

AMERISAFE INC  
Form 10-Q  
August 06, 2010  
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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, 2010**

Commission file number:

001-12251

**AMERISAFE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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Texas  
(State of Incorporation)

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

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 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   
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 July 31, 2010, there were 18,643,416 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 economic activity generally, and in particular in the industries we target;

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;

adverse 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;

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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 our 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 Item 1A, Risk Factors of Part I to our Annual Report on Form 10-K for the year ended December 31, 2009. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

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

	<b>June 30, 2010 (unaudited)</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value \$703,865 and \$678,905 in 2010 and 2009, respectively)	\$ 678,305	\$ 666,418
Fixed maturity securities available-for-sale, at fair value (cost \$6,018 and \$0 in 2010 and 2009, respectively)	6,027	
Equity securities available-for-sale, at fair value (cost \$3,122 and \$14,424 in 2010 and 2009, respectively)	2,666	16,571
Short-term investments	64,586	54,308
<b>Total investments</b>	<b>751,584</b>	<b>737,297</b>
Cash and cash equivalents	50,138	63,188
Amounts recoverable from reinsurers	94,263	81,878
Premiums receivable, net	158,585	151,570
Deferred income taxes	31,306	28,489
Accrued interest receivable	7,626	7,165
Property and equipment, net	6,120	5,369
Deferred policy acquisition costs	19,330	18,128
Deferred charges	3,341	3,030
Federal income tax recoverable	1,971	7,415
Other assets	16,190	15,280
	<b>\$ 1,140,454</b>	<b>\$ 1,118,809</b>
<b>Liabilities and shareholders equity</b>		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 531,948	\$ 534,655
Unearned premiums	129,301	122,500
Reinsurance premiums payable	993	
Amounts held for others	16,950	14,915
Policyholder deposits	40,197	40,857
Insurance-related assessments	42,264	40,072
Securities payable	2,806	2,979
Accounts payable and other liabilities	23,506	24,324
Subordinated debt securities	36,090	36,090
	<b>824,055</b>	<b>816,392</b>
Shareholders equity:		
Common stock:		
Voting \$0.01 par value authorized shares 50,000,000 in 2010 and 2009; 19,002,964 and 18,895,246 shares issued and 18,603,816 and 18,895,246 shares outstanding in 2010 and 2009, respectively	190	189

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Additional paid-in capital	178,383	176,868
Treasury stock at cost (399,148 shares in 2010 and none in 2009)	(6,638)	
Accumulated earnings	144,333	122,632
Accumulated other comprehensive income	131	2,728
	316,399	302,417
	\$ 1,140,454	\$ 1,118,809

See accompanying notes.

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

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenues</b>				
Gross premiums written	\$ 62,993	\$ 72,537	\$ 124,084	\$ 151,966
Ceded premiums written	(4,603)	(4,870)	(9,242)	(10,064)
Net premiums written	\$ 58,390	\$ 67,667	\$ 114,842	\$ 141,902
Net premiums earned	\$ 52,982	\$ 65,792	\$ 108,040	\$ 135,793
Net investment income	6,675	6,982	13,215	14,354
Net realized gains on investments	293	17	2,845	43
Fee and other income	145	705	377	841
<b>Total revenues</b>	<b>60,095</b>	<b>73,496</b>	<b>124,477</b>	<b>151,031</b>
<b>Expenses</b>				
Loss and loss adjustment expenses incurred	33,711	40,219	71,338	87,289
Underwriting and certain other operating costs	3,403	4,114	6,686	8,453
Commissions	3,993	4,693	7,992	10,110
Salaries and benefits	4,951	5,668	10,166	10,680
Interest expense	385	383	760	994
Policyholder dividends	210	141	474	322
<b>Total expenses</b>	<b>46,653</b>	<b>55,218</b>	<b>97,416</b>	<b>117,848</b>
Income before income taxes	13,442	18,278	27,061	33,183
Income tax expense	3,018	4,577	5,360	8,420
Net income	10,424	13,701	21,701	24,763
Net income available to common shareholders	\$ 10,424	\$ 13,701	\$ 21,701	\$ 24,763
<b>Earnings per share</b>				
Basic	\$ 0.56	\$ 0.68	\$ 1.15	\$ 1.24
Diluted	\$ 0.54	\$ 0.67	\$ 1.13	\$ 1.21
<b>Shares used in computing earnings per share</b>				
Basic	18,720,748	18,855,200	18,804,093	18,850,168
Diluted	19,160,004	19,242,089	19,238,093	19,237,286

See accompanying notes.





**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Net income	\$ 21,701	\$ 24,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	516	626
Net amortization of investments	2,292	1,840
Deferred income taxes	(2,575)	886
Net realized (gains) on investments	(2,845)	(43)
(Gain) on sale of fixed assets		(1)
Share-based compensation	464	637
Changes in operating assets and liabilities:		
Premiums receivable	(7,015)	(24,988)
Accrued interest receivable	(461)	(99)
Deferred policy acquisition costs and deferred charges	(1,513)	(400)
Other assets	4,534	(3,055)
Reserves for loss and loss adjustment expenses	(2,707)	14,060
Unearned premiums	6,802	6,109
Reinsurance balances	(11,391)	(10,540)
Amounts held for others and policyholder deposits	1,375	1,196
Accounts payable and other liabilities	1,200	1,150
Net cash provided by operating activities	10,377	12,141
<b>Investing Activities</b>		
Purchases of investments held-to-maturity	(40,601)	(61,133)
Purchases of investments available-for-sale	(13,841)	
Purchases of short-term investments	(42,866)	(18,836)
Proceeds from maturities of investments held-to-maturity	26,344	51,807
Proceeds from sales and maturities of investments available-for-sale	21,924	
Proceeds from sales and maturities of short-term investments	32,467	3,490
Purchases of property and equipment	(1,267)	(597)
Proceeds from sales of property and equipment		2
Net cash (used in) investing activities	(17,840)	(25,267)
<b>Financing Activities</b>		
Proceeds from stock option exercises	917	36
Tax benefit from share-based payments	134	
Treasury shares purchased	(6,638)	
Net cash (used in)/provided by financing activities	(5,587)	36
Change in cash and cash equivalents	(13,050)	(13,090)
Cash and cash equivalents at beginning of period	63,188	95,241

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Cash and cash equivalents at end of period

\$ 50,138    \$ 82,151

See accompanying notes.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1. Basis of Presentation**

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

The Company provides workers compensation and general liability insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking and agriculture. Assets and revenues of AIIC represent more than 99% of comparable consolidated amounts of the Company for each of 2010 and 2009.

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, 2009.

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, 2009 for additional information regarding the Company's incentive plans.

Pursuant to the 2005 Restricted Stock Plan, 6,260 shares of restricted common stock granted in June 2009 and January 2010 to non-employee directors vested on June 15, 2010, the date of the annual shareholders meeting.

In June 2010, the Company's shareholders approved an amendment to the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2010 Restated Restricted Stock Plan). On June 15, 2010, non-employee directors were granted 11,830 shares of restricted common stock in accordance with the 2010 Restated Restricted Stock Plan. The market value of the restricted shares granted was \$210,000, and those restricted shares will vest at the next annual shareholders meeting.

During the six months ended June 30, 2010, there were 95,472 stock options exercised. Related to these exercises, the Company received \$917,000 of stock option proceeds. 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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The Company recognized share-based compensation expense of \$243,000 in the quarter ended June 30, 2010, compared to \$571,000 for the same period in 2009. The Company recognized share-based compensation expense of \$464,000 in the six months ended June 30, 2010, compared to \$637,000 for the same period in 2009.

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## 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 FASB ASC Topic 260, Earnings Per Share. Additionally, for periods prior to December 31, 2009 we apply the two-class method in computing basic and diluted earnings per share. ASC Topic 260 clarifies that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities.

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 qualified as participating securities under ASC Topic 260 in 2009. With redemption of the Series C and D preferred shares in December 2009, the two-class method is no longer required in 2010 for redeemable preferred stock.

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,	
	2010	2009	2010	2009
	(in thousands, except share and per share amounts)			
<b>Basic EPS:</b>				
Net income available to common shareholders	\$ 10,424	\$ 13,701	\$ 21,701	\$ 24,763
Portion allocable to common shareholders	100.0%	94.1%	100.0%	94.1%
Net income allocable to common shareholders	\$ 10,424	\$ 12,887	\$ 21,701	\$ 23,292
Basic weighted average common shares	18,720,748	18,855,200	18,804,093	18,850,168
Basic earnings per common share	\$ 0.56	\$ 0.68	\$ 1.15	\$ 1.24
<b>Diluted EPS:</b>				
Net income allocable to common shareholders	\$ 10,424	\$ 12,887	\$ 21,701	\$ 23,292
<b>Diluted weighted average common shares:</b>				
Weighted average common shares	18,720,748	18,855,200	18,804,093	18,850,168
Stock options	435,082	375,937	430,707	377,930
Restricted stock	4,174	10,952	3,293	9,188
Diluted weighted average common shares	19,160,004	19,242,089	19,238,093	19,237,286
Diluted earnings per common share	\$ 0.54	\$ 0.67	\$ 1.13	\$ 1.21



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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Numerator:</b>				
Basic weighted average common shares	18,720,748	18,855,200	18,804,093	18,850,168
<b>Add: Other common shares eligible for common dividends:</b>				
Weighted average restricted shares and stock options (including tax benefit component)	439,256	386,889	434,000	387,118
<b>Weighted average participating common shares</b>	<b>19,160,004</b>	<b>19,242,089</b>	<b>19,238,093</b>	<b>19,237,286</b>
<b>Denominator:</b>				
Weighted average participating common shares	19,160,004	19,242,089	19,238,093	19,237,286
<b>Add: Other classes of securities, including contingently issuable common shares and convertible preferred shares:</b>				
Weighted average common shares issuable upon conversion of Series C preferred shares		242,953		242,953
Weighted average common shares issuable upon conversion of Series D preferred shares		971,817		971,817
<b>Weighted average participating shares</b>	<b>19,160,004</b>	<b>20,456,859</b>	<b>19,238,093</b>	<b>20,452,056</b>
Portion allocable to common shareholders	100.0%	94.1%	100.0%	94.1%

**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, 2010 are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in thousands)				
<b>Fixed maturity securities:</b>				
States and political subdivisions	\$ 477,989	\$ 19,376	\$ (1,005)	\$ 496,360
U.S. agency-based mortgage-backed securities	69,856	4,763	(136)	74,483
Commercial mortgage-backed securities	51,581	1,449	(83)	52,947
U.S. Treasury securities and obligations of U.S. Government agencies	14,839	1,195		16,034
Corporate bonds	56,530	1,557	(284)	57,803
Asset-backed securities	6,760	1	(1,273)	5,488



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Long-term certificates of deposit				750	750
<b>Total fixed maturity securities</b>	<b>\$ 678,305</b>	<b>\$ 28,341</b>	<b>\$ (2,781)</b>		<b>\$ 703,865</b>

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as available-for-sale at June 30, 2010 are summarized as follows:

	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
<b>Fixed maturity securities:</b>				
Corporate bonds	\$ 6,018	\$ 21	\$ (12)	\$ 6,027
Equity securities	\$ 3,122	\$	\$ (456)	\$ 2,666

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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, 2010, by contractual maturity, is as follows:

<b>Remaining Time to Maturity</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>(In thousands)</b>	
Less than one year	\$ 61,474	\$ 62,367
One to five years	230,036	237,530
Five to ten years	125,888	133,480
More than ten years	132,710	137,570
U.S. agency-based mortgage-backed securities	69,856	74,483
Commercial mortgage-backed securities	51,581	52,947
Asset-backed securities	6,760	5,488
<b>Total</b>	<b>\$ 678,305</b>	<b>\$ 703,865</b>

A summary of the cost or amortized cost and fair value of investments in fixed maturity securities, classified as available-for-sale at June 30, 2010, by contractual maturity, is as follows:

<b>Remaining Time to Maturity</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>(In thousands)</b>	
Less than one year	\$	\$
One to five years	6,018	6,027
Five to ten years		
More than ten years		
U.S. agency-based mortgage-backed securities		
Commercial mortgage-backed securities		
Asset-backed securities		
<b>Total</b>	<b>\$ 6,018</b>	<b>\$ 6,027</b>

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The following table summarizes, as of June 30, 2010, 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 June 30, 2010 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
<b>Held-to-Maturity</b>						
Fixed maturity securities:						
States and political subdivisions	\$ 7,359	\$ 115	\$ 20,193	\$ 890	\$ 27,552	\$ 1,005
U.S. agency-based mortgage-backed securities	6,913	136			6,913	136
Commercial mortgage-backed securities			5,449	83	5,449	83
U.S. Treasury securities and obligations of U.S. Government agencies						
Corporate bonds	10,194	276	1,493	8	11,687	284
Asset-backed securities			5,441	1,273	5,441	1,273
<b>Total held-to-maturity securities</b>	<b>24,466</b>	<b>527</b>	<b>32,576</b>	<b>2,254</b>	<b>57,042</b>	<b>2,781</b>
<b>Available-for Sale</b>						
Fixed maturity securities:						
Corporate bonds	\$ 3,348	\$ 12	\$	\$	\$ 3,348	\$ 12
Equity securities			1,576	456	1,576	456
<b>Total available-for-sale securities</b>	<b>3,348</b>	<b>12</b>	<b>1,576</b>	<b>456</b>	<b>4,924</b>	<b>468</b>
<b>Total</b>	<b>\$ 27,814</b>	<b>\$ 539</b>	<b>\$ 34,152</b>	<b>\$ 2,710</b>	<b>\$ 61,966</b>	<b>\$ 3,249</b>

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;

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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;

the likelihood of being forced to sell the security before the recovery of its value; and

an evaluation as to whether there are any credit losses on debt securities.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

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.

We determined that the unrealized loss on the equity securities related primarily to market fluctuations. While the security has been at an unrealized loss for greater than twelve months, the amount of loss varied during this time period. The unrealized loss was minimal for a portion of that time.

In April 2009, the FASB issued guidance, now codified as FASB ASC Topic 320, Investments-Debt and Equity Securities, to address concerns regarding recognition and presentation of other-than-temporary impairments. The pronouncement was effective for interim and annual periods ending after June 15, 2009. For debt securities, the amount of other-than-temporary impairment related to a credit loss or impairments on securities is 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 ASC Topic 320 did not have a material impact on the Company's consolidated financial condition or results of operations.

**Note 5. Income Taxes**

In accordance with FASB ASC Topic 740, Income Taxes, we provide for the recognition and measurement of deferred income tax benefits based on the likelihood of their realization in future years. As of June 30, 2010, 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 uncertain tax positions for the quarters and six months ended June 30, 2010 and 2009.

Tax years 2006 through 2009 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 \$10.2 million for the three months ended June 30, 2010, as compared to \$15.6 million for the three months ended June 30, 2009. Comprehensive income was \$19.1 million for the six months ended June 30, 2010, as compared to \$24.3 million for the same period in 2009. 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 FASB ASC Topic 820, Fair Value Measurements and Disclosures, 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 ASC Topic 820 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 ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The

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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 ASC Topic 820 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.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

ASC Topic 820 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 value 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 ASC Topic 820, 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. ASC Topic 820 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 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, 2010, assets and liabilities measured at fair value on a recurring basis are summarized below:

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	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(in thousands)			
Securities available for sale equity	\$ 1,576	\$	\$	\$ 1,576
Securities available for sale fixed maturity	\$ 3,348	\$ 2,679	\$	\$ 6,027

In addition, the Company held common securities in unconsolidated variable interest entities of \$1,090,000, which are carried at cost. These variable interest entities are further discussed below in Note 9.

The Company determines fair value amounts for financial instruments using available third-party market information. When such information is not available, the Company determines the fair value amounts using appropriate valuation methodologies. Nonfinancial instruments such as real estate, property and equipment, deferred policy acquisition costs, deferred income taxes and loss and loss adjustment expense reserves are excluded from the fair value disclosure.

*Cash and Cash Equivalents* The carrying amounts reported in the accompanying consolidated balance sheets for these financial instruments approximate their fair values.

*Investments* The fair values for fixed maturity and equity securities are based on prices obtained from a third-party investment manager.



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

*Short-term Investments* The carrying amounts reported in the accompanying consolidated balance sheets for these financial instruments approximate their fair values.

*Subordinated Debt Securities* The carrying value of the Company's subordinated debt securities approximates the estimated fair value of the obligations as the interest rates on these securities are comparable to rates that the Company believes it presently would incur on comparable borrowings.

The following table summarizes the carrying or reported values and corresponding fair values for financial instruments:

	As of June 30, 2010		As of December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
<b>Assets:</b>				
Fixed maturity securities held-to-maturity	\$ 678,305	\$ 703,865	\$ 666,418	\$ 678,905
Fixed maturity securities available-for-sale	6,027	6,027		
Equity securities	2,666	2,666	16,571	16,571
Cash and cash equivalents	50,138	50,138	63,188	63,188
Short-term Investments	64,586	64,586	54,308	54,308
<b>Liabilities:</b>				
<b>Subordinated debt securities:</b>				
ACT I	10,310	10,310	10,310	10,310
ACT II	25,780	25,780	25,780	25,780

**Note 8. Treasury Stock**

In March 2010, the Company announced that its Board of Directors had approved a share repurchase program of its common stock. The program has an authorized limit of up to \$25 million and, unless extended, expires on December 31, 2010. During the three months ended June 30, 2010, 329,109 shares were purchased for \$5.5 million, or an average price (including commissions) of \$16.72 per share. During the six months ended June 30, 2010, 399,148 shares were purchased for \$6.6 million, or an average price (including commissions) of \$16.63 per share.

**Note 9. Variable Interest Entities**

In 2003, the Company formed Amerisafe Capital Trust I ( ACT I ) for the sole purpose of issuing \$10,000,000 in trust preferred securities. ACT I used the proceeds from the sale of these securities and the Company's initial capital contribution to purchase \$10,310,000 of subordinated debt securities from the Company. The debt securities are the sole assets of ACT I, and the payments under the debt securities are the sole revenues of ACT I.

In 2004, the Company formed Amerisafe Capital Trust II ( ACT II ) for the sole purpose of issuing \$25,000,000 in trust preferred securities. ACT II used the proceeds from the sale of these securities and the Company's initial capital contribution to purchase \$25,780,000 of subordinated debt securities from the Company. The debt securities are the sole assets of ACT II, and the payments under the debt securities are the sole revenues of ACT II.

The Company concluded that the equity investments in ACT I and ACT II (collectively, the Trusts ) are not at risk since the subordinated debt securities issued by the Company are the Trusts' sole assets. Accordingly, the Trusts are considered variable interest entities. The Company is not considered to be the primary beneficiary of the Trusts and has not consolidated these entities.



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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, 2009.

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, 2010 and 2009. This discussion includes an analysis of certain significant period-to-period variances in our consolidated statements of operations. Our cash flows and financial condition are discussed under the caption Liquidity and Capital Resources.

### **Business Overview**

AMERISAFE is a holding company that markets and underwrites workers' compensation insurance through its insurance subsidiaries. Workers' compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our business strategy is focused on providing this coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking and agriculture. 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, the impairment of investment securities and share-based compensation. 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, 2009.

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

The following table summarizes our consolidated financial results for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	\$ 62,993	\$ 72,537	\$ 124,084	\$ 151,966
Net premiums earned	52,982	65,792	108,040	135,793
Net investment income	6,675	6,982	13,215	14,354
Total revenues	60,095	73,496	124,477	151,031
Total expenses	46,653	55,218	97,416	117,848
Net income	10,424	13,701	21,701	24,763
Diluted earnings per common share	\$ 0.54	\$ 0.67	\$ 1.13	\$ 1.21
<b>Other Key Measures</b>				
Net combined ratio (1)	87.3%	83.3%	89.4%	86.0%
Return on average equity (2)	13.3%	18.6%	14.0%	17.0%
Book value per share (3)	\$ 17.01	\$ 15.10	\$ 17.01	\$ 15.10

- (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. On December 31, 2009, the Company redeemed all outstanding shares of its Series C and D redeemable preferred stock for \$25.9 million.
- (3) Book value per share is calculated by dividing shareholders' equity, including redeemable preferred stock, by total outstanding shares.

**Consolidated Results of Operations for Three Months Ended June 30, 2010 Compared to June 30, 2009**

**Gross Premiums Written.** Gross premiums written for the quarter ended June 30, 2010 were \$63.0 million, compared to \$72.5 million for the same period in 2009, a decrease of 13.2%. The decrease was attributable to a \$5.1 million decrease in annual premiums on voluntary policies written during the period, a \$3.8 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters, a \$0.6 million decrease in assumed premiums from mandatory pooling arrangements and a \$0.1 million decrease in direct assigned risk premiums. The decrease from payroll audits and related premium adjustments includes a \$1.0 million decrease in earned but unbilled (EBUB) premium.

**Net Premiums Written.** Net premiums written for the quarter ended June 30, 2010 were \$58.4 million, compared to \$67.7 million for the same period in 2009, a decrease of 13.7%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 8.0% for the second quarter of 2010, compared to 6.9% for the second quarter of 2009.

**Net Premiums Earned.** Net premiums earned for the second quarter of 2010 were \$53.0 million, compared to \$65.8 million for the same period in 2009, a decrease of 19.5%. The decrease was attributable to the decline in net premiums written in the previous four quarters.

**Net Investment Income.** Net investment income for the quarter ended June 30, 2010 was \$6.7 million, compared to \$7.0 million for the same period in 2009, a decrease of 4.4%. Average invested assets, including cash and cash equivalents, were \$800.4 million in the quarter ended June 30, 2010, compared to an average of \$808.6 million for the same period in 2009, a decrease of 1.0%. The pre-tax investment yield on our investment portfolio was 3.3% per annum during the quarter ended June 30, 2010, compared to 3.5% per annum for the second quarter of 2009. The tax-equivalent yield on our investment portfolio was 4.7% per annum for the quarter ended June 30, 2010, compared to 5.0% per annum for the same period in 2009. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

**Net Realized Gains (Losses) on Investments.** Net realized gains on investments for the three months ended June 30, 2010 totaled \$0.3 million. Net realized gains in the second quarter of 2010 primarily resulted from \$0.3 million in gains from the sale of fixed maturity securities from the available-for-sale portfolio. There were minimal net realized gains in the second quarter of 2009 resulting from called fixed maturity securities.

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*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$33.7 million for the three months ended June 30, 2010, compared to \$40.2 million for the same period in 2009, a decrease of \$6.5 million, or 16.2%. The current accident year losses and LAE incurred were \$40.0 million, or 75.5% of net premiums earned, compared to \$45.4 million for

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the second quarter of 2009. We recorded favorable prior accident year development of \$6.3 million in the second quarter of 2010, compared to \$5.2 million in the same period of 2009, as further discussed below in Prior Year Development. Our net loss ratio was 63.6% in the second quarter of 2010, compared to 61.1% in the same period of 2009.

*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, 2010 were \$12.3 million, compared to \$14.5 million for the same period in 2009, a decrease of 14.7%. This decrease was primarily due to a \$0.7 million decrease in commission expense, a \$0.7 million decrease in salaries and benefits, a \$0.5 million decrease in premium taxes and a \$0.5 million decrease in legal and professional expenses. Offsetting these expense reductions was a \$0.4 million decrease in experience-rated commissions from our 2009 reinsurance agreement. Our expense ratio was 23.3% in the second quarter of 2010 compared to 22.0% in the second quarter of 2009.

*Interest expense.* Interest expense for the second quarter of 2010 was \$0.4 million, compared to \$0.4 million for the same period in 2009. Weighted average borrowings for both periods were \$36.1 million, however the weighted average interest rate decreased to 4.3% per annum for the second quarter of 2010 from 5.1% per annum for the second quarter of 2009.

*Income tax expense.* Income tax expense for the three months ended June 30, 2010 was \$3.0 million, compared to \$4.6 million for the same period in 2009. The decrease was primarily attributable to a decline in pre-tax income to \$13.4 million in the second quarter of 2010 from \$18.3 million in the second quarter of 2009. The effective tax rate also decreased to 22.5% in the second quarter of 2010 from 25.0% in the second quarter of 2009. The effective tax rate for the second quarter of 2010 included a reduction of \$0.1 million for the change in valuation allowance for deferred tax assets.

**Consolidated Results of Operations for Six Months Ended June 30, 2010 Compared to June 30, 2009**

*Gross Premiums Written.* Gross premiums written for the first half of 2010 were \$124.1 million, compared to \$152.0 million for the same period in 2009, a decrease of 18.3%. The decrease was attributable to a \$16.6 million decrease in annual premiums on voluntary policies written during the period, a \$10.4 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters, a \$0.8 million decrease in assumed premiums from mandatory pooling arrangements and a \$0.2 million decrease in direct assigned risk premiums. The decrease from payroll audits and related premium adjustments includes a \$2.2 million decrease in earned but unbilled (EBUB) premium.

*Net Premiums Written.* Net premiums written for the six months ended June 30, 2010 were \$114.8 million, compared to \$141.9 million for the same period in 2009, a decrease of 19.1%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 7.9% for the first half of 2010, compared to 6.9% for the first half of 2009.

*Net Premiums Earned.* Net premiums earned for the first half of 2010 were \$108.0 million, compared to \$135.8 million for the same period in 2009, a decrease of 20.4%. The decrease was attributable to the decline in net premiums written in the previous four quarters.

*Net Investment Income.* Net investment income for the first six months of 2010 was \$13.2 million, compared to \$14.4 million for the same period in 2009, a decrease of 7.9%. Average invested assets, including cash and cash equivalents, were \$802.1 million in the six months ended June 30, 2010, compared to an average of \$808.2 million for the same period in 2009, a decrease of 0.8%. The pre-tax investment yield on our investment portfolio was 3.3% per annum during the six months ended June 30, 2010, compared to 3.6% per annum during the same period in 2009. The tax-equivalent yield on our investment portfolio was 4.7% per annum for the first half of 2010, compared to 5.0% per annum for the same period in 2009. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

*Net Realized Gains (Losses) on Investments.* Net realized gains on investments for the six months ended June 30, 2010 totaled \$2.8 million. Net realized gains in the first half of 2010 primarily resulted from \$2.8 million in gains from the sale of certain equity and fixed-maturity securities from the available-for-sale portfolio. There were minimal net realized gains in the first half of 2009 resulting from called fixed maturity securities.

*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$71.3 million for the six months ended June 30, 2010, compared to \$87.3 million for the same period in 2009, a decrease of \$16.0 million, or 18.3%. The current accident year losses and LAE incurred were \$79.9 million, or 74.0% of net premiums earned, compared to \$93.7 million, or 69.0% of net premiums earned, for the same period in 2009. The increase in the current accident year loss ratio was mainly driven by frequency. We recorded favorable prior accident year development of \$8.6 million in the first half of 2010, compared to \$6.4 million in the same period of 2009, as further discussed below in Prior Year Development. Our net loss ratio was 66.0% in the first half of 2010, compared to 64.3% in the same period of 2009.

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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 first half of 2010 were \$24.8 million, compared to \$29.2 million for the same period in 2009, a decrease of 15.0%. This decrease was primarily due to a \$2.1 million decrease in commission expense, a \$1.3

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million decrease in insurance-related assessments, a \$0.9 million decrease in premium taxes, a \$0.7 million decrease in legal and professional expenses and a \$0.5 million decrease in salaries and benefits. Offsetting these expense reductions were a \$0.9 million decrease in experience-rated commissions from our 2009 reinsurance agreement and a \$0.3 million decrease in income from the commutation of certain reinsurance contracts. Our expense ratio was 23.0% in the first half of 2010 compared to 21.5% in the same period of 2009.

*Interest expense.* Interest expense for the first six months of 2010 was \$0.8 million, compared to \$1.0 million for the same period in 2009. Weighted average borrowings for both periods were \$36.1 million; however, the weighted average interest rate decreased to 4.2% per annum for the first half of 2010 from 5.3% per annum for the first half of 2009.

*Income tax expense.* Income tax expense for the six months ended June 30, 2010 was \$5.4 million, compared to \$8.4 million for the same period in 2009. The decrease was primarily attributable to a decrease in our effective tax rate to 19.8% for the six months ended June 30, 2010, compared to 25.4% for the same period in 2009. The effective rate for 2010 included a reduction of \$1.0 million for the change in valuation allowance for deferred tax assets. The valuation allowance was established in the fourth quarter of 2008 at the time of impairment of certain securities. The sale of the impaired securities and other available-for-sale securities in the first half of 2010 resulted in a reduction in the valuation allowance, thereby reducing tax expense. Pre-tax income decreased to \$27.1 million for the six months ended June 30, 2010, compared to \$33.2 million for the same period in 2009.

## **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 \$10.4 million for the six months ended June 30, 2010, which represented a \$1.7 million decrease from \$12.1 million in net cash provided by operating activities for the six months ended June 30, 2009. This decrease in operating cash was attributable to a \$10.5 million decrease in premiums collected, a \$2.1 million increase in policyholder dividends paid, a \$1.2 million decrease in net investment income, a \$1.0 million increase in losses paid and a \$0.7 million decrease in reinsurance recoveries. Offsetting these decreases in operating cash flow were a \$8.0 million decrease in federal income taxes paid and a \$5.5 million decrease in expense disbursements.

Net cash used in investing activities was \$17.8 million for the first half of 2010, compared to \$25.3 million for the same period in 2009. Cash provided by sales and maturities of investments totaled \$80.7 million for the six months ended June 30, 2010, compared to \$55.3 million for the same period in 2009. A total of \$97.3 million in cash was used to purchase investments in the six months ended June 30, 2010, compared to \$80.0 million in purchases for the same period in 2009.

Net cash used in financing activities in the six months ended June 30, 2010 was \$5.6 million, compared to minimal net cash provided by financing activities for the same period in 2009. In the six months ended June, 30, 2010, repurchases of outstanding shares of our common stock totaled \$6.6 million and proceeds from stock option exercises totaled \$0.9 million.

In March 2010, the Company announced that its Board of Directors had approved a stock repurchase program. The program has an authorized limit of up to \$25.0 million and, unless extended, expires on December 31, 2010. As of June 30, 2010, the Company had repurchased a total of 399,148 shares of its outstanding common stock for \$6.6 million under the program. The Company may repurchase up to an additional \$18.4 million under the program.

## **Investment Portfolio**

As of June 30, 2010, our investment portfolio, including cash and cash equivalents, totaled \$801.7 million, a decrease of 0.9% from June 30, 2009. Effective April 1, 2010, purchases of fixed maturity securities are classified as available-for-sale or held-to-maturity based on the individual security. Such classification is made at the time of purchase. The reported value of our fixed maturity securities classified as held-to-maturity, as defined by FASB ASC Topic 320, Investments-Debt and Equity Securities, was equal to their amortized cost, and thus was not impacted by changing interest rates. Our equity securities and fixed maturity securities classified as available-for-sale were reported at fair value.

On January 1, 2008, we adopted FASB ASC Topic 820 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 1 inputs. We did not elect the fair value option prescribed under FASB ASC Topic 825 for any financial assets or financial liabilities as of June 30, 2010.





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The composition of our investment portfolio, including cash and cash equivalents, as of June 30, 2010, is shown in the following table:

	Carrying Value (in thousands)	Percentage of Portfolio
<b>Fixed maturity securities held-to-maturity:</b>		
States and political subdivisions	\$ 477,989	59.6%
U.S. agency-based mortgage-backed securities	69,856	8.7%
Commercial mortgage-backed securities	51,581	6.4%
U.S. Treasury securities and obligations of U.S. Government agencies	14,839	1.9%
Corporate bonds	56,530	7.1%
Asset-backed securities	6,760	0.8%
Long-term certificates of deposit	750	0.1%
<b>Total fixed maturity securities held-to-maturity</b>	<b>678,305</b>	<b>84.6%</b>
<b>Fixed maturity securities available-for-sale:</b>		
Corporate bonds	6,027	0.8%
<b>Total fixed maturity securities available-for-sale</b>	<b>6,027</b>	<b>0.8%</b>
<b>Equity securities</b>	<b>2,666</b>	<b>0.3%</b>
Cash and cash equivalents	50,138	6.3%
Short-term investments	64,586	8.0%
<b>Total investments, including cash and cash equivalents</b>	<b>\$ 801,722</b>	<b>100.0%</b>

Our securities classified as available-for-sale are marked to market as of the end of each calendar quarter. As of that date, unrealized gains and losses are recorded to Accumulated Other Comprehensive Income, 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.

In the three months ended June 30, 2010, we sold certain fixed maturity securities classified as available-for-sale. The carrying value of these securities at disposal was \$7.8 million. Realized gains on the sale of these securities totaled \$0.3 million. In the six months ended June 30, 2010, we sold certain equity and fixed maturity securities classified as available-for-sale. An other-than-temporary impairment had previously been recognized on the equity securities. The carrying value of these securities at disposal was \$19.1 million. Realized gains on the sale of these securities totaled \$2.8 million.

**Prior Year Development**

The Company recorded favorable prior accident year development of \$6.3 million in the three months ended June 30, 2010. The table below sets forth the favorable or unfavorable development for the three and six months ended June 30, 2010 for accident years 2005 through 2009 and, collectively, for all accident years prior to 2005.

	Favorable/(Unfavorable) Development	
	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010 (in millions)
<b>Accident Year</b>		

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2009	\$ 0.5	\$	0.1
2008	0.3		0.2
2007	2.7		3.3
2006	2.5		3.2
2005			0.3
Prior to 2005	0.3		1.5
Total net development	\$ 6.3	\$	8.6

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The table below sets forth the number of open claims as of June 30, 2010 and 2009, 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,	
	2010	2009	2010	2009
Open claims at beginning of period	4,445	4,601	4,511	4,793
Claims reported	1,439	1,344	2,653	2,602
Claims closed	(1,270)	(1,341)	(2,550)	(2,791)
Open claims at end of period	4,614	4,604	4,614	4,604

The number of open claims at June 30, 2010 increased by 10 claims, or 0.2%, as compared to the number of open claims at June 30, 2009. Efforts continue 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). Management believes that these efforts have contributed, in part, to the favorable prior accident year development recorded for the six months ended June 30, 2010.

At June 30, 2010, our case incurred amounts for certain accident years, particularly 2004, 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 24 years of historical claims data. However, as of June 30, 2010, 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 2004, 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, 2009.

**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, 2009, 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, 2009.

**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.

**Table of Contents****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.**

The following table summarizes the Company's purchases of its common stock, par value \$0.01 per share, during the six months ended June 30, 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
January 1, 2010 to January 31, 2010	0		0	
February 1, 2010 to February 28, 2010	0		0	
March 1, 2010 to March 31, 2010	70,039	\$ 16.20	70,039	\$ 23,900
April 1, 2010 to April 30, 2010	31,191	\$ 16.27	31,191	\$ 23,400
May 1, 2010 to May 31, 2010	213,059	\$ 16.76	213,059	\$ 19,800
June 1, 2010 to June 30, 2010	84,859	\$ 16.80	84,859	\$ 18,400

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Reserved.****Item 5. Other Information.**

None.

**Item 6. Exhibits.**

Exhibit No.	Description
3.1	Amended and Restated Certificate of Formation of AMERISAFE, Inc.

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10.1	AMERISAFE, Inc. 2010 Restated Non-Employee Director Restricted Stock Plan
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, 2010

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

August 6, 2010

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



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