC standards are used by regulators to determine appropriate regulatory actions relating to insurers which show signs of weak or deteriorating condition and are evaluated on at least an annual basis at the end of each year. The model law provides for increasing levels of regulatory intervention as the ratio of an insurer s total adjusted capital and surplus decreases relative to its risk based capital, culminating with mandatory control of the operations of the insurer by the domiciliary insurance department at the so-called mandatory control level. As of December 31, 2007, based upon calculations using the appropriate NAIC formula, AAIC s total adjusted capital is in excess of ratios which would require any form of corrective actions on our part or action on the part of the regulators.

The NAIC Insurance Regulatory Information System (IRIS) is part of a collection of analytical tools designed to provide state insurance regulators with an integrated approach to screening and analyzing the financial condition of insurance companies operating in their respective states. IRIS is intended to assist state insurance regulators in targeting resources to those insurers in greatest need of regulatory attention. IRIS consists of two phases: statistical and analytical. In the statistical phase, the NAIC database generates key financial ratio results based on financial information obtained from insurers annual statutory statements. The analytical phase is a review of the annual

statements, financial ratios and other automated solvency tools. The primary goal of the analytical phase is to identify companies that appear to require immediate regulatory attention. A ratio result falling outside the usual range of IRIS ratios is not considered a failing result; rather, unusual values are viewed as part of the regulatory early monitoring system. Furthermore, in some years, it may not be unusual for financially sound companies to have several ratios with results outside the usual ranges. An insurance company may fall out of the usual range for one or more ratios because of specific transactions that are in themselves immaterial. As of

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

December 31, 2007, AAIC had one IRIS ratio outside the usual range. The ratio outside the range is attributable to the Company s high leverage of reinsurance. We do not expect any regulatory action as a result of these results outside of the usual range.

(10) Commitments and Contingencies

Operating Leases

The Company has entered into operating leases primarily for office space and certain equipment. These leases are classified as operating leases. The future minimum rental payments required under long-term non-cancelable leases are summarized as follows:

Year Ending December 31,	Amount
2008	$ 1,736,580
2009	1,501,926
2010	1,399,646
2011	1,280,099
2012	1,093,259
Thereafter	1,826,624
	$ 8,838,134

Rent expense totaled $1,483,603 and $1,423,911 for 2007 and 2006, respectively.

In 2007, the Company paid to a third party a license fee of $8,820 per month for the use of their software. The agreement is subject to a 5% annual increase and is renewable at the option of the Company.

Capital Leases

The Company did not have any capital leases as of December 31, 2007.

Defined Contribution Plan

The Company s employees participate in the AssuranceAmerica 401(k) defined contribution retirement plan. Under the plan, the Company can elect to make discretionary contributions. The Company contributed $49,541 and $0 to this plan during 2007 and 2006, respectively. The plan currently matches 25% on the first 4% of employee earnings. Under the plan, the Company can elect to make discretionary contributions. The plan currently matches a portion of employee contributions. The eligibility requirements are 21 years of age, 6 months of service and full time employment.

Legal Proceedings

The Company is involved in litigation in the ordinary course of business, both as a defendant and as a plaintiff. The Company may from time to time be subject to a variety of legal and regulatory actions relating to the Company s current and past business operations. The company vigorously defends these actions unless a reasonable settlement appears appropriate.

(11) Business Combination

On January 16, 2006 TrustWay, purchased all of the assets of Tampa No-Fault Insurance Agency, Inc. (TNF) pursuant to the terms of an Asset Purchase Agreement (the APA) by and between the Company, TrustWay, Tampa No-Fault Insurance Agency, Inc., Mario A. Suarez, Mary Suarez, and Mario C. Suarez. TNF is an insurance agency selling primarily nonstandard automobile insurance in Tampa, Florida. The purchase price was $425,000 payable

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

one-third in cash at the closing and the delivery of a promissory note for the remainder payable in two equal annual payments of principal with quarterly interest payments at 8%. Each principal also agreed to a three-year restrictive covenants prohibiting them from competing with the TNF, soliciting its customers, or hiring its employees. As part of the total purchase price, the Company assigned $155,650 to the purchased book of business amortized over a ten-year period. The Company assigned $269,350 to goodwill which is being valued in accordance with FAS 142.

On January 27, 2006, the Company acquired The Insurance Center, Inc. (TIC), doing business as Apple Insurance Mall, a 16-office insurance agency selling primarily nonstandard automobile insurance in southern Florida. The acquisition was effected by the merger of a subsidiary of the Company and TIC with TIC being the survivor pursuant to the terms of an Agreement and Plan of Merger by and among the Company, AAC Merger Corporation I, The Insurance Center, Inc., and Shareholders Representative dated January 27, 2006 (Merger Agreement). The total consideration paid for all shares of TIC was $3,900,000 subject to adjustment upward or downward on a dollar for dollar basis for every dollar that the tangible net worth of TIC as defined in the Merger Agreement is greater or less than one dollar as of December 31, 2005. Based upon an estimated tangible net worth as of December 31, 2005, the estimated merger price was $3,161,931. The consideration was paid by the delivery of $1,115,744 cash to an escrow agent, the payment of certain liabilities of TIC, and the delivery of the Company s promissory note for $1,900,000 with principal due on July 1, 2008 and quarterly interest payments at 8%; the principal of the note is subject to offset in accordance with the terms of the Merger Agreement. The final calculation of the merger consideration, based on an evaluation of the final tangible net worth, was $2,828,536. Immediately following the merger described above, TIC was merged into a subsidiary of TrustWay with the subsidiary of TrustWay being the survivor. As part of the total purchase price, the Company assigned $1,650,000 to the purchased book of business amortized over a ten-year period. The Company assigned $2,106,122 to goodwill which is being valued in accordance with FAS 142.

On January 1, 2007, TrustWay acquired 80% of the assets and assumed certain liabilities of Frontline Insurance Group, LLC. (FIG), a 4-office insurance agency located in Alabama, selling primarily non-standard automobile insurance and other specialty products. Thereafter, TrustWay formed a new subsidiary, TWPAA, which would operate FIG under this newly formed company. Frontline s owner was hired as President of TWPAA. The terms of the agreement include payments at closing of $300,000 in cash and a promissory note in the amount of $114,400 was also issued at the closing for a total purchase price of $414,400. The promissory note carries an 8% rate of interest payable in two annual installments beginning January 1, 2008 and the final payment on January 1, 2009. As part of the purchase price, the company assigned $142,500 to the purchased book of business to be amortized over a ten-year period and $271,900 assigned to goodwill, which is being valued in accordance with FAS 142. The principal also agreed to a five year restrictive covenant prohibiting him from soliciting customers, or hiring its employees.

On September 6, 2007, TWPAA acquired the assets of Covenant Insurance Group of America, LLC located in Abbeville, Alabama, selling primarily non-standard automobile insurance. The terms of the agreement include payments at closing of $100,000 in cash and a promissory note in the amount of $90,000 was also issued at the closing for a total purchase price of $190,000. The promissory note carries an 8% rate of interest payable in four equal quarterly payments at 8%, beginning September 6, 2007 through December 31, 2008. As part of the purchase price, the Company assigned $38,700 to the purchased book of business to be amortized over a ten-year period and a $15,000 non-competitive covenant to be amortized over five years, and $136,300 assigned to goodwill, which is being valued in accordance with FAS 142.

On October 31, 2007, TWPAA acquired the assets of Bush Insurance, Inc. (Bush) located in Montgomery, Alabama, selling primarily non-standard automobile insurance. The terms of the agreement include payments at closing of

$32,500 in cash and a promissory note in the amount of $32,500 was also issued at the closing for a total purchase price of $65,000. The promissory rate carries an 8% rate of interest payable in one payment on January 1, 2008. As part of the purchase price, the Company assigned $41,275 to the purchased book of business to be

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

amortized over a ten-year period, a $6,500 non-competitive covenant to be amortized over five years, and $17,225 assigned to goodwill, which is being valued in accordance with FAS 142.

All of the aforementioned acquisitions reflect a 20% minority interest held by the President of TWPAA.

(12) Net Income Per Share

Basic and diluted income per common share is computed using the weighted average number of common shares outstanding during the period. Potential common shares not included in the calculations of net income per share for the years ended December 31, 2007 and 2006, because their inclusion would be anti-dilutive, are as follows:

	2007	2006
Warrants		80,000
Stock options	2,931,665	2,799,725
	2,931,665	2,879,725

The reconciliation of the amounts used in the computation of both basic earnings per share and diluted earnings per share for the years ended December 31, 2007 and 2006 are as follows:

	Net Income	Average Shares Outstanding	Per Share Amount
For the year ended December 31, 2007:			
Net income basic	$ 275,379	61,913,645	0.004
Effect of dilutive stock warrants and options		742,660	
Net income diluted	$ 275,379	62,656,305	0.004
For the year ended December 31, 2006:			
Net income basic	$ 4,310,399	53,609,956	0.080
Effect of common shares issued upon conversion of preferred	421,200	8,400,000	
Effect of dilutive stock warrants and options		1,470,858	
Net income diluted	$ 4,731,599	63,480,814	0.075

(13) Related Party Transactions

In the past, the Company s Chairman and Chief Executive Officer, have loaned us approximately $6.2 million and $0.3 million, respectively. Additional payments of $241,130 and $759,791 for accrued and unpaid interest were made to the Company s Chairman in 2007 and 2006, respectively. We also made principal payments to its Chairman in the amount of $1,000,000 and $397,059 in 2007 and 2006, respectively. The Company made payments of accrued and unpaid interest on the Promissory Note to its Chief Executive Officer, of $5,889 and $13,894 in 2007 and 2006, respectively. The Company made principal payments to its Chief Executive Officer in the amount of $100,000 and $100,728 in 2007 and 2006, respectively. Outstanding amounts under these promissory notes held by the Company accrue interest at an annual rate of 8%. The Note to its Chief Executive Officer requires annual principal payments of $100,000 beginning December, 2004, with a final payment in 2008. The Notes to its Chairman require annual principal payments of the greater of $500,000 or 25% of free cash flow (net income after tax plus non cash items minus working capital) on each of two notes beginning in December, 2004 and ending in 2010. The promissory notes are unsecured.

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

In July 2004, the Company purchased substantially all of the assets of Thomas-Cook Holding Company (TCHC), which was controlled by a former Division President of the Company. Pursuant to the Agreement, as consideration for the purchased assets, the Company paid TCHC $462,000 in cash, issued TCHC a promissory note in the amount of $1,078,000, and issued TCHC 1,320,000 shares of our common stock. The principal amount of the promissory note is payable in three equal installments on each of August 1, 2005, August 1, 2006 and August 1, 2007. Outstanding amounts under the promissory note accrue interest at an annual rate of 8%. The Company is required to make payments of accrued and unpaid interest on outstanding amounts under the promissory note on a quarterly basis. The Company incurred $21,435 and $48,085 of interest expense on this promissory note in 2007 and 2006, respectively. We made principal payments in the amount of $359,333 and $359,333 in 2007 and 2006, respectively.

AAIC and MGA are party to a Management Agreement. Under the agreement, AAIC will appoint MGA as its managing general agent in the states where it is licensed to do business. Under the terms of the agreement, MGA provides all of the marketing, underwriting, accounting, product management, legal, policyholder administration and claims functions for AAIC. As compensation for its services, MGA receives the amount of ceding commission AAIC receives from its reinsurers. MGA also pays AAIC a fronting fee. Additionally, MGA receives various fees related to insurance transactions associated with these policies that vary according to state insurance laws and regulations.

TrustWay is comprised of 50 retail insurance agencies with 41 locations in Florida, 5 in Alabama and 4 locations in Georgia. TrustWay has been appointed by AAIC to sell non-standard personal automobile insurance. TrustWay receives commissions from MGA and unaffiliated insurers and various fees from insureds associated with the sale of these policies.

The Company provides executive management services, including finance, audit and legal, to MGA and TrustWay. The Company charges a management fee to these subsidiaries in exchange for these services.

The Company has entered into a tax sharing agreement with AAIC and TWPAA. The operating results for AAIC and TWPAA are included in the consolidated income tax return filed by the Company. The income tax provision is computed separately for AAIC, TWPAA and the Company. TrustWay and MGA are not tax paying entities for federal income tax purposes and their results are consolidated with the Company s tax return. AAIC only pays federal income tax.

(14) Supplemental Cash Flow Information

	2007	2006
Cash paid (received) during the year:		
Interest	$ 1,013,364	$ 1,121,691
Income tax payment (refund)	(672,793)	832,738

The Company recorded net unrealized gains on investment securities during 2007 and 2006 in the amount of $20,093 and $50,412, respectively, net of taxes.

On January 16, 2006 Trustway purchased the assets of Tampa No-Fault Insurance Agency, Inc. As part of the purchase agreement, Trustway issued a note payable in the amount of $283,333.

On January 27, 2006, Trustway acquired The Insurance Center, Inc. As part of the purchase agreement, Trustway issued a note payable in the amount of $1,900,000, subject to adjustment as noted in the Business Combination footnote.

On January 1, 2007, TWPAA purchased the assets of Frontline Insurance Group, LLC. As part of the purchase agreement, TWPAA issued a note payable in the amount of $114,400.

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

On September 6, 2007, TWPAA purchased the assets of Covenant Insurance Group of America, LLC. As part of the purchase agreement, TWPAA issued a note payable in the amount of $90,000.

On October 31, 2007, TWPAA purchased the assets of Bush Insurance, Inc. As part of the purchase agreement, TWPAA issued a note payable in the amount of $32,500.

The following table illustrates the composition of acquisitions for the twelve months ended December 31, 2007 and 2006:

	2007	2006
Fair value of assets acquired	$ 669,400	$ 3,253,536
Cash paid to Sellers	(400,000)	(1,257,411)
Liabilities assumed	$ 269,400	$ 1,996,125

(15) Recent Accounting Pronouncements

The Company periodically reviews recent accounting pronouncements issued by the Financial Accounting Standards Board, American Institute of Certified Public Accountants, Emerging Issues Task Force and Staff Accounting Bulletins issued by the United States Securities and Exchange Commission to determine the potential impact on the Company s financial statements. Based on its most recent review, the Company has determined that the recently issued but not yet effective accounting pronouncements will not have a material impact on its financial statements.

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. This Statement does not require any new fair value measurements, but rather, it provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. However, the application of this Statement may change how fair value is determined. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities The standard permits an entity to elect the fair value option on an instrument-by-instrument basis. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years.

(16) Reclassification

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentations.

(17) Segment Reporting

The Company s subsidiaries are each unique operating entities performing a separate business function. AAIC, a property and casualty insurance company focuses on writing nonstandard automobile business in the states of Georgia, Alabama, Florida, Louisiana, Mississippi, South Carolina and Texas. MGA markets AAIC s policies through more than 1,600 independent agencies in these states. MGA provides all of the underwriting, accounting, product management, legal, policyholder administration and claims functions for AAIC and for two unaffiliated insurers related to the non-standard automobile insurance policies produced by the MGA in Florida and Texas. MGA receives various fees related to insurance transactions that vary according to state insurance laws and regulations. TrustWay is comprised of 50 retail insurance agencies that focus on selling nonstandard automobile policies and related coverages in Georgia, Florida and Alabama. TrustWay receives commissions and various fees associated with the sale of the products and services from its appointing insurance carriers.

Table of Contents

ASSURANCEAMERICA CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2007 and 2006

The Company evaluates profitability based on pretax income. Pretax income for each segment is defined as the revenues less the segment s operating expenses including depreciation, amortization and interest. Following are the operating results for the Company s various segments and an overview of segment assets:

	MGA	TrustWay	AAIC	Company	Eliminations	Consolidated
			(In thousands)			
2007						
Revenues						
External customer	$ 6,561	$ 5,554	$ 26,263	$	$	**$ 58,378**
Intersegment	6,713	3,938	3,010	2,970	(16,631)	
Income						
Segment pretax income(loss)	1,302	(3,792)	3,911	(629)		**792**
Assets						
Segment assets	8,416	8,504	108,353	23,943	(23,963)	**125,253**

	MGA	TrustWay	AAIC	Company	Eliminations	Consolidated
			(In thousands)			
2006						
Revenues						
External customer	$ 22,477	$ 9,641	$ 21,600	$ 5	$	**$ 53,723**
Intersegment	5,391	2,502	2,409	2,186	(12,488)	
Income						
Segment pretax income (loss)	2,394	(1,433)	2,979	(1,228)		**2,712**
Assets						
Segment assets	5,262	11,153	75,294	24,670	(20,634)	**95,745**