AMERISAFE INC
Form 10-Q
August 06, 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 JUNE 30, 2009**

**Commission file number: 000-51520**

# AMERISAFE, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| **Texas** | **75-2069407** |
|---|---|
| **(State of Incorporation)** | **(I.R.S. Employer Identification Number)** |

**2301 Highway 190 West, DeRidder, Louisiana** **70634**
**(Address of Principal Executive Offices)** **(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 x
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 x

As of August 1, 2009, there were 18,866,446 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;

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.

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## PART I - FINANCIAL INFORMATION

**Item 1. Financial Statements.**

**AMERISAFE, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(in thousands, except share and per share data)**

| | June 30, 2009 (unaudited) | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed maturity securities held-to-maturity, at amortized cost (fair value $679,790 and $664,084 in 2009 and 2008, respectively) | $ 687,350 | $ 680,276 |
| Equity securities available-for-sale, at fair value (cost $25,002 in 2009 and 2008) | 24,231 | 24,431 |
| Short-term investments | 15,357 | 25 |
| Total investments | 726,938 | 704,732 |
| Cash and cash equivalents | 82,151 | 95,241 |
| Amounts recoverable from reinsurers | 80,149 | 67,763 |
| Premiums receivable, net | 181,555 | 156,567 |
| Deferred income taxes | 32,929 | 33,580 |
| Accrued interest receivable | 7,346 | 7,247 |
| Property and equipment, net | 5,512 | 5,542 |
| Deferred policy acquisition costs | 20,252 | 20,289 |
| Deferred charges | 3,818 | 3,381 |
| Federal income tax recoverable | 1,710 | |
| Other assets | 14,836 | 13,491 |
| | $ 1,157,196 | $ 1,107,833 |
| **Liabilities, redeemable preferred stock and shareholders equity** | | |
| Liabilities: | | |
| Reserves for loss and loss adjustment expenses | $ 545,353 | $ 531,293 |
| Unearned premiums | 143,209 | 137,100 |
| Reinsurance premiums payable | 1,846 | |
| Amounts held for others | 10,386 | 8,450 |
| Policyholder deposits | 41,628 | 42,368 |
| Insurance-related assessments | 45,584 | 42,505 |
| Securities payable | 801 | 1,550 |
| Accounts payable and other liabilities | 29,026 | 30,205 |
| Subordinated debt securities | 36,090 | 36,090 |
| | 853,923 | 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 18,866,446 in 2009 and 18,856,602 in 2008 | 189 | 188 |

| | | |
|---|---|---|
| Additional paid-in capital | 175,836 | 175,163 |
| Accumulated earnings | 103,822 | 77,076 |
| Accumulated other comprehensive income (loss) | (1,574) | 845 |
| | 278,273 | 253,272 |
| | $ 1,157,196 | $ 1,107,833 |

See accompanying notes.

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**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, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Revenues** | | | | |
| Gross premiums written | $ 72,537 | $ 85,995 | $ 151,966 | $ 166,972 |
| Ceded premiums written | (4,870) | (4,666) | (10,064) | (9,456) |
| Net premiums written | $ 67,667 | $ 81,329 | $ 141,902 | $ 157,516 |
| Net premiums earned | $ 65,792 | $ 72,143 | $ 135,793 | $ 146,443 |
| Net investment income | 6,982 | 7,405 | 14,354 | 15,222 |
| Net realized gains on investments | 17 | 53 | 43 | 61 |
| Fee and other income | 705 | 229 | 841 | 370 |
| Total revenues | 73,496 | 79,830 | 151,031 | 162,096 |
| **Expenses** | | | | |
| Loss and loss adjustment expenses incurred | 40,219 | 47,317 | 87,289 | 97,245 |
| Underwriting and certain other operating costs | 4,114 | 2,476 | 8,453 | 7,152 |
| Commissions | 4,693 | 6,521 | 10,110 | 11,354 |
| Salaries and benefits | 5,668 | 5,152 | 10,680 | 10,157 |
| Interest expense | 383 | 657 | 994 | 1,426 |
| Policyholder dividends | 141 | 122 | 322 | 438 |
| Total expenses | 55,218 | 62,245 | 117,848 | 127,772 |
| Income before income taxes | 18,278 | 17,585 | 33,183 | 34,324 |
| Income tax expense | 4,577 | 4,758 | 8,420 | 9,574 |
| Net income | 13,701 | 12,827 | 24,763 | 24,750 |
| Preferred stock dividends | | | | |
| Net income available to common shareholders | $ 13,701 | $ 12,827 | $ 24,763 | $ 24,750 |
| **Earnings per share** | | | | |
| Basic | $ 0.68 | $ 0.64 | $ 1.24 | $ 1.24 |
| Diluted | $ 0.67 | $ 0.63 | $ 1.21 | $ 1.22 |
| **Shares used in computing earnings per share** | | | | |
| Basic | 18,855,200 | 18,809,250 | 18,850,168 | 18,803,805 |
| Diluted | 19,242,089 | 19,091,675 | 19,237,286 | 19,060,673 |

See accompanying notes.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

**(unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2009** | **2008** |
| **Operating Activities** | | |
| Net income | $ 24,763 | $ 24,750 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 626 | 553 |
| Net amortization of investments | 1,840 | 1,404 |
| Deferred income taxes | 886 | (2,331) |
| Net realized gains on investments | (43) | (61) |
| (Gain)/loss on sale of fixed assets | (1) | 4 |
| Share-based compensation | 637 | 577 |
| Changes in operating assets and liabilities: | | |
| Premiums receivable | (24,988) | (21,220) |
| Accrued interest receivable | (99) | (24) |
| Deferred policy acquisition costs and deferred charges | (400) | (2,716) |
| Other assets | (3,055) | (8,253) |
| Reserves for loss and loss adjustment expenses | 14,060 | 8,719 |
| Unearned premiums | 6,109 | 11,073 |
| Reinsurance balances | (10,540) | 1,962 |
| Amounts held for others and policyholder deposits | 1,196 | 2,505 |
| Accounts payable and other liabilities | 1,150 | 595 |
| Net cash provided by operating activities | 12,141 | 17,537 |
| **Investing Activities** | | |
| Purchases of investments held-to-maturity | (61,133) | (91,033) |
| Purchases of investments available-for-sale | | (2,311) |
| Purchases of short-term investments | (18,836) | |
| Proceeds from maturities of investments held-to-maturity | 51,807 | 49,930 |
| Proceeds from sales and maturities of short-term investments | 3,490 | |
| Proceeds from sales and maturities of investments available-for-sale | | 33,054 |
| Purchases of property and equipment | (597) | (283) |
| Proceeds from sales of property and equipment | 2 | |
| Net cash used in investing activities | (25,267) | (10,643) |
| **Financing Activities** | | |
| Proceeds from stock option exercises | 36 | 34 |
| Tax benefit (expense) from share-based payments | | (4) |
| Net cash provided by financing activities | 36 | 30 |
| Change in cash and cash equivalents | (13,090) | 6,924 |
| Cash and cash equivalents at beginning of period | 95,241 | 47,304 |

| | | |
|---|---|---|
| Cash and cash equivalents at end of period | $ 82,151 | $ 54,228 |

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 subsidiarie 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 and maritime. 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.

Pursuant to the 2005 Restricted Stock Plan, 6,468 shares of restricted common stock granted in June 2008 to non-employee directors vested on June 15, 2009, the date of the annual shareholder s meeting. On June 15, 2009, non-employee directors were granted 5,844 shares of restricted common stock in accordance with the 2005 Restricted Stock Plan. The market value of the restricted shares granted was $90,000, and those restricted shares will vest at the next annual shareholders meeting.

During the six months ended June 30, 2009, there were 4,000 stock options exercised. Related to these exercises, the Company received $36,000 of stock option proceeds.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

The Company recognized share-based compensation expense of $571,000 in the quarter ended June 30, 2009, compared to $350,000 for the same period in 2008. The Company recognized share-based compensation expense of $637,000 in the six months ended June 30, 2009, compared to $577,000 for the same period in 2008. In the second quarter of 2009, the Company updated forfeiture assumptions for certain stock options, resulting in additional compensation expense of $310,000.

**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.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Basic EPS: | | | | |
| Net income available to common shareholders | $ 13,701 | $ 12,827 | $ 24,763 | $ 24,750 |
| Portion allocable to common shareholders | 94.1% | 94.0% | 94.1% | 94.0% |
| Net income allocable to common shareholders | $ 12,887 | $ 12,057 | $ 23,292 | $ 23,265 |
| Basic weighted average common shares | 18,855,200 | 18,809,250 | 18,850,168 | 18,803,805 |
| Basic earnings per common share | $ 0.68 | $ 0.64 | $ 1.24 | $ 1.24 |
| Diluted EPS: | | | | |
| Net income allocable to common shareholders | $ 12,887 | $ 12,057 | $ 23,292 | $ 23,265 |
| Diluted weighted average common shares: | | | | |
| Weighted average common shares | 18,855,200 | 18,809,250 | 18,850,168 | 18,803,805 |

| | | | | |
|---|---|---|---|---|
| Stock options | 375,937 | 275,674 | 377,930 | 240,807 |
| Restricted stock | 10,952 | 6,751 | 9,188 | 16,061 |
| Diluted weighted average common shares | 19,242,089 | 19,091,675 | 19,237,286 | 19,060,673 |
| Diluted earnings per common share | $ 0.67 | $ 0.63 | $ 1.21 | $ 1.22 |

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**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.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator: | | | | |
| Basic weighted average common shares | 18,855,200 | 18,809,250 | 18,850,168 | 18,803,805 |
| Add: Other common shares eligible for common dividends: | | | | |
| Weighted average restricted shares and stock options (including tax benefit component) | 386,889 | 282,425 | 387,118 | 256,868 |
| Weighted average participating common shares | 19,242,089 | 19,091,675 | 19,237,286 | 19,060,673 |
| Denominator: | | | | |
| Weighted average participating common shares | 19,242,089 | 19,091,675 | 19,237,286 | 19,060,673 |
| 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 | 242,953 | 242,953 |
| Weighted average common shares issuable upon conversion of Series D preferred shares | 971,817 | 971,817 | 971,817 | 971,817 |
| Weighted average participating shares | 20,456,859 | 20,306,445 | 20,452,056 | 20,275,443 |
| Portion allocable to common shareholders | 94.1% | 94.0% | 94.1% | 94.0% |

**Note 4. Investments**

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as held-to-maturity at June 30, 2009 are summarized as follows:

| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| Fixed maturity securities: | | | | |
| States and political subdivisions | $ 500,011 | $ 8,697 | $ (5,680) | $ 503,028 |
| U.S. agency-based mortgage-backed securities | 81,948 | 2,975 | | 84,923 |
| Commercial mortgage-backed securities | 51,601 | | (11,962) | 39,639 |
| U.S. Treasury securities and obligations of U.S. Government agencies | 16,415 | 785 | (3) | 17,197 |
| Corporate bonds | 26,936 | 824 | (236) | 27,524 |
| Asset-backed securities | 10,439 | 66 | (3,026) | 7,479 |
| Total fixed maturity securities | 687,350 | 13,347 | (20,907) | 679,790 |

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as available-for-sale at June 30, 2009 are summarized as follows:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| Equity securities | $ 25,002 | $ 226 | $ (997) | $ 24,231 |

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

A summary of the cost or amortized cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at June 30, 2009, by contractual maturity, is as follows:

| Remaining Time to Maturity | Carrying Value | Fair Value |
|---|---|---|
| | (In thousands) | |
| Less than one year | $ 46,358 | $ 46,679 |
| One to five years | 211,667 | 215,554 |
| Five to ten years | 125,865 | 127,675 |
| More than ten years | 159,472 | 157,841 |
| U.S. agency-based mortgage-backed securities | 81,948 | 84,923 |
| Commercial mortgage-backed securities | 51,601 | 39,639 |
| Asset-backed securities | 10,439 | 7,479 |
| Total | $ 687,350 | $ 679,790 |

The following table summarizes, as of June 30, 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:

| | As of June 30, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 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 | $ 95,608 | $ 1,625 | $ 65,865 | $ 4,055 | $ 161,473 | $ 5,680 |
| U.S. agency-based mortgage-backed securities | | | | | | |
| Commercial mortgage-backed securities | | | 39,639 | 11,962 | 39,639 | 11,962 |
| U.S. Treasury securities and obligations of U.S. Government agencies | 2,540 | 3 | | | 2,540 | 3 |
| Corporate bonds | 2,572 | 4 | 4,588 | 232 | 7,160 | 236 |
| Asset-backed securities | 49 | 7 | 6,414 | 3,019 | 6,463 | 3,026 |
| Total fixed maturity securities | 100,769 | 1,639 | 116,506 | 19,268 | 217,275 | 20,907 |
| Equity securities | 17,351 | 997 | | | 17,351 | 997 |
| Total | $ 118,120 | $ 2,636 | $ 116,506 | $ 19,268 | $ 234,626 | $ 21,904 |

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;
- our intent not to sell the security for a sufficient time period for it to recover its value; and
- the likelihood of being forced to sell the security before the recovery of its value.

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 does not intend to sell the securities and it is not more likely than not that we will be required to sell the security before the recovery of its amortized cost basis. In addition, none of the unrealized losses on debt securities are considered credit losses.

In April 2009, the FASB issued Staff Positions No. 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments ( FSP FAS 115-2 and FAS 124-2 ). FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009. FSP FAS 115-2 and FAS 124-2 amends the determination of other-than-temporary impairments for debt securities, but not for equity securities, and was issued to address concerns regarding recognition and presentation of other-than-temporary impairments. For debt securities, the amount of other-than-temporary impairment related to a credit loss or impairments on securities are recognized in earnings and reflected as a reduction in the cost basis of the security. The amount of the other-than-temporary impairment on debt securities related to other factors is recorded as a component of stockholders equity in other comprehensive income or loss with no change to the cost basis of the security. For equity securities, the amount of the other-than-temporary impairment due to the extent and duration that fair values are below cost is recognized in earnings and reflected as a reduction in the cost basis of the security. The adoption of FSP FAS 115-2 and FAS 124-2 resulted in a net after-tax increase to retained earnings and decrease to Accumulated Other Comprehensive Income (Loss) of $2.0 million, as of June 30, 2009.

**Note 5. 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, 2009, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no such uncertain positions for the quarters and six months ended June 30, 2009 and 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 6. Comprehensive Income**

Comprehensive income was $15.6 million for the three months ended June 30, 2009, as compared to $11.4 million for the three months ended June 30, 2008. Comprehensive income was $24.3 million for the six months ended June 30, 2009, as compared to $20.7 million for the same period in 2008. The difference between net income as reported and comprehensive income was due to changes in unrealized gains and losses, net of tax.

**Note 7. 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 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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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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.

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, 2009, assets and liabilities measured at fair value on a recurring basis are summarized below:

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| Securities available for sale | $ 23,141 | $ | $ | $ 23,141 |

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

At June 30, 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.

**Note 8. Subsequent Events**

In May 2009, the FASB issued Statement No. 165, Subsequent Events ( SFAS 165 ). SFAS 165 is effective for interim and annual periods ending after June 15, 2009. SFAS 165 sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of SFAS 165 did not have a significant impact on the consolidated financial condition or results of operations.

Subsequent events have been evaluated for potential recognition or disclosure through August 6, 2009, which is the date the financial statements were issued.

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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 and six months ended June 30, 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, logging, oil and gas and maritime. 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 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.

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**Results of Operations**

The following table summarizes our consolidated financial results for the three and six months ended June 30, 2009 and 2008.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (dollars in thousands, except per share data) (unaudited) | | | |
| Gross premiums written | $ 72,537 | $ 85,995 | $ 151,966 | $ 166,972 |
| Net premiums earned | 65,792 | 72,143 | 135,793 | 146,443 |
| Net investment income | 6,982 | 7,405 | 14,354 | 15,222 |
| Total revenues | 73,496 | 79,830 | 151,031 | 162,096 |
| Total expenses | 55,218 | 62,245 | 117,848 | 127,772 |
| Net income | 13,701 | 12,827 | 24,763 | 24,750 |
| Diluted earnings per common share | $ 0.67 | $ 0.63 | $ 1.21 | $ 1.22 |
| **Other Key Measures** | | | | |
| Net combined ratio (1) | 83.3% | 85.4% | 86.0% | 86.3% |
| Return on average equity (2) | 18.6% | 20.6% | 17.0% | 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, 2009 Compared to June 30, 2008***

*Gross Premiums Written*. Gross premiums written for the quarter ended June 30, 2009 were $72.5 million, compared to $86.0 million for the same period in 2008, a decrease of 15.6%. The decrease was attributable to an $8.4 million decrease in annual premiums on voluntary policies written during the period, a $4.6 million decrease in premiums resulting from payroll audits and related premium adjustments, a $353,000 decrease in direct assigned risk premiums, and a $133,000 decrease in assumed premiums from mandatory pooling arrangements.

*Net Premiums Written*. Net premiums written for the quarter ended June 30, 2009 were $67.7 million, compared to $81.3 million for the same period in 2008, a decrease of 16.8%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums written, ceded premiums were 6.7% for the second quarter of 2009, compared to 5.4% for the second quarter of 2008.

*Net Premiums Earned*. Net premiums earned for the second quarter of 2009 were $65.8 million, compared to $72.1 million for the same period in 2008, a decrease of 8.8%. 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 was $7.0 million, compared to $7.4 million for the same period in 2008, a decrease of 5.7%. Average invested assets, including cash and cash equivalents, were $808.6 million in the quarter ended June 30, 2009, compared to an average of $771.3 million in the same period in 2008, an increase of 4.8%. Offsetting this increase was a decrease in the tax-equivalent yield on our investment portfolio, from 5.4% per annum as of June 30, 2008, to 4.7% per annum as of June 30, 2009. The pre-tax investment yield on our investment portfolio was 3.5% per annum during the quarter ended June 30, 2009, compared to 3.8% per annum during the same period in 2008.

*Net Realized Gains on Investments*. Net realized gains on investments for the three months ended June 30, 2009 totaled $17,000, compared to $53,000 for the same period in 2008. Net realized gains in the both periods were primarily the result of calls on fixed maturity securities.

*Loss and Loss Adjustment Expenses Incurred*. Loss and loss adjustment expenses (LAE) incurred totaled $40.2 million for the three months ended June 30, 2009, compared to $47.3 million for the same period in 2008, a decrease of $7.1 million, or 15.0%. The current accident year

loss and LAE incurred decreased as a result of lower premiums earned in the second quarter of 2009, as compared to the same period in 2008. In addition, we recorded favorable prior accident year development of $5.2 million in the second quarter of 2009, compared to $2.8 million in the same period of 2008, as further discussed below in Prior Year Development. Our net loss ratio was 61.1% in the second quarter of 2009, as compared to 65.6% in the same period of 2008.

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*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, 2009 were $14.5 million, compared to $14.1 million for the same period in 2008, an increase of 2.3%. This increase was primarily due to a $541,000 increase in legal and professional expenses related to the corporate governance review conducted by the Nominating and Corporate Governance Committee of the Board of Directors and concluded in the second quarter of 2009, a $472,000 increase in insurance-related assessments and a $2.0 million decrease in income from the commutation of certain reinsurance contracts. Salaries and benefits increased $516,000, of which $310,000 related to updated forfeiture assumptions for certain stock options. Offsetting these increases was a $1.8 million decrease in commissions, an $846,000 decrease in premium taxes, and $438,000 of experience-rated commissions from our 2009 reinsurance agreements. Our expense ratio was 22.0% in the second quarter of 2009 compared to $19.6% in the second quarter of 2008.

*Interest expense*. Interest expense for the second quarter of 2009 was $383,000, compared to $657,000 for the same period in 2008. Weighted average borrowings for both periods were $36.1 million, however the weighted average interest rate decreased to 5.1% per annum for the second quarter of 2009 from 7.5% per annum for the second quarter of 2008.

*Income tax expense.* Income tax expense for the three months ended June 30, 2009 was $4.6 million, compared to $4.8 million for the same period in 2008. The decrease was primarily attributable to a decrease in our effective tax rate to 25.0% for the quarter ended June 30, 2009, compared to 27.1% for the same period in 2008. Pre-tax income increased to $18.3 million for the three months ended June 30, 2009, compared to $17.6 million for the same period in 2008.

***Consolidated Results of Operations for Six Months Ended June 30, 2009 Compared to June 30, 2008***

*Gross Premiums Written*. Gross premiums written for the first half of 2009 were $152.0 million, compared to $167.0 million for the same period in 2008, a decrease of 9.0%. The decrease was attributable to a $7.4 million decrease in annual premiums on voluntary policies written during the period, a $6.7 million decrease in premiums resulting from payroll audits and related premium adjustments and a $1.1 million decrease in direct assigned risk premiums. Offsetting these decreases was a $142,000 increase in premiums from mandatory pooling arrangements.

*Net Premiums Written*. Net premiums written for the six months ended June 30, 2009 were $141.9 million, compared to $157.5 million for the same period in 2008, 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 6.6% for the first half of 2009, compared to 5.7% for the first half of 2008.

*Net Premiums Earned*. Net premiums earned for the first half of 2009 were $135.8 million, compared to $146.4 million for the same period in 2008, a decrease of 7.3%. 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 2009 was $14.4 million, compared to $15.2 million for the same period in 2008, a decrease of 5.7%. The change was attributable to a decrease in the tax-equivalent yield on our investment portfolio, from 5.4% per annum as of June 30, 2008, to 4.7% per annum as of June 30, 2009. The pre-tax investment yield on our investment portfolio was 3.6% per annum during the six months ended June 30, 2009, compared to 4.0% per annum during the same period in 2008. Average invested assets, including cash and cash equivalents increased 5.4%, from an average of $767.1 million in the first half of 2008 to an average of $808.2 million for the same period in 2009.

*Net Realized Gains on Investments*. Net realized gains on investments for the six months ended June 30, 2009 totaled $43,000, compared to $61,000 for the same period in 2008. Net realized gains in the both periods were primarily the result of calls on fixed maturity securities.

*Loss and Loss Adjustment Expenses Incurred*. Loss and LAE incurred totaled $87.3 million for the six months ended June 30, 2009, compared to $97.2 million for the same period in 2008, a decrease of $10.0 million, or 10.2%. The current accident year loss and LAE incurred decreased as a result of lower premiums earned in the first half of 2009, as compared to the same period in 2008. In addition, we recorded favorable prior accident year development of $6.4 million in 2009, compared to $4.5 million in 2008, as further discussed below in Prior Year Development. Our net loss ratio was 64.3% in the first half of 2009, as compared to 66.4% for the same period in 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 half of 2009 were $29.2 million, compared to $28.7 million for the same period in 2008, an increase of 2.0% This increase was primarily due to a $709,000 increase in legal and professional expenses related to the corporate governance review, a $570,000 increase in insurance-related assessments, and a $1.6 million decrease in income from the commutation of reinsurance contracts. Salaries and benefits increased $523,000, of which $310,000 related to updated forfeiture assumptions for certain stock options. Offsetting these increases was a $1.2 million decrease in commissions, $876,000 of experience-rated commissions from our 2009 reinsurance

agreements and a $785,000 decrease in premium taxes.

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*Interest expense*. Interest expense for the first six months of 2009 was $994,000, compared to $1.4 million for the comparable period of 2008. Weighted average borrowings for both periods were $36.1 million. The weighted average interest rate decreased to 5.3% per annum for the first half of 2009 from 7.4% per annum for the first half of 2008.

*Income tax expense.* Income tax expense for the six months ended June 30, 2009 was $8.4 million, compared to $9.6 million for the same period in 2008. The decrease was primarily attributable to a decrease in our effective tax rate to 25.4% for the six months ended June 30, 2009, compared to 27.9% for the same period in 2008. Pre-tax income decreased to $33.2 million for the six months ended June 30, 2009, compared to $34.3 million for the same period in 2008. The decrease in the effective tax rate from the six months ended June 30, 2008 to the same period in 2009 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 $12.1 million for the six months ended June 30, 2009, which represented a $5.4 million decrease in cash provided by operating activities, from $17.5 million in net cash provided by operating activities for the six months ended June 30, 2008. This decrease in operating cash was attributable to a $15.8 million decrease in premiums collected, a $5.9 million decrease in reinsurance recoveries, a $1.8 million increase in expense disbursements and a $361,000 decrease in net investment income. Offsetting these decreases in operating cash flow was a $7.5 million decrease in federal income taxes paid, a $7.1 million decrease in losses paid and a $3.5 million decrease in dividends paid.

Net cash used in investing activities was $25.3 million for the first half of 2009, compared to $10.6 million for the same period in 2008. Cash provided by sales and maturities of investments totaled $55.3 million for the six months ended June 30, 2009, compared to $83.0 million for the same period in 2008. A total of $80.0 million in cash was used to purchase investments in the first half of 2009, compared to $93.3 million in purchases for the same period in 2008.

Net cash provided by financing activities in the first half of 2009 was $36,000, as compared to $30,000 in the same period in 2008. In the first six months of 2009, proceeds from stock option exercises totaled $36,000 with minimal tax expense related to share-based compensation. In the first six months of 2008, proceeds from stock option exercises totaled $34,000 and tax expense from share-based compensation totaled $4,000.

On March 30, 2009, we commuted certain reinsurance agreements with Lincoln National Life Insurance Company ( Lincoln National ), Connecticut General Life Insurance Company ( Continental 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. 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 June 30, 2009, our investment portfolio, including cash and cash equivalents, totaled $809.1 million, an increase of 5.2% from June 30, 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.

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 7 of the financial statements, our securities available-for-sale are classified using Level 1inputs. We did not elect the fair value option prescribed under SFAS 159 for any financial assets or financial liabilities as of June 30, 2009.

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The composition of our investment portfolio, including cash and cash equivalents, as of June 30, 2009 is shown in the following table.

| | Carrying Value | Percentage of Portfolio |
|---|---|---|
| | (in thousands) | |
| Fixed maturity securities: | | |
| States and political subdivisions | $ 500,011 | 61.8% |
| U.S. agency-based mortgage-backed securities | 81,948 | 10.1% |
| Commercial mortgage-backed securities | 51,601 | 6.4% |
| U.S. Treasury securities and obligations of U.S. Government agencies | 16,415 | 2.0% |
| Corporate bonds | 26,936 | 3.3% |
| Asset-backed securities | 10,439 | 1.3% |
| Total fixed maturity securities | 687,350 | 84.9% |
| Equity securities | 24,231 | 3.0% |
| Cash and cash equivalents | 82,151 | 10.2% |
| Short-term investments | 15,357 | 1.9% |
| Total investments, including cash and cash equivalents | $ 809,089 | 100.0% |

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.

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**Prior Year Development**

The Company recorded favorable prior accident year development of $5.2 million in the three months ended June 30, 2009. The table below sets forth the favorable or unfavorable development for three and six months ended June 30, 2009 for accident years 2004 through 2008 and, collectively, for all accident years prior to 2004.

| | Favorable/(Unfavorable) Development | |
|---|---|---|
| | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2009 |
| Accident Year | (in millions) | |
| 2008 | $ 0.4 | $ (4.9) |
| 2007 | 0.8 | 4.5 |
| 2006 | 2.0 | 4.6 |
| 2005 | (0.5) | 0.2 |
| 2004 | | (0.2) |
| Prior to 2004 | 2.5 | 2.2 |
| Total net development | $ 5.2 | $ 6.4 |

The table below sets forth the number of open claims as of June 30, 2009 and 2008, and the number of claims reported and closed during the three and six months then ended.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Open claims at beginning of period | 4,601 | 5,197 | 4,793 | 5,300 |
| Claims reported | 1,344 | 1,596 | 2,602 | 3,113 |
| Claims closed | (1,341) | (1,660) | (2,791) | (3,280) |
| Open claims at end of period | 4,604 | 5,133 | 4,604 | 5,133 |

The number of open claims at June 30, 2009 decreased by 529 claims, or 10.3%, as compared to the number of open claims at June 30, 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 June 30, 2008 to June 30, 2009, which management believes contributed, in part, to the favorable prior accident year development recorded in the first half of 2009.

At June 30, 2009, our case incurred amounts for certain accident years, particularly 2006, 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 June 30, 2009, actual results for certain 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 accident year. 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.

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**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 fiscal 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.

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 2009 Annual Meeting of Shareholders on June 15, 2009. 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 2009. The results were as follows:

**Proposal 1**

**Election of Directors**

Nominees for election to a term expiring at the company s Annual Meeting in 2012:

| | Shares Voted For | Shares Withheld |
|---|---|---|
| Millard E. Morris | 9,803,550 | 7,616,358 |
| Randy Roach | 16,635,982 | 783,926 |

**Proposal 2**

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

**Registered Public Accounting Firm for 2009**

| Shares Voted For | Shares Voted Against | Shares Abstaining |
|---|---|---|
| 17,124,322 | 292,835 | 2,751 |

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 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. |
|---|---|
| August 6, 2009 | /s/ C. Allen Bradley, Jr.<br>C. Allen Bradley, Jr.<br>Chairman, President and Chief Executive Officer<br>(Principal Executive Officer) |
| August 6, 2009 | /s/ G. Janelle Frost<br>G. Janelle Frost<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) |

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