

ALABAMA POWER CO
Form 424B2
May 19, 2011

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**Filed Pursuant to Rule 424(b)(2)
Registration No. 333-172528**

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Maximum Aggregate Offering Price Per Unit	Amount of Registration Fee(1)(2)
Series 2011B 3.950% Senior Notes due June 1, 2021	\$200,000,000	\$23,220

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended.

(2) This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in Alabama Power Company's Registration Statement on Form S-3 (Registration No. 333-172528).

PROSPECTUS SUPPLEMENT

(To Prospectus dated February 28, 2011)

\$200,000,000

**Series 2011B 3.950% Senior Notes
due June 1, 2021**

This is a public offering by Alabama Power Company of \$200,000,000 of Series 2011B 3.950% Senior Notes due June 1, 2021. Interest on the Series 2011B Senior Notes is payable semi-annually in arrears on June 1 and December 1 of each year, beginning December 1, 2011.

Alabama Power Company may redeem the Series 2011B Senior Notes, in whole or in part, at any time and from time to time, at a make-whole redemption price as described under the caption Description of the Series 2011B Senior Notes Optional Redemption.

The Series 2011B Senior Notes are unsecured and unsubordinated and rank equally with all of Alabama Power Company's other unsecured and unsubordinated indebtedness from time to time outstanding and will be effectively subordinated to all secured indebtedness of Alabama Power Company.

See RISK FACTORS on page S-3 for a description of certain risks associated with investing in the Series 2011B Senior Notes.

	Per Series 2011B Senior Note	Total
Public Offering Price (1)	99.786%	\$ 199,572,000

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Underwriting Discount	0.650%	\$ 1,300,000
Proceeds, before expenses, to Alabama Power Company	99.136%	\$ 198,272,000

- (1) Plus accrued interest, if any, from the date of original issuance of the Series 2011B Senior Notes, which is expected to be May 24, 2011.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this Prospectus Supplement or the accompanying Prospectus. Any representation to the contrary is a criminal offense.

The Series 2011B Senior Notes should be delivered on or about May 24, 2011 through the book-entry facilities of The Depository Trust Company.

Joint Book-Running Managers

BNY Mellon Capital Markets, LLC

Goldman, Sachs & Co.

J.P. Morgan

Scotia Capital

Co-Manager

Morgan Keegan

May 18, 2011

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this Prospectus Supplement, the accompanying Prospectus or any written communication from Alabama Power Company or the underwriters specifying the final terms of the offering. Neither Alabama Power Company nor any underwriter takes any responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This Prospectus Supplement, the accompanying Prospectus and any written communication from Alabama Power Company or the underwriters specifying the final terms of the offering is an offer to sell only the Series 2011B Senior Notes offered hereby, and only under circumstances and in jurisdictions where it is lawful to do so. The information incorporated by reference or contained in this Prospectus Supplement, the accompanying Prospectus and any written communication from Alabama Power Company or the underwriters specifying the final terms of the offering is current only as of its respective date.

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Investing in the Series 2011B Senior Notes involves risk. Please see the risk factors in Alabama Power Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (the "Form 10-K") and Alabama Power Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, which are incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The risks and uncertainties not presently known to Alabama Power Company or that Alabama Power Company currently deems immaterial may also impair its business operations, its financial results and the value of the Series 2011B Senior Notes.

THE COMPANY

Alabama Power Company (the "Company") is a corporation organized under the laws of the State of Alabama on November 10, 1927, by the consolidation of a predecessor Alabama Power Company, Gulf Electric Company and Houston Power Company. The Company has its principal office at 600 North 18th Street, Birmingham, Alabama 35291, telephone (205) 257-1000. The Company is a wholly owned subsidiary of The Southern Company.

The Company is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy within an approximately 44,500 square mile service area comprising most of the State of Alabama.

SELECTED FINANCIAL INFORMATION

The following selected financial data for the years ended December 31, 2006 through December 31, 2010 has been derived from the Company's audited financial statements and related notes and the unaudited selected financial data incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The following selected financial data for the three months ended March 31, 2011 has been derived from the Company's unaudited financial statements and related notes incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The information set forth below is qualified in its entirety by reference to and, therefore, should be read together with management's discussion and analysis of results of operations and financial condition, the financial statements and related notes and other financial information incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The information set forth below does not reflect the issuance of the Series 2011B Senior Notes offered hereby or the use of proceeds therefrom or the proposed issuance in May 2011 of the Company's Series 2011C Senior Notes (the "Series 2011C Senior Notes") or the use of proceeds therefrom. See "Use of Proceeds."

	2006	Year Ended December 31,			2010	Three Months Ended March 31, 2011(1)
		2007	2008	2009		
		(Millions, except ratios)				
Operating Revenues	\$ 5,015	\$ 5,360	\$ 6,077	\$ 5,529	\$ 5,976	\$ 1,320
Earnings Before Income Taxes	873	967	1,023	1,093	1,209	258
Net Income After Dividends on Preferred and Preference Stock	518	580	616	670	707	152
Ratio of Earnings to Fixed Charges(2)	4.34	4.30	4.41	4.29	4.80	4.37

	Capitalization		
	As of March 31, 2011		
	Actual	As Adjusted(3)	
	(Millions, except Percentages)		
Common Stockholder's Equity	\$ 5,419	\$ 5,281	43.2%
Cumulative Redeemable Preferred Stock	342	342	2.8
Preference Stock	343	343	2.8
Senior Notes	4,875	4,875	40.0
Other Long-term Debt	1,360	1,360	11.2
Total, excluding amounts due within one year	\$ 12,339	\$ 12,201	100.0%

- (1) Due to the seasonal variations in the demand for energy, operating results for the three months ended March 31, 2011 do not necessarily indicate operating results for the entire year.
- (2) This ratio is computed as follows: (i) Earnings have been calculated by adding to Earnings Before Income Taxes Interest expense, net of amounts capitalized and the debt portion of allowance for funds used during construction; and (ii) Fixed Charges consist of Interest expense, net of amounts capitalized and the debt portion of allowance for funds used during construction.
- (3) Reflects the declaration of a common stock dividend payable to The Southern Company of approximately \$138,000,000 in April 2011.

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USE OF PROCEEDS

The net proceeds from the sale of the Series 2011B Senior Notes together with the net proceeds from the sale of the Series 2011C Senior Notes will be used by the Company for the proposed redemption of \$100,000,000 aggregate principal amount of the Company's Series GG 5.75% Senior Notes due February 1, 2046, \$200,000,000 aggregate principal amount of the Company's Series II 5.875% Senior Notes due March 15, 2046 and \$150,000,000 aggregate principal amount of the Company's Series JJ 6.375% Senior Notes due June 15, 2046. The Company currently plans to deliver notices of redemption for such senior notes prior to the issuance of the Series 2011B Senior Notes and the Series 2011C Senior Notes.

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DESCRIPTION OF THE SERIES 2011B SENIOR NOTES

Set forth below is a description of the specific terms of the Series 2011B 3.950% Senior Notes due June 1, 2021 (the Series 2011B Senior Notes). This description supplements, and should be read together with, the description of the general terms and provisions of the senior notes set forth in the accompanying Prospectus under the caption

Description of the Senior Notes. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the description in the accompanying Prospectus and the Senior Note Indenture (the Senior Note Indenture) dated as of December 1, 1997, as supplemented, between the Company and The Bank of New York Mellon (as successor to JPMorgan Chase Bank, N.A. (formerly known as The Chase Manhattan Bank)), as trustee (the Senior Note Indenture Trustee).

General

The Series 2011B Senior Notes will be issued as a series of senior notes under the Senior Note Indenture. The Series 2011B Senior Notes will be initially issued in the aggregate principal amount of \$200,000,000. The Company may, without the consent of the holders of the Series 2011B Senior Notes, issue additional notes having the same ranking and interest rate, maturity and other terms as the Series 2011B Senior Notes (except for the issue price and issue date and the initial interest accrual date and initial Interest Payment Date (as defined below), if applicable). Any additional notes having such similar terms, together with the Series 2011B Senior Notes, will constitute a single series of senior notes under the Senior Note Indenture.

The entire principal amount of the Series 2011B Senior Notes will mature and become due and payable, together with any accrued and unpaid interest thereon, on June 1, 2021. The Series 2011B Senior Notes are not subject to any sinking fund provision. The Series 2011B Senior Notes are available for purchase in denominations of \$1,000 and any integral multiple thereof.

Interest

Each Series 2011B Senior Note will bear interest at the rate of 3.950% per year (the Securities Rate) from the date of original issuance, payable semi-annually in arrears on June 1 and December 1 of each year (each, an Interest Payment Date) to the person in whose name such Series 2011B Senior Note is registered at the close of business on the fifteenth calendar day prior to such Interest Payment Date (whether or not a Business Day). The initial Interest Payment Date is December 1, 2011. The amount of interest payable will be computed on the basis of a 360-day year of twelve 30-day months. In the event that any date on which interest is payable on the Series 2011B Senior Notes is not a Business Day, then payment of the interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. Business Day means a day other than (i) a Saturday or Sunday, (ii) a day on which banks in New York, New York are authorized or obligated by law or executive order to remain closed or (iii) a day on which the Senior Note Indenture Trustee s corporate trust office is closed for business.

Ranking

The Series 2011B Senior Notes will be direct, unsecured and unsubordinated obligations of the Company and will rank equally with all other unsecured and unsubordinated obligations of the Company. The Series 2011B Senior Notes will be effectively subordinated to all secured debt of the Company, aggregating approximately \$153,000,000 outstanding at March 31, 2011. The Senior Note Indenture contains no restrictions on the amount of additional indebtedness that may be incurred by the Company.

Optional Redemption

The Series 2011B Senior Notes will be subject to redemption at the option of the Company in whole or in part at any time and from time to time upon not less than 30 nor more than 60 days' notice at a redemption price equal to the greater of (i) 100% of the principal amount of the Series 2011B Senior Notes to be redeemed and (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2011B Senior Notes being redeemed (not including any portion of such payments of interest accrued to the redemption date) discounted (for purposes of determining present value) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a discount rate equal to the Treasury Yield (as defined below) plus 12.5 basis points (each, a Redemption Price), plus, in each case, accrued interest on the Series 2011B Senior Notes being redeemed to the redemption date.

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Treasury Yield means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Series 2011B Senior Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Series 2011B Senior Notes.

Comparable Treasury Price means, with respect to any redemption date, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (ii) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

Independent Investment Banker means an independent investment banking institution of national standing appointed by the Company.

Reference Treasury Dealer means a primary U.S. Government securities dealer appointed by the Company.

Reference Treasury Dealer Quotation means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount and quoted in writing to the Company by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day in New York City preceding such redemption date).

If notice of redemption is given as aforesaid, the Series 2011B Senior Notes so to be redeemed shall, on the redemption date, become due and payable at the Redemption Price together with any accrued interest thereon, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Series 2011B Senior Notes shall cease to bear interest. If any Series 2011B Senior Note called for redemption shall not be paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the redemption date at the Securities Rate. See **Description of the Senior Notes** **Events of Default** in the accompanying Prospectus.

Subject to the foregoing and to applicable law (including, without limitation, United States federal securities laws), the Company or its affiliates may, at any time and from time to time, purchase outstanding Series 2011B Senior Notes by tender, in the open market or by private agreement.

Book-Entry Only Issuance The Depository Trust Company

The Depository Trust Company (**DTC**) will act as the initial securities depository for the Series 2011B Senior Notes. The Series 2011B Senior Notes will be issued only as fully registered securities registered in the name of Cede & Co., **DTC**'s nominee, or such other name as may be requested by an authorized representative of **DTC**. One or more fully registered global Series 2011B Senior Notes certificates will be issued, representing in the aggregate the total principal amount of the Series 2011B Senior Notes, and will be deposited with the Senior Note Indenture Trustee on behalf of **DTC**.

DTC is a limited-purpose trust company organized under the New York Banking Law, a **banking organization** within the meaning of the New York Banking Law, a member of the Federal Reserve System, a **clearing corporation** within the meaning of the New York Uniform Commercial Code and a **clearing agency** registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the **1934 Act**). **DTC** holds and provides asset

servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments from over 100 countries that DTC's participants (Direct Participants) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust

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companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (DTCC). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). The DTC rules applicable to its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The contents of such websites do not constitute part of this Prospectus Supplement.

Purchases of Series 2011B Senior Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011B Senior Notes on DTC's records. The ownership interest of each actual purchaser of Series 2011B Senior Notes (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners purchased Series 2011B Senior Notes. Transfers of ownership interests in the Series 2011B Senior Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2011B Senior Notes, except in the event that use of the book-entry system for the Series 2011B Senior Notes is discontinued.

To facilitate subsequent transfers, all Series 2011B Senior Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2011B Senior Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any changes in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011B Senior Notes. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011B Senior Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2011B Senior Notes are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such Series 2011B Senior Notes to be redeemed.

Although voting with respect to the Series 2011B Senior Notes is limited, in those cases where a vote is required, neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2011B Senior Notes unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Company as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2011B Senior Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments on the Series 2011B Senior Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Company or the Senior Note Indenture Trustee on the relevant payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct or Indirect

Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers registered in street name, and will be the responsibility of such Direct or Indirect Participant and not of DTC or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Company, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

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Except as provided herein, a Beneficial Owner of a global Series 2011B Senior Note will not be entitled to receive physical delivery of Series 2011B Senior Notes. Accordingly, each Beneficial Owner must rely on the procedures of DTC to exercise any rights under the Series 2011B Senior Notes. The laws of some jurisdictions require that certain purchasers of securities take physical delivery of securities in definitive form. Such laws may impair the ability to transfer beneficial interests in a global Series 2011B Senior Note.

DTC may discontinue providing its services as securities depository with respect to the Series 2011B Senior Notes at any time by giving reasonable notice to the Company. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2011B Senior Notes certificates will be required to be printed and delivered to the holders of record. Additionally, the Company may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) with respect to the Series 2011B Senior Notes. The Company understands, however, that under current industry practices, DTC would notify its Direct and Indirect Participants of the Company's decision, but will only withdraw beneficial interests from a global Series 2011B Senior Note at the request of each Direct or Indirect Participant. In that event, certificates for the Series 2011B Senior Notes will be printed and delivered to the applicable Direct or Indirect Participant.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Company believes to be reliable, but neither the Company nor any underwriter takes any responsibility for the accuracy thereof. Neither the Company nor any underwriter has any responsibility for the performance by DTC or its Direct or Indirect Participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

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Subject to the terms and conditions of an underwriting agreement (the **Underwriting Agreement**), the Company has agreed to sell to each of the underwriters named below (the **Underwriters**) for whom BNY Mellon Capital Markets, LLC, Goldman, Sachs & Co., J.P. Morgan Securities LLC and Scotia Capital (USA) Inc. are acting as representatives (the **Representatives**) and each of the Underwriters has severally agreed to purchase from the Company the principal amount of the Series 2011B Senior Notes set forth opposite its name below:

Underwriters	Principal Amount of Series 2011B Senior Notes
BNY Mellon Capital Markets, LLC	\$ 48,000,000
Goldman, Sachs & Co.	48,000,000
J.P. Morgan Securities LLC	48,000,000
Scotia Capital (USA) Inc.	48,000,000
Morgan Keegan & Company, Inc.	8,000,000
Total	\$ 200,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the Series 2011B Senior Notes are subject to, among other things, the approval of certain legal matters by their counsel and certain other conditions. In the Underwriting Agreement, the Underwriters have severally agreed, subject to the terms and conditions set forth therein, to purchase all of the Series 2011B Senior Notes offered hereby, if any of the Series 2011B Senior Notes are purchased.

The Underwriters propose to offer the Series 2011B Senior Notes directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and may offer them to certain securities dealers at such price less a concession not in excess of 0.400% of the principal amount per Series 2011B Senior Note. The Underwriters may allow, and such dealers may reallow, a concession not in excess of 0.250% of the principal amount per Series 2011B Senior Note to certain brokers and dealers. After the initial public offering, the offering price and other selling terms may from time to time be varied by the Underwriters. The offering of the Series 2011B Senior Notes by the Underwriters is subject to receipt and acceptance and subject to the Underwriters' right to reject any order in whole or in part.

The Series 2011B Senior Notes are a new issue of securities with no established trading market. The Series 2011B Senior Notes will not be listed on any securities exchange or on any automated dealer quotation system. The Underwriters may make a market in the Series 2011B Senior Notes after completion of the offering, but will not be obligated to do so and may discontinue any market-making activities at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series 2011B Senior Notes or that an active public market for the Series 2011B Senior Notes will develop. If an active public trading market for the Series 2011B Senior Notes does not develop, the market price and liquidity of the Series 2011B Senior Notes may be adversely affected.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Company's expenses associated with the offer and sale of the Series 2011B Senior Notes are estimated to be \$325,000.

The Company has agreed with the Underwriters that, during the period 15 days from the date of the Underwriting Agreement, it will not sell, offer to sell, grant any option for the sale of, or otherwise dispose of any Series 2011B Senior Notes, any security convertible into, exchangeable into or exercisable for the Series 2011B Senior Notes or any debt securities substantially similar to the Series 2011B Senior Notes (except for the Series 2011B Senior Notes issued pursuant to the Underwriting Agreement and the Series 2011C Senior Notes) without the prior written consent of the Representatives. This agreement does not apply to issuances of commercial paper or other debt securities with scheduled maturities of less than one year.

In order to facilitate the offering of the Series 2011B Senior Notes, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Series 2011B Senior Notes. Specifically,

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the Underwriters may over-allot in connection with the offering, creating short positions in the Series 2011B Senior Notes for their own accounts. In addition, to cover over-allotments or to stabilize the price of the Series 2011B Senior Notes, the Underwriters may bid for, and purchase, Series 2011B Senior Notes in the open market. The Underwriters may reclaim selling concessions allowed to an Underwriter or dealer for distributing Series 2011B Senior Notes in the offering, if the Underwriters repurchase previously distributed Series 2011B Senior Notes in transactions to cover short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the Series 2011B Senior Notes above independent market levels. The Underwriters are not required to engage in these activities, and may end any of these activities at any time without notice.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. The imposition of a penalty bid might also have an effect on the price of a security to the extent that it were to discourage resales of the security.

Neither the Company nor any Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series 2011B Senior Notes. In addition, neither the Company nor any Underwriter makes any representation that the Underwriters will engage in such transactions or that such transactions once commenced will not be discontinued without notice.

It is expected that delivery of the Series 2011B Senior Notes will be made, against payment for the Series 2011B Senior Notes, on or about May 24, 2011, which will be the fourth business day following the pricing of the Series 2011B Senior Notes. Under Rule 15c6-1 under the 1934 Act, purchases or sales of securities in the secondary market generally are required to settle within three business days (T+3), unless the parties to any such transactions expressly agree otherwise. Accordingly, purchasers of the Series 2011B Senior Notes who wish to trade the Series 2011B Senior Notes on the date of this Prospectus Supplement will be required, because the Series 2011B Senior Notes initially will settle within four business days (T+4), to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Series 2011B Senior Notes who wish to trade on the date of this Prospectus Supplement should consult their own legal advisors.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

Certain of the Underwriters and their affiliates have engaged and may in the future engage in transactions with, and, from time to time, have performed and may perform corporate trust, investment banking and/or commercial banking services for, the Company and certain of its affiliates in the ordinary course of business, for which they have received and will receive customary compensation.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own accounts and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Company. The Underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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PROSPECTUS

**Alabama Power Company
Class A Preferred Stock
Cumulative, Par Value \$1 Per Share
Preference Stock
Senior Notes
Junior Subordinated Notes**

We will provide the specific terms of these securities in supplements to this Prospectus. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest.

See Risk Factors on page 2 for information on certain risks related to the purchase of securities offered by this Prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This Prospectus is dated February 28, 2011

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ABOUT THIS PROSPECTUS

This Prospectus is part of a registration statement filed with the Securities and Exchange Commission (the Commission) using a shelf registration process under the Securities Act of 1933, as amended (the 1933 Act). Under the shelf process, Alabama Power Company (the Company) may sell, in one or more transactions,

shares of class A preferred stock (the Class A Preferred Stock),

shares of preference stock (the Preference Stock),

senior notes (the Senior Notes), or

junior subordinated notes (the Junior Subordinated Notes).

This Prospectus provides a general description of those securities. Each time the Company sells securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering (Prospectus Supplement). The Prospectus Supplement may also add, update or change information contained in this Prospectus. You should read this Prospectus and the applicable Prospectus Supplement together with additional information under the heading Available Information.

RISK FACTORS

Investing in the Company s securities involves risk. Please see the risk factors described in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, which is incorporated by reference in this Prospectus. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this Prospectus. The risks and uncertainties described are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company deems immaterial may also impair its business operations, its financial results and the value of its securities.

AVAILABLE INFORMATION

The Company has filed with the Commission a registration statement on Form S-3 (the Registration Statement, which term encompasses any amendments to the Registration Statement and exhibits to the Registration Statement) under the 1933 Act. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules to the Registration Statement, to which reference is made.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the 1934 Act), and in accordance with the 1934 Act files reports, information statements and other information with the Commission. Such reports and other information can be inspected and copied at the Public Reference Room of the Commission at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-800-SEC-0330. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including the Company that file electronically at <http://www.sec.gov>. In addition, reports and other material concerning the

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Company can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which Exchange certain of the Company's outstanding securities are listed.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 has been filed with the Commission pursuant to the 1934 Act and is incorporated by reference in this Prospectus and made a part of this Prospectus.

All documents filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of this Prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this Prospectus and made a part of this Prospectus from the date of filing of such documents; provided, however, the Company is not incorporating any information furnished under Item 2.02 or 7.01 of any Current Report on Form 8-K unless specifically stated otherwise. Any statement contained in a document incorporated or deemed to be incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained in this Prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this Prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person, including any beneficial owner, to whom this Prospectus is delivered, on the written or oral request of any such person, a copy of any or all documents incorporated by reference in this Prospectus (other than the exhibits to such documents unless such exhibits are specifically incorporated by reference). Such requests should be directed to William E. Zales, Jr., Vice President and Corporate Secretary, Alabama Power Company, 600 North 18th Street, Birmingham, Alabama 35291, telephone: (205) 257-2714.

ALABAMA POWER COMPANY

The Company is a corporation organized under the laws of the State of Alabama on November 10, 1927, by the consolidation of the predecessor Alabama Power Company, Gulf Electric Company and Houston Power Company. The predecessor Alabama Power Company had a continuous existence since its incorporation in 1906. The principal executive offices of the Company are located at 600 North 18th Street, Birmingham, Alabama 35291, and the telephone number is (205) 257-1000.

The Company is a wholly owned subsidiary of The Southern Company. The Company is engaged, within the State of Alabama, in the generation and purchase of electricity and the distribution and sale of such electricity at retail in over 650 communities (including Anniston, Birmingham, Gadsden, Mobile, Montgomery and Tuscaloosa), as well as in rural areas, and at wholesale to 15 municipally-owned electric distribution systems, 11 of which are served indirectly through sales to the Alabama Municipal Electric Authority, and two rural distributing cooperative associations. The Company also supplies steam service in downtown Birmingham. The Company owns coal reserves near its Gorgas Steam Electric Generating Plant and uses the output of coal from the reserves in its generating plants. It also sells, and cooperates with dealers in promoting the sale of, electric appliances.

The Company and one of its affiliates, Georgia Power Company (GEORGIA), each own 50% of the outstanding common stock of Southern Electric Generating Company (SEGCO). SEGCO owns generating units with an aggregate capacity of 1,019,680 kilowatts at the Ernest C. Gaston Steam Plant (Plant Gaston) on the Coosa River near Wilsonville, Alabama. The Company and GEORGIA are each entitled to one-half of the capacity and energy of these

units. The Company acts as SEGCO's agent in the operation of SEGCO's units and furnishes coal to SEGCO as fuel for its units. SEGCO also owns one 230,000 volt transmission line extending from Plant Gaston to the Georgia state line.

Table of Contents**SELECTED INFORMATION**

The following material, which is presented in this Prospectus solely to furnish limited introductory information regarding the Company, has been selected from, or is based upon, the detailed information and financial statements appearing in the documents incorporated in this Prospectus by reference or elsewhere in this Prospectus, is qualified in its entirety by reference to such documents and, therefore, should be read together with those documents.

Alabama Power Company

Business	Generation, transmission, distribution and sale of electric energy
Service Area	Approximately 45,000 square miles comprising most of the State of Alabama
Customers at December 31, 2010	1,439,016
Generating Capacity at December 31, 2010 (megawatts)	12,222
Sources of Generation during 2010 (megawatt-hours)	Coal (61%), Nuclear (19%), Gas (15%), Hydro (5%)

Certain Ratios

The following table sets forth the Ratios of Earnings to Fixed Charges and Earnings to Fixed Charges Plus Preferred and Preference Dividend Requirements (Pre-Income Tax Basis) for the periods indicated.

			149,069
Finished goods	1,750	1,960	
Inventory reserve	(64,036)	(64,036)	
Total	\$461,136	\$520,000	

Significant Customers

The majority of the Company's revenues were from the Konica Minolta contracts and the NCI grant. Revenue from these sources totaled approximately \$2.3 million or 98% and approximately \$2.7 million or 99% of total revenue for the nine months ended September 30, 2012 and 2011, respectively. Revenue from these sources totaled approximately \$693,000 or 98% and approximately \$1.0 million or 99% of total revenue for the three months ended September 30, 2012 and 2011, respectively. Receivables from these customers accounted for 51% and 48% of total receivables at September 30, 2012 and December 31, 2011, respectively.

Accounts Receivable

The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. The Company reviews all outstanding accounts receivable for collectability on a quarterly basis. An allowance for doubtful accounts is recorded for any amounts deemed uncollectable.

Revenue Recognition

The Company recognizes revenue from contracts on a straight line basis, over the terms of the contract. We recognize revenue from grants based on the grant agreement, at the time the expenses are incurred. Revenue from the sale of the Company's products is recognized upon shipment of such products to its customers.

Deferred Revenue

The Company defers payments received as revenue until earned based on the related contracts on a straight line basis, over the terms of the contract.

Valuation of Deferred Taxes

We account for income taxes in accordance with the liability method. Under the liability method, we recognize deferred assets and liabilities based upon anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. We establish a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be utilized against future taxable income. As of December 31, 2011, the Company has approximately \$56.2 million of Net Operating Loss (NOL) carry forward. There is no provision for income taxes at September 30, 2012, due to the NOL. A full valuation allowance

has been recorded related to any deferred tax assets created from the NOL.

Stock Option Plan

The Company measures the cost of employees services received in exchange for equity awards, including stock options, based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards.

Warrants

The Company has issued warrants, which allow the warrant holder to purchase one share of stock at a specified price for a specified period of time. The Company records equity instruments, including warrants issued to non-employees, based on the fair value at the date of issue. The fair value of the warrants at date of issuance is estimated using the Black-Scholes Model.

3. STOCK-BASED COMPENSATION

For the three and nine months ended September 30, 2012, stock-based compensation for options attributable to employees, officers and directors was approximately \$143,000 and \$493,000, respectively, and has been included in the Company's third quarter 2012 statement of operations. For the three and nine months ended September 30, 2011, stock-based compensation for options attributable to employees, officers and directors was approximately \$96,000 and \$347,000, respectively, and has been included in the Company's third quarter 2011 statement of operations. Compensation costs for stock options, which vest over time, are recognized over the vesting period. As of September 30, 2012, the Company had approximately \$1.6 million of unrecognized compensation expense related to granted stock options, to be recognized over the remaining vesting period of approximately three years.

4. LITIGATION AND CLAIMS

From time to time, the Company may be involved in various legal proceedings and claims arising in the ordinary course of business. Management believes that the disposition of these matters, individually or in the aggregate, is not expected to have a material adverse effect on the Company's financial condition. However, depending on the amount and timing of such disposition, an unfavorable resolution of some or all of these matters could materially affect the future results of operations or cash flows in a particular period.

As of September 30, 2012 and December 31, 2011, there was no accrual recorded for any potential losses related to pending litigation.

5. STOCKHOLDERS' EQUITY

Common Stock

The Company has authorized 145 million shares of common stock with \$0.001 par value, 62,187,321 of which were outstanding as of September 30, 2012. For the quarter ended September 30, 2012, we issued 6,297,258 shares, in connection with the exercise of outstanding warrants.

Preferred Stock

The Company has authorized 5,000,000 shares of preferred stock with a \$.001 par value. The board of directors has the authority to issue these shares and to set dividends, voting and conversion rights, redemption provisions, liquidation preferences, and other rights and restrictions. The board of directors designated 525,000 shares of the preferred stock as redeemable convertible preferred stock. None of the Company's preferred stock was outstanding at September 30, 2012.

Stock Options

The Company has a 1995 stock option plan (the “Plan”) approved by its stockholders for officers, directors and key employees of the Company and consultants to the Company. Participants are eligible to receive incentive and/or nonqualified stock options. The aggregate number of shares that may be granted under the Plan is 13,255,219 shares. The Plan is administered by the compensation committee of the board of directors. The selection of participants, grant of options, determination of price and other conditions relating to the exercise of options are determined by the compensation committee of the board of directors and administered in accordance with the Plan.

Both incentive stock options and non-qualified options granted to employees, officers and directors under the Plan are exercisable for a period of up to 10 years from the date of grant, at an exercise price that is not less than the fair market value of the common stock on the date of the grant. The options typically vest in installments of 1/48 of the options outstanding every month.

A summary of the Company’s activity under the Plan, as of September 30, 2012, and changes during the nine months then ended is as follows:

	Shares	Weighted average exercise price
Outstanding, January 1, 2012	6,862,167	\$ 0.70
Granted	82,500	\$ 0.80
Exercised	(231,461)	\$ 0.27
Expired	(144,000)	\$ 2.87
Outstanding, September 30, 2012	6,569,206	\$ 0.67
Vested and exercisable, September 30, 2012	4,921,215	\$ 0.48

The Company estimates the fair value of stock options using a Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the expected term, expected volatility of the Company’s stock, the risk free interest rate, option forfeiture rates, and dividends, if any. The expected term of the options is based upon the historical term until exercise or expiration of all granted options. The expected volatility is derived from the historical volatility of the Company’s stock on the OTCBB market for a period that matches the expected term of the option. The risk-free interest rate is the constant maturity rate published by the U.S. Federal Reserve Board that corresponds to the expected term of the option.

Under the Plan, a total of 6,686,013 shares remained available at September 30, 2012, and 6,569,206 shares were outstanding as of that date, bringing the total number of shares subject to stock options outstanding and those remaining available for issue to 13,255,219 shares of common stock as of September 30, 2012. The Plan allows the issuance of incentive stock options, nonqualified stock options, and stock purchase rights. The exercise price of options is determined by the Company's board of directors, but incentive stock options must be granted at an exercise price equal to the fair market value of the Company's common stock as of the grant date. Options historically granted have generally become exercisable over four years and expire ten years from the date of grant.

In January 2002, the Company assumed the Sterling Medivations 2000 Stock Option Plan, which authorizes the issuance of up to 93,765 shares of the Company's common stock. No options have been issued under this plan.

Warrants

In July 2012, the Company completed a warrant exchange program, pursuant to which it exchanged warrants exercisable for a total of 15,941,640 shares of common stock, or 56.29% of the warrants eligible to participate, for three classes of new warrants. These exchanges resulted in a deemed dividend of approximately \$2.65 million, reflected as a non-cash disclosure in this quarterly financial statement of cash flows. The first class of new warrants expired on September 17, 2012 and carried an exercise price of \$0.40, \$0.45 or \$0.50, depending on the date exercised. The second class of new warrants carries a one-year extension from the original expiration date and is exercisable at \$0.65. The third class of new warrants carries a two-year extension from the original expiration date and is exercisable at \$0.80. As of September 30, 2012, the Company had issued 7,042,689 shares of common stock and received approximately \$2.9 million in cash, in connection with the exercise of the first class of new warrants (the remainder of which, previously exercisable for 774,192 shares of common stock, expired pursuant to their terms).

The following table summarizes transactions involving the Company's outstanding warrants to purchase common stock for the nine months ended September 30, 2012:

	Warrants (Underlying Shares)
Outstanding, January 1, 2012	31,217,117
Issuances	—
Canceled / Expired	(844,966)
Exercised	(9,570,639)
Outstanding, September 30, 2012	20,801,512

The Company had the following shares reserved for the warrants outstanding as of September 30, 2012:

Warrants (Underlying Shares)	Exercise Price	Expiration Date
12,384,777	(1) \$0.65	03/01/2013
471,856	(2) \$0.65	07/26/2013
3,590,525	(3) \$0.65	03/01/2014
471,856	(4) \$0.80	07/26/2014
3,590,522	(5) \$0.80	03/01/2015
6,790	(6) \$1.01	09/10/2015
285,186	(7) \$1.05	11/20/2016
20,801,512		

- (1) Consists of outstanding warrants issued in connection with various financings, but amended or originally issued on February 26, 2010 to expire on March 1, 2013.
- (2) Consists of outstanding warrants issued in connection with the warrant exchange program in June 2012, to expire on July 26, 2013.
- (3) Consists of outstanding warrants issued in connection with the warrant exchange program in June 2012, to expire on March 1, 2014.
- (4) Consists of outstanding warrants issued in connection with the warrant exchange program in June 2012, to expire on July 26, 2014.
- (5) Consists of outstanding warrants issued in connection with the warrant exchange program in June 2012, to expire on March 1, 2015.
- (6) Consists of outstanding warrants issued in conjunction with a private placement on September 10, 2010, to expire on September 10, 2015.
- (7) Consists of outstanding warrants issued in conjunction with a private placement on November 21, 2011, to expire on November 20, 2016.

6. LOSS PER COMMON SHARE

Basic net loss per share attributable to common stockholders amounts are computed by dividing the net loss plus preferred stock dividends and deemed dividends on preferred stock by the weighted average number of common shares outstanding during the period.

7. NOTES PAYABLE

Loan Payable

At December 31, 2009, the Company maintained a line of credit in the amount of \$75,000 with Pacific International Bank of Seattle, Washington. This line was converted to a 36 months straight-line amortizing loan on February 24, 2010, with monthly principal and interest payment of \$2,220 per month, due February 2013. Interest is charged at a rate of 7.5%. At September 30, 2012, a balance of approximately \$11,000 was outstanding, which is classified as current loan payable. For the same period in 2011, the balance was approximately \$36,000.

Notes Payable – Past Due

At September 30, 2012 the Company was past due on two short-term notes for approximately \$406,000 of principal and accrued interest. For the same period in 2011, the balance was approximately \$353,000. These notes were due on demand and interest is charged at rates ranging between 15-18%.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements in this report which express "belief," "anticipation" or "expectation," as well as other statements which are not historical facts, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or anticipated results, including those set forth under "Risk Factors" below and elsewhere in this report, as well as in our annual report on Form 10-K for the year ended December 31, 2011. Examples of these uncertainties and risks include, but are not limited to:

- the dependence on potential strategic partners or outside investors for funding, development assistance, clinical trials, distribution and marketing of some of our products;
- access to sufficient debt or equity capital to meet our operating and financial needs;
- the effectiveness and ultimate market acceptance of our products;

- whether our products in development will prove safe, feasible and effective;
- whether and when we or any potential strategic partners will obtain approval from the U.S FDA and corresponding foreign agencies;

- our need to achieve manufacturing scale-up in a timely manner, and our need to provide for the efficient manufacturing of sufficient quantities of our products;
- the lack of immediate alternate sources of supply for some critical components of our products;

- our patent and intellectual property position; and
- the need to fully develop the marketing, distribution, customer service and technical support and other functions critical to the success of our product lines.

The following discussion should be read in conjunction with our financial statements and notes thereto included elsewhere in this report.

OVERVIEW

We are a medical technology company focused on developing innovative medical devices that have the potential to improve healthcare. Our primary focus is the development of our LuViva non-invasive cervical cancer detection device and extension of our cancer detection technology into other cancers, especially lung and esophageal. Our technology, including products in research and development, primarily relates to biophotonics technology for the non-invasive detection of cancers, including cervical cancer.

We are a Delaware corporation, originally incorporated in 1992 under the name “SpectRx, Inc.,” and, on February 22, 2008, changed our name to Guided Therapeutics, Inc. At the same time, we renamed our majority owned subsidiary, InterScan, which originally had been incorporated as “Guided Therapeutics.”

Since our inception, we have raised capital through the private sale of preferred stock and debt securities, public and private sales of common stock, funding from collaborative arrangements, and grants.

Our prospects must be considered in light of the substantial risks, expenses and difficulties encountered by entrants into the medical device industry. This industry is characterized by an increasing number of participants, intense competition and a high failure rate. We have experienced operating losses since our inception and, as of September 30, 2012, we had an accumulated deficit of about \$90.9 million. To date, we have engaged primarily in research and development efforts. We do not have significant experience in manufacturing, marketing or selling our products. Our development efforts may not result in commercially viable products and we may not be successful in introducing our products. Moreover, required regulatory clearances or approvals may not be obtained in a timely manner, or at all. Our products may not ever gain market acceptance and we may not ever generate significant revenues or achieve profitability. The development and commercialization of our products requires substantial development, regulatory, sales and marketing, manufacturing and other expenditures. We expect our operating losses to continue through at least the end of 2012 as we continue to expend substantial resources to introduce LuViva, further the development of our other products, obtain regulatory clearances or approvals, build our marketing, sales, manufacturing and finance organizations and conduct further research and development.

Our product revenues to date have been limited. In 2011 and 2010, the majority of our revenues were from private sales of our common stock, grants from the NCI and our collaborative arrangements with Konica Minolta. We expect that the majority of our revenue in 2012 will be derived from similar sources, as well as cash received upon exercise of outstanding warrants.

CRITICAL ACCOUNTING POLICIES

Our material accounting policies, which we believe are the most critical to an investors understanding of our financial results and condition, are discussed below. Because we are still early in our enterprise development, the number of these policies requiring explanation is limited. As we begin to generate increased revenue from different sources, we expect that the number of applicable policies and complexity of the judgments required will increase.

Currently, our policies that could require critical management judgment are in the areas of revenue recognition, reserves for accounts receivable and inventory valuation.

Revenue Recognition: We recognize revenue from contracts on a straight line basis, over the terms of the contract. We recognize revenue from grants based on the grant agreement, at the time the expenses are incurred. Revenue from the sale of the Company's products is recognized upon shipment of such products to its customers.

Valuation of Deferred Taxes: We account for income taxes in accordance with the liability method. Under the liability method, we recognize deferred assets and liabilities based upon anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. We establish a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be utilized against future taxable income.

Stock Option Plan: We measure the cost of employees services received in exchange for equity awards, including stock options, based on the grant date fair value of the awards. The cost will be recognized as compensation expense over the vesting period of the awards.

Warrants: We have issued warrants, which allow the warrant holder to purchase one share of stock at a specified price for a specified period of time. We record equity instruments, including warrants issued to non-employees, based on the fair value at the date of issue. The fair value of the warrants, at date of issuance, is estimated using the Black-Scholes Model.

Allowance for Inventory Valuation: We estimate losses from obsolete and damaged inventories quarterly and revise our reserves as a result.

Allowance for Accounts Receivable: We estimate losses from the inability of our customers to make required payments and periodically review the payment history of each of our customers, as well as their financial condition, and revise our reserves as a result.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

Revenue: Net revenue decreased to approximately \$693,000 for the three months ended September 30, 2012 from approximately \$1.0 million for the same period in 2011. Net revenue was lower for the three months ended September 30, 2012 than the comparable period in 2011, due to the decrease in revenue from contracts relating to our cervical cancer detection technology and the Konica Minolta co-development agreement.

Sales Revenue, Cost of Sales and Gross Loss from Devices: Revenue from the sale of a demonstration LuViva device, for the quarter ended September 30, 2012, was approximately \$43,000, with related cost of sales of approximately \$55,000; resulting in a loss of approximately \$12,000 on the device. We did not have any sales of devices and, therefore, did not incur any cost of sales of devices, in the same period in 2011.

Research and Development Expenses: Research and development expenses increased to approximately \$787,000 for the three months ended September 30, 2012, compared to \$709,000 for the same period in 2011. The increase, of approximately \$78,000, was primarily due to an increase in research and development expenses for the cervical cancer detection products.

Sales and Marketing Expenses: Sales and marketing expenses were approximately \$132,000 during the three months ended September 30, 2012, compared to \$80,000 for the same period in 2011. The increase, of approximately \$52,000, was primarily due to an increase in expenses relating to international marketing efforts for our cervical cancer detection products in development.

General and Administrative Expenses: General and administrative expenses decreased to approximately \$732,000 during the three months ended September 30, 2012, compared to \$2.9 million for the same period in 2011. The decrease of approximately \$2.1 million is primarily related to the issuance of warrants exercisable for 2.6 million shares of common stock in connection with settlement of a claim during the three months ended September 30, 2011.

Other Income: Other income was zero for the three months ended September 30, 2012, compared to \$9,000 for the same period in 2011. Other income for the three months ended September 30, 2011, was associated with a seconded employee from Konica Minolta.

Interest Expense: Interest expense decreased to approximately \$16,000 for the three months ended September 30, 2012, as compared to expense of approximately \$21,000, for the same period in 2011. The decrease in interest expense was a result of lower loan balances for the three months ended September 30, 2012.

Taxes: There is no provision for income taxes, for the three months ended September 30, 2012, due to the approximately \$56.2 NOL carry forward at December 31, 2011. A full valuation allowance has been recorded related to any deferred tax assets created from the NOL.

Net loss was approximately \$986,000 for the three months ended September 30, 2012, compared to a net loss of approximately \$2.7 million for the same period in 2011, for the reasons described above.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

Revenue: Net revenue decreased to approximately \$2.3 million for the nine months ended September 30, 2012, from approximately \$2.7 million for the same period in 2011. Net revenue was lower for the nine months ended September 30, 2012, than the comparable period in 2011, due to the decrease in revenue from contracts relating to our cervical cancer detection technology and the KMOT co-development agreement.

Sales Revenue, Cost of Sales and Gross Loss from Devices: Revenue from the sale of a demonstration LuViva device, for the nine months ended September 30, 2012, was approximately \$72,000, with related cost of sales of approximately \$130,000; resulting in a loss of approximately \$58,000 on the device. We did not have any sales of devices and, therefore, did not incur any cost of sales of devices in the same period in 2011.

Research and Development Expenses: Research and development expenses increased to approximately \$2.4 million for the nine months ended September 30, 2012, compared to approximately \$2.0 million for the same period in 2011. The increase, of approximately \$373,000, is due to an increase in expenses for research and development of the cervical cancer detection products.

Sales and Marketing Expenses: Sales and marketing expenses were approximately \$271,000 during the nine months ended September 30, 2012, compared to \$200,000 for the same period in 2011. The increase, of approximately \$71,000, was primarily due to an increase in expenses relating to marketing efforts for the cervical cancer detection products in development.

General and Administrative Expenses: General and administrative expenses decreased to approximately \$2.7 million during the nine months ended September 30, 2012, compared to approximately \$4.4 million for the same period in 2011. The decrease of approximately \$1.7 million is primarily related to approximately \$2.1 million in cost related to the issuance of warrants exercisable for 2.6 million shares of common stock in connection with settlement of a claim during the nine months ended September 30, 2011, offset in part by (1) a one-time write-off of obsolete materials, due to improved technology and design of our device of approximately \$270,000, (2) an increase in employee stock option expense of approximately \$127,000, due to employee stock options, and (3) an increase in professional fees, related to our products under development.

Other Income: Other income was zero for the nine months ended September 30, 2012, compared to \$53,000 for the same period in 2011. Other income for the nine months ended September 30, 2011, was associated with a seconded employee from Konica Minolta.

Interest Expense: Interest expense decreased to approximately \$52,000 for the nine months ended September 30, 2012, as compared to approximately \$62,000 for the same period in 2011. The decrease is primarily due to the decrease in interest expense on lower loan balances for the nine months ended September 30, 2012.

Taxes: There is no provision for income taxes, for the nine months ended September 30, 2012, due to the approximately \$56.2 NOL carry forward at December 31, 2011. A full valuation allowance has been recorded related to any deferred tax assets created from the NOL.

Net loss was approximately \$3.2 million during the nine months ended September 30, 2012, compared to approximately \$3.9 million for the same period in 2011, for the reasons described above.

LIQUIDITY AND CAPITAL RESOURCES

Since our inception, we have raised capital through the private sale of preferred stock and debt securities, public and private sales of common stock, funding from collaborative arrangements and grants. At September 30, 2012, we had cash of approximately \$2.6 million and working capital of approximately \$607,000.

Our major cash flows for the nine months ended September 30, 2012, consisted of cash out-flows of approximately \$2.1 million from operations, including approximately \$3.2 million of net loss, cash outflow of \$496,000 from investing activities and net cash from financing activities of approximately \$3.0 million, which primarily represents the proceeds received from the exercise of outstanding warrants and options, offset in part by cash utilized for loan repayment.

In July 12, 2012, we completed a warrant exchange program, pursuant to which we exchanged warrants exercisable for a total of 15,941,640 shares of common stock, or 56.29% of the warrants eligible to participate, for three classes of new warrants. The first class of new warrants expired on September 17, 2012 and carried an exercise price of \$0.40, \$0.45 or \$0.50, depending on the date exercised. The second class of new warrants carries a one-year extension from the original expiration date and is exercisable at \$0.65. The third class of new warrants carries a two-year extension from the original expiration date and is exercisable at \$0.80. As of September 30, 2012, we had issued 7,042,689 shares of common stock and received approximately \$2.9 million in cash, in connection with the exercise of the first class of new warrants (the remainder of which, previously exercisable for 774,192 shares of common stock, expired pursuant to their terms).

In June 2012, we extended our existing agreement with Konica Minolta for development of our biophotonic platform specific to the detection of esophageal cancer for an additional year, effective May 1, 2012. In this agreement, we are providing Konica Minolta with technical, regulatory and clinical development of our biophotonic platform device for esophageal cancer detection. We received approximately \$1.72 million in 2011 from Konica Minolta under this development agreement and expect to receive a total of \$1.6 million for the third year of development (May 1, 2012 to April 30, 2013). Pursuant to the assigned task agreement, we retain all rights to use of our cervical cancer detection technology as applied to lung and biliary cancer (previously shared with Konica Minolta under the original assigned task agreement). Also in June 2012, we extended our collaboration agreement with Konica Minolta for the development of spectroscopic technology for an additional year, effective April 20, 2012. We have received \$400,000 pursuant to this extension.

On November 21, 2011, we completed a private placement of 2,056,436 shares of common stock at a purchase price of \$0.84 per share, pursuant to which we raised approximately \$1.7 million. For each share of common stock issued, subscribers received warrants exercisable for the purchase of 1/10 of one share of common stock (in the aggregate, 285,186 shares) at an exercise price of \$1.05 per share. The warrants have a five-year term.

We will be required to raise additional funds through public or private financing, additional collaborative relationships or other arrangements in addition to these sources. We believe our existing and available capital resources will be sufficient to satisfy our funding requirements through the first quarter of 2013. We are evaluating various options to further reduce our cash requirements to operate at a reduced rate, as well as options to raise additional funds, including loans using certain assets as collateral.

Substantial capital will be required to develop our products, including completing product testing and clinical trials, obtaining all required U.S. and foreign regulatory approvals and clearances, and commencing and scaling up manufacturing and marketing our products. Any failure to obtain capital would have a material adverse effect on our business, financial condition and results of operations.

Our financial statements have been prepared and presented on a basis assuming we will continue as a going concern. The above factors raise substantial doubt about our ability to continue as a going concern, as more fully discussed in Note 1 to the consolidated financial statements contained herein and in the report of our independent registered public accounting firm accompanying our financial statements contained in our annual report on Form 10-K for the year ended December 31, 2011.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements, no special purpose entities, and no activities that include non-exchange-traded contracts accounted for at fair value.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company under the supervision and with the participation of management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), evaluated the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of September 30, 2012. The controls and procedures currently used by the Company to calculate and record inventory is not operating effectively. Additionally, the Company lacks the resources to properly research and account for complex transactions. The combination of these controls deficiencies have resulted in a material weakness in our internal control over financial reporting.

Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) were not effective as of September 30, 2012 to provide reasonable assurance that (1) information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (2) information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The effectiveness of any system of controls and procedures is subject to certain limitations, and, as a result, there can be no assurance that our controls and procedures will detect all errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be attained.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

Please refer to Part I, Item 1A, "Risk Factors," in our annual report on Form 10-K for the year ended December 31, 2011, for information regarding factors that could affect our results of operations, financial condition and liquidity.

ITEM 6. EXHIBITS

EXHIBIT INDEX

EXHIBITS

Exhibit Number	Exhibit Description
3.1	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 of the Company's report on Form 8-K, filed March 23, 2012).
31	Rule 13a-14(a)/15d-14(a) Certification
32	Section 1350 Certification
101	XBRL

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GUIDED THERAPEUTICS, INC.

/s/ MARK L. FAUPEL

By: Mark L. Faupel
President, Chief Executive Officer and
Acting Chief Financial Officer

Date: November 13, 2012

