

AMERISAFE INC  
Form 10-Q  
May 04, 2009  
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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 MARCH 31, 2009**

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 April 24, 2009, there were 18,860,602 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:

decreased level of business activity of our policyholders caused by decreased business activity in the industries we target;

changes in general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;

decreased demand for our insurance;

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;

negative developments in economic, competitive or regulatory conditions within the workers' compensation insurance industry;

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;

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

the cyclical nature of 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 regulations, laws, rates, or rating factors applicable to us, our policyholders or the agencies that sell our insurance;

changes in rating agency policies or practices;

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

changes in legal theories of liability under our insurance policies;

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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; and

other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission (SEC).

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, 2008. 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>March 31, 2009 (unaudited)</b>	<b>December 31, 2008</b>
<b>Assets:</b>		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value \$679,422 and \$664,084 in 2009 and 2008, respectively)	\$ 691,516	\$ 680,276
Equity securities available-for-sale, at fair value (cost \$25,002 in 2009 and 2008)	21,041	24,431
Short-term investments	3,523	25
Total investments	716,080	704,732
Cash and cash equivalents	92,475	95,241
Amounts recoverable from reinsurers	78,034	67,763
Premiums receivable, net	171,040	156,567
Deferred income taxes	34,283	33,580
Accrued interest receivable	8,260	7,247
Property and equipment, net	5,674	5,542
Deferred policy acquisition costs	20,169	20,289
Deferred charges	3,569	3,381
Other assets	13,815	13,491
	\$ 1,143,399	\$ 1,107,833
<b>Liabilities, redeemable preferred stock and shareholders equity</b>		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 545,058	\$ 531,293
Unearned premiums	141,334	137,100
Reinsurance premiums payable	1,509	
Amounts held for others	8,281	8,450
Policyholder deposits	42,218	42,368
Insurance-related assessments	44,126	42,505
Federal income tax payable	2,242	1,221
Securities payable	7,112	1,550
Accounts payable and other liabilities	28,318	28,984
Subordinated debt securities	36,090	36,090
	856,288	829,561
Redeemable preferred stock	25,000	25,000
Shareholders equity:		
Common stock:		
Voting \$0.01 par value authorized shares 50,000,000 in 2009 and 2008; issued and outstanding shares 18,860,602 in 2009 and 18,856,602 in 2008	189	188
Additional paid-in capital	175,265	175,163
Accumulated earnings	88,138	77,076

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Accumulated other comprehensive income (loss)	(1,481)	845
	262,111	253,272
	\$ 1,143,399	\$ 1,107,833

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 March 31,	
	2009	2008
<b>Revenues</b>		
Gross premiums written	\$ 79,429	\$ 80,977
Ceded premiums written	(5,194)	(4,790)
Net premiums written	\$ 74,235	\$ 76,187
Net premiums earned	\$ 70,001	\$ 74,300
Net investment income	7,372	7,817
Net realized gains on investments	26	8
Fee and other income	136	141
Total revenues	77,535	82,266
<b>Expenses</b>		
Loss and loss adjustment expenses incurred	47,070	49,928
Underwriting and certain other operating costs	4,339	4,676
Commissions	5,417	4,833
Salaries and benefits	5,012	5,005
Interest expense	611	769
Policyholder dividends	181	316
Total expenses	62,630	65,527
Income before income taxes	14,905	16,739
Income tax expense	3,843	4,816
Net income	11,062	11,923
Preferred stock dividends		
Net income available to common shareholders	\$ 11,062	\$ 11,923
<b>Earnings per share</b>		
Basic	\$ 0.55	\$ 0.60
Diluted	\$ 0.54	\$ 0.59
<b>Shares used in computing earnings per share</b>		
Basic	18,845,081	18,798,362
Diluted	19,234,910	19,019,373



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See accompanying notes.

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

(in thousands)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Net income	\$ 11,062	\$ 11,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	311	260
Net amortization of investments	818	660
Deferred income taxes	549	(524)
Net realized gains on investments	(26)	(8)
Loss on sale of fixed assets	1	4
Share-based compensation	66	227
Changes in operating assets and liabilities:		
Premiums receivable	(14,473)	(7,989)
Accrued interest receivable	(1,013)	(10)
Deferred policy acquisition costs and deferred charges	(68)	(263)
Other assets	(324)	(7,283)
Reserves for loss and loss adjustment expenses	13,765	3,630
Unearned premiums	4,234	1,887
Reinsurance balances	(8,762)	1,200
Amounts held for others and policyholder deposits	(319)	1,723
Accounts payable and other liabilities	7,538	14,125
Net cash provided by operating activities	13,359	19,562
<b>Investing Activities</b>		
Purchases of investments held-to-maturity	(41,402)	(54,048)
Purchases of investments available-for-sale		(970)
Purchases of short-term investments	(3,501)	
Proceeds from maturities of investments held-to-maturity	29,186	32,746
Proceeds from sales and maturities of investments available-for-sale		33,052
Purchases of property and equipment	(444)	(70)
Net cash provided by (used in) investing activities	(16,161)	10,710
<b>Financing Activities</b>		
Proceeds from stock option exercises	36	
Tax expense from share-based payments		(6)
Net cash provided by (used in) financing activities	36	(6)
Change in cash and cash equivalents	(2,766)	30,266
Cash and cash equivalents at beginning of period	95,241	47,304
Cash and cash equivalents at end of period	\$ 92,475	\$ 77,570

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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, agriculture, logging, oil and gas, maritime and sawmills. Assets and revenues of AIIC represent more than 99% of comparable consolidated amounts of the Company for each of 2009 and 2008.

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, 2008.

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.

Certain prior year amounts have been reclassified to conform with the current year presentation.

**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, 2008 for additional information regarding the Company's incentive plans.

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. Vesting of those 9,198 restricted shares took place in March 2009.

The Company recognized share-based compensation expense of \$66,000 in the quarter ended March 31, 2009, compared to \$227,000 for the same period in 2008.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****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).

Effective January 1, 2009, the Company adopted FASB Staff Position (FSP) No. EITF 03-06-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. The FSP clarifies that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities. The adoption of the standard had no effect on the financial statements as the Company was including unvested restricted stock as participating securities in our application of the two-class method.

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 and unvested restricted 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.

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Basic EPS:</b>		
Net income available to common shareholders	\$ 11,062	\$ 11,923
Portion allocable to common shareholders	94.1%	94.0%
Net income allocable to common shareholders	\$ 10,405	\$ 11,208
Basic weighted average common shares	18,845,081	18,798,362
Basic earnings per common share	\$ 0.55	\$ 0.60
<b>Diluted EPS:</b>		
Net income allocable to common shareholders	\$ 10,405	\$ 11,208
<b>Diluted weighted average common shares:</b>		
Weighted average common shares	18,845,081	18,798,362
Stock options	380,100	206,230
Restricted stock	9,729	14,781
Diluted weighted average common shares	19,234,910	19,019,373
Diluted earnings per common share	\$ 0.54	\$ 0.59



**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)**

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.

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Numerator:</b>		
Basic weighted average common shares	18,845,081	18,798,362
Add: Other common shares eligible for common dividends:		
Weighted average restricted shares and stock options (including tax benefit component)	389,829	221,011
<b>Weighted average participating common shares</b>	<b>19,234,910</b>	<b>19,019,373</b>
<b>Denominator:</b>		
Weighted average participating common shares	19,234,910	19,019,373
Add: Other classes of securities, including contingently issuable common shares and convertible preferred shares:		
Weighted average common shares issuable upon conversion of Series C preferred shares	242,953	242,953
Weighted average common shares issuable upon conversion of Series D preferred shares	971,817	971,817
<b>Weighted average participating shares</b>	<b>20,449,680</b>	<b>20,234,143</b>
Portion allocable to common shareholders	94.1%	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 March 31, 2009, 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. There were no such uncertain positions for the quarters ended March 31, 2009 and March 31, 2008.

Tax years 2005 through 2008 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 \$8.7 million for the three months ended March 31, 2009, as compared to \$9.3 million for the three months ended March 31, 2008. The difference between net income as reported and comprehensive income was due to changes in unrealized gains and losses, net of tax.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**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 (SFAS No. 157) for financial assets and liabilities, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Effective January 1, 2009, the Company adopted the provisions of SFAS No. 157 for all non-financial assets and non-financial liabilities.

The Company determined the fair values of its financial instruments based on the fair value hierarchy established in SFAS No. 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 No. 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 No. 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 No. 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 No. 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.

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



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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.

**Table of Contents****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 March 31, 2009, 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	\$ 19,951	\$	\$	\$ 19,951

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

At March 31, 2009, 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 (SFAS No. 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. SFAS No.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, 2008.

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 months ended March 31, 2009 and 2008. 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, agriculture 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 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 17 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, 2008.

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

The following table summarizes our consolidated financial results for the three months ended March 31, 2009 and 2008:

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>(dollars in thousands,</b>		
<b>except per share data)</b>		
<b>(unaudited)</b>		
Gross premiums written	\$ 79,429	\$ 80,977
Net premiums earned	70,001	74,300
Net investment income	7,372	7,817
Total revenues	77,535	82,266
Total expenses	62,630	65,527
Net income	11,062	11,923
Diluted earnings per common share	\$ 0.54	\$ 0.59
<b>Other Key Measures</b>		
Net combined ratio (1)	88.6%	87.1%
Return on average equity (2)	15.7%	20.0%

(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 March 31, 2009 Compared to March 31, 2008**

**Gross Premiums Written.** Gross premiums written for the first quarter ended March 31, 2009 were \$79.4 million, compared to \$81.0 million for the same period in 2008, a decrease of 1.9%. The decrease was attributable to a \$2.0 million decrease in premiums resulting from payroll audits and related premium adjustments and a \$757,000 decrease in direct assigned risk premiums. Offsetting these decreases, annual premiums on voluntary policies written during the period increased \$940,000 in the first quarter. There was also an increase of \$276,000 in assumed premiums from mandatory pooling arrangements.

**Net Premiums Written.** Net premiums written for the quarter ended March 31, 2009 were \$74.2 million, compared to \$76.2 million for the same period in 2008, a decrease of 2.6%. The decrease was attributable primarily to the decline in gross premiums written. Also, ceded premiums as a percentage of gross premiums written were 6.5% for the first quarter of 2009, compared to 5.9% for the first quarter of 2008.

**Net Premiums Earned.** Net premiums earned for the first quarter of 2009 were \$70.0 million, compared to \$74.3 million for the same period in 2008, a decrease of 5.8%. The decrease was attributable to the decline in net premiums written in the previous four quarters, which caused the flow of premium earnings to also decrease.

**Net Investment Income.** Net investment income for the first quarter of 2009 was \$7.4 million, compared to \$7.8 million for the same period in 2008, a decrease of 5.7%. Average invested assets, including cash and cash equivalents, were \$808.0 million in the quarter ended March 31, 2009, compared to an average of \$764.5 million in the same period in 2008, a growth of 5.7%. The tax equivalent yield on our investment portfolio was 4.9% per annum during the quarters ended March 31, 2009 and 2008. The pre-tax investment yield on our investment portfolio was 3.7% per annum during the quarter ended March 31, 2009, compared to 4.1% for the first quarter of 2008.

**Net Realized Gains on Investments.** Net realized gains on investments for the three months ended March 31, 2009 totaled \$26,000, compared to \$8,000 for the same period in 2008. Net realized gains in the current period are the result of called fixed maturity securities. Net realized gains in

the first quarter of 2008 were the result of the sale of common stock and called fixed maturity securities.

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*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$47.1 million for the three months ended March 31, 2009, compared to \$49.9 million for the same period in 2008, a decrease of \$2.9 million, or 5.7%. The current accident year loss and LAE incurred decreased as a result of lower premiums earned in the first quarter of 2009, as compared to the same period in 2008. In addition, we recorded favorable prior accident year development of \$1.2 million in the first quarter of 2009, compared to \$1.7 million in the same period of 2008, as further discussed below in *Prior Year Development*. Our net loss ratio was 67.2% in the first quarters of both 2009 and 2008.

*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 quarter of 2009 were \$14.8 million, compared to \$14.5 million for the same period in 2008, an increase of 1.8%. This increase was primarily due to a \$584,000 increase in commissions, a \$152,000 increase in professional fees, a \$143,000 increase in mandatory pooling arrangement fees and a \$98,000 increase in insurance-related assessments. Offsetting these increases was \$438,000 of experience-rated commissions from our 2009 reinsurance agreements, and \$344,000 of income from the commutation of certain reinsurance contracts. Our expense ratio was 21.1% in the first quarter of 2009 compared to 19.5% in the first quarter of 2008.

*Interest expense.* Interest expense for the first quarter of 2009 was \$611,000, compared to \$769,000 for the comparable period of 2008. Our weighted average borrowings for both periods were \$36.1 million. The weighted average interest rate decreased to 5.5% per annum for the first quarter of 2009 from 8.0% per annum for the first quarter of 2008.

*Income tax expense.* Income tax expense for the three months ended March 31, 2009 was \$3.8 million, compared to \$4.8 million for the same period in 2008. The decrease was primarily attributable to a \$1.8 million decrease in our pre-tax income, from \$16.7 million for the three months ended March 31, 2008, to \$14.9 million for the same period in 2009. Our effective tax rate for the quarter ended March 31, 2009 was 25.8%, compared to 28.8% for the same period in 2008.

## **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 \$13.4 million for the three months ended March 31, 2009, which represented a \$6.2 million decrease in cash provided by operating activities, from \$19.6 million in net cash provided by operating activities for the three months ended March 31, 2008. This decrease in operating cash was attributable to a \$5.8 million increase in expense disbursements, a \$1.5 million decrease in premiums collected, a \$1.7 million decrease in reinsurance recoveries and a \$1.2 million decrease in investment income. Offsetting these decreases in operating cash flow was a \$2.9 million decrease in losses paid and an \$816,000 decrease in dividends paid to policyholders.

Net cash used in investing activities was \$16.2 million for the first quarter of 2009, compared to \$10.7 million of cash provided by investing activities in the same period in 2008. Cash provided by sales and maturities of investments totaled \$29.2 million for the three months ended March 31, 2009, compared to \$65.8 million for the same period in 2008. A total of \$44.9 million in cash was used to purchase investments in the first quarter of 2009, compared to \$55.0 million in purchases for the same period in 2008.

Net cash provided by financing activities in the first quarter of 2009 was \$36,000, as compared to cash used in the first quarter of 2008 of \$6,000. In the first quarter of 2009, proceeds from stock option exercises totaled \$36,000. In the first quarter of 2008, there was tax expense related to share-based compensation.

On March 30, 2009, we commuted certain reinsurance agreements with Lincoln National Life Insurance Company ( *Lincoln National* ), Connecticut General Life Insurance Company ( *Connecticut General* ) and Phoenix Life Insurance Company ( *Phoenix Life* ) covering portions of the 1998 accident year. Lincoln National remains obligated to subsidiaries of the Company under other reinsurance agreements. After the end of the quarter, we received cash of \$2.5 million in exchange for releasing Lincoln National, Connecticut General, and Phoenix Life from their reinsurance obligations under the commuted agreements. As a result of the commutation, we recorded additional pre-tax income of approximately \$344,000 in the first quarter of 2009.

## **Investment Portfolio**

As of March 31, 2009, our investment portfolio, including cash and cash equivalents, totaled \$808.6 million, an increase of 4.5% from March 31, 2008. 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. Our equity securities are classified as available-for-sale and reported at fair value.

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On January 1, 2008, we adopted SFAS 157 that establishes a fair value hierarchy, which 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 of the financial statements, our securities available-for-sale are classified 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 March 31, 2009.

The composition of our investment portfolio, including cash and cash equivalents, as of March 31, 2009 is shown in the following table:

	Carrying Value (in thousands)	Percentage of Portfolio
<b>Fixed maturity securities:</b>		
State and political subdivisions	\$ 494,783	61.2%
U.S. agency-based mortgage-backed securities	89,057	11.0%
Commercial mortgage-backed securities	51,606	6.4%
U.S. Treasury securities and obligations of U.S. Government agencies	16,455	2.0%
Corporate bonds	28,994	3.6%
Asset-backed securities	10,621	1.3%
<b>Total fixed maturity securities</b>	<b>691,516</b>	<b>85.5%</b>
<b>Equity securities</b>	<b>21,041</b>	<b>2.6%</b>
Cash and cash equivalents	92,475	11.5%
Short-term investments	3,523	0.4%
<b>Total investments, including cash and cash equivalents</b>	<b>\$ 808,555</b>	<b>100.0%</b>

For our securities classified as available-for-sale, the securities are marked to market as of the end of each calendar quarter. As of that date, unrealized gains and losses are recorded against Accumulated Other Comprehensive Income (Loss), except when such securities are deemed to be other-than-temporarily impaired. For our securities classified as held-to-maturity, unrealized gains and losses are not recorded in the financial statements until realized or until a decline in fair value, below amortized cost, is deemed to be other-than-temporary.

We regularly review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of our investments. We consider various factors in determining if a decline in the fair value of an individual security is other-than-temporary. The key factors we consider are:

any reduction or elimination of dividends, or nonpayment of scheduled principal or interest payments;

the financial condition and near-term prospects of the issuer of the applicable security, including any specific events that may affect its operations or earnings;

how long and by how much the fair value of the security has been below its cost or amortized cost;

any downgrades of the security by a rating agency; and

our intent and ability to keep the security for a sufficient time period for it to recover its value.





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The following table summarizes, as of March 31, 2009, the fair value of, and the amount of unrealized losses on, our investment securities, segregated by the time period each security has been in a continuous unrealized loss position:

	Less Than 12 Months		As of March 31, 2009 12 Months or Greater		Total	
	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
	(in thousands)					
Fixed maturity securities:						
States and political subdivisions	\$ 74,620	\$ 1,610	\$ 73,306	\$ 4,988	\$ 147,926	\$ 6,598
U.S. agency-based mortgage-backed securities						
Commercial mortgage-backed securities			35,455	16,151	35,455	16,151
U.S. Treasury securities and obligations of U.S. Government agencies	2,563	7			2,563	7
Corporate bonds	6,694	95	5,188	664	11,882	759
Asset-backed securities	47	12	6,260	3,353	6,307	3,365
Total fixed maturity securities	83,924	1,724	120,209	25,156	204,133	26,880
Equity securities	19,951	3,961			19,951	3,961
Total	\$ 103,875	\$ 5,685	\$ 120,209	\$ 25,156	\$ 224,084	\$ 30,841

We reviewed all securities with unrealized losses in accordance with the impairment policy described above. We determined that the unrealized losses in the fixed maturity securities portfolio related primarily to changes in market interest rates since the date of purchase, current conditions in the capital markets and the impact of those conditions on market liquidity and prices generally, and the transfer of the investments from the available-for-sale classification to the held-to-maturity classification in January 2004. We expect to recover the carrying value of these securities since management has the positive intent and ability to hold the securities until they mature.

**Prior Year Development**

The Company recorded favorable prior accident year development of \$1.2 million in the three months ended March 31, 2009. The table below sets forth the favorable or unfavorable development for this period for accident years 2004 through 2008 and, collectively, for all accident years prior to 2004.

Accident Year	Favorable/(Unfavorable) Development
	Three Months Ended March 31, 2009 (in millions)
2008	\$ (5.3)
2007	3.7
2006	2.6
2005	0.7
2004	(.2)
Prior to 2004	(.3)
Total net development	\$ 1.2



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The table below sets forth the number of open claims as of March 31, 2009 and 2008, and the numbers of claims reported and closed during the three months then ended.

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Open claims at beginning of period	4,793	5,300
Claims reported	1,258	1,517
Claims closed	(1,450)	(1,620)
Open claims at end of period	4,601	5,197

The number of open claims at March 31, 2009 decreased by 596 claims, or 11.5%, as compared to the number of open claims at March 31, 2008. The decline in the number of open claims is attributable, in part, to our increased efforts in recent periods to close prior year claims, especially in those circumstances where the claim could be settled for less than the corresponding case reserve amount (which amount represents the estimated ultimate cost to settle the claim, undiscounted). As a result of these efforts, the number of open claims decreased from March 31, 2008 to March 31, 2009, which management believes contributed, in part, to the favorable prior accident year development recorded in the first quarter of 2009.

At March 31, 2009, our case incurred amounts for certain accident years, particularly 2006 and 2007, have not developed to the degree management previously expected. The assumptions we used in establishing our reserves for these accident years were based on our 23 years of historical claims data. However, as of March 31, 2009, actual results for these two accident years have been better than our assumptions would have predicted. We do not presently intend to modify our assumptions for establishing reserves in light of these recent results for the 2006 and 2007 accident years. However, if actual results for current and future accident years are consistent with, or better than, our results in these recent accident years, our historical claims data will reflect this change and, over time, will impact the reserves we establish for future claims.

Our reserves for loss and loss adjustment expenses are inherently uncertain and our focus on providing workers' compensation insurance to employers engaged in hazardous industries results in our receiving relatively fewer but more severe claims than many other workers' compensation insurance companies. As a result of this focus on higher severity, lower frequency business, our reserve for loss and loss adjustment expenses may have greater volatility than other workers' compensation insurance companies. For additional information, see Business Loss Reserves in our Annual Report on Form 10-K for the year ended December 31, 2008.

**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, 2008, 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 year ended December 31, 2008.

**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.

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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.**  
None.

**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 G. Janelle Frost filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and G. Janelle Frost 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.

April 30, 2009

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

April 30, 2009

/s/ G. Janelle Frost  
G. Janelle Frost  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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