COTTON STATES LIFE INSURANCE CO /
Form 10-K405
March 21, 2002

Securities and Exchange Commission
Washington, D. C. 20549

# FORM 10-K

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

For the fiscal year ended December 31, 2001 OR

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

For the transition period from                    to

Commission File Number 2-39729

COTTON STATES LIFE INSURANCE COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| GEORGIA | 58-0830929 |
| (State of incorporation and jurisdiction) | (I.R.S. Employer Identification No.) |
| 244 PERIMETER CENTER PARKWAY, N.E., ATLANTA, GEORGIA | 30346 |
| (Address of principal executive offices) | (Zip code) |

Registrant's telephone number, including area code: (404) 391-8600

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

NONE

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

EXEMPT-UNDER SECTION 12(g)(2)(G)

Indicate by check mark whether the registrant 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 and has been subject to the filing requirements for at least the past 90 days.

YES [X]          NO [ ]

Indicate by check mark if the 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. [X]

The aggregate market value of voting stock held by non-affiliates was $42,330,430 based on the closing price of $10.00 on February 1, 2002, as reported on the NASDAQ National Market.

As of February 1, 2002, there were 6,335,428 shares of registrant's common stock outstanding.

The Exhibit Index is located on Page 55.

The total number of pages in this document is 60



PART I

ITEM 1. BUSINESS

GENERAL

Cotton States Life Insurance Company (the "Company") was organized under the laws of the State of Georgia in 1955. The Company is currently licensed to transact business in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Virginia. The Company currently markets only individual life insurance, payroll deduction life insurance, guaranteed issue and simplified issue life insurance and individual annuities.

On February 21, 2002, the Company filed notice of its intent to withdraw from Kentucky primarily due to losses incurred by the Company's affiliate, Cotton States Mutual Insurance Company.

In July of 1989, the Company formed CSI Brokerage Services, Inc. ("CSI"). CSI brokers insurance products for the Company's exclusive agents not offered by the Company's affiliated property and casualty companies.

In November of 1989, the Company acquired 60% of the outstanding common stock of Cotton States Marketing Resources, Inc. ("CSMR"). During 1992, the Company acquired the remaining 40% of CSMR's stock. CSMR brokers through the Company's exclusive agents other insurance companies' life and accident and health products not underwritten by the Company.



FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

The Company's operations can be grouped into three major segments: (i) individual life insurance, (ii) guaranteed issue and simplified issue life insurance, and (iii) brokerage operations. These segments are differentiated primarily by their respective methods of distribution and the nature of related products, as the Company's operations in each segment are concentrated within its southeastern states geographic market. Individual life insurance products are distributed through the Company's multi-line exclusive agents, guaranteed issue and simplified issue products are distributed through independent agents as well as exclusive agents, and brokerage operations involve third party products distributed through the Company's exclusive and independent agents.

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Individual life insurance: | | | |
| Premiums | $ 18,658,255 | 17,816,354 | 16,653 |
| Net investment income | 9,458,445 | 9,403,578 | 8,837 |
| Realized investment gains | 24,969 | 160,104 | 254 |
| Total revenue | 28,141,669 | 27,380,036 | 25,744 |
| Policyholder benefits and claims | 8,821,942 | 8,139,214 | 7,436 |
| Interest credited | 5,527,001 | 5,198,089 | 4,736 |
| Operating expenses | 8,505,751 | 7,103,512 | 7,525 |
| Total benefits and expenses | 22,854,694 | 20,440,815 | 19,698 |
| Operating profit | 5,286,975 | 6,939,221 | 6,046 |
| Guaranteed issue and simplified issue life insurance: | | | |
| Premiums | 10,529,996 | 8,106,634 | 5,843 |
| Net investment income | 775,780 | 540,200 | 316 |
| Realized investment gains | 2,532 | 9,670 | 9 |
| Total revenue | 11,308,308 | 8,656,504 | 6,168 |
| Policyholder benefits and claims | 7,656,444 | 5,728,786 | 3,358 |
| Operating expenses | 3,132,154 | 2,368,914 | 1,616 |
| Total benefits and expenses | 10,788,598 | 8,097,700 | 4,974 |
| Operating profit | 519,710 | 558,804 | 1,194 |
| Brokerage: | | | |
| Brokerage commissions | 4,190,482 | 4,197,173 | 3,828 |
| Net investment income | 48,397 | 147,003 | 99 |
| Realized investment gains | -- | 236,160 | 211 |
| Total revenue | 4,238,879 | 4,580,336 | 4,138 |
| Operating expenses | 1,106,448 | 1,154,992 | 1,086 |
| Operating profit | 3,132,431 | 3,425,344 | 3,051 |
| Combined operating profit | 8,939,116 | 10,923,369 | 10,292 |
| Group life insurance and individual accident and health results | (74,560) | (70,097) | (109 |
| Earnings before Federal income taxes | $ 8,864,556 | 10,853,272 | 10,183 |

NARRATIVE DESCRIPTION OF BUSINESS SEGMENTS

(I) INDIVIDUAL LIFE

The major forms of individual life insurance offered by the Company include universal life, graded premium whole life, participating whole life, term insurance, various supplemental riders including, but not limited to, accidental death, disability waiver and guaranteed insurability, and disability income riders. These products are sold by the Company's 299 multi-line exclusive agents in Alabama, Florida, Georgia, Kentucky and Tennessee.

The Company offers its insurance through multi-line exclusive agents who also write all lines of property and casualty insurance offered by Cotton States Mutual Insurance Company ("Mutual") and its subsidiary, Shield Insurance Company ("Shield") (collectively, the "Cotton States Group"). See Item 13 of this report for an explanation of the relationship between the Company, Mutual and Shield. Multi-line exclusive agents are under contract to the Company, Mutual and Shield, and are paid on a commission basis. The Company's multi-line exclusive agents are located in the following states:

| | NUMBER OF AGENTS DECEMBER 31, 2001 | NUMBER OF AGENTS DECEMBER 31, 2000 | STATE |
|---|---|---|---|
| | 54 | 48 | Alabama |
| | 24 | 24 | Florida |
| | 163 | 159 | Georgia |
| | 33 | 30 | Kentucky |
| | 25 | 21 | Tennessee |
| TOTAL | 299 | 282 | |

Unless the need for a medical examination is indicated by the application or an investigation, the Company writes individual life insurance based on age without requiring blood and specimen in the following maximum amounts:

| AGE GROUP | MAXIMUM INSURANCE |
|---|---|
| 0-17 | $100,000 |
| 18-40 | 74,999 |
| 41-50 | 50,000 |
| 51 and over | 25,000 |

As of December 31, 2001, less than 2.6% of the Company's individual life premiums were represented by substandard risks. Substandard life insurance risks are accepted by the Company at increased rates. The Company has no fixed maximum on the size of substandard policies and will entertain any application on which it can obtain suitable reinsurance.

The Company, as do others in the insurance industry, reinsures with other companies portions of the individual life insurance policies it underwrites. Reinsurance enables an insurance company to write a policy in an amount larger than the risk it desires to assume. A contingent liability exists on insurance ceded to the reinsurer which might become a liability of the Company in the event that the reinsurer fails to meet its obligations under the reinsurance treaty.

The Company presently retains, with respect to individual life policies, generally no more than $100,000 of insurance on any one life, which may be reduced, depending upon the age and the physical classification of the insured. All accidental death riders are 100% reinsured.



(II) GUARANTEED ISSUE AND SIMPLIFIED ISSUE WHOLE LIFE INSURANCE

The Company offers Guaranteed Issue and Simplified Issue whole life insurance through its multi-line agency force and approximately 4,400 independent agents. The independent agents sell these products in all states in which the Company is licensed.

Both plans are level-premium, cash value permanent life insurance products issued from $2,500 to $25,000 face amounts. Both plans are frequently used by individuals to cover final expenses. They are designed to be sold as companion plans using a simple application and no medical exams or tests. If all health questions can be answered "NO", the Simplified Issue policy may be issued. Otherwise, the Guaranteed Issue policy will be issued.

Guaranteed Issue whole life is available for issue ages 46-80. The death benefit in policy years one through three is limited to a return of premium plus 10%. However, the full death benefit is payable in all years in case of accidental death. After three years, the full death benefit is payable for any cause of death.

Simplified Issue whole life is available for issue ages 0-80. The full death benefit is payable from the issue date.

(III) BROKERAGE

The Company owns two brokerage subsidiaries, CSI and CSMR. CSI provides the Company with commission income from brokerage agreements with other property and casualty insurance carriers. These carriers supply the Company's multi-line agents with property and casualty products that the Company's affiliated property and casualty companies do not underwrite, such as non-standard auto insurance, crop hail insurance, multi-peril crop insurance, mobile home insurance, poultry house insurance and flood insurance.

Sixty-five percent of CSI's brokerage revenues come from the sale of non-standard auto insurance through two carriers. Thirteen percent of CSI's revenue comes from the sale of crop hail and multi-peril crop insurance through one carrier.

CSMR provides the Company with commission income from brokerage agreements with other life and health insurance companies. These companies supply the Company's multi-line agents with life and health products that the Company does not choose to underwrite, such as individual major-medical policies, impaired risk life insurance, first to die life insurance, and group life and health insurance. CSMR has contracted with approximately 4,400 independent agents to write the Company's Guaranteed Issue and Simplified Issue whole life insurance. Fifty-eight percent of CSMR's brokerage revenues come from the sale of life and health insurance through three carriers.

REGULATION

The Company, like other insurance companies, is subject to regulation and supervision by the states in which it transacts business. The insurance laws of these states confer upon supervisory authorities broad administrative powers relating to (i) the regulation and revocation of licenses to transact business, (ii) the regulation of trade practices, (iii) the licensing of agents, (iv) the approval of the form and content of policies and advertising, (v) the depositing of securities for the benefit of policyholders, (vi) the type and amount of investments permitted, and (vii) the maintenance of specified reserves and capital for the protection of policyholders. In general, insurance laws and regulations are designed primarily to protect policyholders rather than shareholders.

The Company is also required under these laws to file detailed annual reports with the supervisory agencies in each of the states in which it does business. Under the rules of the National Association of Insurance Commissioners ("NAIC"), the Company's records are examined periodically by one or more of the state supervisory agencies.

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EMPLOYEES

In addition to its principal officers, the Company shares 124 salaried employees with Shield and Mutual. The Company pays an allocated portion of the shared employees' salaries, either based upon the Company's premium income in relation to the premium income of Mutual and Shield or the actual time expended on each company's affairs. The Company and its subsidiaries also have 36 salaried employees who work on a full-time basis in its home office, where all administrative functions, such as underwriting, billing and collection of premiums, are centralized and from which all sales activities are directed. None of the Company's employees is subject to a collective bargaining agreement. The Company believes its employee relations are good.

COMPETITION

The Company operates in a highly competitive industry. It competes with a large number of stock and mutual insurance companies. Larger stock and mutual insurance companies may have a competitive advantage in that they have greater financial and human resources that enable them to offer more diversified lines of coverage and develop new products faster. Mutual companies may also have an additional advantage compared to stock insurers because all profits of mutual companies accrue to the policyholders.

The Company has certain advantages that enable it to keep its premium rates competitive with similar policies offered by competing companies. These advantages are:

1. The Company offers most of its insurance through the same agents who write property and casualty insurance for Mutual and Shield. The sale of insurance through the same agents who sell property and casualty insurance enables the Company to incur less agency development and sales expense than is customary in the industry;

2. Because the Company's agents can provide customers with coverage for all major lines of individual insurance they may utilize "account" selling. Account selling enables insureds to contact one agent regarding their total insurance needs; and

3. The Company shares certain facilities, equipment and personnel with Mutual and Shield. The Company believes that sharing these expenses has a favorable impact on the ratio of expenses to premium income and enables the Company to enjoy economies of scale.

In order to keep pace with trends in the industry, the Company introduces new products with premium rates and benefits that it believes are competitive with the industry.

ITEM 2. PROPERTIES

The Company, Mutual and Shield occupy offices located at 244 Perimeter Center Parkway, Atlanta, Georgia. The building is owned by a general partnership composed of Mutual and Gold Kist Inc. ("Gold Kist"). The Company has no ownership interest in the partnership. The facility consists of a three-story office building containing approximately 260,000 square feet of space of which the Company, Mutual and Shield share approximately 90,000 square feet. The Company believes that the facility is suitable to its business. Rental expense is allocated to the Company based on its proportionate share of square footage occupied.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in various actions incidental to the conduct of its business. While the ultimate outcome of these matters cannot be estimated with certainty, management does not believe the actions are reasonably likely to result in a material loss to the Company.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

On January 1, 2002, there were approximately 1,900 shareholders of the Company's common stock. The stock (symbol "CSLI") is traded over-the-counter on the NASDAQ National Market System. Price history as provided by NASDAQ and dividends declared during the past two years are presented below:

| | STOCK PRICE (1) HIGH | STOCK PRICE (1) LOW | DIVIDEND DECLARED |
|---|---|---|---|
| 2001 | | | |

| | | | |
|---|---|---|---|
| First Quarter | $ 15.50 | 9.25 | .04 |
| Second Quarter | 12.97 | 10.95 | .04 |
| Third Quarter | 12.00 | 8.30 | .04 |
| Fourth Quarter | 9.65 | 8.98 | .04 |
| 2000 | | | |
| First Quarter | $ 9.00 | 7.00 | .04 |
| Second Quarter | 8.63 | 7.13 | .04 |
| Third Quarter | 9.81 | 8.00 | .04 |
| Fourth Quarter | 11.50 | 8.25 | .04 |

(1) The prices presented above are sale prices which represent price between broker-dealers and do not include mark-ups or mark-downs or any commission to the broker-dealer. Therefore, the prices presented above do not reflect prices in actual transactions.



ITEM 6. SELECTED FINANCIAL DATA

TEN-YEAR SELECTED FINANCIAL DATA

| | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|
| AS OF DECEMBER 31 | | | | |
| Total assets | $ 234,780,338 | 211,300,570 | 190,516,318 | 180,773 |
| Total liabilities | $ 164,245,816 | 148,566,691 | 135,729,241 | 126,282 |
| Total shareholders' equity | $ 70,534,522 | 62,733,879 | 54,787,077 | 54,490 |
| Book value per share | $ 11.13 | 9.89 | 8.66 | |
| Closing price per share | $ 9.60 | 11.50 | 8.63 | 1 |
| YEARS ENDED DECEMBER 31 | | | | |
| Premiums | $ 30,220,737 | 26,816,523 | 23,302,097 | 19,935 |
| Net investment income, realized investment gains and brokerage income | $ 14,500,606 | 14,693,886 | 13,555,085 | 12,365 |
| Total revenue | $ 44,721,343 | 41,510,409 | 36,857,182 | 32,301 |
| Benefits and expenses | $ 35,856,786 | 30,657,137 | 26,673,847 | 21,916 |
| Net income | $ 6,445,672 | 7,606,215 | 7,327,945 | 7,240 |
| Basic net income per share | $ 1.02 | 1.20 | 1.16 | |

| | | | | |
|---|---|---|---|---|
| Diluted net income per share | $ .99 | 1.18 | 1.14 | |
| Dividends per share | $ .160 | .160 | .160 | |

| | 1996 | 1995 | 1994 | 199 |
|---|---|---|---|---|
| AS OF DECEMBER 31 | | | | |
| Total assets | $ 148,824,187 | 139,381,979 | 124,412,468 | 116,237 |
| Total liabilities | $ 105,910,335 | 99,694,942 | 90,855,648 | 85,285 |
| Total shareholders' equity | $ 42,913,852 | 39,687,037 | 33,556,820 | 30,952 |
| Book value per share | $ 6.71 | 6.23 | 5.28 | |
| Closing price per share | $ 7.60 | 4.80 | 3.63 | |
| YEARS ENDED DECEMBER 31 | | | | |
| Premiums | $ 15,400,543 | 15,061,541 | 15,128,529 | 13,535 |
| Net investment income, realized investment gains and brokerage income | $ 9,458,474 | 8,814,035 | 7,597,136 | 7,271 |
| Total revenue | $ 24,859,017 | 23,875,576 | 22,725,665 | 20,806 |
| Benefits and expenses | $ 18,735,863 | 18,548,121 | 18,333,697 | 18,149 |
| Net income | $ 4,832,577 | 4,070,871 | 3,303,024 | 2,435 |
| Basic net income per share | $ .76 | .64 | .54 | |
| Diluted net income per share | $ .74 | .63 | .51 | |
| Dividends per share | $ .102 | .072 | .060 | |

Note: All share and per share amounts have been adjusted for the following stock splits:

| | |
|---|---|
| October 1995 | five-for-four |
| April 1997 | five-for-four |
| January 1998 | three-for-two |



ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

Statements made in the following discussion that state the Company's or management's intentions, hopes, beliefs, expectations or predictions of the future are forward-looking statements. Without limiting the foregoing, forward-looking statements include statements which represent the Company's beliefs concerning future levels of sales and redemption of the Company's products, investment spreads and yields, or the earnings and profitability of the Company's activities.

Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control and many of which are subject to change. These uncertainties and contingencies could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable developments. Some may be national in scope, such as general economic conditions, changes in tax law and changes in interest rates. Some may be related to the insurance industry generally, such as pricing competition, regulatory developments and industry consolidation. Others may relate to the Company specifically, such as credit, volatility and other risks associated with the Company's investment portfolio. Investors are also directed to consider other risks and uncertainties discussed in documents filed by the Company with the Securities and Exchange Commission. If the Company's assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of these key factors, then the Company's actual performance could vary materially from the forward-looking statements made herein. The Company disclaims any obligation to update any forward-looking information.

RESULTS OF OPERATIONS
(DOLLARS IN THOUSANDS)

| PREMIUMS | 2001 | 2000 | INCREASE | 1999 | INCREA |
|---|---|---|---|---|---|
| Guaranteed issue and simplified issue life insurance | $10,530 | $ 8,107 | 30% | $ 5,843 | 39% |
| Individual life insurance: | | | | | |
| Traditional life | 6,285 | 6,057 | 4% | 5,848 | 4% |
| Universal life | 12,373 | 11,759 | 5% | 10,805 | 9% |
| Total individual life insurance | 18,658 | 17,816 | 5% | 16,653 | 7% |
| Other lines | 1,033 | 894 | 16% | 806 | 11% |
| TOTAL PREMIUMS | $30,221 | $26,817 | 13% | $23,302 | 15% |

Guaranteed issue and simplified issue life insurance premiums continued to show significant growth for the three year period as a result of higher production by the Company's independent agency force which increased 13% to approximately 4,400 agents under contract at December 31, 2001 compared to approximately 3,900 in 2000 and approximately 2,700 in 1999. This product is also distributed by the Company's multi-line exclusive agents and is available for purchase over the

Internet at the Company's home page (www.cottonstatesinsurance.com).

Individual life insurance products are principally sold by the Company's exclusive agent producers. Growth in individual life premiums largely reflects the popularity of universal life payroll deduction products. The exclusive agency force of 299 as of December 31, 2001 compares to 282 as of the same date in 2000 and 283 in 1999. Other premiums consist of the Company's participation in a Federally sponsored group life pool and income from a closed block of individual accident and health business.



INVESTMENT INCOME

Net investment income increased 2% in 2001, 9% in 2000 and 5% in 1999 reflecting growth in the average investment portfolio. The annualized average yield decreased to 6.7% compared to 7.2% for 2000 and 7.0% for 1999 due to lower interest rates.

BROKERAGE COMMISSIONS

Exclusive agents sell products that the Cotton States Group does not underwrite (both life and property and casualty) but are provided through the Company's brokerage operations, and for which the Company receives override commission. Brokerage commissions for the year were flat due to decreased override commissions on the sale of life products. This was partially offset by a 5% increase in commissions on the sale of non-standard automobile policies. Brokerage commissions increased 10% in 2000 due primarily to increased sales of non-standard automobile policies. Brokerage commissions increased 19% in 1999 due to a new affiliation with an additional non-standard automobile insurance carrier at higher override commission rates.

BENEFITS AND CLAIMS

Life benefits and claims, including reserve increases on traditional life and guaranteed issue and simplified issue products are as follows (dollars in thousands):

| | 2001 | | 2000 | |
|---|---|---|---|---|
| BENEFITS AND CLAIMS | BENEFITS AND CLAIMS | % OF PREMIUM | BENEFITS AND CLAIMS | % OF PREMIUM |
| Guaranteed issue and simplified issue | $7,656 | 73% | $5,729 | 71% |
| Individual life insurance: | | | | |
| Traditional life | 4,622 | 73% | 4,261 | 70% |
| Universal life | 4,201 | 34% | 3,878 | 33% |
| Total individual life insurance | 8,823 | 47% | 8,139 | 46% |
| Other benefits and claims | 1,073 | 104% | 932 | 104% |

| | | | | |
|---|---|---|---|---|
| TOTAL BENEFITS AND CLAIMS | $17,552 | 58% | $14,800 | 55% |
| | ======= | | ======= | |

Benefits and claims as a percentage of premium fluctuate within a normal range reflecting volatility in mortality, changes in mix of business, and age of policyholders. Benefits and claims increased in 2001 primarily due to high mortality experience during the first quarter of 2001. Guaranteed issue and simplified issue experience in 2001 and 2000 is more indicative of the Company's expectations as the block of business matures. Due to the Company's small size, quarterly fluctuations, even when they remain within the normal range, do and will occur. In addition, the Company's general policy is to retain, with respects to individual life policies, generally no more than $100,000 of insurance on any one life and has also routinely purchased annual aggregate stop loss reinsurance coverage in excess of $10 million. The Company did not experience any impact on reinsurance costs as a result of the events of September 11, 2001.

The Company has reached partial settlement of a $900,000 reinsurance policy law suit initiated in the third quarter of 2001. To date, the Company has received $475,000 and continues to seek additional recoveries through already existing legal channels. Costs incurred as a result of this settlement were approximately $0.03 per diluted share. Other benefits and claims consist of participation in a Federally sponsored group life pool and benefits on a closed block of individual accident and health business.



INTEREST CREDITED TO POLICYHOLDERS

Interest credited to universal life contracts increased 6% reflecting growth in universal life policy accumulations. The annual interest rate credited to policyholders of universal life contracts was 6.2% for 2001, 2000, and 1999.

AMORTIZATION OF POLICY ACQUISITION COSTS AND OPERATING EXPENSES

The amortization of policy acquisition costs as a percentage of premium was 15% in 2001 compared to 12% in 2000 and 13% in 1999. The amortization of policy acquisition costs for 2000 reflected a favorable adjustment from updating actuarial assumptions. This adjustment represented the slow down of amortization as a result of higher estimated future profits from the improvement in mortality levels on universal life products. The after tax effect on net income for 2000 was $429,000 and $.07 per share. Amortization in 2001 reflects higher lapses in the traditional lines of business which reflects increased term rate competition in the market place.

Operating expense as a percentage of premiums was 28% for 2001 and 2000 and 31% in 1999. The Company continues to realize increasing cost efficiencies from digital imaging and automated policy processing technologies. As technological enhancements are implemented, the Company expects to further maximize operating efficiencies.

INCOME TAX EXPENSE

The effective tax rate for 2001 was 27% compared to 30% in 2000 and 28% in 1999. The three percentage point decrease is the result of the decrease in pretax income and an increase in the allowable small company deduction.

| NET INCOME (dollars in thousands) | 2001 | 2000 | PERCENTAGE INCREASE (DECREASE) |
|---|---|---|---|
| Guaranteed issue and simplified issue | $ 397 | $ 413 | (4)% |
| Individual life insurance: | | | |
| Traditional | 763 | 1,107 | (31)% |
| Universal life | 3,276 | 3,875 | (16)% |
| Total individual life insurance | 4,039 | 4,982 | (19)% |
| Brokerage operations | 2,067 | 2,260 | (9)% |
| Other lines | (57) | (49) | (16)% |
| Net Income | $6,446 | $7,606 | (15)% |

Despite continued growth in premiums and more normal annual expense and mortality costs, 2001 results reflect higher mortality experienced in the first quarter in comparison to the prior year, resulting in a decrease in the Company's net income. In addition, 2000 results reflect a favorable adjustment to the amortization of policy acquisition costs resulting from updating actuarial assumptions.

CRITICAL ACCOUNTING POLICIES

The accounting policies described below are those the Company considers critical in preparing its consolidated financial statements. These policies include significant estimates made by management using information available at the time the estimates are made. However, as described below, these estimates could change materially if different information or assumptions were used.

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INSURANCE RELATED ASSETS AND LIABILITIES

The Company establishes an insurance related asset for deferred policy acquisition costs, and insurance related liabilities for future policy benefits and claims relating to its insurance policies under contract. Such asset and liabilities are developed using actuarial principles and assumptions which consider a number of factors, including: investment yields, withdrawal rates, mortality and morbidity which are described in the Notes to the Consolidated Financial Statements ("Notes"). As described in the Notes, the Company accounts for its traditional individual life insurance policies using a net level premium method and assumptions as to the factors enumerated above and as disclosed in Note 4. Generally, the Company's earnings in any given calendar year will not be impacted by differences in emerging experience on its traditional individual business unless such differences are severe enough to call into question the profitability of the entire block of traditional life business. The Company does, however, experience fluctuations in its earnings as a result of current mortality experience differing from that expected in any given year. During 2001, 2000, and 1999, the Company experienced emerged mortality of 89%, 84% and 86% of expected, respectively, related to its traditional individual life insurance business. The Company routinely purchases annual aggregate stop loss reinsurance coverage which limits experience to 120% of expected mortality in any one year.

Further, as described in the Notes, the Company accounts for its interest-sensitive and universal life insurance policies and annuities under the provisions of Statement of Financial Accounting Standards (SFAS) No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. SFAS No. 97 requires the remeasurement of the Company's deferred acquisition costs each period in a manner that amortizes such deferred costs as a level percentage of actual emerged profit over the expected gross profits.

Each period, the Company estimates the relevant factors, based primarily on its emerging experience and uses this information to determine the assumptions underlying its asset and liability calculations. An extensive degree of judgment is used in this estimation process.

Any adjustments to prior period claim liabilities are included in the benefit expense of the period in which the need for the adjustment becomes known.

ACCOUNTING FOR INCOME TAXES

The Company accounts for income taxes using the asset and liability method prescribed by SFAS No. 109, Accounting for Income Taxes. Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Income tax expense recognized by the Company in any one year is impacted by the extent to which the Company qualifies for the small life company deduction. The small life company deduction is 60% of life insurance company taxable income up to a maximum taxable income of $3 million. This deduction is phased out on taxable income above $3 million up to and including a maximum of $15 million. To the extent, if any, that the Company's taxable income exceeds $3 million, its effective Federal income tax rate will increase.

## LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

The Company's insurance operations generate positive cash flows in excess of its immediate needs. Cash flows provided by operations were $15.6 million in 2001, $11.8 million in 2000, and $13.4 million in 1999.



Operating cash flow is primarily used to purchase debt securities. The Company received proceeds of $10.5 million from investment maturities and repayments in 2001, adding to available cash flows. Such proceeds were $7.2 million in 2000 and $8.3 million in 1999. When market opportunities arise, the Company disposes of selected debt securities available for sale to improve future investment yields and/or improve duration matching of our assets and liabilities. Therefore, dispositions before maturity can vary significantly from year to year. Proceeds from sales prior to maturity were $50.2 million in 2001, $3.4

million in 2000 and $8.1 million in 1999.

The Company's principal financing activity is payment of dividends to the Company's shareholders. Dividends are normally declared quarterly and must be approved by the Board of Directors. Under regulatory requirements, the amount of dividends that may be paid in 2002 by the Company to its shareholders without prior regulatory approval is approximately $3.0 million.

Other than noted above, the Company does not have any debt, lease obligations, purchase obligations, lines of credit, guarantees, off-balance sheet arrangements, trading activities involving non-exchange traded contracts accounted for at fair value or relationships with persons or entities that derive benefits from a non-independent relationship with the Company or the Company's related parties.

LIQUIDITY

Liquidity pertains to a company's ability to meet the demand for cash requirements of its business operations and financial obligations. The Company's two sources of short-term liquidity include its positive cash flow from operations and its portfolio of marketable securities as described above. The Company believes that these sources are sufficient to meet its liquidity needs in fiscal 2002.

INVESTMENTS

Since December 31, 2000, there has not been a material change in mix or credit quality of the Company's investment portfolio. All bond purchases have been available for sale and over 86% of the holdings at December 31, 2001 and 93% in 2000 are rated "A" or better by Standard & Poor's Corporation. For all fixed maturities, 14% in 2001 and 7% in 2000 are rated BBB. Ratings of BBB and higher are considered investment grade by the rating services. Due to the improvement in bond market conditions, the Company experienced an increase in the fair value of bonds of approximately $1,583,000 in 2001.

The amortized cost and estimated fair value of debt securities at December 31, 2001, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | AMORTIZED COST | ESTIMATED FAIR VALUE |
|---|---|---|
| Held for investment: | | |
| Due in one year or less | $ 4,003,365 | $ 4,112,940 |
| Due after one year through five years | 7,548,835 | 7,847,164 |
| Total | $ 11,552,200 | $ 11,960,104 |
| Available for sale: | | |
| Due in one year or less | $ 5,003,875 | $ 5,119,205 |
| Due after one year through five years | 33,270,557 | 34,061,942 |
| Due after five years through 10 years | 46,478,633 | 46,989,311 |
| Due after 10 years | 31,414,378 | 31,125,027 |
| Mortgage-backed securities | 14,136,358 | 14,669,325 |

| | | |
|---|---|---|
| Total | $130,303,801 | $131,964,810 |



MORTGAGE LOANS

The Company's mortgage loan policy limits the amounts of loans to no more than 80% of the value on residential loans and no more than 75% of the value on commercial loans. The Company grants loans only to employees (excluding officers and directors) and agents.

The geographic distribution of the loan portfolio is:

| NUMBER OF LOANS | | | BOOK VALUE (DOLLARS IN THOUSANDS) | |
|---|---|---|---|---|
| DECEMBER 31, 2001 | DECEMBER 31, 2000 | STATE | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
| 3 | 3 | Alabama | $ 113 | $ 130 |
| 6 | 6 | Florida | 320 | 354 |
| 30 | 36 | Georgia | 1,239 | 1,614 |
| 39 | 45 | | $1,672 | $2,098 |

Two loans representing $96,000 in principal are over 30 days delinquent. The loan-to-value ratio on delinquent loans is 26%.

RECENT ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board ("FASB") SFAS No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities, became effective beginning January 1, 2001. However, due to the Company's limited use of derivative financial instruments, SFAS No. 133 did not impact the Company's consolidated financial position, results of operations or cash flows in 2001.

The FASB issued four new accounting standards in 2001. SFAS No. 141, SFAS No. 142, SFAS No. 143 and SFAS No. 144 primarily address the accounting for goodwill, business combinations, and the impairment and disposition of long-lived assets. The adoption of these standards in 2002 is not expected to have a material impact on the Company's financial position or results of operations.

Effective January 1, 2001, the State of Georgia adopted the National Association of Insurance Commissioner's Codification of Statutory Accounting Practices. The impact on the Company's statutory surplus upon adoption of the codification standards was not material.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

CREDIT RISK

Credit risk is the risk that issuers of securities owned by the Company will default, or other parties, including reinsurers, which owe the Company money, will not pay. The Company attempts to minimize these risks by following a conservative investment strategy and by contracting with reinsuring companies that meet high standards for rating criteria and other qualifications. The Company invests principally in government, governmental agency and high quality corporate bonds having an A rating or better. The fixed maturity portfolio had an average rating of AA-as rated by Standard & Poor's Corporation at December 31, 2001.

INTEREST RATE RISK

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. The Company's fixed maturity investments are subject to interest rate risk. The Company seeks to

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manage the impact of interest rate fluctuation through cash flow modeling, which attempts to match the maturity schedule of its assets with expected payout of its liabilities. Liabilities for interest sensitive products are carried at full account value. The fixed maturity portfolio at December 31, 2001 and December 31, 2000 had an effective duration of 4.2 years and 4.8 years, respectively.

The table below summarizes the Company's interest rate risk and shows the effect of a hypothetical 100 and 200 basis point increase/decrease in interest rates on the fair values of the fixed investment portfolio. The selection of 100 and 200 basis point increases/decreases in interest rates should not be construed as a prediction by the Company's management of future market events, but rather, to illustrate the potential impact of such events. These calculations may not fully capture the impact of the changes in the ratio of long-term rates to short-term rates.

| | ESTIMATED VALUE DECEMBER 31, 2001 | ESTIMATED CHANGE IN INTEREST RATES (BP-BASIS POINTS) | ESTIMATED FAI VALUE AFTER HYPOTHETICA CHANGE IN INTEREST RAT |
|---|---|---|---|
| | (dollars in thousands) | | |
| Fixed Maturities - Held for Investment | $ 11,552 | 200 bp decrease | 12,259 |
| | | 100 bp decrease | 12,103 |
| | | 100 bp increase | 11,816 |
| | | 200 bp increase | 11,673 |
| Fixed Maturities - Available for Sale | $131,965 | 200 bp decrease | 144,839 |
| | | 100 bp decrease | 138,285 |
| | | 100 bp increase | 125,899 |
| | | 200 bp increase | 120,213 |

The following table shows a comparison of average assumed interest rates for policy reserves and investment yields, based on amortized costs, for the years ended December 31.

COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2000, AND 1999

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Policies issued during year: | | | |
| Required interest on policy reserves | 6.7% | 6.7% | 6.7% |
| New money yield on investments | 5.4% | 7.2% | 7.5% |
| Policies inforce during year: | | | |
| Required interest on policy reserves | 6.2% | 6.2% | 6.1% |
| Net investment yield | 6.7% | 7.2% | 7.0% |

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Consolidated Balance Sheets

| ASSETS | DECEMBER 31, 2001 | 2000 |
|---|---|---|
| Investments: | | |
| Fixed maturities, held for investment, at amortized cost | $ 11,552,200 | 15,05 |
| Fixed maturities, available for sale, at fair value | 131,964,810 | 116,58 |
| Equity securities, at fair value | 3,471,722 | 3,77 |
| First mortgage loans on real estate | 1,671,989 | 2,09 |
| Policy loans | 9,661,247 | 8,84 |
| Other invested assets | 1,000,000 | 1,00 |
| Total investments | 159,321,968 | 147,35 |
| Cash and cash equivalents | 13,187,601 | 6,43 |
| Accrued investment income | 2,592,977 | 2,46 |
| Amounts receivable, principally premiums | 3,298,052 | 3,31 |
| Amount due from reinsurers | 4,233,046 | 4,37 |
| Deferred policy acquisition costs | 51,660,808 | 46,85 |
| Other assets | 485,886 | 49 |
| | $ 234,780,338 | 211,30 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| Policy liabilities and accruals: | | |
| Future policy benefits | $ 145,737,310 | 132,65 |
| Policy claims and benefits payable | 2,196,620 | 2,29 |
| Total policy liabilities and accruals | 147,933,930 | 134,95 |
| Federal income taxes: | | |
| Current | 332,624 | 57 |
| Deferred | 8,205,251 | 5,68 |
| Other liabilities | 7,774,011 | 7,34 |
| Total liabilities | 164,245,816 | 148,56 |
| Shareholders' equity: | | |
| Common stock of $1 par value. Authorized 20,000,000 shares; issued 6,754,504 shares | 6,754,504 | 6,75 |
| Additional paid-in capital | 1,496,417 | 1,49 |
| Accumulated other comprehensive income (loss), net of tax | 818,720 | (1,71 |
| Retained earnings | 65,746,656 | 60,32 |
| Less: | | |
| Unearned compensation - restricted stock | (858,781) | (79 |
| Treasury stock, at cost (419,076 shares in 2001 and 409,076 shares in 2000) | (3,422,994) | (3,32 |
| Total shareholders' equity | 70,534,522 | 62,73 |
| | $ 234,780,338 | 211,30 |

See accompanying notes to consolidated financial statements.



COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Consolidated Statements of Earnings

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 199 |
| Revenue: | | | |
| Premiums | $30,220,737 | 26,816,523 | 23,30 |
| Net investment income | 10,282,623 | 10,090,780 | 9,25 |
| Realized investment gains | 27,501 | 405,933 | 47 |
| Brokerage commissions | 4,190,482 | 4,197,173 | 3,82 |
| Total revenue | 44,721,343 | 41,510,409 | 36,85 |
| Benefits and expenses: | | | |

| | | | |
|---|---|---|---|
| Benefits and claims | 17,551,824 | 14,800,123 | 11,69 |
| Interest credited | 5,527,001 | 5,198,089 | 4,73 |
| Amortization of deferred policy acquisition costs | 4,466,712 | 3,214,110 | 3,04 |
| Operating expenses | 8,311,250 | 7,444,815 | 7,19 |
| Total benefits and expenses | 35,856,787 | 30,657,137 | 26,67 |
| Income before Federal income taxes | 8,864,556 | 10,853,272 | 10,18 |
| Federal income taxes: | | | |
| Current | 1,461,027 | 2,114,917 | 1,76 |
| Deferred | 957,857 | 1,132,140 | 1,09 |
| Total Federal income taxes | 2,418,884 | 3,247,057 | 2,85 |
| Net income | $ 6,445,672 | 7,606,215 | 7,32 |
| Basic income per share of common stock | $ 1.02 | 1.20 | |
| Diluted income per share of common stock | $ 0.99 | 1.18 | |
| Weighted-average number of shares used in computing income per share: | | | |
| Basic | 6,342,817 | 6,345,687 | 6,34 |
| Diluted | 6,519,933 | 6,466,069 | 6,44 |

See accompanying notes to consolidated financial statements.

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COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity

| | YEARS ENDED DECEMBER | |
|---|---|---|
| | 2001 | 2000 |
| Common stock - balance at beginning and end of year | $ 6,754,504 | 6,754,504 |
| Additional paid-in capital: | | |
| Balance at beginning of year | 1,496,417 | 1,528,178 |
| Treasury shares acquired | -- | (83,304) |
| Tax benefit arising from issuance of restricted stock | -- | 51,543 |
| Balance at end of year | 1,496,417 | 1,496,417 |

| | | |
|---|---|---|
| Accumulated other comprehensive income (loss): | | |
| Balance at beginning of year | (1,715,931) | (3,466,876) |
| Change in unrealized gains (losses): | | |
| Unrealized gains (losses) during year | 4,582,686 | 3,313,133 |
| Deferred (taxes) benefit | (1,558,113) | (1,126,466) |
| Deferred acquisition cost adjustment | (489,922) | (435,722) |
| Other comprehensive income (loss) | 2,534,651 | 1,750,945 |
| Balance at end of year | 818,720 | (1,715,931) |
| Retained earnings: | | |
| Balance at beginning of year | 60,320,092 | 53,732,985 |
| Net income | 6,445,672 | 7,606,215 |
| Dividends of $.16 per share in 2001, 2000, and 1999 | (1,019,108) | (1,019,108) |
| Balance at end of year | 65,746,656 | 60,320,092 |
| Unearned compensation - restricted stock: | | |
| Balance at beginning of year | (794,276) | (362,458) |
| Shares awarded | (489,231) | (490,964) |
| Compensation expense recorded | 424,726 | 59,146 |
| Balance at end of year | (858,781) | (794,276) |
| Treasury stock: | | |
| Balance at beginning of year | (3,326,927) | (3,399,256) |
| Cost of shares purchased (10,000 in 2001, 24,000 in 2000, and 75,000 in 1999) | (96,067) | (145,945) |
| Cost of shares issued (0 in 2001, 49,910 shares in 2000, and 43,502 shares in 1999) | -- | 218,274 |
| Balance at end of year | (3,422,994) | (3,326,927) |
| Total shareholders' equity | $ 70,534,522 | 62,733,879 |

See accompanying notes to consolidated financial statements.



COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Consolidated Statements of Cash Flows

| | YEARS ENDED DECEMBER | |
|---|---|---|
| | 2001 | 2000 |
| Cash flows from operating activities: | | |
| Net income | $ 6,445,672 | 7,606,215 |

| | | |
|---|---|---|
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Increase in policy liabilities and accruals | 12,981,119 | 10,891,757 |
| (Increase) in deferred policy acquisition costs | (5,294,025) | (6,028,610) |
| Change in liability for income taxes | 713,591 | 1,054,461 |
| Decrease (Increase) in amounts receivable and amounts recoverable from reinsurers | 161,724 | (1,211,138) |
| Decrease (Increase) in deferred compensation accruals | 426,864 | (133,818) |
| Decrease (Increase) in unearned policy charges | (139,067) | (51,501) |
| Other, net | 270,059 | (371,611) |
| Net cash provided by operating activities | 15,565,937 | 11,755,755 |
| Cash flows from investing activities: | | |
| Purchase of fixed maturities available for sale | (67,827,757) | (20,141,334) |
| Purchase of equity securities | (1,972,576) | (2,636,020) |
| Sale of fixed maturities available for sale | 50,204,028 | 3,403,849 |
| Sale of equity securities | 1,970,150 | 1,496,638 |
| Proceeds from maturities of fixed maturities held for investment | 3,500,000 | 1,010,000 |
| Proceeds from maturity and redemption of fixed maturities available for sale | 7,043,398 | 6,154,391 |
| First mortgage loans originated | -- | -- |
| Principal collected on first mortgage loans | 425,627 | 801,141 |
| Net increase in policy loans | (820,239) | (249,399) |
| Other, net | (223,696) | (232,568) |
| Net cash used in investing activities | (7,701,065) | (10,393,302) |
| Cash flows from financing activities: | | |
| Cash dividends paid | (1,019,108) | (1,019,108) |
| Purchase of treasury stock | (96,067) | (145,945) |
| Stock issued under executive compensation plans | -- | 134,970 |
| Net cash used in financing activities | (1,115,175) | (1,030,083) |
| Net increase (decrease) in cash and cash equivalents | 6,749,697 | 332,370 |
| Cash and cash equivalents: | | |
| Beginning of year | 6,437,904 | 6,105,534 |
| End of year | $ 13,187,601 | 6,437,904 |
| Supplemental disclosures of cash paid during the year - income taxes | $ 1,705,292 | 2,156,832 |

See accompanying notes to consolidated financial statements.



COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 19 |
| Net income | $ 6,445,672 | 7,606,215 | 7,32 |
| Other comprehensive income (loss) before tax: | | | |
| Unrealized gains (losses) on securities available for sale | 4,120,265 | 3,283,344 | (8,04 |
| Reclassification adjustment for realized gains included in net earnings | (27,501) | (405,933) | (47 |
| Total other comprehensive income (loss) before tax | 4,092,764 | 2,877,411 | (8,52 |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | 1,558,113 | 1,126,466 | (3,27 |
| Other comprehensive income (loss), net of tax | 2,534,651 | 1,750,945 | (5,24 |
| Total comprehensive income | $ 8,980,323 | 9,357,160 | 2,08 |

See accompanying notes to consolidated financial statements.

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COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which vary in certain respects from reporting practices prescribed or permitted by the Insurance Department of the State of Georgia. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Accounts that the Company deem to be acutely sensitive to changes in estimates include deferred policy acquisition costs and future policy benefits. In addition, the Company must determine requirements for disclosure of contingent assets and liabilities as of the date of the financial statements based upon estimates. In all instances, actual results could differ from estimates.

The significant accounting policies are as follows:

CONSOLIDATION POLICY

The consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, CSI Brokerage Services, Inc. ("CSI") and Cotton States Marketing Resources, Inc. ("CSMR"). All significant intercompany balances and transactions have been eliminated in consolidation.

RECOGNITION OF PREMIUMS AND BROKERAGE INCOME

Premiums on traditional life and accident and health insurance policies are recognized as income when due. Premiums on universal life policies are recognized when earned.

CSI and CSMR receive commissions on insurance policies written by the Company's agents on behalf of unaffiliated insurance companies. This income is recognized when the related insurance policies are written as reported by the insurance companies with which the business is placed.

FUTURE POLICY BENEFITS

Future policy benefits on traditional individual life insurance policies are computed using a net level premium method based upon various assumptions as to investment yields, withdrawals, morbidity, and mortality. Future policy benefits on universal life insurance policies and annuities represent the contract's accumulated account value.





DEFERRED POLICY ACQUISITION COSTS

The costs of acquiring most new individual life business are deferred and amortized with interest over the premium-paying period of the related policies. For traditional life policies, such amounts are amortized in proportion to the ratio of the annual premium income to the total anticipated premium income. Such anticipated premium income is estimated using the same assumptions used for computing future policy benefits. For universal life policies, deferrable costs are amortized in proportion to the ratio of the contract's annual gross profits to total anticipated gross profits. First-year excess expense charges are also deferred and accreted to income in the same manner as deferrable costs are amortized. Total anticipated gross profits are based on assumptions for investment margins, surrender charges, mortality charges, and level expense loads. The principal expenses deferred are commissions and certain expenses of the product development, policy issue, underwriting, and agency departments, all of which vary with and are primarily related to the production of new business. Policy acquisition costs deferred were approximately $9,831,000 in 2001, $9,313,000 in 2000, and $8,121,000 in

1999.

CASH AND CASH EQUIVALENTS

For purposes of presenting its statements of cash flows, the Company considers all short-term investments to be cash equivalents. Short-term investments have original maturity dates of less than three months.

INVESTMENTS

The Company accounts for investments under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities.

Fixed maturities held for investment are stated at amortized cost. Fixed maturities available for sale are stated at fair value. The cost of securities sold is determined by the identified certificate method. First mortgage loans are stated at their aggregate unpaid balance. Policy loans are stated at their aggregate unpaid balance and short-term investments are stated at cost.

Investments deemed to have a loss in value which is other than temporary are written down to their fair value. Unrealized gains and losses on fixed maturities available for sale are excluded from earnings and are reported within shareholders' equity as a component of accumulated other comprehensive income, net of deferred taxes and amounts attributable to the Company's universal life and annuity products.

INCOME TAXES

The Company, CSI and CSMR file a consolidated Federal income tax return.

Deferred taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.





STOCK BASED COMPENSATION

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock based compensation. As such, compensation expense would generally only be recorded if the current market price of the underlying stock on the date of grant exceeded the exercise price.

EARNINGS PER SHARE

The following table summarizes information relating to the calculation of basic and diluted earnings per share of common stock:

| | YEARS ENDED DECEMBER 3 | | | |
|---|---|---|---|---|
| | 2001 | | 2000 | |
| | INCOME (NUMERATOR) | SHARES (DENOMINATOR) | INCOME (NUMERATOR) | SHARES (DENOMINAT |
| Data for Basic EPS calculation | $ 6,445,672 | 6,342,817 | $ 7,606,215 | 6,345, |
| Effect of dilutive securities: | | | | |
| Options | -- | 13,898 | -- | 2, |
| Restricted stock | -- | 163,218 | -- | 117, |
| Data for Diluted EPS calculation | $ 6,445,672 | 6,519,933 | $ 7,606,215 | 6,466, |

RECENT ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board ("FASB") SFAS No. 133, as amended, Accounting for Derivative Instruments and Hedging Activities, became effective beginning January 1, 2001. However, due to the Company's limited use of derivative financial instruments, SFAS No. 133 had no impact on the Company's consolidated financial position, results of operations or cash flows.

The FASB issued four new accounting standards in 2001. SFAS No. 141, SFAS No. 142, SFAS No. 143, and SFAS No. 144 primarily address the accounting for goodwill, business combinations, and the impairment and disposition of long-lived assets. The adoption of these standards in 2002 is not expected to have a material impact on the Company's financial position or results of operations.

Effective January 1, 2001, the State of Georgia adopted the National Association of Insurance Commissioner's Codification of Statutory Accounting Practices. The impact on the Company's statutory surplus upon adoption of the codification standards was not material.

COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

(2) INVESTMENTS

The amortized cost and estimated fair values of investments in debt and equity securities as of December 31, 2001 and 2000 are as follows:

| | 2001 | | |
|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES |
| Held for investment: | | | |
| Debt securities issued by foreign governments | $ 999,765 | 4,595 | -- |
| Corporate securities | 10,552,435 | 440,505 | 37,196 |
| Total | $ 11,552,200 | 445,100 | 37,196 |
| Available for sale: | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 36,763,922 | 592,847 | 66,614 |
| Corporate securities | 79,403,521 | 1,681,550 | 1,079,741 |
| Mortgage-backed securities | 14,136,358 | 532,967 | -- |
| Total | $130,303,801 | 2,807,364 | 1,146,355 |
| Equity securities | $ 3,673,660 | 194,661 | 396,599 |

| | 2000 | | |
|---|---|---|---|
| | AMORTIZED COST | GROSS UNREALIZED GAINS | GROSS UNREALIZED LOSSES |
| Held for investment: | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 1,499,749 | 1,661 | -- |
| Debt securities issued by foreign governments | 1,997,221 | 33,509 | -- |
| Corporate securities | 11,560,122 | 139,103 | 17,437 |
| Total | $ 15,057,092 | 174,273 | 17,437 |

| | | | |
|---|---|---|---|
| Available for sale: | | | |
| U.S. Treasury securities and obligations of U.S. government corporations and agencies | $ 10,070,642 | 233,263 | 55,365 |
| Corporate securities | 93,023,780 | 932,663 | 4,570,878 |
| Mortgage-backed securities | 16,718,625 | 245,121 | 13,608 |
| Total | $119,813,047 | 1,411,047 | 4,639,851 |
| Equity securities | $ 3,671,233 | 506,060 | 400,870 |



COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

The amortized cost and estimated fair value of debt securities at December 31, 2001, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | AMORTIZED COST | ESTIMATED FAIR VALUE |
|---|---|---|
| Held for investment: | | |
| Due in one year or less | $ 4,003,365 | 4,112,940 |
| Due after one year through five years | 7,548,835 | 7,847,164 |
| Total | $ 11,552,200 | 11,960,104 |
| Available for sale: | | |
| Due in one year or less | $ 5,003,875 | 5,119,205 |
| Due after one year through five years | 33,270,557 | 34,061,942 |
| Due after five years through 10 years | 46,478,633 | 46,989,311 |
| Due after 10 years | 31,414,378 | 31,125,027 |
| Mortgage-backed securities | 14,136,358 | 14,669,325 |
| Total | $130,303,801 | 131,964,810 |

Bonds with amortized cost of $1,878,000 at December 31, 2001 were on deposit with state regulatory authorities in accordance with statutory requirements.

Realized and unrealized gains and losses on investments for the years ended December 31, were as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Realized gains (losses) on sales and redemptions of investments: | | | |
| Fixed maturities available for sale: | | | |
| Gross gains | $ 874,785 | 92,433 | 263,967 |
| Gross losses | (709,279) | (9,213) | (822) |
| Net realized gains | 165,506 | 83,220 | 263,145 |
| Equity securities: | | | |
| Gross gains | 218,976 | 450,315 | 244,159 |
| Gross losses | (356,981) | (127,602) | (32,676) |
| Net realized (losses) gains | (138,005) | 322,713 | 211,483 |
| Total | 27,501 | 405,933 | 474,628 |
| Changes in unrealized gains (losses): | | | |
| Fixed maturities held for investment | 251,068 | 257,944 | (946,135) |
| Fixed maturities available for sale | 4,889,813 | 3,299,306 | (9,729,213) |
| Equity securities | (307,128) | 13,827 | 91,363 |
| Net unrealized gains (losses) | 4,833,753 | 3,571,077 | (10,583,985) |
| Total realized and unrealized gains (losses) | $ 4,861,254 | 3,977,010 | (10,109,357) |





Details of net investment income are as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Investment income: | | | |
| Fixed maturities held for investment | $ 923,838 | 1,052,274 | 1,104, |

| | | | |
|---|---|---|---|
| Fixed maturities available for sale | 8,405,376 | 8,063,799 | 7,241, |
| Equity securities | 44,357 | 36,582 | 8, |
| First mortgage loans | 166,808 | 192,450 | 259, |
| Policy loans | 675,825 | 616,130 | 600, |
| Short-term investments | 296,987 | 319,935 | 283, |
| Total investment income | 10,513,191 | 10,281,170 | 9,497, |
| Less investment expenses | 230,568 | 190,390 | 245, |
| Net investment income | $10,282,623 | 10,090,780 | 9,252, |

(3) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

CASH AND SHORT-TERM INVESTMENTS

The carrying amount of cash and short-term investments is a reasonable estimate of fair value.

INVESTMENT SECURITIES

For investment securities (which include fixed maturities held for investment, fixed maturities available for sale, and equity securities), fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

MORTGAGE LOANS

The fair value of mortgage loans is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

POLICY LOANS

The carrying amount of policy loans is a reasonable estimate of fair value.

UNIVERSAL LIFE AND ANNUITY BENEFITS

The carrying amount of universal life and annuity benefits is a reasonable estimate of fair value since credited interest approximates current market rates.

The estimated fair values and carrying values of the Company's financial instruments at December 31, 2001 and 2000 are the same except for investment securities which are detailed in footnote 2 and mortgage loans as follows:

| | MORTGAGE LOANS | |
|---|---|---|
| | CARRYING AMOUNT | FAIR VALUE |
| 2001 | $ 1,671,989 | 1,715,738 |
| 2000 | $ 2,097,616 | 2,126,289 |

(4) FUTURE POLICY BENEFITS AND REINSURANCE

The composition of future policy benefits, and the significant assumptions used in their development, are as follows (dollars in thousands):

| LINE OF BUSINESS | FUTURE POLICY BENEFITS 2001 | FUTURE POLICY BENEFITS 2000 | ASSUMPTIONS: YEARS OF ISSUE | INTEREST RATES | MORT |
|---|---|---|---|---|---|
| Life: | | | | | |
| Individual | $ 3,518 | 3,632 | 1956-65 | 4% | 1955-6 Select |
| Individual | 8,012 | 8,059 | 1966-79 | 6.5% - 5% (A) | Same a |
| Individual | 5,197 | 5,498 | 1980-88 | 7.5% - 6% (A) | 1965-7 Select |
| Individual | 25,313 | 19,748 | 1989-01 | 7.5% - 6% (A) | 1975-8 Select |
| Individual | 4,721 | 4,611 | Various | 3.5% - 2.5% | Statut |
| Annuities and universal life | 98,942 | 91,071 | Various | 6.25% - 4.5% | Accumu accoun |
| Group | 5 | 5 | Various | --- | Unearn |
| | 145,708 | 132,624 | | | |
| Accident and health - Individual | 29 | 31 | Various | 3% | |
| Total future policy benefits | $ 145,737 | 132,655 | | | |

========= ========

(A) Interest rates are graded to the ultimate rate in 25 years.

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COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

The Company participates in certain business assumed from Federally sponsored group pools. Further, it is the Company's general policy to reinsure individual life insurance in excess of $100,000, group life insurance in excess of $55,000, major medical payments in excess of $85,000 annually per individual, accidental deaths, and certain disability income coverage.

Amounts ceded under reinsurance agreements become liabilities of the Company should the reinsurers be unable to meet their obligations under the reinsurance agreements.

The effect of reinsurance assumed and ceded on certain financial statement accounts is as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Premiums: | | | |
| Direct premiums | $ 33,660,529 | 30,346,024 | 26,554,116 |
| Reinsurance assumed | 923,435 | 766,213 | 667,688 |
| Reinsurance ceded | (4,363,227) | (4,295,714) | (3,919,707) |
| Net premiums | $ 30,220,737 | 26,816,523 | 23,302,097 |
| Benefits and claims: | | | |
| Reinsurance assumed | $ 903,187 | 751,279 | 660,555 |
| Reinsurance ceded | $ 4,774,926 | 4,230,022 | 4,381,820 |

(5) INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying values of assets and liabilities for financial reporting purposes and Federal income tax purposes. The net deferred tax liability at December 31, 2001 and 2000 is composed of the tax-effected temporary differences related to the following amounts:

| | 2001 | 2000 |
|---|---|---|
| Deferred tax assets: | | |
| Fixed maturities available for sale | $ -- | 1,097,793 |
| Equity securities | 68,659 | -- |
| Life insurance reserves | 6,205,996 | 5,840,261 |
| Unearned mortality and expense charges | 855,149 | 860,596 |
| Postretirement health benefits liability | 79,625 | 84,945 |
| Deferred compensation | 290,968 | 145,834 |
| Other, net | 356,678 | 280,477 |
| Total deferred tax assets | 7,857,075 | 8,309,906 |
| Deferred tax liabilities: | | |
| Fixed maturities available for sale | 564,743 | -- |
| Equity securities | -- | 35,765 |
| Deferred policy acquisition costs | 15,328,987 | 13,808,705 |
| Due and unpaid premiums | 99,475 | 95,963 |
| Other, net | 69,121 | 58,755 |
| Total deferred tax liabilities | 16,062,326 | 13,999,188 |
| Net deferred tax liability | $ 8,205,251 | 5,689,282 |





SFAS No. 109, Accounting for Income Taxes, specifically identifies certain temporary differences for which deferred tax liabilities are not recognized unless it becomes apparent that those temporary differences will reverse in the foreseeable future. The Company has not recorded a deferred tax liability for one such item entitled "policyholders' surplus" created by Federal income tax regulations in effect prior to 1984. Certain untaxed income accumulated in this special memorandum tax account will become taxable if distributions, other than stock dividends, are made in excess of certain amounts accumulated in another special memorandum tax account entitled "shareholders' surplus." The balance in the "policyholders' surplus" account at December 31, 2001 was $4,203,000. The balance in the "shareholders' surplus" account at December 31, 2001 was $54,254,000. The Company does not anticipate any of the "policyholders' surplus" account becoming taxable in the foreseeable future.

In assessing the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management has concluded that it is more likely than not that all of its deferred tax assets are realizable. Therefore, no valuation allowance was established at December 31, 2001 and 2000.

Federal income tax expense is less than amounts determined by multiplying earnings before Federal income taxes by the Federal tax rate of 35%. The reason for such difference and the tax effect of each are as follows:

| | 2001 | 2000 |
|---|---|---|
| Federal income tax expense at statutory rate | $ 3,102,595 | 3,798,645 |
| Special deductions available to small Life insurance companies | (611,156) | (559,193) |
| Surtax exemption | (71,184) | (92,163) |
| Other, net | (1,371) | 99,768 |
| Total Federal income taxes | $ 2,418,884 | 3,247,057 |

(6) RETIREMENT PLANS, OTHER POSTRETIREMENT BENEFIT PLANS AND DEFERRED COMPENSATION PLANS

The Company, in conjunction with Cotton States Mutual ("Mutual") and Shield Insurance Company ("Shield"), affiliates, sponsors a non-contributory defined benefit pension plan covering all eligible employees. Plan benefits are based on the age of the employee, the employee's average salary for the highest five consecutive years of compensation and the employee's years of service. The Company's funding policy is to make annual contributions sufficient to fund the plan's normal cost (current service cost) plus amortization of the unfunded prior service cost. The Company and its affiliates are charged the allocable share of such contributions based on their proportionate share of payroll.

In addition to pension benefits, the Company has a plan which provides for postretirement health care and life insurance benefits for certain employees. These benefits include major medical insurance with deductible and coinsurance provisions. The Company accrues benefits on a current basis and the plan is not funded.





The following table summarizes plan assets, obligations, pension cost and assumptions of the pension plan and other postretirement benefit plan as of December 31, 2001 and 2000.

| | PENSION BENEFITS | | O |
|---|---|---|---|
| | 2001 | 2000 | 200 |
| Change in benefit obligation: | | | |
| Benefit obligation at beginning of year | $ 1,174,763 | 1,156,906 | $ 15 |
| Benefits accrued/service cost | 65,342 | 27,521 | |
| Interest | 89,430 | 88,052 | 1 |
| Actuarial gain or loss | -- | -- | ( |
| Benefits paid | (113,785) | (112,501) | (1 |
| Plan amendments | -- | 14,875 | |
| Benefit obligation at end of year | $ 1,215,750 | 1,174,853 | $ 14 |
| CHANGE IN PLAN ASSETS: | | | |
| Fair value of plan assets at beginning of year | $ 1,816,378 | 1,936,254 | $ |
| Actual return on plan assets | (15,252) | 12 | |
| Administrative expenses | (16,571) | (7,387) | |
| Benefits paid | (113,785) | (112,501) | |
| Fair value of plan assets at end of year | $ 1,670,770 | 1,816,378 | $ |
| FUNDED STATUS: | | | |
| Funded status | $ (354,987) | (90,403) | $ (14 |
| Unamortized prior service cost | 34,183 | 37,119 | |
| Unrecognized net gain or loss | (63,346) | (261,221) | (8 |
| Unrecognized transition asset | (10,000) | (18,000) | |
| Accrued liabilities | $ (394,150) | (332,505) | $ (23 |
| BENEFIT OBLIGATION FOR NON-VESTED EMPLOYEES | $ 20,012 | 16,220 | $ |
| COMPONENTS OF NET PERIODIC BENEFIT COST: | | | |
| Service cost | $ 93,563 | 86,514 | $ |
| Interest cost | 135,507 | 124,313 | 1 |
| Expected return on plan assets | (130,659) | (136,227) | |
| Amortization of unrecognized transition asset | (8,000) | (8,000) | |
| Amount of unrecognized gains and losses | -- | (7,891) | (1 |
| Amount of prior service cost recognized | 2,936 | 2,936 | |
| Total net periodic benefit cost | $ 93,347 | 61,645 | $ |



COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

SIGNIFICANT ACTUARIAL ASSUMPTIONS:

| | PENSION BENEFITS | | O |
|---|---|---|---|
| | 2001 | 2000 | 20 |
| Discount rate | 6.21% | 6.31% | 7. |
| Rate of compensation increase | 5.00 | 5.00 | |
| Expected long-term rate of return on plan assets | 8.25 | 8.25 | |
| Projected increase in health care costs | -- | -- | 5. |

A 1% annual increase in assumed health care cost would increase the accumulated postretirement benefit obligation at December 31, 2001 by approximately $5,500 and the service and interest cost components of the net periodic postretirement benefit cost for 2001 by $400. A 1% annual decrease in the assumed health care costs would decrease the accumulated postretirement benefit obligation at December 31, 2001 by approximately $5,000 and the service and interest components of the net periodic postretirement benefit cost by $375.

The Company also sponsors a defined contribution plan for the benefit of the Company's employees and the employees of affiliated companies. Matching contributions by the Company vary and are determined by the Company's prior year profitability measured by return on equity. The Company's matching contributions were $38,000 in 2001, $43,838 in 2000 and $36,451 in 1999.

(7) TRANSACTIONS WITH AFFILIATES

Mutual, through its wholly owned subsidiary, Shield, controls approximately 33% of the Company's outstanding common stock. Most officers and directors of the Company hold similar positions with these affiliates.

Certain general expenses are allocated to the Company from its affiliates. These expenses, such as salaries, advertising, rents, etc., represent the Company's share of expenses initially paid by Mutual and are allocated based on specific identification or, if undeterminable, generally on the basis of each company's premium. Expenditures allocated to the Company amounted to $3,992,556 in 2001, $3,386,739 in 2000, and $2,957,431 in 1999. At December 31, 2001 and 2000, the Company owed Mutual $186,482 and $393,926, respectively.

The Company expensed pension costs of $93,347 in 2001, $61,645 in 2000, and $63,354 in 1999.

Rent for use of software of $106,000 in 2001, 2000, and 1999, has been charged to the affiliated companies.

COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

## (8) STOCK-BASED COMPENSATION

The Company has various stock option plans for the Company's officers and key employees, as well as directors.

The Company accounts for its various stock-based compensation as expense, recorded on the grant date only to the extent that the current market price of the underlying stock exceeds the exercise price on the grant date.

Under the employee plan, options may be granted to purchase up to 937,500 shares of the Company's common stock at a per share price of not less than 100% of fair market value at date of grant. Under the directors' plan, options are granted based on the level of directors' fees at a per share price of 50% of fair market value at date of grant. The employee and directors' options have a term of 10 years and are not subject to any vesting requirements. The weighted-average remaining contractual life on options outstanding at December 31, 2001 is 7.4 years. The weighted-average grant date fair value of options granted during 2001, 2000, and 1999 was $7.69, $5.42, and $9.58, respectively. Stock option transactions are summarized below:

| | Years Ended December 31 | | | |
|---|---|---|---|---|
| | 2001 | Weighted Average Excercise Price | 2000 | Weighted Average Excercis Price |
| Options outstanding at January 1 | 70,532 | $ 4.41 | 91,541 | $ 3. |
| Granted | 16,602 | 5.75 | 17,541 | 4. |
| Exercised | -- | -- | (38,550) | 2. |
| Options outstanding at December 31 | 87,134 | $ 4.67 | 70,532 | $ 4. |
| Options exercisable at December 31 | 87,134 | | 70,532 | |
| Options available for grant at December 31 | 530,045 | | 546,647 | |

COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
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The following table summarizes information about stock options outstanding at December 31, 2001:

| | Options Outstanding and Exerciseable | | |
|---|---|---|---|
| Range of Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life in Years | Weighted Average Exercise Price |
| $ 0 - 2.40 | 21,314 | 4.8 | $ 2.31 |
| 3.80 - 4.31 | 31,533 | 7.7 | 4.08 |
| 5.75 - 7.63 | 34,287 | 8.7 | 6.67 |
| $ 0 - 7.63 | 87,134 | 7.4 | $ 4.67 |

In addition to the stock options described above, the Company has awarded nontransferable, restricted shares of Company common stock to various key executives under key executive restricted stock bonus plans. The market value of the common stock at the date of issuance is recorded as compensation expense using the straight-line method over the vesting period of the awards. The Company awarded 47,439, 63,225, and 29,298 shares of restricted stock under such plans during 2001, 2000, and 1999, respectively. The weighted-average grant date fair value of such shares was $9.83, $7.04, and $11.41, respectively. Aggregate compensation expense with respect to the foregoing restricted stock awards was $427,000, $57,000, and $308,000, in 2001, 2000, and, 1999, respectively.

In accordance with APB Opinion No. 25, $519,000, $125,000, and $373,000, in compensation expense has been recorded in 2001, 2000, and 1999, respectively, for the various stock option and restricted stock awards granted in 2001, 2000, and 1999. Had the Company determined compensation cost based on the fair value at the grant date for its stock options and restricted stock awards under SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income, basic net income per share, and diluted net income per share would have been reduced to the pro forma amounts indicated below:

Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

| | YEARS ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Net income: | | | |
| As reported | $ 6,445,672 | 7,606,215 | 7,327,945 |
| Pro forma | 6,420,950 | 7,587,201 | 7,314,529 |
| Basic net income per share: | | | |
| As reported | 1.02 | 1.20 | 1.16 |
| Pro forma | 1.01 | 1.20 | 1.15 |
| Diluted net income per share: | | | |
| As reported | .99 | 1.18 | 1.14 |
| Pro forma | .98 | 1.17 | 1.14 |

The per share weighted-average fair value of stock options and restricted stock granted was estimated using an option pricing model with the following weighted-average assumptions: expected life of five years for options and seven years for restricted stock awarded in 1999, and three years for restricted stock awarded in 2001 and 2000; expected dividend yield of 1.60% for 2001 grants and 2.10% for all other years; risk-free interest rate of 4.5% for 2001, 5.0% for 2000 and 5.50% for 1999; and an expected volatility of 65% for 2001 grants, 58% for 2000 grants, and 52% for 1999 grants.

(9) STATUTORY FINANCIAL STATEMENTS

Accounting practices used to prepare statutory financial statements for regulatory filings of stock life insurance companies differ from GAAP. Material differences resulting from these accounting practices include: deferred policy acquisition costs; statutory non-admitted assets are recognized under GAAP accounting; statutory investment valuation reserves are not recognized under GAAP accounting; premiums for universal life and investment-type products are recognized as revenues for statutory purposes and as deposits to policyholders' accounts under GAAP; different assumptions are used in calculating future policyholders' benefits; and different methods are used for calculating valuation allowances and deferred Federal income taxes for statutory and GAAP purposes.

Net income and shareholders' equity, as reported to regulatory authorities in conformity with statutory accounting practices for each of the years in the three-year period ended December 31, 2001 is as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Statutory net income | $ 2,258,801 | 8,109,372 | 2,686,569 |
| Statutory shareholders' equity | $ 34,431,844 | 33,330,254 | 28,607,689 |

The Georgia Insurance Code limits dividends in any one year to the greater of statutory earnings, excluding realized capital gains, or 10% of statutory surplus, unless the expressed permission of the Georgia Insurance Department is obtained. Dividend payments to shareholders are further limited by the Georgia Insurance Code to unassigned statutory surplus, which at December 31, 2001 was approximately $30,000,000. The excess of retained earnings determined in accordance with GAAP over unassigned statutory surplus is not available for payment of dividends. The Company may pay a dividend amounting to approximately $3,000,000 in 2002 without prior regulatory approval.

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COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

(10) LITIGATION

The Company is a defendant in various actions incidental to the conduct of its business. While the ultimate outcome of these matters cannot be estimated with certainty, management does not believe the actions will result in any material loss to the Company.

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COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2001, 2000, and 1999

(11) BUSINESS SEGMENTS

The Company's operations can be grouped into three major segments: (i) individual life insurance, (ii) guaranteed issue and simplified issue life insurance, and (iii) brokerage operations. These segments are differentiated primarily by their respective methods of distribution and the nature of related products, as the Company's operations in each segment are concentrated within its southeastern states geographic market. Individual life insurance products are distributed through the Company's multi-line exclusive agents, guaranteed issue and simplified issue products are distributed through independent agents as well as exclusive agents, and brokerage operations involve third party products distributed through the Company's exclusive and independent agents.

| | 2001 | 2000 |
|---|---|---|

| | | |
|---|---|---|
| Individual life insurance: | | |
| Premiums | $ 18,658,255 | 17,816,3 |
| Net investment income | 9,458,445 | 9,403,5 |
| Realized investment gains | 24,969 | 160,1 |
| Total revenue | 28,141,669 | 27,380,0 |
| Policyholder benefits and claims | 8,821,942 | 8,139,2 |
| Interest credited | 5,527,001 | 5,198,0 |
| Operating expenses | 8,505,751 | 7,103,5 |
| Total benefits and expenses | 22,854,694 | 20,440,8 |
| Operating profit | 5,286,975 | 6,939,2 |
| Guaranteed issue and simplified issue life insurance: | | |
| Premiums | 10,529,996 | 8,106,6 |
| Net investment income | 775,780 | 540,2 |
| Realized investment gains | 2,532 | 9,6 |
| Total revenue | 11,308,308 | 8,656,5 |
| Policyholder benefits and claims | 7,656,444 | 5,728,7 |
| Operating expenses | 3,132,154 | 2,368,9 |
| Total benefits and expenses | 10,788,598 | 8,097,7 |
| Operating profit | 519,710 | 558,8 |
| Brokerage: | | |
| Brokerage commissions | 4,190,482 | 4,197,1 |
| Net investment income | 48,397 | 147,0 |
| Realized investment gains | -- | 236,1 |
| Total revenue | 4,238,879 | 4,580,3 |
| Operating expenses | 1,106,448 | 1,154,9 |
| Operating profit | 3,132,431 | 3,425,3 |
| Combined operating profit | 8,939,116 | 10,923,3 |
| Group life insurance and individual accident and health results | (74,560) | (70,0 |
| Income before Federal income taxes | $ 8,864,556 | 10,853,2 |

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INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS AND SHAREHOLDERS
COTTON STATES LIFE INSURANCE COMPANY:

We have audited the accompanying consolidated balance sheets of Cotton States Life Insurance Company and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of earnings, shareholders' equity, cash flows, and comprehensive income for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Cotton States Life Insurance Company and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

/s/KPMG LLP
Atlanta, Georgia
February 26, 2002

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MANAGEMENT'S REPORT TO SHAREHOLDERS OF COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES

The accompanying consolidated financial statements for Cotton States Life Insurance Company and subsidiaries (the "Company") were prepared by management, which is responsible for the objectivity and integrity of these statements. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, where appropriate, are based on management's best estimates and judgements. Other financial data about the Company contained in this annual report is consistent with that presented in the consolidated financial statements.

The Company's consolidated financial statements have been audited by independent auditors, KPMG LLP. Their role is to audit the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and render an independent and professional opinion on management's consolidated financial statements. The auditors' report on the Company's consolidated financial statements appears on the previous page.

The Board of Directors, through its audit committee composed of outside directors, monitors management's financial reporting. The independent auditors have direct access to the audit committee and meet with the committee periodically to discuss the scope of each audit, the results of the audit and other matters which they believe should be brought to the committee's attention.

| | |
|---|---|
| /s/ J. Ridley Howard | /s/ William J. Barlow |
| J. Ridley Howard<br>Chairman of the Board,<br>President and Chief<br>Executive Officer | William J. Barlow, CPA<br>Vice President/Controller<br>and Assistant Treasurer |

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QUARTERLY RESULTS

The following is a summary of the unaudited quarterly results of operations for the three years ended December 31, 2001.

| 2001 quarter ended | March 31 | June 30 | September 30 |
|---|---|---|---|
| Premiums | $ 7,031,353 | 7,142,797 | 7,562,016 |
| Net investment income, realized investment gains and brokerage income | 3,460,539 | 3,743,105 | 3,751,475 |
| Total revenue | 10,491,892 | 10,885,902 | 11,313,491 |
| Benefits and expenses | 8,894,448 | 8,595,265 | 8,750,623 |
| Net income | 1,021,054 | 1,701,120 | 1,966,038 |
| Basic income per share of common stock | $ .16 | .27 | .31 |
| Diluted income per share of common stock | .16 | .26 | .30 |

| 2000 quarter ended | March 31 | June 30 | September 3 0 |
|---|---|---|---|
| Premiums | $ 6,125,550 | 6,384,463 | 6,772,298 |
| Net investment income, realized investment gains and brokerage income | 3,425,803 | 3,621,825 | 3,542,674 |
| Total revenue | 9,551,353 | 10,006,288 | 10,314,972 |
| Benefits and expenses | 7,127,072 | 7,056,698 | 7,353,474 |
| Net income | 1,523,615 | 2,061,165 | 2,124,910 |
| Basic income per share of common stock | $ .24 | .32 | .34 |
| Diluted income per share of common stock | .24 | .31 | .33 |

| 1999 quarter ended | March 31 | June 3 0 | September 30 |
|---|---|---|---|
| Premiums | $ 5,356,327 | 5,632,482 | 5,813,507 |
| Net investment income, realized investment gains and brokerage income | 3,289,533 | 3,078,423 | 3,460,705 |
| Total revenue | 8,645,860 | 8,710,905 | 9,274,212 |
| Benefits and expenses | 6,829,999 | 6,316,498 | 6,555,077 |
| Net income | 1,207,422 | 1,681,506 | 2,103,386 |
| Basic income per share of common stock | $ .19 | .26 | .33 |
| Diluted income per share of common stock | .19 | .26 | .32 |

Note - Failure of individual quarterly income per share to total annual income per share results from the computation of weighted average number of shares on an individual quarterly basis.

The fourth quarter results for the three years include participation in federally sponsored group pools as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Premiums | $ 923,435 | 766,213 | 667,688 |
| Benefits | 903,187 | 751,279 | 660,555 |

See previous discussion on Results of Operations.



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

NONE.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

IDENTIFICATION OF DIRECTORS

The By-laws of the Company provide that the Board of Directors shall be divided into three classes with approximately one-third of the Board of Directors elected each year. Each director is elected to hold office for a term of three years or until his or her successor has been duly elected and has qualified or until he or she attains the age of 72.

TERMS EXPIRING 2002 ANNUAL MEETING- NOMINATED FOR RE-ELECTION

GAYLORD O. COAN
Director Since 1995

Age 66

From 1995 until his retirement in July 2001, Mr. Coan served as Chief Executive Officer of Gold Kist, Inc. Mr. Coan is Chairman of the Executive Committee and serves as a member of the Audit Committee and the Compensation Committee of the Board of Directors of the Company. Mr. Coan also is a member the Board of Directors of Mutual and Imperial Sugar Company.

E. JENNER WOOD, III
Director Since 1991
Age 50

Since October 2000, Mr. Wood has been Chairman, President and Chief Executive Officer, SunTrust Bank, Georgia. Prior to his current position, Mr. Wood was Executive Vice President, Trust and Investment Services, of SunTrust Banks, Inc., a position he held from October 1993 to October 2000. Mr. Wood was the Executive Vice President, Trust and Investment Management, of SunTrust Bank, Atlanta prior to October, 1993. Mr. Wood is Chairman of the Audit Committee and serves as a member of the Executive Committee of the Board of Directors of the Company. Mr. Wood also is a member of the Board of Directors of Mutual, CSI, Oxford Industries, Crawford & Company, and Georgia Power Company.

MATHEWS D. SWIFT
Director Since 1997
Age 54

Since 1998, Mr. Swift has been the President and Chief Operating Officer of W. C. Bradley Co., Real Estate Division and President of Developers-Investors, Inc., a subsidiary of W. C. Bradley Co. From 1986 to 1997, Mr.



Swift was the Vice President and General Manager of W. C. Bradley Co., Real Estate Division. Mr. Swift serves as a member of the Audit Committee and the Investment Committee of the Board of Directors. Mr. Swift also is a member of the Board of Directors of Mutual, CSMR, Swift-Illges Foundation, Northstar Industries, Inc., and serves as a director of the Advisory Board of Columbus Bank & Trust Company, an affiliate of Synovus Financial Corporation.

TERMS EXPIRING 2003 ANNUAL MEETING

ROBERT C. McMAHAN
Director Since 1987
Age 61

Since 1994, Mr. McMahan has been President and Chief Executive Officer of Golden Point Group, Inc. Mr. McMahan was President and CEO of Fernbank, Inc., d/b/a Fernbank Museum of Natural History through November, 1994. Mr. McMahan was Vice Chairman of First Union National Bank of Georgia through September 1993. Mr. McMahan was Chairman, Chief Executive Officer and a director of DF Southeastern Inc., prior to January 15, 1993 and of Decatur Federal Savings & Loan Association prior to March 1, 1993, and was President of each entity prior to April, 1989. Mr. McMahan is Chairman of the Compensation Committee and serves as a member of the Executive Committee of the Board of Directors of the Company. Mr. McMahan also is a member of the Board of Directors of Mutual, CSMR, First Union National Bank of Georgia, Golden Point Group, Inc., Media Team Link, Inc., and Integration Solutions Group, LLC.

THOMAS A. HARRIS
Director Since 1995

Age 53

Since 1987, Mr. Harris has been the President and Chief Executive Officer of Merchant Capital Investments, Inc., a Montgomery, Alabama investment and merchant banking firm. Mr. Harris is Chairman of the Investment Committee and a member of the Executive Committee and the Audit Committee of the Board of Directors of the Company. Mr. Harris also serves on the Board of Directors of Mutual, Corral Southeast, and The Capital Partnership.



TERMS EXPIRING 2004 ANNUAL MEETING

J. RIDLEY HOWARD
Director Since 1989
Age 54

Since 1998, Mr. Howard has been the Chairman of the Board of Directors of the Company, Mutual, CSI, CSMR and Shield. He has served as President and Chief Executive Officer since 1989. Mr. Howard held various other offices with the Company and its affiliates prior to January 1, 1989. Mr. Howard is a member of the Executive Committee of the Board of Directors of the Company. Mr. Howard is a member of the Board of Directors of Piedmont Bank.

CAROL D. CHERRY
Director Since 1996
Age 54

Since 1976, Ms. Cherry has been Chairman of the Board of Directors of Shop'n Chek, Inc., an international marketing service company providing clients with information relative to the verbal and physical presentation of their products and/or services at the retail level. From 1976 to 1998, Ms. Cherry was also the President of Shop'n Chek, Inc. Ms. Cherry also is a member of the Compensation Committee and the Investment Committee of the Board of Directors of the Company. Ms. Cherry also is a member of the Board of Directors of Mutual, CSI, and Cherry Convention Services, Inc.

DARRELL D. PITTARD
Director Since 2001
Age 53

Since November 2000, Mr. Pittard has been the Managing Partner, Chairman and Chief Executive Officer of Currahee Bridge Development, LLC, a mixed-use resort development on Lake Hartwell, Georgia. Mr. Pittard is also Vice Chairman of Branch Banking and Trust of Georgia. From January 2000 through November 2000, Mr. Pittard served as Executive Vice President, Branch Banking and Trust of Georgia. From 1993 through January 2000, Mr. Pittard was Chairman and Chief Executive Officer of Premier Bancshares. Mr. Pittard is also a member of the Compensation Committee and Investment Committee of the Board of Directors of the Company. Mr. Pittard is also a member of the Board of Directors of Mutual, Branch Banking and Trust of Georgia, and Branch Banking and Trust of North Carolina.

There are no family relationships among the directors or between any director and any executive officer of the Company. All directors have served continuously since their first election or appointment.

OTHER INFORMATION ABOUT THE BOARD AND ITS COMMITTEES

During 2001, the Board of Directors held four meetings. Each Director attended at least 75% of the aggregate meetings of the Board of Directors and meetings of committees of which he or she was a member. The Board of Directors has four standing committees. Certain information regarding the function of the Board's committees, and the number of meetings held by each committee during 2001 is presented below.

AUDIT COMMITTEE

The Audit Committee annually reviews and recommends to the Board of Directors the certified public accounting firm to be engaged as independent auditors of the Company for the next calendar year. Management is responsible for the Company's internal controls, financial reporting process and compliance with the laws and regulations and ethical business standards. The independent accountants are responsible for performing an independent audit of the financial statements and to issue a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes. Each member of the Audit Committee is independent, as such term is defined under applicable NASD rules. During 2001, the Audit Committee held three meetings.

COMPENSATION COMMITTEE

The Compensation Committee periodically reviews the compensation and other benefits provided to officers of the Company and advises the Board of Directors with respect to compensation for the officers of the Company. During 2001, the Compensation Committee held three meetings.

INVESTMENT COMMITTEE

The Investment Committee reviews the Company's investments and advises the Board of Directors with respect to such investments. During 2001, the Investment Committee held four meetings.

EXECUTIVE COMMITTEE

The Executive Committee is authorized to act on behalf of the Board of Directors on all matters that may arise between regular meetings of the Board of Directors upon which the Board of Directors would be authorized to act, including the nomination of directors. During 2001, the Executive Committee held five meetings.

IDENTIFICATION OF EXECUTIVE OFFICERS

The executive officers of the Company, their respective ages and all positions and offices with the Company held by each are as follows:

| NAME | AGE | YEAR ELECTED AS AN OFFICER | POSITION OR OFFICE |
|---|---|---|---|
| J. Ridley Howard | 54 | 1984 | Chairman of the Board, President and Chief Executive Officer |
| Robert L. Fincher | 59 | 1979 | Senior Vice President |
| Harry V. Scott, Jr. | 54 | 1990 | Senior Vice President |

| | | | |
|---|---|---|---|
| Roger W. Fisher | 49 | 2000 | Senior Vice President, Chief Financia |
| Norma Y. Christopher | 52 | 1987 | Vice President and Actuary |



J. Ridley Howard was elected Chairman of the Board of Directors of the Company, Mutual, Shield, CSI, and CSMR, effective January 1, 2001. Mr. Howard continues to hold the offices of President and Chief Executive Officer of the Company, Mutual, Shield, CSI, and CSMR, which he has held since 1989.

Robert L. Fincher held the office of Senior Vice President with the Company, Mutual and Shield, and has held that position during the previous five years. Mr. Fincher announced his retirement effective January 1, 2002.

Harry V. Scott holds the office of Senior Vice President with the Company, Mutual and Shield. Mr. Scott was elected Senior Vice President effective July 7, 2001. Mr. Scott previously served as Vice President of Marketing with the Company, Mutual and Shield for the preceding five years.

Roger W. Fisher held the office of Senior Vice President, Chief Financial Officer and Treasurer with the Company, Mutual, Shield, CSI, and CSMR, until his separation from the Company effective February 14, 2002. Mr. Fisher previously served as Senior Vice President at Horace Mann Educators Group from 1998 through March 2000. From 1995 through 1997, Mr. Fisher was Vice President-Controller at Horace Mann Educators Group.

Norma Y. Christopher holds the office of Vice President-Actuary with the Company and has held that position during the previous five years.

Officers are elected at the meeting of the Board of Directors following the Annual Meeting of Shareholders to serve for one year or until their successors are elected.

ITEM 11. EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

| | ANNUAL COMPENSATION(1) | | | LONG TE |
|---|---|---|---|---|
| NAME AND PRINCIPAL POSITION | YEAR | SALARY | BONUS | RESTRICTED STOCK AWARDS(2 |
| J. Ridley Howard | 2001 | $ 52,602 | $ 95,424 | $ 239,594 |
| CEO | 2000 | 46,873 | 104,700 | 253,037 |
| | 1999 | 42,370 | 83,723 | 203,015 |
| Robert L. Fincher | 2001 | $ 30,042 | $ 40,896 | $ 75,971 |
| Senior Vice President | 2000 | 26,818 | 51,303 | 79,046 |
| | 1999 | 24,697 | 40,612 | 50,875 |
| Harry V. Scott, Jr. | 2001 | $ 22,814 | $ 27,264 | $ 23,067 |
| Senior Vice President | 2000 | 17,490 | 29,054 | 16,729 |
| | 1999 | 16,000 | 24,367 | 11,891 |
| Roger W. Fisher (4) | 2001 | $ 26,870 | $ 34,080 | $ 72,862 |

| | | | | |
|---|---|---|---|---|
| Senior Vice President, CFO/Treasurer | 2000 | 16,548 | -- | 73,088 |
| | | | | |
| Norma Y. Christopher | 2001 | $ 132,769 | $ 19,766 | $ 22,718 |
| Vice President and Actuary | 2000 | 123,000 | 21,987 | 13,698 |
| | 1999 | 117,500 | 18,744 | 10,895 |

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(1) The salaries of certain executive officers of the Company are prorated among the Company, Mutual and Shield, based upon the premium income of each entity. Ms. Christopher's compensation is allocated entirely to the Company. Total compensation of the Company's executive officers for 2001 from all affiliated corporations was $1,843,880 of which the Company paid $489,432.

(2) The aggregate restricted stock holdings at the end of 2001 for Messrs. Howard, Fincher, Scott and Fisher were 86,888, 25,948, 6,418, and 24,451 shares with values of $834,125, $249,100, $61,613, and $234,730 respectively, based upon the value of the Company's Common Stock at December 31, 2001. Dividends on stock awards are paid at the same rate as paid to all share owners.

(3) This amount equals the Company's 401(k) matching contribution, which is allocated on the same prorated basis as salaries.

(4) Mr. Fisher joined the Company in April, 2000.

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COMPENSATION PURSUANT TO PLANS

PENSION PLAN

The Company is a participating employer in the Cotton States Employee Retirement Income Plan (the "Plan"), which is a qualified pension plan sponsored jointly with Mutual. The Plan covers all of the Company's salaried employees.

The Plan provides a retirement income benefit at age 65 which is based on the employee's number of years of service (maximum 35 years) and average earnings during the five consecutive years (in the last ten years of employment) in which the earnings are highest. Age 65 retirement benefit is derived as the sum of (i) the product of the number of years of service times 85% of average earnings and (ii) the product of the number of years of service times 55% of "excess average earnings." Excess average earnings is the amount, if any, by which the average earnings for a participant exceeds the 35 year average maximum social security taxable wage base for all persons born in the same year as the participant. The Plan also provides an early retirement benefit after age 55, with no reduction in benefit entitlement due to age, when the sum of the employee's age and years of credited service equals or exceeds 80. If the employee has not obtained 80 points at retirement, the benefits are reduced 5% for each year the retiree's age is less than 65. The Plan also contains a death benefit for the surviving spouse of an employee (who had at least five years of credited service) which is equal to 50% of the deceased employee's accrued benefit. If the death occurs after termination from employment and prior to an early retirement date, the spouse's benefit is reduced as for early retirement income benefits. Accrued benefits under the Plan vest after the employee accrues five years of service.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The Company adopted the Cotton States Supplement Executive Retirement Plan ("SERP") effective January 1, 1992 in order to provide for a supplement pension plan to replace pension benefits which were affected as a result of amendments to the Internal Revenue Code of 1986, as amended ("IRC").

The SERP is an agreement between the Company and employees meeting the qualification provisions of the SERP in which the Company provides benefits in excess of the limitations on benefits imposed by the IRC regarding highly compensated employees. The SERP also replaces the pension accruals set forth under the Plan as a result of the new benefit formulas mandated by the IRC which resulted in amendments to the Plan. The SERP incorporates all of the terms and conditions of the Plan and future amendments to the Plan. Mr. Howard is not a participant in the SERP plan.



The following table sets forth the estimated annual benefits payable upon retirement at age 65 under the plans.

PENSION PLAN AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN INCOME ANNUAL BENEFITS PAYABLE UPON RETIREMENT AT AGE 65

| FINAL AVERAGE REMUNERATION FROM THE COMPANY AND MUTUAL FOR THE HIGHEST FIVE YEARS | YEARS OF SERVICE WITH THE COMPANY AND MUTUAL | | | |
|---|---|---|---|---|
| | 15 | 20 | 25 | 30 |
| $125,000 | 26,639 | 35,519 | 44,398 | 53,278 |
| $150,000 | 32,889 | 43,852 | 54,815 | 65,778 |
| $175,000 | 39,139 | 52,185 | 65,232 | 78,278 |
| $200,000 | 45,389 | 60,519 | 75,648 | 90,778 |
| $225,000 | 51,639 | 77,185 | 96,482 | 115,778 |
| $250,000 | 57,889 | 77,837 | 97,297 | 116,756 |
| $300,000 | 70,289 | 93,852 | 117,315 | 140,778 |
| $350,000 | 82,889 | 110,519 | 138,148 | 165,778 |
| $400,000 | 95,389 | 127,185 | 158,982 | 190,778 |
| $450,000 | 107,889 | 143,852 | 179,815 | 215,778 |
| $500,000 | 120,389 | 160,519 | 200,778 | 240,778 |

The benefits reflected in the preceeding table are in addition to an employee's social security benefits. The Company has allocated its proportionate share of retirement costs for the officers it shares with Mutual and Shield.

Officers named in the summary Compensation Table have been credited with the following years of service: J. Ridley Howard, 20 years; Roger W. Fisher, 2 years; Robert L. Fincher, 40 years; Harry V. Scott, 13 years; and Norma Y. Christopher, 14 years.

The estimated annual retirement benefits under the plans for all executive officers of the Company as a group from the participating companies aggregate $378,192. This estimate assumes no change from 2001 salaries, retirement at age 65, and continuous employment with the Company. Estimated annual retirement benefits under the plans attributable solely to service with the Company cannot be stated due to the allocation of service and compensation among the Company and its affiliates.

INCENTIVE SAVINGS PLAN

The Company participates in the Cotton States Incentive Savings and Investment 401(k) Plan (the "401(k) Plan"). The 401(k) Plan is a qualified savings incentive plan sponsored by the same companies that sponsor the Company's Plan. The 401(k) Plan is open to all employees who have completed one year of service and have

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reached their twenty-first birthday. Eligible employees may contribute from 2% to 10% of their compensation to the 401(k) Plan. The Company makes its matching contribution based only on the first 6% of an employee's compensation, which is not to exceed a maximum contribution of $11,000 per employee. The match is based on the return on equity of the sponsoring companies. The Company's contribution will not be less than 20% nor more than 60% of the employees contribution eligible for matching. Employees are fully vested in the Company's contribution after five years of service. Employees are not permitted to withdraw their account before age 59 1/2 except in the event of death, disabilitY, termination of employment or financial hardship.

INCENTIVE STOCK OPTIONS

The Company has a qualified incentive stock option plan for its officers and key employees and those of its subsidiaries, CSI and CSMR (the "ISO Plan"). During 2001, no options were granted under the ISO Plan.

At December 31, 2001, there were no options outstanding. During 2001, there were no shares acquired through the exercise of options pursuant to the ISO Plan.

DIRECTORS' DISCOUNTED STOCK OPTION PLAN

The Company has a Directors' Discounted Stock Option Plan (the "DSOP"). The DSOP is designed to assist the Company in attracting, retaining and compensating highly qualified individuals who are not employees of the Company for service as members of the Board and to provide them with a proprietary interest in the common stock of the Company. The Board believes the DSOP will be beneficial to the Company and its shareholders by encouraging and enabling non-employee directors to have a personal financial stake in the Company, in addition to emphasizing their common interest with the shareholders in increasing the value of the common stock of the Company in the long term.

The DSOP provides for automatic yearly grants of options to purchase shares of common stock of the Company to each director who elects to participate in the DSOP. Each director who is not an employee of the Company or any of its subsidiaries or affiliates may participate by filing with the Company an irrevocable election to receive the grant of a stock option in lieu of part or all of the fees which the director would have been entitled to receive for the immediately preceding year for his or her service on the Board. Options will be granted automatically on the date of the annual meeting of the Board as to any director who, prior to the date of such annual meeting, has filed with the Company an irrevocable election to participate in the DSOP.

The number of shares of common stock of the Company subject to each option granted to a director shall be determined by dividing (i) the director's fee due to a director, by (ii) the fair market value of the common stock of the Company on the date of grant, minus the option exercise price. The fair market value of the common stock of the Company under the DSOP shall be the closing price as reported on the Nasdaq National Market and the option exercise price for each option granted shall be 50% of the fair market value, to be paid in cash by the director upon exercise. All options granted under the DSOP will expire ten years after the date of grant, subject to DSOP provisions relating to the retirement of the director because of death, disability, or age. That portion of an option granted under the DSOP which is attributable to any portion of the directors' fees which is not earned due to termination as a director, shall automatically abate and be canceled. In the event of the death of the holder of any unexercised option, all of the holder's outstanding options will become immediately exercisable upon the date of death by his or her legal representative. No option may be exercised under the DSOP before the 12 month anniversary of the date of grant.

A total of 281,250 shares of Company common stock is reserved for issuance under the DSOP (subject to adjustment for subsequent stock splits, stock dividends and certain other changes in the common stock of the Company). The Company has granted 72,720 options under the DSOP, including 16,602 options to be granted automatically at the 2002 Annual Meeting. Upon the exercise of an option, the Company will issue authorized but previously unissued shares.



If an option issued under the DSOP is terminated or canceled without having been exercised, the shares which were not purchased thereunder will again become available for issuance under the DSOP.

Adjustments will be made in the number of shares subject to the DSOP and in the purchase price of outstanding options in the event of any change in the number of shares of common stock of the Company outstanding as a result of a stock split or stock dividend, recapitalization, merger, consolidation, or other similar corporate change.

PERFORMANCE SHARE AWARDS PLAN

The Company has a Performance Share Awards Plan (the "PAR Plan"). The PAR Plan is designed to reward employees of the Company, its subsidiaries and affiliates for services performed on behalf of the Company, to stimulate employees' efforts on behalf of the Company, to encourage such employees to remain with the Company, and to provide them with an ownership interest in the common stock of the Company. The Board believes the PAR Plan will be beneficial to the Company and its shareholders by encouraging and enabling employees to have a personal financial stake in the Company.

The PAR Plan authorizes the Compensation Committee of the Board of Directors to grant awards of shares of common stock of the Company to employees of the Company designated by the Compensation Committee. The Compensation

Committee may grant performance share awards in shares of the common stock if the performance of the Company, or any subsidiary, division or affiliate of the Company selected by the Compensation Committee meets certain goals established by the Compensation Committee during an award period. The Compensation Committee would determine the goals, the maximum payment value of an award, and the length of an award. In order to receive payment, a recipient of a performance share award must remain in the employ of the Company until the completion of the award period.

An aggregate of 281,250 shares of common stock of the Company are subject to the PAR Plan. Adjustments will be made in the number of shares subject to an award in the event of any change in the number of shares of common stock outstanding as a result of a stock split or stock dividend, recapitalization, merger, consolidation, or other similar corporate change. The Company has granted 259,309 shares under the PAR Plan of which 0 vested in 2001. In the event of a change of control of the Company, as defined in the PAR Plan, all awards granted prior to the change of control shall immediately vest and the shares subject to the award shall be issued to the recipient of the award.

Awards granted under the PAR Plan provide the recipients with the right to acquire shares of Common Stock as follows:

| YEAR | NUMBER OF SHARES | DATE GRANTED | EARLIEST VESTING |
|---|---|---|---|
| 1999 | 29,298 | 2/24/99 | 2/24/02 |
| 2000 | 63,225 | 2/22/00 | 2/23/03 |
| 2001 | 47,439 | 2/21/01 | 2/22/04 |

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As of December 31, 2001, the following executive officers had been granted awards to receive shares pursuant to the PAR Plan:

| NAME 1 | NUMBER OF SHARES VESTED INCLUDING DIVIDENDS | NUMBER O |
|---|---|---|
| J. Ridley Howard | 0 | |
| Robert L. Fincher | 0 | |
| Harry V. Scott | 0 | |
| Roger W. Fisher | 0 | |
| Norma Y. Christopher | 0 | |

OTHER COMPENSATION

Each executive officer is provided the use of one automobile by the Company, Mutual and Shield, but is required to reimburse the Company, Mutual and Shield for the personal use of the automobile. Officers are reimbursed for club dues. The Company, Mutual and Shield are allocated these expenses under the same formula on which salaries are prorated. The total cost of these expenses does not exceed 10% of any executive officer's salary and bonus compensation.

COMPENSATION OF DIRECTORS

During 2001, no director of the Company received any remuneration from the Company in his capacity as a director except for fees, or options to receive common stock in lieu of fees pursuant to the DSOP, and reimbursement for expenses incurred in connection with attending directors' and committee meetings. No director received cash compensation in excess of $23,600 for his services as a director during 2001. Each director, other than J. Ridley Howard, is paid an annual stipend of $7,000. Mr. Howard did not receive an annual stipend in 2001. In addition, each director was paid $850 plus travel expenses for each meeting of directors and $700 for each committee meeting of directors attended. Each committee member, other than J. Ridley Howard, received an additional $1,400 as an annual stipend and each committee chairman received $2,000 as an annual stipend. The aggregate directors' fees for 2001 totaled $163,464. There were no retirement benefits accrued or set aside during 2001 for any director for his services as director. Upon reaching the mandatory retirement age of 72, directors of the Company become directors emeritus and receive stipends ranging from $600 to $11,000 annually for periods ranging from 15 years to life after the date of retirement. In February, 2000, the Board of Directors eliminated the retirement stipends for any director retiring after that date.

In addition to the director compensation payable by the Company as disclosed above, directors who are not employees of the Company are eligible to participate in the DSOP which was approved by the shareholders of the Company at the 1996 annual meeting. The DSOP, which is administered by the Compensation Committee, permits the grant of stock options to directors of the Company who are not employees of the Company at an exercise price equal to 50% of the current market value at the date of grant as an alternative to the payment of retainer and meeting fees in cash to the directors. Fractional shares are paid in cash. During 2001, directors of the Company deferred fees in exchange for remuneration in the form of stock options in lieu of cash as follows:



| NAME | FEES DEFERRED | OPTION PRICE PER SHARE | OPTIONS TO BE GRANTED |
|---|---|---|---|
| Cherry, Carol D. | $ 9,750 | $ 5.75 | 1,693 |
| Coan, Gaylord O. | $ 22,900 | $ 5.75 | 3,981 |
| Harris, Thomas A. | $ 11,800 | $ 5.75 | 2,051 |
| McMahan, Robert C. | $ 20,800 | $ 5.75 | 3,615 |
| Pittard, Darrell D. | $ 15,650 | $ 5.75 | 2,720 |
| Swift, Mathews D. | $ 14,625 | $ 5.75 | 2,542 |

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee of the Board of Directors during the fiscal year were Messrs. McMahan and Coan and Ms. Cherry. None of these directors are or have been officers or employees of the Company or its subsidiaries. With the exception of Mr. Howard, no executive officer of the Company serves on the board of any other company other than an affiliate of the

Company. Mr. Howard is a member of the Board of Directors of Piedmont Bank.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The table below sets forth certain information about persons or entities known by the Company to own beneficially more than 5% of the Company's common stock, as of December 31, 2001. Except as noted below, the Company believes that each of the persons or entities listed has sole investment and voting power with respect to the shares included in the table.

| NAME AND ADDRESS | NUMBER OF SHARES OWNED(1) | PER OF |
|---|---|---|
| Shield Insurance Company<br>244 Perimeter Center Parkway<br>Atlanta, Georgia 30346 | 2,102,385(2) | 3 |
| Fidelity Management & Research Company,<br>a wholly owned subsidiary of<br>FMR Corporation<br>82 Devonshire Street<br>Boston, Massachusetts 02109 | 612,500 | |
| Marvin Schwartz<br>c/o Neuberger & Berman<br>605 Third Avenue<br>New York, New York 10158 | 492,982 | |

(1) Under the rules of the U. S. Securities and Exchange Commission, a person is deemed to be beneficial owner of a security if he or she has or shares the power to vote or to direct the voting of such security, or the power to dispose or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities that such a person has the right to acquire beneficial ownership of within 60 days as well as any securities owned by such person's spouse, children or relatives living in the same household. Accordingly, more than one person may be deemed to be a beneficial owner of the same securities.

(2) Shield is a wholly owned subsidiary of Mutual. The Board of Directors of Mutual is identical to the Board of Directors of the Company.



SECURITY OWNERSHIP OF MANAGEMENT

The following table sets forth certain information about beneficial ownership of the Company's common stock of each director and executive officer of the Company and directors and officers as a group as of December 31, 2001. All shares are owned outright without shared voting and investment power except as set forth below.

| NAME OF BENEFICIAL OWNER: DIRECTORS | AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP | PERCE |
|---|---|---|
| Carol D. Cherry | 675(1) | |
| Gaylord O. Coan | 500(2) | |
| Thomas A. Harris | 5,187(3) | |
| J. Ridley Howard | 81,994(4) | |
| Robert C. McMahan | 2,109(5) | |
| Darrell D. Pittard | 2,000(6) | |
| Mathews D. Swift | 875(7) | |
| E. Jenner Wood, III | 1,405 | |
| EXECUTIVE OFFICERS | | |
| Robert L. Fincher | 32,059(8) | |
| Roger W. Fisher | 10,000(9) | |
| Harry V. Scott | 6,000(10) | |
| Norma Y. Christopher | 16,503(11) | |
| ALL EXECUTIVE OFFICERS AND DIRECTORS AS A GROUP (12) (16 persons) | 166,734 | |

(*) Less than 1% not applicable

(1) Does not include options to acquire 6,887 shares previously granted or options to acquire 1,693 shares to be granted automatically at the 2002 Annual Meeting under the DSOP.

(2) Does not include options to acquire 18,363 shares previously granted or options to acquire 3,981 shares to be granted automatically at the 2002 Annual Meeting under the DSOP.

(3) Does not include options to acquire 10,890 shares previously granted or options to acquire 2,051 shares to be granted automatically at the 2002 Annual Meeting under the DSOP.

(4) Does not include 86,888 shares plus accrued dividends awarded under the PAR Plan that have not vested.

(5) Does not include options to acquire 13,894 shares previously granted or options to acquire 3,615 shares to be granted automatically at the 2002 Annual Meeting under the DSOP.

(6) Does not include options to acquire 2,720 shares to be granted automatically at the 2002 Annual Meeting under the DSOP.

(7) Does not include options to acquire 6,084 shares preciously granted or options to acquire 2,542 shares to be granted automatically at the 2002 Annual Meeting under the DSOP.

(8) Does not include 25,948 shares plus accrued dividends awarded under the PAR Plan that have not vested.



(9) Does not include 24,451 shares plus accrued dividends awarded under the PAR plan that have not vested.

(10) Does not include 6,418 shares plus accrued dividends awarded under the PAR plan that have not vested.

(11) Does not include 5,683 shares plus accrued dividends awarded under the PAR plan that have not vested.

(12) Does not include 163,218 shares plus accrued dividends awarded under the PAR Plan that have not vested which would increase the percentage of outstanding shares for all officers and directors as a group to 5.2%. Also does not include options to acquire 56,118 shares previously granted or options to acquire 16,602 shares to be granted automatically at the 2002 Annual Meeting under the DSOP.

CHANGES IN CONTROL

None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

TRANSACTIONS WITH MANAGEMENT AND OTHERS

Shield, which is wholly owned by Mutual, owns 2,102,385 shares or 33.0% of the outstanding common stock of the Company. See Item 12.

Certain general expenses are allocated to the Company by Mutual. These expenses such as salaries, advertising, rents, and related expenses, represent the Company's share of expenses initially paid by Mutual and are allocated based on specific identification or, if indeterminable, generally on the basis of each company's premium income. Expenditures allocated to the Company amounted to $3,992,556 in 2001. See Item 1.

Gaylord O. Coan, a director of the Company, served as President and CEO of Gold Kist, Inc. through July 2001. Gold Kist Inc. owns no stock of the Company. The Company shares offices with Mutual and Shield in a building owned by a partnership of Mutual and Gold Kist. The Company is not a partner in the partnership which owns the building and has no equity interest in the building.

Gaylord O. Coan, a director of the Company, served as a director of SunTrust Bank, Atlanta. E. Jenner Wood, III, a director of the Company, serves as an executive officer of SunTrust Bank, Inc., and SunTrust Bank, Atlanta. SunTrust Banks, Inc. received fees from the Company in 2001 for services rendered as the transfer agent of the Company. SunTrust Bank, Atlanta, a subsidiary of SunTrust Banks, Inc., received fees from the Company in 2001 for investment and custodial services and leases of computer hardware.



PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

FINANCIAL STATEMENTS

The following consolidated financial statements and independent auditors' report are incorporated by reference to Part II, Item 8 of this report:

Independent Auditors' Report
Consolidated Balance Sheets, December 31, 2001 and 2000
Consolidated Statements of Earnings, Years ended December 31, 2001, 2000 and 1999
Consolidated Statements of Shareholders' Equity, Years ended December 31, 2001, 2000 and 1999
Consolidated Statements of Cash Flows, Years ended December 31, 2001, 2000 and 1999
Consolidated Statements of Comprehensive Income, Years ended December 31, 2001, 2000 and 1999
Notes to Consolidated Financial Statements

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FINANCIAL STATEMENT SCHEDULES

The following consolidated financial statement schedules and independent auditors' report thereon are included herein:

Independent Auditors' Report on Financial Statement Schedules
Schedule I - Consolidated Summary of Investments, December 31, 2001
Schedule IV - Reinsurance, Years ended December 31, 2001 2000 and 1999
Schedule V - Supplementary Insurance Information, Years ended December 31, 2001, 2000 and 1999

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

EXHIBITS

3.1 Amended and Restated Articles of Incorporation of the Registrant (incorporated by refer Registrant's Annual Report on Form 10-K for the year ended December 31, 1994, File No. 9

3.2 Bylaws, as amended, of the Registrant (incorporated by reference to Exhibit 3 to the Reg Form 10-K for the year ended December 31, 1994, File No. 95074227).

10.1.1 Amended and Restated Directors' Discounted Stock Option Plan (incorporation by reference Registrant's Annual Report on form 10-K for the year ended December 31, 1999, File No. 2

10.2 Performance Shares Awards Plan (incorporated by reference to Exhibit 10.2 to the Registr on Form S-8, Registration No. 333-00795).

10.3.1 Amended and Restated 1983 Incentive Stock Option Plan (incorporated by reference to Exhi Annual Report on Form 10-K for the year ended December 31, 1999, File No. 2-39729).

10.3.2 Form of Incentive Stock Option Agreement pursuant to the 1983 Incentive Stock Option Pla to Exhibit 10.3.2 to the Registrant's Annual Report on Form 10-K for the year ended Dece

11. Statement re: Computation of Earnings per Share

21. Subsidiaries of the Registrant.

All other exhibits are omitted as the required documents are inapplicable.

REPORT ON FORM 8-K

No report on Form 8-K was filed for the fourth quarter of 2001.

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THE BOARD OF DIRECTORS AND SHAREHOLDERS
COTTON STATES LIFE INSURANCE COMPANY

Under date of February 26, 2002, we reported on the consolidated balance sheets of Cotton States Life Insurance Company and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of earnings, shareholders' equity, cash flows, and comprehensive income for each of the years in the three year period ended December 31, 2001, as contained in the 2001 annual report to shareholders. Those consolidated financial statements and our report thereon are included in the annual report on Form 10-K for the year 2001. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedules as listed in Item 14. The financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

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

/s/KPMG LLP
Atlanta, Georgia
February 26, 2002

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SCHEDULE I

COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED SUMMARY OF INVESTMENTS
DECEMBER 31, 2001

| Type of Investments | Cost | Fai Val |
|---|---|---|
| Fixed maturities, held for investment: | | |
| Bonds: | | |
| Foreign governments | $ 999,765 | 1,0 |

| | | |
|---|---|---|
| Public utilities | 4,346,431 | 4,4 |
| All other corporate bonds | 6,206,004 | 6,4 |
| Total fixed maturities held for investment | 11,552,200 | 11,9 |
| Fixed maturities, available for sale: | | |
| Bonds: | | |
| United States government and government agencies and authorities | 50,859,038 | 51,9 |
| Foreign governments | 2,862,035 | 3,0 |
| Public utilities | 8,495,268 | 8,5 |
| All other corporate bonds | 68,087,460 | 68,3 |
| Total fixed maturities available for sale | 130,303,801 | 131,9 |
| Equity securities | 3,673,660 | 3,4 |
| First mortgage loans on real estate | 1,671,989 | 1,7 |
| Policy loans | 9,661,247 | 9,6 |
| Other investments | 1,000,000 | 1,0 |
| Total investments | $ 157,862,897 | 159,7 |

See accompanying independent auditors' report.



SCHEDULE I

COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
REINSURANCE
YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

| | GROSS AMOUNT | CEDED TO OTHER COMPANIES | ASSUMED FROM OTHE COMPANIES( |
|---|---|---|---|
| YEAR ENDED DECEMBER 31, 2001 | | | |
| Life insurance inforce | $ 5,041,438,000 | 1,333,597,000 | 1,229,093, |
| Premiums: | | | |
| Life insurance | $ 33,524,955 | 4,329,538 | 923, |
| Accident/health insurance | 135,574 | 33,689 | |
| Total | $ 33,660,529 | 4,363,227 | 923, |

YEAR ENDED DECEMBER 31, 2000

| | | | |
|---|---|---|---|
| Life insurance inforce | $ 4,794,431,000 | 1,251,895,000 | 780,840, |
| Premiums: | | | |
| Life insurance | $ 30,194,291 | 4,264,239 | 766, |
| Accident/health insurance | 151,733 | 31,475 | |
| Total | $ 30,346,024 | 4,295,714 | 766, |

YEAR ENDED DECEMBER 31, 1999

| | | | |
|---|---|---|---|
| Life insurance inforce | $ 4,444,114,000 | 1,113,206,000 | 733,058, |
| Premiums: | | | |
| Life insurance | $ 26,382,782 | 3,886,199 | 667, |
| Accident/health insurance | 171,334 | 33,508 | |
| Total | $ 26,554,116 | 3,919,707 | 667, |

(1) All reinsurance assumed results from participation in Federally sponsored group pools.

See accompanying independent auditors' report.



SCHEDULE V

COTTON STATES LIFE INSURANCE COMPANY AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
DECEMBER 31, 2001 AND 2000

| | DEFERRED POLICY ACQUISITION COSTS | FUTU POLI BENEF |
|---|---|---|
| Segment | | |
| At December 31, 2001 | | |
| Individual | $ 51,660,808 | 145,69 |
| Group | -- | 3 |
| Total | $ 51,660,808 | 145,73 |

At December 31, 2000

| | | |
|---|---|---|
| Individual | $ 46,856,705 | 132,61 |
| Group | -- | 4 |
| Total | $ 46,856,705 | 132,65 |

See accompanying independent auditors' report.

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SIGNATURES

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

COTTON STATES LIFE INSURANCE COMPANY

| | | | |
|---|---|---|---|
| J. Ridley Howard | 02/26/02 | William J. Barlow | 02/26/02 |
| | DATE | | DATE |
| Chairman of the Board of Directors/ President and Chief Executive Officer | | Vice President/Controller and Assistant Treasurer | |

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.

| | | | |
|---|---|---|---|
| Carol Cherry | 02/26/02 | Robert McMahan | 02/26/02 |
| Director | DATE | Director | DATE |
| Gaylord Coan | 2/26/02 | Darrell Pittard | 02/26/02 |
| Director | DATE | Director | DATE |
| Thomas Harris | 02/26/02 | Mathews Swift | 02/26/02 |
| Director | DATE | Director | DATE |
| J. Ridley Howard | 02/26/02 | Jenner Wood, III | 02/26/02 |
| Director | DATE | Director | DATE |