

AMERISAFE INC  
Form 10-Q  
August 08, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008**

Commission file number: 000-51520

**AMERISAFE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Texas  
(State of Incorporation)

75-2069407  
(I.R.S. Employer Identification Number)

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2301 Highway 190 West, DeRidder, Louisiana  
(Address of Principal Executive Offices)

70634  
(Zip Code)

Registrant's telephone number, including area code: (337) 463-9052

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 1, 2008, there were 18,832,506 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

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**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the insurance industry in general. Statements that include the words expect, intend, plan, believe, project, forecast, estimate, may, anticipate and similar statements of a future or forward-looking nature identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

increased competition on the basis of premium rates, coverage availability, payment terms, claims management, safety services, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation;

decreased level of business activity of our policyholders;

the cyclical nature of the workers' compensation insurance industry;

greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;

changes in general economic conditions, including interest rates, inflation and other factors;

negative developments in the workers' compensation insurance industry;

changes in the availability, cost or quality of reinsurance and the failure of our reinsurers to pay claims in a timely manner or at all;

changes in rating agency policies or practices;

loss of the services of any of our senior management or other key employees;

developments in capital markets that adversely affect the performance of our investments;

changes in regulations, laws, rates, or rating factors applicable to us, our policyholders or the agencies that sell our insurance;

changes in legal theories of liability under our insurance policies;

decreased demand for our insurance; and

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the effects of U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report, including under the caption **Risk Factors** in Item 1A, **Risk Factors** of Part I to our Annual Report on Form 10-K for the year ended December 31, 2007. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****AMERISAFE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except share and per share data)**

	<b>June 30, 2008 (unaudited)</b>	<b>December 31, 2007</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value \$667,433 and \$640,037 in 2008 and 2007, respectively)	\$ 678,763	\$ 639,691
Fixed maturity securities available-for-sale, at fair value (cost \$0 and \$32,425 in 2008 and 2007, respectively)		32,425
Equity securities available-for-sale, at fair value (cost \$42,069 and \$40,381 in 2008 and 2007, respectively)	35,716	39,629
Total investments	714,479	711,745
Cash and cash equivalents	54,253	47,329
Amounts recoverable from reinsurers	69,500	76,915
Premiums receivable, net	173,369	152,150
Deferred income taxes	30,948	26,418
Accrued interest receivable	7,103	7,079
Property and equipment, net	5,134	5,407
Deferred policy acquisition costs	20,781	18,414
Deferred charges	3,902	3,553
Federal income tax recoverable	6,016	10
Other assets	19,812	12,833
	\$ 1,105,297	\$ 1,061,853
<b>Liabilities, redeemable preferred stock and shareholders' equity</b>		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 546,122	\$ 537,403
Unearned premiums	149,475	138,402
Reinsurance premiums payable		720
Amounts held for others	5,824	2,972
Policyholder deposits	41,169	41,516
Insurance-related assessments	44,639	42,234
Accounts payable and other liabilities	27,136	28,946
Subordinated debt securities	36,090	36,090
	850,455	828,283
Redeemable preferred stock	25,000	25,000
Shareholders' equity:		
Common stock:		
Voting \$0.01 par value authorized shares 50,000,000 in 2008 and 2007; issued and outstanding shares 18,832,506 in 2008 and 18,813,040 in 2007	188	188
Additional paid-in capital	174,195	173,589
Accumulated earnings	57,980	33,230
Accumulated other comprehensive income (loss)	(2,521)	1,563

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229,842 208,570

\$ 1,105,297 \$ 1,061,853

See accompanying notes.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Revenues</b>				
Gross premiums written	\$ 85,995	\$ 94,290	\$ 166,972	\$ 184,775
Ceded premiums written	(4,666)	(4,887)	(9,456)	(9,860)
Net premiums written	\$ 81,329	\$ 89,403	\$ 157,516	\$ 174,915
Net premiums earned	\$ 72,143	\$ 77,106	\$ 146,443	\$ 152,987
Net investment income	7,405	7,433	15,222	14,358
Net realized gains on investments	53	36	61	36
Fee and other income	229	138	370	277
<b>Total revenues</b>	<b>79,830</b>	<b>84,713</b>	<b>162,096</b>	<b>167,658</b>
<b>Expenses</b>				
Loss and loss adjustment expenses incurred	47,317	53,203	97,245	105,706
Underwriting and certain other operating costs	2,476	5,144	7,152	12,667
Commissions	6,521	5,079	11,354	10,009
Salaries and benefits	5,152	4,606	10,157	9,311
Interest expense	657	886	1,426	1,764
Policyholder dividends	122	166	438	687
<b>Total expenses</b>	<b>62,245</b>	<b>69,084</b>	<b>127,772</b>	<b>140,144</b>
Income before income taxes	17,585	15,629	34,324	27,514
Income tax expense	4,758	4,267	9,574	7,734
Net income	12,827	11,362	24,750	19,780
Preferred stock dividends				
Net income available to common shareholders	\$ 12,827	\$ 11,362	\$ 24,750	\$ 19,780
<b>Earnings per share</b>				
Basic	\$ 0.64	\$ 0.57	\$ 1.24	\$ 0.99
Diluted	\$ 0.63	\$ 0.56	\$ 1.22	\$ 0.98
<b>Shares used in computing earnings per share</b>				
Basic	18,809,250	18,779,248	18,803,805	18,744,818
Diluted	19,091,675	19,109,452	19,060,673	19,055,149



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See accompanying notes.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2008	2007
<b>Operating Activities</b>		
Net income	\$ 24,750	\$ 19,780
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	553	959
Net amortization of investments	1,404	1,471
Deferred income taxes	(2,331)	(1,689)
Net realized gains on investments	(61)	(36)
Loss on sale of fixed assets	4	
Share-based compensation	577	554
Changes in operating assets and liabilities:		
Premiums receivable	(21,220)	(33,831)
Accrued interest receivable	(24)	(503)
Deferred policy acquisition costs and deferred charges	(2,716)	(2,754)
Other assets	(12,985)	(2,640)
Reserves for loss and loss adjustment expenses	8,719	25,962
Unearned premiums	11,073	21,928
Reinsurance balances	6,694	16,956
Amounts held for others and policyholder deposits	2,505	2,668
Accounts payable and other liabilities	595	1,179
Net cash provided by operating activities	17,537	50,004
<b>Investing Activities</b>		
Purchases of investments held-to-maturity	(91,033)	(83,906)
Purchases of investments available-for-sale	(2,311)	(302,386)
Proceeds from maturities of investments held-to-maturity	49,930	69,987
Proceeds from sales and maturities of investments available-for-sale	33,054	287,400
Purchases of property and equipment	(283)	(50)
Net cash used in investing activities	(10,643)	(28,955)
<b>Financing Activities</b>		
Proceeds from stock option exercises	34	730
Tax benefit (expense) from share-based payments	(4)	170
Net cash provided by financing activities	30	900
Change in cash and cash equivalents	6,924	21,949
Cash and cash equivalents at beginning of period	47,329	26,748
Cash and cash equivalents at end of period	\$ 54,253	\$ 48,697

See accompanying notes.



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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1. Basis of Presentation**

AMERISAFE, Inc. (the Company) is an insurance holding company incorporated in the state of Texas. The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries: American Interstate Insurance Company (AIIC), Silver Oak Casualty, Inc. (SOCI), American Interstate Insurance Company of Texas (AIICTX), Amerisafe Risk Services, Inc. (RISK) and Amerisafe General Agency, Inc. (AGAI). AIIC and SOCI are property and casualty insurance companies organized under the laws of the state of Louisiana. AIICTX is a property and casualty insurance company organized under the laws of the state of Texas. RISK, a wholly owned subsidiary of the Company, is a claims and safety services company, currently servicing only affiliate insurance companies. AGAI, a wholly owned subsidiary of the Company, is a general agent for the Company. AGAI sells insurance, which is underwritten by AIIC, SOCI and AIICTX, as well as by nonaffiliated insurance carriers. The assets and operations of AGAI are not significant to that of the Company and its consolidated subsidiaries. The terms AMERISAFE, the Company, we, us, or our refer to AMERISAFE, Inc. and its consolidated subsidiaries in the context requires.

The Company provides workers compensation and general liability insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking and logging. Assets and revenues of AIIC represent more than 99% of comparable consolidated amounts of the Company for each of 2008 and 2007.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, the results of operations and cash flows for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934 and therefore do not include all information and footnotes to be in conformity with accounting principles generally accepted in the United States (GAAP). The results for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited condensed consolidated financial statements contained herein should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2. Stock Options and Restricted Stock**

In connection with the initial public offering of shares of the Company's common stock in November 2005, the Company's shareholders approved the AMERISAFE 2005 Equity Incentive Plan (the 2005 Incentive Plan) and the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2005 Restricted Stock Plan). See Note 13 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 for additional information regarding the Company's incentive plans.

In March 2007, the compensation committee of our board of directors approved incentive compensation awards to each of the Company's executive officers for services rendered in 2006. The awards were composed of cash bonuses and grants of restricted common stock. The restricted stock awards were made pursuant to the Company's 2005 Incentive Plan. Vesting of those 13,030 restricted shares took place in March 2008.

In January 2008, the Company granted options to purchase an aggregate of 20,000 shares of the Company's common stock at a per-share exercise price equal to the market value of the Company's common stock on the date of grant in connection with the employment of a new officer. Those options were made pursuant to the Company's 2005 Incentive Plan.

In February 2008, the compensation committee of our board of directors approved incentive compensation awards to each of the Company's executive officers for services rendered in 2007. The awards were composed of cash bonuses and grants of restricted common stock that were made pursuant to the Company's 2005 Incentive Plan. The market value of the 9,198 restricted shares granted was \$121,000. Those restricted shares not forfeited will vest in March 2009, the first anniversary of the date of grant.



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Pursuant to the 2005 Restricted Stock Plan, 5,943 shares of restricted common stock granted to non-employee directors in June 2007 vested on June 16, 2008, the date of the annual shareholders meeting. Also on June 16, 2008, non-employee directors were granted 6,468 shares of restricted common stock in accordance with the 2005 Restricted Stock Plan. The market value of the restricted shares granted was \$105,000, and those restricted shares will vest at the next annual shareholders meeting.

During the six months ended June 30, 2008, there were 3,800 stock options exercised. Related to these exercises, the Company received \$34,000 of stock option proceeds.

The Company recognized share-based compensation expense of \$350,000 in the quarter ended June 30, 2008, compared to \$273,000 for the same period in 2007. The Company recognized share-based compensation expense of \$577,000 in the six months ended June 30, 2008, compared to \$554,000 for the same period in 2007.

**Note 3. Earnings Per Share**

We compute earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Additionally, we apply the two-class method in computing basic and diluted earnings per share. The two-class method was introduced in SFAS 128, and further clarified in Emerging Issues Task Force (EITF) No. 03-06, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share, (Issue 03-6). Under the two-class method, net income is allocated between common stock and any securities other than common stock that are eligible to participate in dividends with common stock. Our redeemable preferred stock qualifies as participating securities under SFAS 128 and EITF 03-06.

The two-class method allocates net income available to common shareholders and participating securities to the extent that each security shares in earnings as if all earnings for the period had been distributed. The amount of earnings allocable to common shareholders is divided by the weighted-average number of common shares outstanding for the period. Participating securities that are convertible into common stock are included in the computation of basic earnings per share if the effect is dilutive.

Diluted earnings per share includes potential common shares assumed issued under the treasury stock method, which reflects the potential dilution that would occur if any outstanding options are exercised. Diluted earnings per share also includes the if converted method for participating securities if the effect is dilutive. The two-class method of calculating diluted earnings per share is used whether the if converted result is dilutive or anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Basic EPS:</b>				
Net income available to common shareholders	\$ 12,827	\$ 11,362	\$ 24,750	\$ 19,780
Portion allocable to common shareholders	94.0%	94.0%	94.0%	94.0%
Net income allocable to common shareholders	\$ 12,057	\$ 10,683	\$ 23,265	\$ 18,595
Basic weighted average common shares	18,809,250	18,779,248	18,803,805	18,744,818
Basic earnings per common share	\$ 0.64	\$ 0.57	\$ 1.24	\$ 0.99
<b>Diluted EPS:</b>				
Net income allocable to common shareholders	\$ 12,057	\$ 10,683	\$ 23,265	\$ 18,595

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Diluted weighted average common shares:				
Weighted average common shares	18,809,250	18,779,248	18,803,805	18,744,818
Stock options	275,674	321,818	240,807	302,884
Restricted stock	6,751	8,386	16,061	7,447
Diluted weighted average common shares	19,091,675	19,109,452	19,060,673	19,055,149
Diluted earnings per common share	\$ 0.63	\$ 0.56	\$ 1.22	\$ 0.98

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The table below sets forth the calculation of the percentage of net income allocable to common shareholders, or the portion allocable to common shareholders. Under the two-class method, unvested stock options, and out-of-the-money vested stock options are not considered to be participating securities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Numerator:</b>				
Basic weighted average common shares	18,809,250	18,779,248	18,803,805	18,744,818
<b>Add: Other common shares eligible for common dividends:</b>				
Weighted average restricted shares and stock options (including tax benefit component)	282,425	330,204	256,868	310,331
<b>Weighted average participating common shares</b>	<b>19,091,675</b>	<b>19,109,452</b>	<b>19,060,673</b>	<b>19,055,149</b>
<b>Denominator:</b>				
Weighted average participating common shares	19,091,675	19,109,452	19,060,673	19,055,149
<b>Add: Other classes of securities, including contingently issuable common shares and convertible preferred shares:</b>				
Weighted average common shares issuable upon conversion of Series C preferred shares	242,953	242,953	242,953	242,953
Weighted average common shares issuable upon conversion of Series D preferred shares	971,817	971,817	971,817	971,817
<b>Weighted average participating shares</b>	<b>20,306,445</b>	<b>20,324,222</b>	<b>20,275,443</b>	<b>20,269,919</b>
Portion allocable to common shareholders	94.0%	94.0%	94.0%	94.0%

**Note 4. Income Taxes**

The Company adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ( FIN 48 ), on January 1, 2007. At the adoption date and as of June 30, 2008, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense, which were zero for the quarters and six months ended June 30, 2008 and 2007.

Tax years 2004 through 2007 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

**Note 5. Comprehensive Income**

Comprehensive income was \$11.4 million for the three months ended June 30, 2008, as compared to \$11.7 million for the same period in 2007. Comprehensive income was \$20.7 million for the six months ended June 30, 2008, as compared to \$20.0 million for the same period in 2007. The difference between net income as reported and comprehensive income was the result of changes in unrealized gains and losses, net of tax.





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**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 6. Fair Value Measurements**

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

The Company determined the fair values of its financial instruments based on the fair value hierarchy established in SFAS 157, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard defines fair value, describes three levels of inputs that may be used to measure fair value, and expands disclosures about fair value measurements.

Fair value is defined in SFAS 157 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is the price to sell an asset or transfer a liability and, therefore, represents an exit price, not an entry price. Fair value is the exit price in the principal market (or, if lacking a principal market, the most advantageous market) in which the reporting entity would transact. Fair value is a market-based measurement, not an entity-specific measurement, and, as such, is determined based on the assumptions that market participants would use in pricing the asset or liability. The exit price objective of a fair value measurement applies regardless of the reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset, also known as current replacement cost. Valuation techniques used to measure fair value are to be consistently applied.

In SFAS 157, inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Valuation techniques used to measure fair value are intended to maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are to be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters.

Securities classified by the Company as available-for-sale investments were reported at fair value utilizing mostly Level 1 inputs. The fair value measurements consider quoted prices in active markets for identical assets. Level 2 inputs such as previous day and subsequent day trade prices were used if a trade for the security was not made on the date of measurement.

At June 30, 2008, assets and liabilities measured at fair value on a recurring basis are summarized below:

	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total Fair Value</b>
Securities available for sale	\$ 34,626	\$	\$	\$ 34,626

In addition, the Company held common securities in unconsolidated variable interest entities of \$1,090,000, which are carried at cost.

At June 30, 2008, all fixed maturity securities were classified as held-to-maturity and carried at amortized cost.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value, and establishes presentation and disclosure requirements for similar assets and liabilities measured at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008, the effective date of the standard and has not elected the option for any financial assets or financial liabilities subsequent to the effective date.

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q, together with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2007.

We begin our discussion with an overview of our Company to give you an understanding of our business and the markets we serve. We then discuss our critical accounting policies. This is followed with a discussion of our results of operations for the three and six months ended June 30, 2008 and 2007. This discussion includes an analysis of certain significant period-to-period variances in our consolidated statements of operations. Our cash flows and financial condition are discussed under the caption Liquidity and Capital Resources.

### **Business Overview**

AMERISAFE is a holding company that markets and underwrites workers' compensation insurance through its insurance subsidiaries. Workers' compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our business strategy is focused on providing this coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking and logging. Employers engaged in hazardous industries pay substantially higher than average rates for workers' compensation insurance compared to employers in other industries, as measured per payroll dollar. The higher premium rates are due to the nature of the work performed and the inherent workplace danger of our target employers. Hazardous industry employers also tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. We provide proactive safety reviews of employers' workplaces. These safety reviews are a vital component of our underwriting process and also promote safer workplaces. We utilize intensive claims management practices that we believe permit us to reduce the overall cost of our claims. In addition, our audit services ensure that our policyholders pay the appropriate premiums required under the terms of their policies and enable us to monitor payroll patterns or aberrations that cause underwriting, safety, or fraud concerns. We believe that the higher premiums typically paid by our policyholders, together with our disciplined underwriting and safety, claims and audit services, provide us with the opportunity to earn attractive returns for our shareholders.

We actively market our insurance in 30 states and the District of Columbia through independent agencies, as well as through our wholly owned insurance agency subsidiary. We are also licensed in an additional 15 states and the U.S. Virgin Islands.

### **Critical Accounting Policies**

It is important to understand our accounting policies in order to understand our financial statements. Management considers some of these policies to be critically important to the presentation of our financial results because they require us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of our assets, liabilities, revenues and expenses and the related disclosures. Some of the estimates result from judgments that can be subjective and complex and, consequently, actual results in future periods might differ from these estimates.

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, assessments, deferred policy acquisition costs, deferred income taxes and the valuation and determination of impairment of investment securities. These critical accounting policies are more fully described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of Part II to our Annual Report on Form 10-K for the year ended December 31, 2007.

**Table of Contents****Results of Operations**

The following table summarizes our consolidated financial results for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	\$ 85,995	\$ 94,290	\$ 166,972	\$ 184,775
Net premiums earned	72,143	77,106	146,443	152,987
Net investment income	7,405	7,433	15,222	14,358
Total revenues	79,830	84,713	162,096	167,658
Total expenses	62,245	69,084	127,772	140,144
Net income	12,827	11,362	24,750	19,780
Diluted earnings per common share	\$ 0.63	\$ 0.56	\$ 1.22	\$ 0.98
<b>Other Key Measures</b>				
Net combined ratio (1)	85.4%	88.4%	86.3%	90.4%
Return on average equity (2)	20.6%	22.8%	20.3%	20.3%

(1) The net combined ratio is calculated by dividing the sum of loss and loss adjustment expenses incurred, underwriting and certain other operating costs, commissions, salaries and benefits, and policyholder dividends by the current period's net premiums earned.

(2) Return on average equity is calculated by dividing the annualized net income by the average shareholders' equity, including redeemable preferred stock, for the applicable period.

**Consolidated Results of Operations for Three Months Ended June 30, 2008 Compared to June 30, 2007**

**Gross Premiums Written.** Gross premiums written for the quarter ended June 30, 2008 were \$86.0 million, compared to \$94.3 million for the same period in 2007, a decrease of 8.8%. The decrease was attributable to a \$4.9 million decrease in annual premiums on voluntary policies written during the period, a \$2.6 million decrease in premiums resulting from payroll audits and related premium adjustments and a \$1.0 million decrease in direct assigned risk premiums. Offsetting these decreases was a \$224,000 increase in assumed premiums from mandatory pooling arrangements.

**Net Premiums Written.** Net premiums written for the quarter ended June 30, 2008 were \$81.3 million, compared to \$89.4 million for the same period in 2007, a decrease of 9.0%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums written, ceded premiums were 5.4% for the second quarter of 2008, compared to 5.2% for the second quarter of 2007.

**Net Premiums Earned.** Net premiums earned for the second quarter of 2008 were \$72.1 million, compared to \$77.1 million for the same period in 2007, a decrease of 6.4%. The decrease was attributable to the decline in net premiums written, offset by premium earnings from premiums written in the previous four quarters.

**Net Investment Income.** Net investment income was \$7.4 million for both the second quarter of 2008 and the second quarter of 2007. Average invested assets, including cash and cash equivalents, were \$771.3 million in the quarter ended June 30, 2008, compared to an average of \$697.8 million in the same period in 2007, a growth of 10.5%. Offsetting this growth was a decrease in the tax-equivalent yield on our investment portfolio, from 5.8% per annum as of June 30, 2007, to 5.4% per annum as of June 30, 2008. The pre-tax investment yield on our investment portfolio was 3.8% per annum during the quarter ended June 30, 2008, compared to 4.3% per annum during the same period in 2007.

**Net Realized Gains on Investments.** Net realized gains on investments for the three months ended June 30, 2008 totaled \$53,000, compared to \$36,000 for the same period in 2007. Net realized gains in the both periods were the result of sales of equity securities and calls on fixed maturity securities.

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*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$47.3 million for the three months ended June 30, 2008, compared to \$53.2 million for the same period in 2007, a decrease of \$5.9 million, or 11.1%. The current accident year loss and LAE incurred decreased as a result of lower premiums earned in the second quarter of 2008, as compared to the same period in 2007. In addition, this decrease was partially due to favorable prior

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accident year development of \$2.8 million in the second quarter of 2008, compared to no change in loss and LAE incurred for prior accident years for the same period in 2007.

*Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits.* Underwriting and certain other operating costs, commissions and salaries and benefits for the quarter ended June 30, 2008 were \$14.1 million, compared to \$14.8 million for the same period in 2007, a decrease of 4.6%. This decrease was primarily due to \$2.4 million of experience-rated commissions from our 2008 reinsurance agreements, which acts as an offset to expenses, and a \$1.5 million decrease in insurance-related assessments. Offsetting these decreases, commissions increased \$1.4 million due to the introduction of certain incentive programs, income from commutation of reinsurance contracts decreased \$719,000, salary and benefits increased \$546,000 and premium taxes increased \$452,000.

*Interest expense.* Interest expense for the second quarter of 2008 was \$657,000, compared to \$886,000 for the same period in 2007. Weighted average borrowings for both periods were \$36.1 million. The weighted average interest rate decreased to 7.5% per annum for the second quarter of 2008 from 9.4% per annum for the second quarter of 2007.

*Income tax expense.* Income tax expense for the three months ended June 30, 2008 was \$4.8 million, compared to \$4.3 million for the same period in 2007. The increase was primarily attributable to a \$2.0 million increase in our pre-tax income, from \$15.6 million for the three months ended June 30, 2007, to \$17.6 million for the same period in 2008. Our effective tax rate for the quarter ended June 30, 2008 was 27.1%, compared to 27.3% for the same period in 2007.

***Consolidated Results of Operations for Six Months Ended June 30, 2008 Compared to June 30, 2007***

*Gross Premiums Written.* Gross premiums written for the first half of 2008 were \$167.0 million, compared to \$184.8 million for the same period in 2007, a decrease of 9.6%. The decrease was attributable to an \$11.2 million decrease in annual premiums on voluntary policies written during the period, a \$5.2 million decrease in premiums resulting from payroll audits and related premium adjustments, a \$1.2 million decrease in direct assigned risk premiums and a \$246,000 decrease in premiums from mandatory pooling arrangements.

*Net Premiums Written.* Net premiums written for the six months ended June 30, 2008 were \$157.5 million, compared to \$174.9 million for the same period in 2007, a decrease of 9.9%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums written, ceded premiums were 5.7% for the first half of 2008, compared to 5.3% for the first half of 2007.

*Net Premiums Earned.* Net premiums earned for the first half of 2008 were \$146.4 million, compared to \$153.0 million for the same period in 2007, a decrease of 4.3%. The decrease was attributable to a decline in net premiums written offset by earnings from premiums written in the previous four quarters.

*Net Investment Income.* Net investment income for the first six months of 2008 was \$15.2 million, compared to \$14.4 million for the same period in 2007, an increase of 6.0%. The change was attributable to an 11.7% increase in our average invested assets, including cash and cash equivalents, from an average of \$686.6 million in the first half of 2007 to an average of \$767.1 million for the same period in 2008. Offsetting this growth was a decrease in the tax-equivalent yield on our investment portfolio, from 5.8% per annum as of June 30, 2007, to 5.4% per annum as of June 30, 2008. The pre-tax investment yield on our investment portfolio was 4.0% per annum during the six months ended June 30, 2008, compared to 4.2% per annum during the same period in 2007.

*Net Realized Gains on Investments.* Net realized gains on investments for the six months ended June 30, 2008 totaled \$61,000, compared to \$36,000 for the same period in 2007. Net realized gains in the both periods were the result of sales of equity securities and calls on fixed maturity securities.

*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$97.2 million for the six months ended June 30, 2008, compared to \$105.7 million for the same period in 2007, a decrease of \$8.5 million, or 8.0%. The current accident year loss and LAE incurred decreased as a result of lower premiums earned in the first half of 2008, as compared to the same period in 2007. In addition, this decrease was partially due to favorable prior accident year development of \$4.5 million in 2008, compared to no change in loss and LAE incurred for prior accident years for the same period in 2007.

*Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits.* Underwriting and certain other operating costs, commissions and salaries and benefits for the first half of 2008 were \$28.7 million, compared to \$32.0 million for the same period in 2007, a decrease of 10.4%. This decrease was primarily due to \$4.7 million of experience-rated commissions from our 2008 reinsurance agreements, which acts as an offset to expenses, and a \$1.9 million decrease in insurance-related assessments. Offsetting these decreases, commissions increased \$1.3 million relating to the introduction of





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certain incentive programs, income from commutation of reinsurance contracts decreased \$719,000 and salary and benefits increased \$846,000.

*Interest expense.* Interest expense for the first six months of 2008 was \$1.4 million, compared to \$1.8 million for the comparable period of 2007. Weighted average borrowings for both periods were \$36.1 million. The weighted average interest rate decreased to 7.4% per annum for the first half of 2008 from 9.3% per annum for the first half of 2007.

*Income tax expense.* Income tax expense for the six months ended June 30, 2008 was \$9.6 million, compared to \$7.7 million for the same period in 2007. The increase was primarily attributable to a \$6.8 million increase in our pre-tax income, from \$27.5 million for the six months ended June 30, 2007, to \$34.3 million for the same period in 2008. Our effective tax rate for the six months ended June 30, 2008 was 27.9%, compared to 28.1% for the same period in 2007. The decrease in the effective tax rate from the six months ended June 30, 2007 to the same period in 2008 was attributable to a higher percentage of pre-tax income from tax-exempt interest income.

## **Liquidity and Capital Resources**

Our principal sources of operating funds are premiums, investment income and proceeds from sales and maturities of investments. Our primary uses of operating funds include payments of claims and operating expenses. Currently, we pay claims using cash flow from operations and invest our excess cash in fixed maturity and equity securities.

Net cash provided by operating activities was \$17.5 million for the six months ended June 30, 2008, which represented a \$32.5 million decrease in cash provided by operating activities, from \$50.0 million in net cash provided by operating activities for the six months ended June 30, 2007. This decrease in operating cash was partially attributable to an \$18.5 million decrease in reinsurance recoveries resulting from commutations in the first six months of 2008, compared to the same period in 2007. Other contributing factors to our operating cash flow were a \$6.7 million increase in federal income taxes paid for the six months ended June 30, 2008, a \$4.1 million decrease in premiums collected, a \$2.0 million decrease in expense disbursements and a \$1.7 million increase in claim payments. Also, dividends paid to policyholders increased \$3.9 million in the first six months of 2008, compared to the same period in 2007, mainly attributable to Florida policyholders.

Net cash used in investing activities was \$10.6 million for the first half of 2008, compared to \$29.0 million for the same period in 2007. Cash provided by sales and maturities of investments totaled \$83.0 million for the six months ended June 30, 2008 compared to \$357.4 million for the same period in 2007. A total of \$93.3 million in cash was used to purchase investments in the first half of 2008, compared to \$386.3 million in purchases for the same period in 2007. The decrease in sales and purchases of investments from 2007 was due to a decrease in the use of variable rate demand obligations (sometimes referred to as floaters), which we bought and sold regularly in 2007, and which were recorded on a gross basis.

Net cash provided by financing activities in the first half of 2008 was \$30,000, as compared \$900,000 in the same period in 2007. In the first six months of 2008, proceeds from stock option exercises totaled \$34,000 and tax expense related to share-based compensation was \$4,000. In the first six months of 2007, proceeds from stock option exercises totaled \$730,000 and tax benefits from share-based compensation totaled \$170,000.

On June 20, 2008, we commuted certain reinsurance agreements with Hannover Ruckversicherungs-Aktiengesellschaft (Hannover), covering portions of the 2003, 2004, 2005 and 2006 accident years. Hannover remains obligated to subsidiaries of the Company under other reinsurance agreements. We received cash of approximately \$7.5 million in exchange for releasing Hannover from its reinsurance obligations under the commuted agreements. As a result of the commutation, we recorded additional pre-tax income of approximately \$991,000 in the second quarter of 2008.

## **Investment Portfolio**

As of June 30, 2008, our investment portfolio, including cash and cash equivalents, totaled \$768.7 million, an increase of 7.5% from June 30, 2007. Our fixed maturity securities are classified as held-to-maturity, as defined by SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. As such, the reported value of those securities is equal to their amortized cost, and is not impacted by changing interest rates. In 2007, we invested in variable rate demand obligations (VRDOs), which are long-term bonds that bear floating interest rates and provide investors with the option to tender or put the bonds at par, generally on a daily, weekly or monthly basis. Due to the fact that we purchased these securities with the intent to hold less than thirty days, we classified VRDOs as available-for-sale, as defined by SFAS No. 115. As such, VRDOs were reported at fair value on our balance sheet. We sold all of our available-for-sale fixed maturity securities as of January 15, 2008. Our equity securities are also classified as available-for-sale and reported at fair value. For the six months ended June 30, 2008, gross unrealized gains and losses for our equity securities decreased \$5.6 million, from an overall unrealized loss of \$752,000 at December 31, 2007 to an overall unrealized loss of \$6.4 million at June 30, 2008.

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On January 1, 2008, we adopted SFAS 157 that establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. As disclosed in Note 6

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of the financial statements, our securities available-for sale are classified with using Level 1 inputs. We did not elect the fair value option prescribed under SFAS 159 for any financial assets or financial liabilities as of June 30, 2008.

The composition of our investment portfolio, including cash and cash equivalents, as of June 30, 2008 is shown in the following table.

	Carrying Value	Percentage of Portfolio
	(in thousands)	
Fixed maturity securities:		
States and political subdivisions	\$ 465,095	60.5%
U.S. agency-based mortgage-backed securities	91,780	12.0%
Commercial mortgage-backed securities	51,620	6.7%
U.S. Treasury securities and obligations of U.S. Government agencies	39,769	5.2%
Corporate bonds	16,190	2.1%
Asset-backed securities	14,309	1.9%
 Total fixed maturity securities	 678,763	 88.4%
Equity securities	35,716	4.6%
Cash and cash equivalents	54,253	7.0%
 Total investments, including cash and cash equivalents	 \$ 768,732	 100.0%

We regularly evaluate our investment portfolio to identify other-than-temporary impairments in the fair values of the securities held in our investment portfolio. As of June 30, 2008, there were no other-than-temporary declines in the fair values of the securities held in our investment portfolio. The tax-equivalent investment yield on our investment portfolio was 5.4% per annum for the period ended June 30, 2008, compared to 5.8% for the same period in 2007.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk, interest rate risk and equity price risk. We currently have no exposure to foreign currency risk.

Since December 31, 2007, there have been no material changes in the quantitative or qualitative aspect of our market risk profile. For additional information regarding the Company's exposure to certain market risks, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

**Item 4. Controls and Procedures.**

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information we are required to disclose in reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms. We note that the design of any system of controls is based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

There have not been any changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings.**  
None.

**Item 1A. Risk Factors.**  
None.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**  
None.

**Item 3. Defaults Upon Senior Securities.**  
None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

The company held its 2008 Annual Meeting of Shareholders on June 16, 2008. Shareholders were asked to vote on the election of two directors, and to ratify the appointment of Ernst & Young, LLP as the company's independent registered accounting firm for 2008. The results were as follows:

**Proposal 1**

**Election of Directors**

Nominees for election to a term expiring at the company's Annual Meeting in 2011:

	Shares Voted For	Shares Withheld
C. Allen Bradley, Jr.	15,672,197	1,542,881
Austin P. Young, III	16,240,416	974,662

**Proposal 2**

**Ratification of Appointment of Ernst & Young, LLP as the Company's Independent**

**Registered Public Accounting Firm for 2008**

Shares Voted For	Shares Voted Against	Shares Abstaining
16,573,914	636,859	4,573

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description</b>
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Geoffrey R. Banta filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and Geoffrey R. Banta filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

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

AMERISAFE, INC.

August 8, 2008

/s/ C. Allen Bradley, Jr.  
C. Allen Bradley, Jr.  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

August 8, 2008

/s/ Geoffrey R. Banta  
Geoffrey R. Banta  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)



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**EXHIBIT INDEX**

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