AMERISAFE INC
Form 424B1
November 16, 2006

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Pursuant to Rule 424(b)(1)
Registration No. 333-137583

7,888,326 Shares

AMERISAFE, Inc.
Common Stock

This prospectus covers the sale of 7,888,326 shares of our common stock by the selling shareholders named in this prospectus. We will not receive any proceeds from the sale of the shares by the selling shareholders.

Our common stock is listed on the NASDAQ Global Select Market under the symbol AMSF. On November 15, 2006, the last sale price of our common stock as reported by the NASDAQ Global Select Market was $12.05 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 9 to read about factors you should consider before buying our common stock.

	Per Share	Total
Public offering price	$ 11.75	$ 92,687,831
Underwriting discount*	$ 0.5875	$ 4,634,392
Proceeds, before expenses, to the selling shareholders	$ 11.1625	$ 88,053,439

* See Underwriting on page 106 for a description of the underwriters compensation.

To the extent that the underwriters sell more than 7,888,326 shares of common stock, certain of the selling shareholders have granted the underwriters a 30-day option to purchase up to 1,183,250 additional shares of common stock at the public offering price, less the underwriting discount, to cover over-allotments, if any.

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

The underwriters expect to deliver the shares of common stock to purchasers on or about November 21, 2006.

Friedman Billings Ramsey

William Blair & Company

SunTrust Robinson Humphrey

Cochran Caronia Waller

The date of this prospectus is November 15, 2006.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Before making a decision to purchase our common stock, you should read the entire prospectus carefully, including the Risk Factors and Forward-Looking Statements sections and our consolidated financial statements and the notes to those financial statements.

Overview

We are a specialty provider of workers compensation insurance focused on small to mid-sized employers engaged in hazardous industries, principally construction, trucking, logging, agriculture, oil and gas, maritime and sawmills. We have more than 20 years of experience underwriting the complex workers compensation exposures inherent in these industries. We provide coverage to employers under state and federal workers compensation laws. These laws prescribe wage replacement and medical care benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment.

Employers engaged in hazardous industries tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. We employ a proactive, disciplined approach in underwriting employers and providing comprehensive services, including safety services and intensive claims management practices, intended to lessen the overall incidence and cost of workplace injuries. Hazardous industry employers 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. Our policyholders paid an average rate of $7.60 per $100 of payroll for workers compensation insurance in 2005, which was approximately three times the average for all reported occupational class codes, according to the most recent market analyses provided by the National Council on Compensation Insurance, Inc., or NCCI.

We believe the workers compensation market in the hazardous industries we target is underserved and competition is fragmented. We compete on the basis of coverage availability, claims management, safety services, payment terms and premium rates. According to the most recent market data reported by the NCCI, which is the official ratings bureau in the majority of states in which we are licensed, total premiums reported for the specific occupational class codes for which we underwrite business was $16 billion. Total premiums reported for all occupational class codes reported by the NCCI for these same jurisdictions was $39 billion.

Targeted Industries

We provide workers compensation insurance primarily to employers in the following targeted hazardous industries:

Construction. Includes a broad range of operations such as highway and bridge construction, building and maintenance of pipeline and powerline networks, excavation, commercial construction, roofing, iron and steel erection, tower erection and numerous other specialized construction operations. Our gross premiums written in 2005 for employers in the construction industry were $117.1 million, or 40.3% of total gross premiums written in 2005.

Trucking. Includes a large spectrum of diverse operations including contract haulers, regional and local freight carriers, special equipment transporters and other trucking companies that conduct a variety of short- and long-haul operations. Our gross premiums written in 2005 for employers in the trucking industry were

$59.3 million, or 20.4% of total gross premiums written in 2005.

Logging. Includes tree harvesting operations ranging from labor intensive chainsaw felling and trimming to sophisticated mechanized operations using heavy equipment. Our gross premiums written in 2005 for employers in the logging industry were $26.3 million, or 9.0% of gross premiums written in 2005.

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We also provide workers compensation insurance to employers in the agriculture, oil and gas, maritime, sawmill and other hazardous industries. Our operations are geographically diverse, with no more than 10.5% of our gross premiums written in 2005 derived from any one state. In 2005, there were nine states in which 5.0% or more of our total gross premiums written were derived. As of September 30, 2006, we had approximately 6,700 voluntary business policyholders with an average annual premium per workers compensation policy of approximately $40,000.

Our gross premiums are derived from direct premiums and assumed premiums. Direct premiums include premiums from employers who purchase insurance directly from us and who we voluntarily agree to insure, which we refer to as our voluntary business, as well as employers assigned to us under residual market programs implemented by some of the states in which we operate, which we refer to as our assigned risk business. Assumed premiums include premiums from our participation in mandatory pooling arrangements under residual market programs implemented by some of the states in which we operate. For the year ended December 31, 2005, our voluntary business accounted for 92.8% of our gross premiums written.

We are rated A− (Excellent) by A.M. Best Company, which rating is the fourth highest of 15 rating levels. In December 2005, A.M. Best affirmed our financial strength rating of A− (Excellent). The rating has a stable outlook for AMERISAFE and our subsidiaries. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell our securities.

Recent Operating Results

We completed the initial public offering of our common stock in November 2005. The table below sets forth selected operating results for each of the four quarters ending after our initial public offering.

	As of and for the Three Months Ended			
	September 30, 2006	**June 30, 2006**	**March 31, 2006**	**December 31, 2005**
		(Unaudited) (In thousands)		
Gross premiums written	$ 82,951	$ 92,151	$ 80,819	$ 59,709
Net premiums written	78,057	87,427	76,368	53,098
Net premiums earned	74,991	72,107	67,874	67,198
Net investment income	6,316	5,843	5,973	4,897
Net income	8,265	7,818	7,236	5,404
Cash, cash equivalents and investments	$ 639,553	$ 616,755	$ 600,767	$ 582,904
Total shareholders equity and redeemable preferred stock	171,666	162,510	156,184	147,346
Net combined ratio(1)	93.6%	95.2%	95.0%	96.7%
Return on average equity(2)	19.8%	19.6%	19.1%	18.3%
Book value per share(3)	$ 8.64	$ 8.18	$ 7.86	$ 7.42

(1) The net combined ratio is the sum of the net loss ratio, the net underwriting expense ratio and the net dividend ratio.

(2)

Return on average equity is calculated as annualized net income divided by average shareholders equity plus redeemable preferred stock.

(3) Book value per share is calculated by dividing shareholders equity plus redeemable preferred stock at the date indicated by the number of shares of common stock outstanding (including 2,429,541 shares of common stock issuable upon conversion of our Series C and Series D convertible preferred stock at the current conversion price of $20.58 per share). As of September 30, 2005, the pro forma book value of our common stock, after giving effect to the completion of our initial public offering in November 2005, was $7.16 per share.

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Competitive Advantages

We believe we have the following competitive advantages:

Focus on Hazardous Industries. We have extensive experience insuring employers engaged in hazardous industries and have a history of profitable underwriting in these industries. Our specialized knowledge of these hazardous industries helps us better serve our policyholders, which leads to greater employer loyalty and policy retention. Our policy renewal rate on voluntary business that we elected to quote for renewal was 90.6% in 2005, 93.0% in 2004 and 91.4% in 2003.

Focus on Small to Mid-Sized Employers. We believe large insurance companies generally do not target small to mid-sized employers in hazardous industries due to their smaller premium size, type of operations, mobile workforce and extensive service needs. We provide enhanced customer services to our policyholders. For example, unlike many of our competitors, our premium payment plans enable our policyholders to better match their premium payments with their payroll costs.

Specialized Underwriting Expertise. Based on our 20-year underwriting history of insuring employers engaged in hazardous industries, we have developed industry specific risk analysis and rating tools to assist our underwriters in risk selection and pricing. Our 18 underwriting professionals average approximately 12 years of experience underwriting workers compensation insurance, most of which was focused on hazardous industries. We are highly disciplined when quoting and binding new business. In 2005, we offered quotes on approximately one out of four applications submitted. We do not delegate underwriting authority to agencies that sell our insurance or to any other third party.

Comprehensive Safety Services. We provide proactive safety reviews of employers worksites, which are often located in rural areas. These safety reviews are a vital component of our underwriting process and also assist our policyholders in loss prevention and encourage the safest workplaces possible by deploying experienced field safety professionals, or FSPs, to our policyholders worksites. Our 52 FSPs have an average of approximately 14 years of workplace safety or related industry experience. In 2005, approximately 91.0% of our new voluntary business policyholders were subject to pre-quotation safety inspections. We perform periodic on-site safety surveys on all of our voluntary business policyholders.

Proactive Claims Management. As of September 30, 2006, our employees managed more than 98% of our open claims in-house utilizing our intensive claims management practices that emphasize a personal approach and quality, cost-effective medical treatment. Our claims management staff includes 93 field case managers, or FCMs, who average approximately 17 years of experience in the workers compensation insurance industry. We currently average approximately 62 open indemnity claims per FCM, which we believe is significantly less than the industry. We believe our claims management practices allow us to achieve a more favorable claim outcome, accelerate an employee s return to work, lessen the likelihood of litigation and more rapidly close claims, all of which ultimately lead to lower overall costs. Only 8.5% and 19.0% of all claims reported for accident years 2004 and 2005, respectively, were open as of September 30, 2006.

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Strategy

We intend to leverage our competitive advantages to pursue profitable growth and favorable returns on equity using the following strategies:

Expand in our Existing Markets. Our market share in each of the nine states where we derived 5% or more of our gross premiums written in 2005 did not exceed 3% of the workers compensation market in that state based on data received from NCCI. Competition in our target markets is fragmented by state and employer industry focus. We believe that our specialized underwriting expertise and safety, claims and audit services position us to profitably increase our market share in our existing principal markets, with minimal increase in field service employees.

Prudent and Opportunistic Geographic Expansion. We currently market our insurance in 26 states and the District of Columbia. At September 30, 2006, approximately 58.0% of our voluntary in-force premiums were generated in the nine states where we derived 5% or more of our gross premiums written in 2005. We are licensed in an additional 19 states and the U.S. Virgin Islands. Our existing licenses and rate filings will expedite our ability to write policies in these markets when we decide it is prudent to do so.

Focus on Underwriting Profitability. We intend to maintain our underwriting discipline and profitability throughout market cycles. Our strategy is to focus on underwriting workers compensation insurance in hazardous industries and to maintain adequate rate levels commensurate with the risks we underwrite. We will also continue to strive for improved risk selection and pricing, as well as reduced frequency and severity of claims through comprehensive workplace safety reviews, rapid closing of claims through personal, direct contact with our policyholders and their employees, and effective medical cost containment measures.

Leverage Existing Information Technology. We believe our customized information system, ICAMS, enhances our ability to select risk, write profitable business and cost-effectively administer our billing, claims and audit functions. We also believe our infrastructure is scalable and will enable us to accommodate our anticipated premium growth at current staffing levels and at minimal cost, which should have a positive effect on our expense ratio over time as we grow our premium base.

Maintain Capital Strength. We completed our initial public offering in November 2005. Of the $53.0 million of net proceeds we retained from our initial public offering, we contributed $45.0 million to our insurance subsidiaries. The remaining $8.0 million will be used to make additional capital contributions to our insurance company subsidiaries as necessary to support our anticipated growth and for general corporate purposes. We plan to manage our capital to achieve our growth and profitability goals while maintaining a prudent operating leverage for our insurance company subsidiaries. To accomplish this objective, we intend to maintain underwriting profitability throughout market cycles, optimize our use of reinsurance and maximize an appropriate risk adjusted return on our growing investment portfolio. We presently expect that the net proceeds we retained from our initial public offering, combined with projected cash flow from operations, will provide us sufficient liquidity to fund our anticipated growth for at least the next 18 months.

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Challenges

As part of your evaluation of our business, you should consider the following challenges we face in implementing our business strategies:

Adequacy of Premiums and Loss Reserves. Our loss reserves are based upon estimates that are inherently uncertain. These estimates may be inadequate to cover our actual losses, in which case we would need to increase our estimates and recognize a corresponding decrease in pre-tax net income for the period in which the change in our estimates occurs.

Downgrade of our A.M. Best Rating. Our A.M. Best rating is subject to periodic review and, if it is downgraded, our business could be negatively affected by the loss of certain existing and potential policyholders and the loss of relationships with independent agencies.

Cyclical Nature of the Workers Compensation Industry. The workers compensation insurance industry has historically fluctuated with periods of low premium rates and excess underwriting capacity resulting from increased competition followed by periods of high premium rates and shortages of underwriting capacity resulting from decreased competition. This cyclicality may cause our revenues and net income to fluctuate.

Availability of Reinsurance. The availability, amount and cost of reinsurance are subject to market conditions and our experience with insured losses. If we are unable to obtain reinsurance on favorable terms, our ability to write new policies and renew existing policies could be adversely affected.

Ability to Recover from Reinsurers. If any of our reinsurers is unable to meet any of its obligations to us, we would be responsible for all claims and claim settlement expenses that would otherwise be covered by our reinsurer. An inability to recover amounts due from our reinsurers would adversely affect our financial condition and results of operations.

For further discussion of these and other challenges we face, see Risk Factors.

AMERISAFE is an insurance holding company and was incorporated in Texas in 1985. Our principal subsidiary is American Interstate Insurance Company. Our executive offices are located at 2301 Highway 190 West, DeRidder, Louisiana 70634, and our telephone number at that location is (337) 463-9052. Our website is *www.amerisafe.com.* The information on our website is not part of this prospectus.

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The Offering

Shares of common stock offered by selling shareholders	7,888,326 shares
Over-allotment shares of common stock offered by selling shareholders	1,183,250 shares
Shares of common stock to be outstanding after the offering	18,660,881 shares, including 1,214,771 shares issued immediately prior to the completion of this offering upon conversion of 250,000 shares of our convertible preferred stock held by certain of the selling shareholders.
Use of proceeds	All of the common stock offered hereby is being sold by the selling shareholders. We will not receive any proceeds from the sale of our common stock in this offering.
Dividend policy	We currently intend to retain any additional future earnings to finance our operations and growth. As a result, we do not expect to pay any cash dividends on our common stock for the foreseeable future. Our ability to pay dividends is subject to restrictions in our articles of incorporation that prohibit us from paying dividends on our common stock (other than in additional shares of common stock) without the consent of the holders of two-thirds of the outstanding shares of our convertible preferred stock. In addition, because AMERISAFE is a holding company and has no direct operations, our ability to pay dividends in the future may be limited by regulatory restrictions on the payment of dividends to AMERISAFE by our insurance company subsidiaries.
NASDAQ Global Select Market Symbol	AMSF

The number of shares of common stock to be outstanding after the offering excludes:

1,214,770 shares issuable upon conversion of our then-outstanding Series C and Series D convertible preferred stock, subject to adjustment in certain circumstances;

1,648,500 shares that may be issued pursuant to employee stock options outstanding as of the date of this prospectus, of which 1,548,500 were granted in November 2005 and 100,000 were granted in September 2006; all options vest 20% each year commencing on the first anniversary of the grant date; and

276,112 additional shares available for future issuance under our equity incentive plans.

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Summary Financial Information

The following income statement data for the years ended December 31, 2005, 2004 and 2003 and the balance sheet data as of December 31, 2005 and 2004 were derived from our consolidated financial statements included elsewhere in this prospectus. The income statement data for the years ended December 31, 2002 and 2001 and the balance sheet data as of December 31, 2003, 2002 and 2001 were derived from our audited consolidated financial statements, which are not included in this prospectus. The income statement data for the nine-month periods ended September 30, 2006 and 2005 and the balance sheet data as of September 30, 2006 and 2005 were derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus, which include all adjustments, consisting of normal recurring adjustments, that management considers necessary for a fair presentation of our financial position and results of operations for the periods presented. These historical results are not necessarily indicative of results to be expected from any future period. You should read the following summary financial information together with the other information contained in this prospectus, including Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes included elsewhere in this prospectus.

	Nine Months Ended September 30,		**Year Ended December 31,**				
	2006	**2005**	**2005**	**2004**	**2003**	**2002**	**2001**
	(Unaudited)						
	(In thousands, except share and per share data)						
ncome Statement ata							
ross premiums written	$ 255,920	$ 231,182	$ 290,891	$ 264,962	$ 223,590	$ 185,093	$ 204,752
eded premiums ritten	(14,069)	(14,930)	(21,541)	(21,951)	(27,600)	(26,563)	(49,342)
et premiums written	$ 241,851	$ 216,252	$ 269,350	$ 243,011	$ 195,990	$ 158,530	$ 155,410
et premiums earned	$ 214,972	$ 189,370	$ 256,568	$ 234,733	$ 179,847	$ 163,257	$ 170,782
et investment income	18,132	11,985	16,882	12,217	10,106	9,419	9,935
et realized gains osses) on investments	2,581	1,337	2,272	1,421	316	(895)	491
ee and other income	550	426	561	589	462	2,082	1,367
otal revenues	236,235	203,118	276,283	248,960	190,731	173,863	182,575
oss and loss djustment expenses curred	149,989	155,625	204,056(2)	174,186	129,250	121,062	123,386
nderwriting and ertain other operating osts(1)	26,524	23,578	33,008	28,987	23,062	22,674	23,364
ommissions	13,811	11,869	16,226	14,160	11,003	9,189	14,351
alaries and benefits	12,404	10,968	14,150	15,034	15,037	16,541	17,148
nterest expense	2,579	2,061	2,844	1,799	203	498	735
olicyholder dividends	563	451	4	1,108	736	156	2,717

otal expenses	205,870	204,552	270,288	235,274	179,291	170,120	181,701
ncome (loss) before xes	30,365	(1,434)	5,995	13,686	11,440	3,743	874
ncome tax expense enefit)	7,046	(1,960)	65	3,129	2,846	(1,438)	(395)
et income (loss)	23,319	526	5,930	10,557	8,594	5,181	1,269
ayment-in-kind referred dividends(3)		(7,142)	(8,593)	(9,781)	(10,133)	(9,453)	(8,820)
et income (loss) vailable to common hareholders	$ 23,319	$ (6,616)	$ (2,663)	$ 776	$ (1,539)	$ (4,272)	$ (7,551)
ortion allocable to ommon hareholders(4)	87.8%	100.0%	100.0%	70.2%	100.0%	100.0%	100.0%
et income (loss) locable to common hareholders	$ 20,474	$ (6,616)	$ (2,663)	$ 545	$ (1,539)	$ (4,272)	$ (7,551)
iluted earnings per ommon share quivalent	$ 1.17	$ (22.07)	$ (1.25)	$ 2.14	$ (8.55)	$ (23.72)	$ (41.93)
iluted weighted verage of common hare equivalents utstanding	17,422,413	299,774	2,129,492	255,280	180,125	180,125	180,125
elected Insurance atios							
urrent accident year ss ratio(5)	69.8%	70.6%	71.0%	68.5%	70.6%	71.8%	66.9%
rior accident year loss tio(6)	0.0%	11.6%	8.5%	5.7%	1.3%	2.4%	5.3%
et loss ratio	69.8%	82.2%	79.5%	74.2%	71.9%	74.2%	72.2%
et underwriting xpense ratio(7)	24.5%	24.5%	24.7%	24.8%	27.3%	29.7%	32.1%
et dividend ratio(8)	0.3%	0.2%	0.0%	0.5%	0.4%	0.1%	1.6%
et combined ratio(9)	94.6%	106.9%	104.2%	99.5%	99.6%	104.0%	105.9%

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	September 30, 2006	September 30, 2005	December 31, 2005	December 31, 2004	December 31, 2003	December 31, 2002	December 31, 2001
	(Unaudited)						
				(In thousands)			
Balance Sheet Data							
Cash and cash equivalents	$ 61,778	$ 28,843	$ 49,286	$ 25,421	$ 49,815	$ 44,677	$ 44,270
Investments	577,775	469,316	533,618	364,868	257,729	205,315	148,305
Amounts recoverable from reinsurers	122,792	122,774	122,562	198,977	211,774	214,342	298,451
Premiums receivable, net	145,621	140,061	123,934	114,141	108,380	95,291	104,907
Deferred income taxes	26,689	23.232	22,413	15,624	12,713	11,372	14,716
Deferred policy acquisition costs	19,785	18,189	16,973	12,044	11,820	9,505	11,077
Deferred charges	4,003	3,601	3,182	3,054	2,987	1,997	2,588
Total assets	985,034	830,308	892,320	754,187	678,608	603,801	645,474
Reserves for loss and loss adjustment expenses	520,843	469,894	484,485	432,880	377,559	346,542	383,032
Unearned premiums	151,403	138,623	124,524	111,741	103,462	87,319	92,047
Insurance-related assessments	39,647	33,847	35,135	29,876	26,133	23,743	25,964
Debt	36,090	36,090	36,090	36,090	16,310	8,000	9,000
Redeemable preferred stock(10)	50,000	136,292	50,000	131,916	126,424	121,300	116,520
Shareholders equity (deficit)(11)	121,666	(46,969)	97,346	(42,862)	(20,652)	(25,100)	(10,980)

(1) Includes policy acquisition expenses, such as assessments, premium taxes and other general and administrative expenses, excluding commissions and salaries and benefits, related to insurance operations and corporate operating expenses.

(2) Includes (a) a pre-tax loss of $13.2 million in connection with a commutation agreement with Converium Reinsurance (North America), one of our reinsurers, pursuant to which Converium paid us $61.3 million in exchange for a termination and release of three of our five reinsurance agreements with Converium and (b) an $8.7 million pre-tax increase in our reserves for loss and loss adjustment expenses related to prior accident years.

(3) Under the terms of our articles of incorporation, holders of our Series C and Series D convertible preferred stock are no longer entitled to receive pay-in-kind dividends as a result of the redemption and exchange of all of our outstanding shares of Series A preferred stock in connection with the initial public offering of our common stock in November 2005.

(4) Reflects the participation rights of the Series C and Series D convertible preferred stock. See Note 15 to our audited financial statements.

(5) The current accident year loss ratio is calculated by dividing loss and loss adjustment expenses incurred for the current accident year by the current year s net premiums earned.

(6)

The prior accident year loss ratio is calculated by dividing the change in loss and loss adjustment expenses incurred for prior accident years by the current year s net premiums earned.

(7) The net underwriting expense ratio is calculated by dividing underwriting and certain other operating costs, commissions and salaries and benefits by the current year s net premiums earned.

(8) The net dividend ratio is calculated by dividing policyholder dividends by the current year s net premiums earned.

(9) The net combined ratio is the sum of the net loss ratio, the net underwriting expense ratio and the net dividend ratio.

(10) Includes our Series C and Series D convertible preferred stock, each of which is mandatorily redeemable upon the occurrence of certain events that are deemed to be outside our control. For periods presented prior to November 2005, also includes our Series A preferred stock, which was mandatorily redeemable upon the occurrence of certain events that were deemed to be outside our control. In connection with the initial public offering of our common stock in November 2005, all outstanding shares of our Series A preferred stock were redeemed and exchanged for shares of our common stock.

(11) In 1997, we entered into a recapitalization transaction with Welsh, Carson, Anderson & Stowe VII, L.P. and WCAS Healthcare Partners, L.P., our principal shareholders, that resulted in a $164.2 million charge to retained earnings. For periods presented prior to November 2005, shareholders equity (deficit) included our Series E preferred stock. In connection with the initial public offering of our common stock in November 2005, all outstanding shares of our Series E preferred stock were redeemed for cash.

RISK FACTORS

An investment in our common stock involves a number of risks. Before making a decision to purchase our common stock, you should carefully consider the following information about these risks, together with the other information contained in this prospectus. Any of the risks described below could result in a significant or material adverse effect on our business, financial condition or results of operations, and a decline in the market price of our common stock. You could lose all or part of your investment.

Risks Related to Our Business

Our loss reserves are based on estimates and may be inadequate to cover our actual losses.

We must establish and maintain reserves for our estimated liability for loss and loss adjustment expenses. We establish loss reserves that represent an estimate of amounts needed to pay and administer claims with respect to insured events that have occurred, including events that have occurred but have not yet been reported to us. Reserves are based on estimates of the ultimate cost of individual claims. These estimates are inherently uncertain. Judgment is required to determine the relevance of historical payment and claim settlement patterns under current facts and circumstances. The interpretation of this historical data can be impacted by external forces, principally legislative changes, economic fluctuations and legal trends. If there are unfavorable changes in our assumptions, our reserves may need to be increased.

Workers compensation claims often are paid over a long period of time. In addition, there are no policy limits on our liability for workers compensation claims as there are for other forms of insurance. Therefore, estimating reserves for workers compensation claims may be more uncertain than estimating reserves for other types of insurance claims with shorter or more definite periods between occurrence of the claim and final determination of the loss and with policy limits on liability for claim amounts. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If we change our estimates, these changes would result in adjustments to our reserves and our loss and loss adjustment expenses incurred in the period in which the estimates are changed. If the estimate is increased, our pre-tax income for the period in which we make the change will decrease by a corresponding amount. In addition, increasing reserves results in a reduction in our surplus and could result in a downgrade in our A.M. Best rating. Such a downgrade could, in turn, adversely affect our ability to sell insurance policies.

If we do not accurately establish our premium rates, our results of operations will be adversely affected.

In general, the premium rates for our insurance policies are established when coverage is initiated and, therefore, before all of the underlying costs are known. Like other workers compensation insurance companies, we rely on estimates and assumptions in setting our premium rates. Establishing adequate rates is necessary, together with investment income, to generate sufficient revenue to offset losses, loss adjustment expenses and other underwriting expenses and to earn a profit. If we fail to accurately assess the risks that we assume, we may fail to charge adequate premium rates to cover our losses and expenses, which could reduce our net income and cause us to become unprofitable. For example, when initiating coverage on a policyholder, we estimate future claims expense based, in part, on prior claims information provided by the policyholder s previous insurance carriers. If this prior claims information is not accurate, we may underprice our policy by using claims estimates that are too low. As a result, our actual costs for providing insurance coverage to our policyholders may be significantly higher than our premiums. In order to set premium rates accurately, we must:

- collect and properly analyze a substantial volume of data;

develop, test and apply appropriate rating formulae;

closely monitor and timely recognize changes in trends; and

project both frequency and severity of losses with reasonable accuracy.

We must also implement our pricing accurately in accordance with our assumptions. Our ability to undertake these efforts successfully, and as a result set premium rates accurately, is subject to a number of risks and uncertainties, principally:

- insufficient reliable data;
- incorrect or incomplete analysis of available data;
- uncertainties generally inherent in estimates and assumptions;
- our inability to implement appropriate rating formulae or other pricing methodologies;
- costs of ongoing medical treatment;
- our inability to accurately estimate retention, investment yields and the duration of our liability for loss and loss adjustment expenses; and
- unanticipated court decisions, legislation or regulatory action.

Consequently, we could set our premium rates too low, which would negatively affect our results of operations and our profitability, or we could set our premium rates too high, which could reduce our competitiveness and lead to lower revenues.

A downgrade in our A.M. Best rating would likely reduce the amount of business we are able to write.

Rating agencies evaluate insurance companies based on their ability to pay claims. We are currently assigned a group letter rating of A− (Excellent) from A.M. Best, which is the rating agency that we believe has the most influence on our business. This rating is assigned to companies that, in the opinion of A.M. Best, have demonstrated an excellent overall performance when compared to industry standards. A.M. Best considers A− rated companies to have an excellent ability to meet their ongoing obligations to policyholders. The ratings of A.M. Best are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities. Our competitive position relative to other companies is determined in part by our A.M. Best rating. Any downgrade in our rating would likely adversely affect our business through the loss of certain existing and potential policyholders and the loss of relationships with certain independent agencies.

The workers compensation insurance industry is cyclical in nature, which may affect our overall financial performance.

The financial performance of the workers compensation insurance industry has historically fluctuated with periods of low premium rates and excess underwriting capacity resulting from increased competition followed by periods of high premium rates and shortages of underwriting capacity resulting from decreased competition. Although the financial performance of an individual insurance company is dependent on its own specific business characteristics, the profitability of most workers compensation insurance companies generally tends to follow this cyclical market pattern. Beginning in 2000 and accelerating in 2001, the workers compensation insurance industry experienced a market reflecting increasing premium rates, more restrictive policy coverage terms and more conservative risk selection. We believe these trends slowed beginning in 2004. We also believe the current workers compensation insurance market is slowly transitioning to a more competitive market environment in which underwriting capacity and price competition may increase. This additional underwriting capacity may result in increased competition from other insurance carriers expanding the kinds or amounts of business they write or seeking to maintain or increase market share at the expense of underwriting discipline. Because this cyclicality is due in large part to the actions of our competitors and general economic factors, we cannot predict the timing or duration of changes in the market cycle. We believe that the workers compensation insurance industry is slowly transitioning to a more competitive market environment. These cyclical patterns could cause our revenues and net income to fluctuate, which may cause the price of our common stock to be volatile.

If we are unable to obtain reinsurance on favorable terms, our ability to write policies could be adversely affected.

We purchase reinsurance to protect us from the impact of large losses. Reinsurance is an arrangement in which an insurance company, called the ceding company, transfers insurance risk by sharing premiums with another insurance company, called the reinsurer. Conversely, the reinsurer receives or assumes reinsurance from the ceding company. Our 2006 reinsurance program provides us with reinsurance coverage for each loss occurrence up to $30.0 million, subject to applicable deductibles, retentions and aggregate limits. However, for any loss occurrence involving only one person, our reinsurance coverage is limited to $10.0 million, subject to applicable deductibles, retentions and aggregate limits. We retain the first $1.0 million of each loss and are subject to an annual aggregate deductible of approximately $10.8 million for losses between $1.0 million and $2.0 million before our reinsurers are obligated to reimburse us. After the deductible is satisfied, we retain 25.0% of each loss between $1.0 million and $2.0 million. The aggregate limit for all claims for losses between $1.0 million and $2.0 million is approximately $5.4 million. For losses between $2.0 million and $5.0 million, we are subject to an annual aggregate deductible of approximately $7.3 million before our reinsurers are obligated to reimburse us. The aggregate limit for all claims for losses between $2.0 million and $5.0 million is approximately $39.0 million. See Business Reinsurance. The availability, amount and cost of reinsurance are subject to market conditions and our experience with insured losses.

Due to the increased cost of reinsurance, we have increased our levels of retention on a per occurrence basis each year since 2003. As a result, we are exposed to increased risk of loss resulting from volatility in the frequency and severity of claims, which could adversely affect our financial performance.

If any of our current reinsurers were to terminate participation in our 2006 reinsurance treaty program, we could be exposed to an increased risk of loss.

The agreements under our 2006 reinsurance treaty program may be terminated by us or our reinsurers upon 90 days prior notice effective on any January 1. If our reinsurance treaty program is terminated and we enter into a new program, any decrease in the amount of reinsurance at the time we enter into a new program, whether caused by the existence of more restrictive terms and conditions or decreased availability, will also increase our risk of loss and, as a result, could adversely affect our business, financial condition and results of operations. We currently have eleven reinsurers participating in our reinsurance treaty program, and we believe that this is a sufficient number of reinsurers to provide us with the reinsurance coverage we require. However, because our reinsurance treaty program may be terminated on any January 1, it is possible that one or more of our current reinsurers could terminate participation in our program. In addition, we may terminate the participation of one or more of our reinsurers under certain circumstances as permitted by the terms of our reinsurance agreements. In either of those events, if our reinsurance broker is unable to spread the terminated reinsurance among the remaining reinsurers in the program, it could take a significant amount of time to identify and negotiate agreements with a replacement reinsurer. During this time, we would be exposed to an increased risk of loss, the extent of which would depend on the volume of terminated reinsurance.

We may not be able to recover amounts due from our reinsurers, which would adversely affect our financial condition.

Reinsurance does not discharge our obligations under the insurance policies we write. We remain liable to our policyholders even if we are unable to make recoveries that we are entitled to receive under our reinsurance contracts. As a result, we are subject to credit risk with respect to our reinsurers. Losses are recovered from our reinsurers as claims are paid. In long-term workers compensation claims, the creditworthiness of our reinsurers may change before we recover amounts to which we are entitled. Therefore, if a reinsurer is unable to meet any of its obligations to us, we would be responsible for all claims and claim settlement expenses for which we would have otherwise received payment from the reinsurer.

In the past, we have been unable to recover amounts from our reinsurers. In 2001, Reliance Insurance Company, one of our former reinsurers, was placed under regulatory supervision by the Pennsylvania Insurance Department and was subsequently placed into liquidation. As a result, between 2001 and

September 30, 2006, we recognized losses related to uncollectible amounts due from Reliance aggregating $21.3 million.

As of September 30, 2006, we had $122.8 million of recoverables from reinsurers. Of this amount, $106.5 million was unsecured. As of September 30, 2006, our largest recoverables from reinsurers included $27.9 million from Munich Reinsurance America, Inc., $22.1 million from Odyssey America Reinsurance Company, $12.3 million from St. Paul Fire and Marine Insurance Company and $11.6 million from Clearwater Insurance Company. If we are unable to collect amounts recoverable from our reinsurers, our financial condition would be adversely affected.

A downgrade in the A.M. Best rating of one or more of our significant reinsurers could adversely affect our financial condition.

Our financial condition could be adversely affected if the A.M. Best rating of one or more of our significant reinsurers is downgraded. For example, our A.M. Best rating may be downgraded if our amounts recoverable from a reinsurer are significant and the A.M. Best rating of that reinsurer is downgraded. If one of our reinsurers suffers a rating downgrade, we may consider various options to lessen the impact on our financial condition, including commutation, novation and the use of letters of credit to secure amounts recoverable from reinsurers. However, these options may result in losses to our company, and there can be no assurance that we could implement any of these options.

In 2004, A.M. Best downgraded the financial strength rating of Converium Reinsurance (North America), our largest reinsurer at that time. Subsequently, in June 2005, A.M. Best placed our A− rating under review with negative implications, citing, among other things, concerns about credit risk associated with amounts recoverable from our reinsurers. Although Converium continued to reimburse us under the terms of our reinsurance agreements, we entered into a commutation agreement with Converium in June 2005 pursuant to which Converium paid us $61.3 million in exchange for a termination and release of three of our five reinsurance agreements with Converium. Under the commutation agreement, all liabilities reinsured with Converium under these three reinsurance agreements have reverted back to us. We recorded a pre-tax loss of $13.2 million in 2005 related to this commutation agreement. Converium remains obligated to us on the remaining two agreements. We cannot assure you that the cash payment we received from Converium, and any investment income we may earn on that amount, will be sufficient to cover all claims for which we would otherwise have been contractually entitled to recover from Converium under the three reinsurance agreements subject to the commutation agreement.

Negative developments in the workers compensation insurance industry would adversely affect our financial condition and results of operations.

We principally offer workers compensation insurance. We have no current plans to focus our efforts on offering other types of insurance. As a result, negative developments in the economic, competitive or regulatory conditions affecting the workers compensation insurance industry could have an adverse effect on our financial condition and results of operations. Negative developments in the workers compensation insurance industry could have a greater effect on us than on more diversified insurance companies that also sell other types of insurance.

A decline in the level of business activity of our policyholders, particularly those engaged in the construction, trucking and logging industries, could negatively affect our earnings and profitability.

In 2005, approximately 69.7% of our gross premiums written were derived from policyholders in the construction, trucking and logging industries. Because premium rates are calculated, in general, as a percentage of a policyholder s payroll expense, premiums fluctuate depending upon the level of business activity and number of employees of our policyholders. As a result, our gross premiums written are primarily dependent upon the economic conditions in the construction, trucking and logging industries and upon economic conditions generally.

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Unfavorable changes in economic conditions affecting the states in which we operate could adversely affect our financial condition or results of operations.

We market our insurance in 26 states and the District of Columbia. Although we have expanded our operations into new geographic areas and expect to continue to do so in the future, approximately 57.7% of our gross premiums written for the year ended December 31, 2005 were derived from the nine states in which we generated 5.0% or more of our gross premiums written in 2005. No other state accounted for 5.0% or more of gross premiums written in 2005. In the future, we may be exposed to economic and regulatory risks or risks from natural perils that are greater than the risks faced by insurance companies that have a larger percentage of their gross premiums written diversified over a broader geographic area. Unfavorable changes in economic conditions affecting the states in which we write business could adversely affect our financial condition or results of operations. See Business Policyholders.

Our revenues and results of operations may fluctuate as a result of factors beyond our control, which fluctuation may cause the price of our common stock to be volatile.

The revenues and results of operations of insurance companies historically have been subject to significant fluctuations and uncertainties. Our profitability can be affected significantly by:

- rising levels of claims costs, including medical and prescription drug costs, that we cannot anticipate at the time we establish our premium rates;
- fluctuations in interest rates, inflationary pressures and other changes in the investment environment that affect returns on invested assets;
- changes in the frequency or severity of claims;
- the financial stability of our reinsurers and changes in the level of reinsurance capacity and our capital capacity;
- new types of claims and new or changing judicial interpretations relating to the scope of liabilities of insurance companies;
- volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks; and
- price competition.

If our revenues and results of operations fluctuate as a result of one or more of these factors, the price of our common stock may be volatile.

We operate in a highly competitive industry and may lack the financial resources to compete effectively.

There is significant competition in the workers compensation insurance industry. We believe that our competition in the hazardous industries we target is fragmented and not dominated by one or more competitors. We compete with other insurance companies, individual self-insured companies, state insurance pools and self-insurance funds. Many of our existing and potential competitors are significantly larger and possess greater financial, marketing and management resources than we do. Moreover, a number of these competitors offer other types of insurance in addition to workers compensation and can provide insurance nationwide. We compete on the basis of many factors, including coverage availability, claims management, safety services, payment terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation. If any of our competitors offer premium rates, policy terms or types of insurance that are more competitive than ours, we could lose market share. No assurance can be given that we will maintain our current competitive position in the markets in which we currently operate or that we will establish a competitive position in new markets into which we may expand.

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If we cannot sustain our relationships with independent agencies, we may be unable to operate profitably.

We market a substantial portion of our workers compensation insurance through independent agencies. As of September 30, 2006, independent agencies produced approximately 84% of our voluntary in-force premiums. No independent agency accounted for more than 1.2% of our voluntary in-force premiums at that date. Independent agencies are not obligated to promote our insurance and may sell insurance offered by our competitors. As a result, our continued profitability depends, in part, on the marketing efforts of our independent agencies and on our ability to offer workers compensation insurance and maintain financial strength ratings that meet the requirements of our independent agencies and their policyholders.

An inability to effectively manage the growth of our operations could make it difficult for us to compete and affect our ability to operate profitably.

Our continuing growth strategy includes expanding in our existing markets, entering new geographic markets and further developing our agency relationships. Our growth strategy is subject to various risks, including risks associated with our ability to:

- identify profitable new geographic markets for entry;
- attract and retain qualified personnel for expanded operations;
- identify, recruit and integrate new independent agencies; and
- augment our internal monitoring and control systems as we expand our business.

Because we are subject to extensive state and federal regulation, legislative changes may negatively impact our business.

We are subject to extensive regulation by the Louisiana Department of Insurance and the insurance regulatory agencies of other states in which we are licensed and, to a lesser extent, federal regulation. State agencies have broad regulatory powers designed primarily to protect policyholders and their employees, and not our shareholders. Regulations vary from state to state, but typically address:

- standards of solvency, including risk-based capital measurements;
- restrictions on the nature, quality and concentration of our investments;
- restrictions on the terms of the insurance policies we offer;
- restrictions on the way our premium rates are established and the premium rates we may charge;
- required reserves for unearned premiums and loss and loss adjustment expenses;
- standards for appointing general agencies;
- limitations on transactions with affiliates;
- restrictions on mergers and acquisitions;

- restrictions on the ability of our insurance company subsidiaries to pay dividends to AMERISAFE;
- certain required methods of accounting; and
- potential assessments for state guaranty funds, second injury funds and other mandatory pooling arrangements.

We may be unable to comply fully with the wide variety of applicable laws and regulations that are continually undergoing revision. In addition, we follow practices based on our interpretations of laws and regulations that we believe are generally followed by our industry. These practices may be different from interpretations of insurance regulatory agencies. As a result, insurance regulatory agencies could preclude us from conducting some or all of our activities or otherwise penalize us. For example, in order to enforce applicable laws and regulations or to protect policyholders, insurance regulatory agencies have relatively broad discretion to impose a variety of sanctions, including examinations, corrective orders, suspension, revocation or denial of licenses and the takeover of one or more of our insurance subsidiaries. The extensive regulation of our business may increase the cost of our insurance and may limit our ability to obtain premium rate increases or to take other actions to increase our profitability.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until after we have issued insurance policies that are affected by the changes. As a result, the full extent of our liability under an insurance policy may not be known until many years after the policy is issued. For example, medical costs associated with permanent and partial disabilities may increase more rapidly or be higher than we currently expect. Changes of this nature may expose us to higher claims than we anticipated when we wrote the underlying policy. As of September 30, 2006, approximately 8.5% of our 2004 reported claims and 1.0% of our pre-2004 reported claims were open.

Additional capital that we may require in the future may not be available to us or may be available to us only on unfavorable terms.

Our future capital requirements will depend on many factors, including state regulatory requirements, the financial stability of our reinsurers and our ability to write new business and establish premium rates sufficient to cover our estimated claims. We may need to raise additional capital or curtail our growth if the capital of our insurance subsidiaries is insufficient to support future operating requirements and/or cover claims. If we had to raise additional capital, equity or debt financing may not be available to us or may be available only on terms that are not favorable. In the case of equity financings, dilution to our shareholders could result and the securities sold may have rights, preferences and privileges senior to the common stock sold in this offering. In addition, under certain circumstances, the sale of our common stock, or securities convertible or exchangeable into shares of our common stock, at a price per share less than the market value of our common stock may result in an adjustment to the conversion price at which shares of our existing convertible preferred stock may be converted into shares of our common stock. If we cannot obtain adequate capital on favorable terms or at all, we may be unable to support future growth or operating requirements and, as a result, our business, financial condition or results of operations could be adversely affected.

If we are unable to realize our investment objectives, our financial condition and results of operations may be adversely affected.

Investment income is an important component of our net income. As of September 30, 2006, our investment portfolio, including cash and cash equivalents, had a carrying value of $639.6 million. For the year ended December 31, 2005, we had $16.9 million of net investment income. Our investment portfolio is managed under investment guidelines approved by our board of directors. Although these guidelines stress diversification and capital preservation, our investments are subject to a variety of risks, including risks related to general economic conditions, interest rate fluctuations and market volatility. General economic conditions may be adversely affected by U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts.

Interest rates are highly sensitive to many factors, including governmental monetary policies and domestic and international economic and political conditions. Changes in interest rates could have an adverse effect on the value of our investment portfolio and future investment income. For example, changes in interest rates can expose us to prepayment risks on mortgage-backed securities included in our investment portfolio. When interest rates fall, mortgage-backed securities are prepaid more quickly than expected and the holder must reinvest the proceeds at lower interest rates. In periods of increasing interest rates, mortgage-backed securities are prepaid more slowly, which may require us to receive interest payments that are below the interest rates then prevailing for longer than expected.

These and other factors affect the capital markets and, consequently, the value of our investment portfolio and our investment income. Any significant decline in our investment income would adversely affect our revenues and net income and, as a result, increase our shareholders deficit and decrease our surplus.

Our business is dependent on the efforts of our executive officers because of their industry expertise, knowledge of our markets and relationships with the independent agencies that sell our insurance.

Our success is dependent on the efforts of our executive officers because of their industry expertise, knowledge of our markets and relationships with our independent agencies. Our executive officers are C. Allen Bradley, Jr., Chairman, President and Chief Executive Officer; Geoffrey R. Banta, Executive Vice President and Chief Financial Officer; Arthur L. Hunt, Executive Vice President; Craig P. Leach, Executive Vice President, Sales and Marketing; David O. Narigon, Executive Vice President; and Todd Walker, Executive Vice President, General Counsel and Secretary. Mr. Hunt will retire from our company effective as of November 30, 2006. We have entered into employment agreements with each of our executive officers. The employment agreements with Messrs. Bradley, Banta, Hunt and Leach expire in January 2008, unless extended. The employment agreements with Messrs. Narigon and Walker expire in September 2009, unless extended. These employment agreements are more fully described under Management Employment and Consulting Agreements. Should any of our executive officers cease working for us, we may be unable to find acceptable replacements with comparable skills and experience in the workers compensation insurance industry and the hazardous industries that we target. As a result, our operations may be disrupted and our business may be adversely affected. We do not currently maintain life insurance policies with respect to our executive officers.

AMERISAFE is an insurance holding company and does not have any direct operations.

AMERISAFE is a holding company that transacts business through its operating subsidiaries, including American Interstate. AMERISAFE s primary assets are the capital stock of these operating subsidiaries. The ability of AMERISAFE to pay dividends to our shareholders depends upon the surplus and earnings of our subsidiaries and their ability to pay dividends to AMERISAFE. Payment of dividends by our insurance subsidiaries is restricted by state insurance laws, including laws establishing minimum solvency and liquidity thresholds, and could be subject to contractual restrictions in the future, including those imposed by indebtedness we may incur in the future. See Business Regulation Dividend Limitations. As a result, at times, AMERISAFE may not be able to receive dividends from its insurance subsidiaries and may not receive dividends in amounts necessary to pay dividends on our capital stock. Based on reported capital and surplus at December 31, 2005, American Interstate would have been permitted under Louisiana insurance law to pay dividends to AMERISAFE in 2006 in an amount up to $3.9 million without approval by the Louisiana Department of Insurance.

In addition, our ability to pay dividends is subject to restrictions in the articles of incorporation of AMERISAFE that prohibit us from paying dividends on our common stock (other than in additional shares of common stock) without the consent of the holders of two-thirds of the outstanding shares of our convertible preferred stock. If holders of our convertible preferred stock consent to the payment of a dividend, we must pay a dividend to the holders of our convertible preferred stock on an as-converted to common stock basis equal to the dividend we pay to holders of our common stock. Currently, we do not intend to pay dividends on our common stock.

Assessments and premium surcharges for state guaranty funds, second injury funds and other mandatory pooling arrangements may reduce our profitability.

Most states require insurance companies licensed to do business in their state to participate in guaranty funds, which require the insurance companies to bear a portion of the unfunded obligations of impaired, insolvent or failed insurance companies. These obligations are funded by assessments, which are expected to

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continue in the future. State guaranty associations levy assessments, up to prescribed limits, on all member insurance companies in the state based on their proportionate share of premiums written in the lines of business in which the impaired, insolvent or failed insurance companies are engaged. See Business Regulation. Accordingly, the assessments levied on us may increase as we increase our written premium. Some states also have laws that establish second injury funds to reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. These funds are supported by either assessments or premium surcharges based on paid losses.

In addition, as a condition to conducting business in some states, insurance companies are required to participate in residual market programs to provide insurance to those employers who cannot procure coverage from an insurance carrier on a negotiated basis. Insurance companies generally can fulfill their residual market obligations by, among other things, participating in a reinsurance pool where the results of all policies provided through the pool are shared by the participating insurance companies. Although we price our insurance to account for obligations we may have under these pooling arrangements, we may not be successful in estimating our liability for these obligations. Accordingly, mandatory pooling arrangements may cause a decrease in our profits. At September 30, 2006 we participated in mandatory pooling arrangements in 17 states and the District of Columbia. As we write policies in new states that have mandatory pooling arrangements, we will be required to participate in additional pooling arrangements. Further, the impairment, insolvency or failure of other insurance companies in these pooling arrangements would likely increase the liability for other members in the pool. The effect of assessments and premium surcharges or changes in them could reduce our profitability in any given period or limit our ability to grow our business.

Being a public company has increased our expenses and administrative workload.

We completed our initial public offering in November 2005. As a public company, we must comply with various laws and regulations, including the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission, or the SEC, and requirements of the NASDAQ Global Select Market. We were not required to comply with these laws and requirements as a private company. Complying with these laws and regulations requires the time and attention of our board of directors and management and increases our expenses. Among other things, we must:

- design, establish, evaluate and maintain a system of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;
- prepare and distribute periodic reports in compliance with our obligations under the federal securities laws;
- establish new internal policies, principally those relating to disclosure controls and procedures and corporate governance;
- institute a more comprehensive compliance function; and
- involve to a greater degree our outside legal counsel and accountants in the above activities.

In addition, being a public company has made it more expensive for us to obtain director and officer liability insurance. In the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain this coverage. These factors could also make it more difficult for us to attract and retain qualified executives and members of our board of directors, particularly directors willing to serve on our audit committee.

We will be exposed to risks relating to evaluations of our internal controls over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are in the process of evaluating our internal control systems to allow management to report on, and our independent auditors to assess, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. We are required to comply with Section 404 by no later than December 31, 2006. However, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board rules and regulations that remain unremediated. As a public company, we will be required to report, among other things, control deficiencies that constitute a material weakness or changes in internal controls that materially affect, or are reasonably likely to materially affect, internal controls over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to implement the requirements of Section 404 in a timely manner, we might be subject to sanctions or investigation by regulatory agencies such as the SEC. In addition, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and the trading price of our common stock may decline. If we fail to remedy any material weakness, our financial statements may be inaccurate, our access to the capital markets may be restricted and the trading price of our common stock may decline.

We may have exposure to losses from terrorism for which we are required by law to provide coverage.

When writing workers compensation insurance policies, we are required by law to provide workers compensation benefits for losses arising from acts of terrorism. The impact of any terrorist act is unpredictable, and the ultimate impact on us would depend upon the nature, extent, location and timing of such an act. Our 2006 reinsurance treaty program affords coverage for up to $28.0 million for losses arising from terrorism, subject to applicable deductibles, retentions and aggregate limits. Notwithstanding the protection provided by reinsurance and the Terrorism Risk Insurance Extension Act of 2005, the risk of severe losses to us from acts of terrorism has not been eliminated because our reinsurance treaty program includes various sub-limits and exclusions limiting our reinsurers obligation to cover losses caused by acts of terrorism. Accordingly, events constituting acts of terrorism may not be covered by, or may exceed the capacity of, our reinsurance and could adversely affect our business and financial condition. In addition, the Terrorism Risk Insurance Extension Act of 2005 is set to expire on December 31, 2007. If this law is not extended or replaced by legislation affording a similar level of protection to the insurance industry against insured losses arising out of acts of terrorism, reinsurance for losses arising from terrorism may be unavailable or prohibitively expensive, and we may be further exposed to losses arising from acts of terrorism.

Risks Related to Our Common Stock and This Offering

The trading price of our common stock may decline after this offering.

The trading price of our common stock may decline after this offering for many reasons, some of which are beyond our control, including, among others:

- our results of operations;

- changes in expectations as to our future results of operations, including financial estimates and projections by securities analysts and investors;