

AMERISAFE INC  
Form 10-K  
March 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011**

**Commission File Number: 001-12251**

**AMERISAFE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Texas**  
(State of Incorporation)

**75-2069407**  
(I.R.S. Employer)

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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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	Nasdaq Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

The aggregate market value of the voting common stock held by non-affiliates of the Registrant as of June 30, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately \$414.2 million, based upon the closing price of the shares on the NASDAQ Global Select Market on that date.

As of March 1, 2012, there were 18,150,262 shares of the Registrant's common stock, par value \$0.01 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement relating to the 2012 Annual Meeting of Shareholders are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this report.

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**FORWARD-LOOKING STATEMENTS**

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

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

the cyclical nature of the workers' compensation insurance industry;

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

decreased level of business activity of our policyholders caused by decreased business 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;

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

decreased demand for our insurance;

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

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

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

changes in rating agency policies or practices;

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

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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 the Company's filings with the Securities and Exchange Commission (SEC).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report, including under the caption "Risk Factors" in Item 1A of this report. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

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**PART I**

**Item 1. Business.  
Overview**

We are a specialty provider of workers' compensation insurance focused on small to mid-sized employers engaged in hazardous industries, principally construction, trucking and agriculture. Since commencing operations in 1986, we have gained significant 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. Our workers' compensation insurance policies provide benefits to injured employees for, among other things, temporary or permanent disability, death and medical and hospital expenses. The benefits payable and the duration of those benefits are set by state or federal law. The benefits vary by jurisdiction, the nature and severity of the injury and the wages of the employee. The employer, who is the policyholder, pays the premiums for coverage.

Hazardous industry employers tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. Injuries that occur are often severe in nature including death, dismemberment, paraplegia and quadriplegia. As a result, 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 policyholders. For example, our construction employers on average paid premium rates equal to \$7.36 per \$100 of payroll to obtain workers' compensation coverage for all of their employees in 2011.

We employ a proactive, disciplined approach to underwriting employers and providing comprehensive services intended to lessen the overall incidence and cost of workplace injuries. We provide safety services at employers' workplaces as a vital component of our underwriting process and to 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 premium audit services ensure that our policyholders pay the appropriate premiums required under the terms of their policies and enable us to monitor payroll patterns that cause underwriting, safety or fraud concerns.

We believe that the higher premiums typically paid by our policyholders, together with our disciplined underwriting and safety, claims and audit services, provide us with the opportunity to earn attractive returns on equity.

AMERISAFE is an insurance holding company and was incorporated in Texas in 1985. We began operations in 1986 by focusing on workers' compensation insurance for logging contractors in the southeast United States. In 1994, we expanded our focus to include the other hazardous industries we serve today. Two of our three insurance subsidiaries, American Interstate Insurance Company and Silver Oak Casualty, are domiciled in Louisiana. Our other insurance subsidiary, American Interstate Insurance Company of Texas, is domiciled in Texas.

Financial data included in this report for periods prior to 2011 has been adjusted to correct the accounting for our estimate of liability for state guaranty fund assessments.

**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 profitably underwriting these industries. Our specialized knowledge of these

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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 92.0% in 2011.

*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 sizes, types of operations, mobile workforces and extensive service needs. We provide these employers enhanced services, including premium payment plans to better match premium payments with our policyholders' payroll costs and cash flow.

*Specialized Underwriting Expertise.* Based on our 26-year history of insuring employers engaged in hazardous industries, we have developed industry specific risk analysis and rating tools that support our underwriters in risk selection and pricing. We are highly disciplined when quoting and binding new and renewal business. We do not delegate underwriting authority to agencies, marketers or to any other third parties that sell our insurance.

*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 safer workplaces by deploying experienced field safety professionals, or FSPs, to our policyholders' worksites. In 2011, 88.2% of our new voluntary business policyholders were subject to pre-quotation safety inspections. Additionally, we perform periodic on-site safety surveys of all of our voluntary business policyholders.

*Proactive Claims Management.* Our employees manage substantially all of our open claims in-house, utilizing intensive claims management practices that emphasize a personalized approach, as well as quality, cost-effective medical treatment. As of December 31, 2011, open indemnity claims per field case manager, or FCM, averaged 54 claims, which we believe is significantly less than the industry average. We also 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 claim costs.

*Efficient Operating Platform.* Through extensive cost management initiatives, we maintain one of the most efficient operations in the workers compensation industry. In 2011 our expense ratio was 24.3%. We believe the industry average expense ratio is significantly higher. We also believe that during the current soft market cycle our markedly lower operating expense ratio has enhanced our ability to produce a favorable underwriting margin. While decreasing premiums earned puts pressure on our operational costs we have a competitive advantage over our competition in terms of operational expense.

## **Strategy**

We intend to increase our book value and produce favorable returns on equity using the following strategies:

*Focus on Underwriting Profitability.* We intend to maintain our underwriting discipline throughout market cycles with the objective of remaining profitable. 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, effective medical cost containment measures and rapid closing of claims through personal, direct contact with our policyholders and their employees.

*Increase Market Penetration.* Based on data received from the National Association of Insurance Commissioners, the NAIC, we do not have more than 5.0% of the market share in any state we serve. As a result, we believe we have the opportunity to increase market penetration in each of the states in which we currently operate. Competition in our target markets is fragmented by state, employer size and industry. We believe that



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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.* While we actively market our insurance in 35 states and the District of Columbia, 52.1% of our voluntary in-force premiums were generated in the seven states where we derived 5.0% or more of our gross premiums written in 2011. We are licensed in an additional 12 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.

*Capitalize on Development of Information Technology System.* We believe our new underwriting and agency management system, *GEAUX*, along with our customized operational system, *ICAMS*, and the analytical data warehouse that *ICAMS* feeds, significantly enhance our ability to select risk, write profitable business and cost-effectively administer our billing, claims and audit functions.

*Maintain Capital Strength.* We plan to manage our capital to achieve our profitability goals while maintaining optimal 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, deploy appropriate capital management tools and produce an appropriate risk adjusted return on our growing investment portfolio.

## **Industry**

*Overview.* Workers' compensation is a statutory system under which an employer is required to pay for its employees' medical, disability, vocational rehabilitation and death benefit costs for work-related injuries or illnesses. Most employers satisfy this requirement by purchasing workers' compensation insurance. The principal concept underlying workers' compensation laws is that employees injured in the course and scope of their employment have only the legal remedies available under workers' compensation laws and do not have any other recourse against their employer. An employer's obligation to pay workers' compensation does not depend on any negligence or wrongdoing on the part of the employer and exists even for injuries that result from the negligence or fault of another person, a co-employee, or, in most instances, the injured employee.

Workers' compensation insurance policies generally provide that the insurance carrier will pay all benefits that the insured employer may become obligated to pay under applicable workers' compensation laws. Each state has a regulatory and adjudicatory system that quantifies the level of wage replacement to be paid, determines the level of medical care required to be provided and the cost of temporary or permanent impairment and specifies the options in selecting medical providers available to the injured employee or the employer. These state laws generally require two types of benefits for injured employees: (1) medical benefits, which include expenses related to the diagnosis and treatment of the injury, as well as any required rehabilitation, and (2) indemnity payments, which consist of temporary wage replacement, permanent disability payments and death benefits to surviving family members. To fulfill these mandated financial obligations, virtually all employers are required to purchase workers' compensation insurance or, if permitted by state law or approved by the U.S. Department of Labor, to self-insure. The employers may purchase workers' compensation insurance from a private insurance carrier, a state-sanctioned assigned risk pool, or a self-insurance fund, which is an entity that allows employers to obtain workers' compensation coverage on a pooled basis, typically subjecting each employer to joint and several liability for the entire fund.

Workers' compensation was the fourth-largest property and casualty insurance line in the United States in 2010, according to the National Council on Compensation Insurance, Inc., the NCCI. Direct premiums written in 2010 for the workers' compensation insurance industry were \$40 billion, and direct premiums written for the property and casualty industry as a whole were \$483 billion. According to the most recent market data reported by the NCCI, which is the official rating 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 were \$12 billion in 2010.

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### **Policyholders**

As of December 31, 2011, we had more than 7,900 voluntary business policyholders with an average annual workers' compensation policy written premium of \$30,676. As of December 31, 2011, our ten largest voluntary business policyholders accounted for 3.7% of our in-force premiums. Our policy renewal rate on voluntary business that we elected to quote for renewal was 92.0% in 2011, 92.7% in 2010, and 91.8% in 2009.

In addition to our voluntary workers' compensation business, we underwrite workers' compensation policies for employers assigned to us and assume reinsurance premiums from mandatory pooling arrangements, in each case to fulfill our obligations under residual market programs implemented by the states in which we operate. Our assigned risk business fulfills our statutory obligation to participate in residual market plans in four states. See Regulation Residual Market Programs below. For the year ended December 31, 2011, our assigned risk business accounted for 0.8% of our gross premiums written, and our assumed premiums from mandatory pooling arrangements accounted for 1.0% of our gross premiums written.

### ***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. In 2011, our average policy premium for voluntary workers' compensation within the construction industry was \$30,865, or \$7.36 per \$100 of payroll.

*Trucking.* Includes a broad 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. In 2011, our average policy premium for voluntary workers' compensation within the trucking industry was \$34,588, or \$8.83 per \$100 of payroll.

*Agriculture.* Includes crop maintenance and harvesting, grain and produce operations, nursery operations, meat processing, and livestock feed and transportation. In 2011, our average policy premium for voluntary workers' compensation within the agriculture industry was \$28,606, or \$5.31 per \$100 of payroll.

*Oil and Gas.* Includes various oil and gas activities including gathering, transportation, processing, production, and field service operations. In 2011, our average policy premium for voluntary workers' compensation within the oil and gas industry was \$39,612, or \$5.49 per \$100 of payroll.

*Logging.* Includes tree harvesting operations ranging from labor intensive chainsaw felling and trimming to sophisticated mechanized operations using heavy equipment. In 2011, our average policy premium for voluntary workers' compensation within the logging industry was \$19,008, or \$14.37 per \$100 of payroll.

*Maritime.* Includes ship building and repair, pier and marine construction, inter-coastal construction, and stevedoring. In 2011, our average policy premium for voluntary workers' compensation within the maritime industry was \$48,879, or \$7.36 per \$100 of payroll.

*Sawmills.* Includes sawmills and various other lumber-related operations. In 2011, our average policy premium for the sawmill industry was \$22,000, or \$9.78 per \$100 of payroll.

Our gross premiums are derived from:

*Direct Premiums.* Includes premiums from workers' compensation insurance policies that we issue to:

employers who seek to purchase insurance directly from us and who we voluntarily agree to insure, which we refer to as our voluntary business; and



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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.* Includes premiums from our participation in mandatory pooling arrangements under residual market programs implemented by some of the states in which we operate.

Gross premiums written during the years ended December 31, 2011, 2010 and 2009, and the allocation of those premiums among the hazardous industries we target are presented in the table below. The classification of premium by industry group has been refined by the Company; therefore, prior year data in the table below has been restated to reflect the refined classifications.

	Gross Premiums Written			Percentage of Gross Premiums Written		
	2011	2010	2009	2011	2010	2009
	(In thousands)					
Voluntary business:						
Construction	\$ 106,115	\$ 93,341	\$ 112,197	39.0%	40.9%	43.7%
Trucking	63,913	52,988	54,303	23.5%	23.2%	21.2%
Agriculture	16,416	9,277	7,955	6.0%	4.1%	3.1%
Oil and Gas	11,996	10,885	12,990	4.4%	4.8%	5.1%
Logging	11,835	10,925	11,711	4.4%	4.8%	4.6%
Maritime	6,735	5,226	6,123	2.5%	2.3%	2.4%
Sawmills	2,659	1,821	1,983	1.0%	0.8%	0.8%
Other	47,349	39,143	43,081	17.4%	17.1%	16.8%
Total voluntary business	267,018	223,606	250,343	98.2%	98.0%	97.7%
Assigned risk business	2,386	2,258	2,266	0.8%	0.9%	0.8%
Assumed premiums	2,697	2,561	3,845	1.0%	1.1%	1.5%
Total	\$ 272,101	\$ 228,425	\$ 256,454	100.0%	100.0%	100.0%

**Geographic Distribution**

We are licensed to provide workers compensation insurance in 47 states, the District of Columbia and the U.S. Virgin Islands. We operate on a geographically diverse basis with less than 11.7% of our gross premiums written in 2011 derived from any one state. The table below identifies, for the years ended December 31, 2011, 2010 and 2009, the states in which the percentage of our gross premiums written exceeded 3.0% for any of the three years presented.

State	Percentage of Gross Premiums Written		
	2011	2010	2009
Louisiana	11.6%	11.2%	10.7%
Georgia	8.5%	8.6%	9.3%
Pennsylvania	8.0%	7.6%	6.8%
North Carolina	6.4%	7.3%	7.2%
Oklahoma	5.9%	6.4%	7.7%
Virginia	5.9%	6.4%	6.0%
Illinois	5.8%	6.1%	7.0%
Texas	4.2%	4.4%	4.1%
Minnesota	3.8%	3.9%	3.7%
Kansas	3.7%	3.3%	3.5%
Wisconsin	3.5%	3.5%	3.5%

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Alaska	3.4%	3.9%	3.4%
Arkansas	3.3%	3.2%	2.8%
South Carolina	2.9%	3.5%	3.5%
Tennessee	2.7%	2.9%	3.3%

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### **Sales and Marketing**

We sell our workers' compensation insurance through agencies. As of December 31, 2011, our insurance was sold through more than 3,200 independent agencies and our wholly-owned insurance agency subsidiary, Amerisafe General Agency, which is licensed in 28 states. We are selective in establishing and maintaining relationships with independent agencies that provide quality application flow from policyholders in our target industries and classes that are reasonably likely to accept our quotes. We compensate these agencies by paying a commission based on the premium collected from the policyholder. Our average commission rate for our independent agencies was 7.6% for the year ended December 31, 2011. We pay our insurance agency subsidiary a commission rate of 8.0%. Neither our independent agencies nor our insurance agency subsidiary has authority to underwrite or bind coverage. We do not pay contingent commissions.

As of December 31, 2011, independent agencies accounted for 93.8% of our voluntary in-force premiums. No single independent agency accounted for more than 2.2% of our voluntary in-force premiums at that date.

### **Underwriting**

Our underwriting strategy is to focus on employers in certain hazardous industries that operate in those states where our underwriting efforts are the most profitable and efficient. We analyze each prospective policyholder on its own merits relative to known industry trends and statistical data. Our underwriting guidelines specify that we do not write workers' compensation insurance for certain hazardous activities, including sub-surface mining and manufacturing of ammunition or fireworks.

Underwriting is a multi-step process that begins with the receipt of an application from one of our agencies. We initially review the application to confirm that the prospective policyholder meets certain established criteria, including that it is engaged in one of our targeted hazardous industries and industry classes and operates in the states we target. If the application satisfies these criteria, the application is forwarded to our underwriting department for further review.

Our underwriting department reviews the application to determine if the application meets our underwriting criteria and whether all required information has been provided. If additional information is required, the underwriting department requests additional information from the agency submitting it. This initial review process is generally completed within three days after the application is received by us. Once this initial review process is complete, our underwriting department requests that a pre-quotation safety inspection be performed in most cases. In 2011, 88.2% of our new voluntary business policyholders were inspected prior to our offering a premium quote.

After the pre-quotation safety inspection has been completed, our underwriting professionals review the results of the inspection to determine if a quote should be made and, if so, prepare the quote. The quote must be reviewed and approved by our underwriting department before it is delivered to the agency. All decisions by our underwriting department, including decisions to decline applications, are subject to review and approval by our management-level underwriters.

Our underwriting professionals participate in an incentive compensation program under which bonuses are paid quarterly based upon achieving premium underwriting volume and loss ratio targets. The determination of whether targets have been satisfied is made 30 months after the beginning of the relevant incentive compensation period.

### **Pricing**

In the majority of states, workers' compensation insurance rates are based upon published loss costs. Loss costs are derived from wage and loss data reported by insurers to the state's statistical agent, which in most states

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is the NCCI. The state agent then promulgates loss costs for specific job descriptions or class codes. Insurers file requests for adoption of a loss cost multiplier, or LCM, to be applied to the loss costs to support operating expenses and profit margins. In addition, most states allow pricing flexibility above and below the filed LCM, within certain limits.

We obtain approval of our rates, including our LCMs, from state regulatory authorities. To maintain rates at profitable levels, we regularly monitor and adjust our LCMs. The effective LCM for our voluntary business was 1.50 for policy year 2011, 1.43 for policy year 2010, and 1.45 for policy year 2009. If we are unable to charge rates in a particular state or industry to produce satisfactory results, we seek to control and reduce our premium volume in that state or industry and redeploy our capital in other states or industries that offer greater opportunity to earn an underwriting profit.

## **Safety**

Our safety inspection process begins with a request from our underwriting department to perform a pre-quotation safety inspection. Our safety inspections focus on a prospective policyholder's operations, loss exposures and existing safety controls to prevent potential losses. The factors considered in our inspection include employee experience, turnover, training, previous loss history and corrective actions, and workplace conditions, including equipment condition and, where appropriate, use of fall protection, respiratory protection or other safety devices. Our FSPs travel to employers' worksites to perform these safety inspections. These initial inspections allow our underwriting professionals to make decisions on both insurability and pricing. In certain circumstances, we will agree to provide workers' compensation insurance only if the employer agrees to implement and maintain the safety management practices that we recommend. In 2011, 88.2% of our new voluntary business policyholders were inspected prior to our offering a premium quote. The remaining voluntary business policyholders were not inspected prior to a premium quote for a variety of reasons, including small premium size or the fact that the policyholder was previously a policyholder subject to our safety inspections.

After an employer becomes a policyholder, we continue to emphasize workplace safety through periodic workplace visits, assisting the policyholder in designing and implementing enhanced safety management programs, providing safety-related information and conducting rigorous post-accident management. Generally, we may cancel or decline to renew an insurance policy if the policyholder does not implement or maintain reasonable safety management practices that we recommend.

Our FSPs participate in an incentive compensation program under which bonuses are paid semi-annually based upon an FSP's production and their policyholders' aggregate loss ratios. The results are measured 33 months after the inception of the subject policy period.

## **Claims**

We have structured our claims operation to provide immediate, intensive and personal management of claims to guide injured employees through medical treatment, rehabilitation and recovery, with the primary goal of returning the injured employee to work as promptly as practicable. We seek to limit the number of claim disputes with injured employees through early intervention in the claims process.

Our FCMs are located in the geographic areas where our policyholders are based. We believe the presence of our FCMs in the field enhances our ability to guide an injured employee to the appropriate conclusion in a friendly, dignified and supportive manner. Our FCMs have broad authority to manage claims from occurrence of a workplace injury through resolution, including authority to retain many different medical providers at our expense. Such providers comprise not only our recommended medical providers, but also nurse case managers, independent medical examiners, vocational specialists, rehabilitation specialists and other specialty providers of medical services necessary to achieve a quality outcome.

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Following notification of a workplace injury, an FCM will contact the policyholder, the injured employee and/or the treating physician to determine the nature and severity of the injury. If a serious injury occurs, the FCM will promptly visit the injured employee or the employee's family members to discuss the benefits provided. The FCM will also visit the treating physician to discuss the proposed treatment plan. Our FCM assists the injured employee in receiving appropriate medical treatment and encourages the use of our recommended medical providers and facilities. For example, our FCM may suggest that a treating physician refer an injured worker to another physician or treatment facility that we believe has had positive outcomes for other workers with similar injuries. We actively monitor the number of open cases handled by a single FCM in order to maintain focus on each specific injured employee. As of December 31, 2011, we averaged 54 open indemnity claims per FCM, which we believe is significantly less than the industry average.

Locating our FCMs in the field also allows us to build professional relationships with local medical providers. In selecting medical providers, we rely, in part, on the recommendations of our FCMs who have developed professional relationships within their geographic areas. We also seek input from our policyholders and other contacts in the markets that we serve. While cost factors are considered in selecting medical providers, we consider the most important factor in the selection process to be the medical provider's ability to achieve a quality outcome. We define quality outcome as the injured worker's rapid, conclusive recovery and return to sustained, full capacity employment.

While we seek to promptly settle valid claims, we also aggressively defend against claims we consider to be non-meritorious. Where possible, we purchase annuities on longer life claims to close such claims, while still providing an appropriate level of benefits to injured employees.

## **Premium Audits**

We conduct premium audits on all of our voluntary business policyholders annually, upon the expiration of each policy, including when the policy is renewed. The purpose of these audits is to verify that policyholders have accurately reported their payroll expenses and employee job classifications, and therefore, have paid us the premium required under the terms of their policies. In addition to annual audits, we selectively perform interim audits on certain classes of business if significant or unusual claims are filed or if the monthly reports submitted by a policyholder reflect a payroll pattern or other aberrations that cause underwriting, safety or fraud concerns. We also mitigate potential losses from under-reporting of premium or delinquent premium payment by collecting a deposit from the policyholder at the inception of the policy, typically representing 15% of the total estimated annual premium, which deposit can be utilized to offset losses from non-payment of premium.

## **Loss Reserves**

We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid as of a given point in time.

In establishing our reserves, we review the results of analyses using actuarial methodologies that utilize historical loss data from our more than 26 years of underwriting workers' compensation insurance. In evaluating the results of those analyses, our management also uses substantial judgment in considering other factors that are not considered in these actuarial analyses. These actuarial methodologies and subjective factors are described in more detail below. Our process and methodology for estimating reserves applies to both our voluntary and assigned risk business, but does not include our reserves for mandatory pooling arrangements. We record reserves for mandatory pooling arrangements as those reserves are reported to us by the pool administrators. We do not use loss discounting when we determine our reserves, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income.



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When a claim is reported, we establish an initial case reserve for the estimated amount of our loss based on our estimate of the most likely outcome of the claim at that time. Generally, that case reserve is established within 14 days after the claim is reported and consists of anticipated medical costs, indemnity costs and specific adjustment expenses, which we refer to as defense and cost containment expenses, or DCC expenses. The most complex claims, involving severe injuries, may take a considerable period of time for us to establish a more precise estimate of the most likely outcome of the claim. At any point in time, the amount paid on a claim, plus the reserve for future amounts to be paid, represents the estimated total cost of the claim, or the case incurred amount. The estimated amount of loss for a reported claim is based upon various factors, including:

- type of loss;
- severity of the injury or damage;
- age and occupation of the injured employee;
- estimated length of temporary disability;
- anticipated permanent disability;
- expected medical procedures, costs and duration;
- our knowledge of the circumstances surrounding the claim;
- insurance policy provisions related to the claim, including coverage;
- jurisdiction of the occurrence; and

other benefits defined by applicable statute.

The case incurred amount varies over time due to uncertainties with respect to medical treatment and outcome, length and degree of disability, recurrence of injury, employment availability and wage levels and judicial determinations. As changes occur, the case incurred amount is adjusted. The initial estimate of the case incurred amount can vary significantly from the amount ultimately paid, especially in circumstances involving severe injuries with comprehensive medical treatment. Changes in case incurred amounts is an important component of our historical claim data.

In addition to case reserves, we establish reserves on an aggregate basis for loss and DCC expenses that have been incurred but not reported, or IBNR. Our IBNR reserves are also intended to provide for aggregate changes in case incurred amounts as well as the unpaid cost of recently reported claims for which an initial case reserve has not been established.

The third component of our reserves for loss and loss adjustment expenses is our adjusting and other reserve, or AO reserve. Our AO reserve covers primarily the estimated cost of administering claims and is established for the costs of future unallocated loss adjustment expenses for all reported and unreported claims.

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The final component of our reserves for loss and loss adjustment expenses is the reserve for mandatory pooling arrangements. The mandatory pooling arrangement reserve includes the amount reported to us by the pool administrators.

In establishing reserves, we rely on the analysis of the more than 177,000 claims in our 26-year history. Using statistical analyses and actuarial methods, we estimate reserves based on historical patterns of case development, payment patterns, mix of business, premium rates charged, case reserving adequacy, operational changes, adjustment philosophy and severity and duration trends.

We review our reserves by industry and state on a quarterly basis. Individual open claims are reviewed more frequently and adjustments to case incurred amounts are made based on expected outcomes. The number of claims reported or occurring during a period, combined with a calculation of average case incurred amounts, and

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measured over time, provide the foundation for our reserve estimates. In establishing our reserve estimates, we use historical trends in claim reporting timeliness, frequency of claims in relation to earned premium or covered payroll, premium rate levels charged and case development patterns. However, the number of variables and judgments involved in establishing reserve estimates, combined with some random variation in loss development patterns, results in uncertainty regarding projected ultimate losses. As a result, our ultimate liability for loss and loss adjustment expenses may be more or less than our reserve estimate.

Our analysis of our historical data provides the factors we use in our statistical and actuarial analysis in estimating our loss and DCC expense reserve. These factors are primarily measures over time of claims reported, average case incurred amounts, case development, duration, severity and payment patterns. However, these factors cannot be solely used as these factors do not take into consideration changes in business mix, claims management, regulatory issues, medical trends, medical inflation, employment and wage patterns, and other subjective factors. We use this combination of factors and subjective assumptions in the use of six well-accepted actuarial methods, as follows:

**Paid Development Method** uses historical, cumulative paid loss patterns to derive estimated ultimate losses by accident year based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.

**Paid Weighted Severity ( Generalized Cape Cod ) Method** multiplies estimated ultimate claims for each accident year by a weighted average, trended and developed severity. The ultimate claims estimate is based on paid claim count development. The selected severity for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.

**Paid Bornhuetter-Ferguson (B-F) Method** a combination of the Paid Development Method and the Paid Weighted Severity Method, the Paid B-F Method estimates ultimate losses by adding the current actual paid losses to projected unpaid losses.

**Incurred Development Method** uses historical, cumulative incurred loss patterns to derive estimated ultimate losses by accident year based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years.

**Incurred Weighted Severity ( Generalized Cape Cod ) Method** multiplies estimated ultimate claims for each accident year by a weighted average, trended and developed severity. The ultimate claims estimate is based on incurred claim count development. The selected severity for a given accident year is derived by giving some weight to all of the accident years in the experience history rather than treating each accident year independently.

**Incurred B-F Method** a combination of the Incurred Development Method and the Incurred Weighted Severity Method, the Incurred B-F Method projects ultimate losses by adding the current actual incurred losses to the projected unreported losses.

These six methods are applied to both gross and net data. Due to the volatility and unpredictability of excess losses, several B-F estimates of excess losses are also used to estimate the ultimate losses gross of reinsurance. We then analyze the results and may emphasize or de-emphasize some or all of the outcomes to reflect our judgment of their reasonableness in relation to supplementary information and operational and industry changes. These outcomes are then aggregated to produce a single weighted average point estimate that is the base estimate for loss and DCC expense reserves.

In determining the level of emphasis that may be placed on some or all of the methods, we review statistical information as to which methods are most appropriate, whether adjustments are appropriate within the particular methods, and if results produced by each method include inherent bias reflecting operational and industry changes. This supplementary information may include:

open and closed claim counts;



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statistics related to open and closed claim count percentages;

claim closure rates;

changes in average case reserves and average loss and DCC expenses incurred on open claims;

reported and ultimate average case incurred changes;

reported and projected ultimate loss ratios; and

loss payment patterns.

In establishing our AO reserves, we review our past adjustment expenses in relation to paid claims as well as estimated future costs based on expected claims activity and duration.

The sum of our net loss and DCC expense reserve, our AO reserve and our reserve for mandatory pooling arrangements is our total net reserve for loss and loss adjustment expenses.

As of December 31, 2011, our best estimate of our ultimate liability for loss and loss adjustment expenses, net of amounts recoverable from reinsurers, was \$477.3 million, which includes \$9.6 million in reserves for mandatory pooling arrangements as reported by the pool administrators. The estimate of our ultimate liability was derived from the process and methodology described above, which relies on substantial judgment. There is inherent uncertainty in estimating our reserves for loss and loss adjustment expenses. It is possible that our actual loss and loss adjustment expenses incurred may vary significantly from our estimates. We view our estimate of loss and DCC expenses as the most significant component of our reserve for loss and loss adjustment expenses.

Additional information regarding our reserve for unpaid loss and loss adjustment expenses ( LAE ) as of December 31, 2011, 2010, and 2009 is set forth below:

	2011	2010 (In thousands)	2009
Gross case loss and DCC reserves	\$ 404,626	\$ 412,720	\$ 408,075
AO reserves	13,402	14,919	14,873
Gross IBNR reserves	120,186	104,565	111,707
Gross unpaid loss, DCC and AO reserves	538,214	532,204	534,655
Reinsurance recoverables on unpaid loss and LAE	(60,937)	(65,536)	(60,435)
Net unpaid loss, DCC and AO reserves	\$ 477,277	\$ 466,668	\$ 474,220

We performed sensitivity analyses to show how our net loss and DCC expense reserve, including IBNR, would be impacted by changes in certain critical assumptions. For our paid and incurred development methods, we varied both the cumulative paid and incurred loss development factors (LDFs) by plus and minus 20%, both individually and in combination with one another. The results of this sensitivity analysis, using December 31, 2011 data, are summarized below.

Change in	Change in	Resultant Change in
Incurred LDFs	Incurred LDFs	Net Loss and DCC Reserve

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Paid LDFs		Amount (\$) (In thousands)	Percentage
+20%	+20%	15,801	3.5%
+20%	0%	9,720	2.1%
+20%	20%	3,531	0.8%
0%	+20%	6,420	1.4%
0%	20%	(6,619)	(1.5)%
20%	+20%	(2,954)	(0.7)%
20%	0%	(9,957)	(2.2)%
20%	20%	(16,939)	(3.7)%

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For our paid and incurred weighted severity methods, we varied our year-end selected trend factor (for medical costs, defense costs, wage inflation, etc.) by plus and minus 20%. The results of this sensitivity analysis, using December 31, 2011 data, are summarized below.

Change in Severity Trend	Resultant Change in Net Loss and DCC Reserve	
	Amount (\$) (In thousands)	Percentage
+20%	4,102	0.9%
20%	(3,966)	(0.9)%

The Bornhuetter-Ferguson method estimates ultimate loss by averaging weighted severity paid or incurred losses and expected future paid or incurred development. To measure sensitivity, we changed this average by plus and minus 20%. The results of this sensitivity analysis, using December 31, 2011 data, are summarized below.

Change in Expected Losses	Resultant Change in Net Loss and DCC Reserve	
	Amount (\$) (In thousands)	Percentage
+20%	9,863	2.2%
20%	(9,876)	(2.2)%

**Reconciliation of Loss Reserves**

The table below shows the reconciliation of loss reserves on a gross and net basis for the years ended December 31, 2011, 2010 and 2009, reflecting changes in losses incurred and paid losses.

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Balance, beginning of period	\$ 532,204	\$ 534,655	\$ 531,293
Less amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses	65,536	60,435	56,596
Net balance, beginning of period	466,668	474,220	474,697
Add incurred related to:			
Current year	196,269	179,022	185,201
Prior years	(6,563)	(21,634)	(21,885)
Total incurred	189,706	157,388	163,316
Less paid related to:			
Current year	53,213	47,385	42,174
Prior years	125,884	117,555	121,619
Total paid	179,097	164,940	163,793
Net balance, end of period	477,277	466,668	474,220
Add amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses	60,937	65,536	60,435

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Balance, end of period	\$ 538,214	\$ 532,204	\$ 534,655
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Our gross reserves for loss and loss adjustment expenses of \$538.2 million as of December 31, 2011 are expected to cover all unpaid loss and loss adjustment expenses as of that date. As of December 31, 2011, we had



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5,184 open claims, with an average of \$103,822 in unpaid loss and loss adjustment expenses per open claim. During the year ended December 31, 2011, 5,986 new claims were reported, and 5,931 claims were closed.

In 2011, our gross reserves increased to \$538.2 million from \$532.2 million at December 31, 2010. The increase in reserves was attributable to both the current accident year and prior accident years. There was also \$6.6 million of favorable development for prior accident years. As of December 31, 2010, we had 5,129 open claims, with an average of \$103,764 in unpaid loss and loss adjustment expenses per open claim. During the year ended December 31, 2010, 5,800 new claims were reported, and 5,182 claims were closed.

In 2010, our gross reserves decreased to \$532.2 million from \$534.7 million at December 31, 2009. The decrease in reserves was attributable to both the current accident year and prior accident years. The current accident year incurred losses amounted to less than 2009 but resulted in a higher loss ratio due to decreased earned premium. There was also \$21.6 million of favorable development for prior accident years. As of December 31, 2009, we had 4,511 open claims, with an average of \$118,523 in unpaid loss and loss adjustment expenses per open claim. During the year ended December 31, 2009, 5,275 new claims were reported, and 5,557 claims were closed.

***Loss Development***

The table below shows the net loss development for business written each year from 2001 through 2011. The table reflects the changes in our loss and loss adjustment expense reserves in subsequent years from the prior loss estimates based on experience as of the end of each succeeding year on a GAAP basis.

The first line of the table shows, for the years indicated, our liability including the incurred but not reported loss and loss adjustment expenses as originally estimated, net of amounts recoverable from reinsurers. For example, as of December 31, 2001, it was estimated that \$119.0 million would be sufficient to settle all claims not already settled that had occurred on or prior to December 31, 2001, whether reported or unreported. The next section of the table sets forth the re-estimates in later years of incurred losses, including payments, for the years indicated. The next section of the table shows, by year, the cumulative amounts of loss and loss adjustment expense payments, net of amounts recoverable from reinsurers, as of the end of each succeeding year. For example, with respect to the net loss reserves of \$119.0 million as of December 31, 2001, by December 31, 2011 (ten years later) \$98.1 million had actually been paid in settlement of the claims that relate to liabilities as of December 31, 2001.

The cumulative redundancy/(deficiency) represents, as of December 31, 2011, the difference between the latest re-estimated liability and the amounts as originally estimated. A redundancy means that the original estimate was higher than the current estimate. A deficiency means that the current estimate is higher than the original estimate.

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	2001	2002	2003	2004	Year Ended December 31, 2005 2006 2007			2008	2009	2010	2011
	(In thousands)										
Reserve for loss and loss adjustment expenses, net of reinsurance recoverables	\$ 119,020	\$ 152,908	\$ 183,001	\$ 243,256	\$ 364,253	\$ 412,366	\$ 462,478	\$ 474,697	\$ 474,220	\$ 466,668	\$ 477,277
Net reserve estimated as of:											
One year later	123,413	155,683	196,955	265,138	362,026	402,876	442,091	452,812	452,587	460,105	
Two years later	116,291	168,410	217,836	262,601	361,181	372,520	416,758	427,794	422,697		
Three years later	119,814	187,225	218,217	262,427	346,914	359,590	396,492	398,187			
Four years later	132,332	189,098	219,114	256,790	339,849	348,596	371,599				
Five years later	134,836	190,161	214,304	250,586	335,158	335,252					
Six years later	136,277	186,829	209,819	247,798	325,714						
Seven years later	133,588	184,455	208,549	239,886							
Eight years later	130,599	184,641	200,717								
Nine years later	130,331	178,414									
Ten years later	125,250										
Net cumulative redundancy (deficiency)	\$ (6,230)	\$ (25,506)	\$ (17,716)	\$ 3,370	\$ 38,539	\$ 77,114	\$ 90,879	\$ 76,510	\$ 51,523	\$ 6,563	
Cumulative amount of reserve paid, net of reserve recoveries, through:											
One year later	51,114	66,545	73,783	40,514	110,369	105,408	116,631	121,619	117,555	125,884	
117,555	71,852	101,907	65,752	97,091	164,354	167,852	182,879	185,334	182,242		
Three years later	84,341	73,391	99,829	124,785	201,393	203,502	217,137	222,249			
Four years later	42,919	96,884	114,594	154,799	222,867	224,419	239,189				
Five years later	59,194	110,475	136,497	167,092	237,699	235,931					
Six years later	76,547	128,629	143,642	175,639	245,466						
Seven years later	90,575	132,656	149,349	180,743							
Eight years later	92,906	137,093	152,523								
Nine years later	95,946	139,661									
Ten years later	98,075										
Net reserve December 31	\$ 119,020	\$ 152,908	\$ 183,001	\$ 243,256	\$ 364,253	\$ 412,366	\$ 462,478	\$ 474,697	\$ 474,220	\$ 466,668	\$ 477,277
Reinsurance recoverables	264,013	193,634	194,558	189,624	120,232	106,810	74,925	56,596	60,435	65,536	60,937
Gross reserve December 31	\$ 383,033	\$ 346,542	\$ 377,559	\$ 432,880	\$ 484,485	\$ 519,176	\$ 537,403	\$ 531,293	\$ 534,655	\$ 532,204	\$ 538,214
Net re-estimated reserve	\$ 125,250	\$ 178,414	\$ 200,717	\$ 239,886	\$ 325,714	\$ 335,252	\$ 371,599	\$ 398,187	\$ 422,697	\$ 460,105	
Re-estimated reinsurance recoverables	361,611	287,681	232,634	193,242	128,120	121,583	91,884	76,999	62,464	62,134	
Gross re-estimated reserve	\$ 486,861	\$ 466,095	\$ 433,351	\$ 433,128	\$ 453,834	\$ 456,835	\$ 463,483	\$ 475,186	\$ 485,161	\$ 522,239	
Gross cumulative redundancy (deficiency)	\$ (103,828)	\$ (119,553)	\$ (55,792)	\$ (248)	\$ 30,651	\$ 62,341	\$ 73,920	\$ 56,107	\$ 49,494	\$ 9,965	

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Our net cumulative redundancy (deficiency) set forth in the table above is net of amounts recoverable from our reinsurers, including Reliance Insurance Company, one of our former reinsurers. In 2001, Reliance was placed under regulatory supervision by the Pennsylvania Insurance Department and was subsequently placed into liquidation. As a result, we recognized losses related to uncollectible amounts from Reliance of \$0.5 million in

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2007, \$0.8 million in 2005, \$0.3 million in 2004, \$1.3 million in 2003, \$2.0 million in 2002 and \$17.0 million in 2001. No losses were recognized in 2010, 2009, 2008 and 2006.

**Investments**

We derive net investment income from our invested assets. As of December 31, 2011, the carrying value of our investment portfolio, including cash and cash equivalents, was \$851.5 million and the fair value of the portfolio was \$890.7 million.

Our board of directors has established an investment policy governing our investments, which is reviewed at least annually. The principal objectives of our investment portfolio are to preserve capital and surplus and to maintain appropriate liquidity for corporate requirements. Additional objectives are to support our A.M. Best rating and to maximize after-tax income and total return. Our investment policy establishes limitations and guidelines relating to, for example, asset allocation, diversification, credit ratings and duration. We review our investment portfolio with the risk committee of our board of directors periodically for compliance with the policy. Our investment portfolio is managed internally.

We classify the majority of our fixed maturity securities as held-to-maturity. We do not reflect any changes in fair value for these securities in our financial statements, unless such changes are deemed to be other than temporary impairments, in which case such impairments flow through our income statement within the category, Net realized gains (losses) on investments. The remainder of our fixed maturity securities and all of our equity securities are classified as available-for-sale. These investments are valued at fair market value each period, with changes in fair value flowing through other comprehensive income. We generally seek to limit our holdings in equity securities to the lesser of 10% of the investment portfolio or 30% of shareholders' equity, on a fair value basis.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Investments for further information on the composition and results of our investment portfolio.

The table below shows the carrying values of various categories of securities held in our investment portfolio, the percentage of the total carrying value of our investment portfolio represented by each category and the effective interest rate for the year ended December 31, 2011 based on the carrying value of each category as of December 31, 2011:

	Carrying Value (In thousands)	Percentage of Portfolio	Effective Interest Rate
<b>Fixed maturity securities held-to-maturity:</b>			
State and political subdivisions	\$ 441,273	51.8%	3.6%
Corporate bonds	92,682	10.9%	2.7%
Commercial mortgage-backed securities	51,550	6.1%	5.5%
U.S. agency-based mortgage-backed securities	46,096	5.4%	5.2%
U.S. Treasury securities and obligations of U.S. Government agencies	9,141	1.1%	4.2%
Asset-backed securities	5,306	0.6%	3.2%
<b>Total fixed maturity securities held-to-maturity</b>	<b>646,048</b>	<b>75.9%</b>	<b>3.7%</b>
<b>Fixed maturity securities available-for-sale:</b>			
State and political subdivisions	57,762	6.8%	4.1%
Corporate bonds	42,980	5.0%	2.8%
<b>Total fixed maturity securities available-for-sale</b>	<b>100,742</b>	<b>11.8%</b>	<b>3.5%</b>
Equity securities	12,240	1.4%	5.2%
Cash and cash equivalents	45,536	5.4%	0.3%
Short-term investments	46,944	5.5%	1.1%

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Total investments, including cash and cash equivalents	\$ 851,510	100%	3.4%
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As of December 31, 2011, our fixed maturity securities had a carrying value of \$746.8 million, which represented 87.7% of the carrying value of our investments, including cash and cash equivalents. For the twelve months ended December 31, 2011, the pre-tax accounting investment yield of our investment portfolio was 3.1% per annum.

The gross unrealized gains and losses on, and the cost and fair value of, our investment portfolio as of December 31, 2011 are summarized as follows:

	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>(In thousands)</b>			
Fixed maturity securities, held-to-maturity	\$ 646,048	\$ 40,573	\$ (1,379)	\$ 685,242
Fixed maturity securities, available-for-sale	98,077	2,899	(234)	100,742
Equity securities, available-for-sale	11,776	661	(197)	12,240
Totals	\$ 755,901	\$ 44,133	\$ (1,810)	\$ 798,224

As of December 31, 2011, the municipal bond component was 58.6% of the investment portfolio, including cash and short-term investments. The table below summarizes the top five geographic exposures as of December 31, 2011.

	<b>Carrying Value (In thousands)</b>	<b>Percentage of Municipal Portfolio</b>	<b>Percentage of Total Portfolio</b>
Louisiana	\$ 122,922	24.6%	14.4%
Texas	73,465	14.7%	8.6%
Florida	48,484	9.7%	5.7%
Washington	19,770	4.0%	2.3%
Indiana	17,619	3.5%	2.1%
Other	217,027	43.5%	25.5%
	\$ 499,287	100.0%	58.6%

Our largest insurance subsidiary is domiciled in Louisiana and companies are allowed an investment credit against premium taxes for varying levels of Louisiana assets.

The table below summarizes the credit quality of our investment portfolio, excluding our equity holdings, as of December 31, 2011, as determined by the middle rating of Moody's, Standard and Poor's, and Fitch.

<b>Credit Rating</b>	<b>Percentage of Total Carrying Value</b>
AAA	29.2%
AA	39.1%
A	14.6%
BBB	15.5%
BB and below	1.3%
Unrated Securities	0.3%
Total	100.0%

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As of December 31, 2011, the average composite rating of our investment portfolio, excluding our equity holdings, was AA-.

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The table below shows the composition of our fixed maturity securities by remaining time to maturity as of December 31, 2011.

Remaining Time to Maturity	As of December 31, 2011	
	Carrying Value (In thousands)	Percentage
Less than one year	\$ 115,641	15.4%
One to five years	203,220	27.2%
Five to ten years	146,750	19.7%
More than ten years	178,227	23.9%
U.S. agency-based mortgage-backed securities	46,096	6.2%
Commercial mortgage-backed securities	51,550	6.9%
Asset-backed securities	5,306	0.7%
Total	\$ 746,790	100.0%

**Reinsurance**

We purchase reinsurance to reduce our net liability on individual risks and claims and to protect against catastrophic losses. Reinsurance involves an insurance company transferring to, or ceding, a portion of the exposure on a risk to a reinsurer. The reinsurer assumes the exposure in return for a portion of our premium. The cost and limits of reinsurance we purchase can vary from year to year based upon the availability of quality reinsurance at an acceptable price and our desired level of retention. Retention refers to the amount of risk that we retain for our own account. Under excess of loss reinsurance, covered losses in excess of the retention level up to the limit of the program are paid by the reinsurer. Our excess of loss reinsurance is written in layers, in which our reinsurers accept a band of coverage up to a specified amount. Any liability exceeding the limit of the program reverts to us as the ceding company. Reinsurance does not legally discharge us from primary liability for the full amount due under our policies. However, our reinsurers are obligated to indemnify us to the extent of the coverage provided in our reinsurance agreements.

We believe reinsurance is critical to our business. Our reinsurance purchasing strategy is to protect against unforeseen and/or catastrophic loss activity that would adversely impact our income and capital base. We generally select financially strong reinsurers with an A.M. Best rating of A (Excellent) or better at the time we enter into a reinsurance contract. In addition, to minimize our exposure to significant losses from reinsurer insolvencies, we evaluate the financial condition of our reinsurers and monitor concentrations of credit risk on a continual basis.

***2012 Excess of Loss Reinsurance Treaty Program***

Our 2012 reinsurance program is substantially similar to our 2011 program. Effective January 1, 2012, we entered into a new excess of loss reinsurance treaty program related to our voluntary and assigned risk business that applies to losses incurred between January 1, 2012 and the date on which our reinsurance agreements are terminated. Our reinsurance treaty program provides us with reinsurance coverage for each loss occurrence up to \$50.0 million, subject to applicable deductibles, retentions and aggregate limits. However, for any loss occurrence involving only one claimant, our reinsurance coverage is limited to a maximum of \$10.0 million for that claimant, subject to applicable deductibles, retentions and aggregate limits. We have 14 reinsurers participating in our 2012 reinsurance treaty program. Under certain circumstances, including a downgrade of a reinsurer's A.M. Best rating to B++ (Very Good) or below, such reinsurer may be required to provide us with security for amounts due under the terms of our reinsurance program. This security may take the form of, among other things, cash advances or letters of credit. If security is required because of a ratings downgrade, the form of security must be mutually agreed to between the reinsurer and us.



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Our 2012 reinsurance treaty program provides coverage in the following three layers:

*First Layer.* This layer is part of our 2012 reinsurance treaty program, and is a three-year structured product. It covers losses incurred between January 1, 2011 and January 1, 2014. The treaty affords coverage in two parts up to \$4.0 million for each loss occurrence in excess of \$1.0 million. Before our reinsurers are obligated to reimburse us under this layer, we are subject to an annual aggregate deductible of 6.5% of subject earned premium under the first part of this coverage and 13.1% of subject earned premium under the second part of this coverage. The limit under the first part of this coverage for all claims, including certain terrorism claims, is 6.6% of subject earned premium in any one year and 13.2% of subject earned premium in the aggregate for all three years covered by this layer. The limit under the second part of this coverage for all claims, including certain terrorism claims, is 6.6% of subject earned premium in the aggregate for all three years covered by this layer.

*Second Layer.* This is a three-year treaty covering losses incurred between January 1, 2012 and January 1, 2015. The treaty affords coverage up to \$5.0 million for each loss occurrence in excess of \$5.0 million. The aggregate limit for all claims, including terrorism, under this layer is \$10.0 million in any one year and \$20.0 million in the aggregate for all three years covered by this layer. Our 2011 program included a similar layer effective between January 1, 2009 and January 1, 2012.

*Third Layer.* Affords coverage up to \$40.0 million for each loss occurrence in excess of \$10.0 million. The aggregate limit for all claims, including terrorism, under this layer is \$80.0 million.

The agreement for both parts of the first layer will terminate on January 1, 2014, the agreement for the second layer will terminate on January 1, 2015 and the third layer of coverage will terminate on January 1, 2013. 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.

At our option, we have the right to commute the reinsurers' obligations under the agreement for the first and second layers of coverage at any time after the end of the applicable terms of the agreements. If we commute the reinsurers' obligations, we are entitled to receive a portion of the premiums that were paid to the reinsurers prior to the effective dates of the applicable commutations, subject to certain adjustments provided in the agreement.

The table below sets forth the reinsurers participating in our 2012 reinsurance program:

Reinsurer	A.M. Best Rating
Hannover Reinsurance (Ireland) Limited	A
Tokio Millennium Re Ltd.	A++
Munich Reinsurance America, Inc.	A+
Arch Reinsurance Company	A+
Alterra Bermuda Limited	A
Aspen Insurance UK Limited	A
Hannover Ruckversicherung AG	A
Lloyd's Syndicate 0435 FDY	A
Lloyd's Syndicate 1400 DRE	A
Lloyd's Syndicate 1955 BAR	A
Lloyd's Syndicate 2003 SJC	A
Lloyd's Syndicate 4472 LIB	A
Lloyd's Syndicate 5151 MRE	A
Minnesota Workers' Compensation Reinsurance Association	NR

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Due to the nature of reinsurance, we have receivables from reinsurers that apply to accident years prior to 2011. The table below summarizes our amounts recoverable from reinsurers as of December 31, 2011.

Reinsurer	A.M. Best Rating	Amounts Recoverable as of December 31, 2011 (In thousands)
Hannover Reinsurance (Ireland) Limited (1)	A	\$ 23,387
Aspen Insurance Limited	A	14,191
Odyssey Reinsurance Company	A	13,889
Minnesota Workers Compensation Reinsurance Association (1)	NR	7,830
Clearwater Insurance Company	B++	6,433
St. Paul Fire and Marine Insurance Company	A+	6,147
Finial Reinsurance Company	A-	5,606
SCOR Reinsurance Company	A	5,137
Clearwater Select Insurance Company	A	1,382
American National Insurance Company	A	1,334
Tokio Millennium Re Ltd (1)	A++	1,330
Harrington Syndicate 2000	A	1,018
Other (32 reinsurers)		8,528
Total		\$ 96,212

(1) Current participant in our 2012 reinsurance program.

***Terrorism Reinsurance***

The Terrorism Risk Insurance Act of 2002 (the 2002 Act) was enacted in response to the events of September 11, 2001 and was extended by the Terrorism Risk Insurance Extension Act of 2005 (the 2005 Act) and the Terrorism Risk Insurance Program Reauthorization Act of 2007 (the 2007 Act). The 2002 Act, the 2005 Act and the 2007 Act were designed to ensure the availability of insurance coverage for losses resulting from certain acts of terrorism in the United States. The 2007 Act reauthorizes a federal program, established under the 2002 Act, extended by the 2005 Act, and further extended it through the end of 2014. This program provides federal reimbursement to insurance companies for a portion of their losses arising from certain acts of terrorism and requires insurance companies to offer coverage for these acts. The program applies to insured losses arising out of acts that are certified as acts of terrorism by the Secretary of the Treasury in concurrence with the Secretary of State and the Attorney General of the United States. In addition, the program does not provide any reimbursement for any portion of aggregate industry-wide insured losses from certified acts of terrorism that exceed \$100.0 billion in any one year and is subject to certain other limitations and restrictions.

For insured losses in 2011, each insurance group is responsible for a statutory deductible under the 2007 Act that is equal to 20% of its direct earned property and casualty insurance premiums. For losses occurring in 2012, the U.S. Federal Government will reimburse 85% of an insurance group's covered losses over the statutory deductible. In addition, no federal reimbursement is available unless the aggregate insurance industry-wide losses from a certified act of terrorism exceed \$100.0 million for any act of terrorism occurring in 2012. However, there is no relief from the requirement under the 2007 Act that insurance companies offer coverage for certified acts of terrorism if those acts do not cause losses exceeding these threshold amounts and thus do not result in any federal reimbursement payments.

Under the 2007 Act, insurance companies must offer coverage for losses due to certified acts of terrorism in their workers' compensation policies. Moreover, the workers' compensation laws of the various states generally

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do not permit the exclusion of coverage for losses arising from acts of terrorism, including terrorism that involves the use of nuclear, biological, radioactive or chemical agents. In addition, state law prohibits us from limiting our workers' compensation insurance losses arising from any one catastrophe or any one claimant. We have reinsurance protection in our 2012 reinsurance treaty program that affords coverage for up to \$50 million for losses arising from terrorism but excluding nuclear, biological, radiological and chemical attacks, subject to the deductibles, retentions, definitions and aggregate limits.

## **Technology**

We view our internally developed and purchased management information systems as an integral part of our operations and make a substantial ongoing investment in improving our systems. We provide our field premium auditors, field safety professionals and field case managers with computer and communication equipment to more timely and efficiently complete services. This technology also helps to facilitate communication and to report and monitor claims. All of our systems development and infrastructure operation and maintenance are performed by our information technology professionals, with limited assistance from outside vendors.

## **Competition**

The insurance industry, in general, is highly competitive and there is significant competition in the workers' compensation segment of the industry. Competition in the insurance business is based on many factors, including premium rates, policy terms, coverage availability, claims management, safety services, payment terms, types of insurance offered, overall financial strength and financial ratings assigned by independent rating organizations, such as A.M. Best. Some of the insurers with which we compete have significantly greater financial, marketing and management resources than we do. We may also compete with new market entrants in the future.

We believe the workers' compensation market for the hazardous industries we target is more fragmented and to some degree less competitive than other segments of the workers' compensation market. Our competitors include other insurance companies, individual self-insured companies, state insurance pools and self-insurance funds. We estimate that more than 300 insurance companies participate in the workers' compensation market. The insurance companies with which we compete vary by state and by the industries we target. These market conditions are also impacted by lower estimated loss costs adopted by a number of states in which we do business.

Our competitive advantages include our safety service and claims management practices, our A.M. Best rating and our ability to reduce claims through implementation of our work safety programs. In addition, we believe that our insurance is competitively priced and our premium rates are typically lower than those for policyholders assigned to the state insurance pools, allowing us to provide a viable alternative for policyholders in those pools.

## **Employees**

As of December 31, 2011, we had 427 full-time employees and one part-time employee. None of our employees are subject to collective bargaining agreements. We believe that our employee relations are good.

## **Regulation**

### ***Holding Company Regulation***

Nearly all states have enacted legislation that regulates insurance holding company systems. Each insurance company in a holding company system is required to register with the insurance supervisory agency of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system.

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Under these laws, the respective state insurance departments may examine us at any time, require disclosure of material transactions and require prior notice of or approval for certain transactions. All transactions within a holding company system affecting an insurer must have fair and reasonable terms and are subject to other standards and requirements established by law and regulation.

### ***Change of Control***

The insurance holding company laws of nearly all states require advance approval by the respective state insurance departments of any change of control of an insurer. Control is generally presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. In addition, insurance laws in many states contain provisions that require pre-notification to the insurance commissioners of a change of control of a non-domestic insurance company licensed in those states. Any future transactions that would constitute a change of control of American Interstate, Silver Oak Casualty or American Interstate of Texas, including a change of control of AMERISAFE, would generally require the party acquiring control to obtain the prior approval of the department of insurance in the state in which the insurance company being acquired is incorporated and may require pre-notification in the states where pre-notification provisions have been adopted. Obtaining these approvals may result in the material delay of, or deter, any such transaction.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of AMERISAFE, including through transactions, and in particular unsolicited transactions, that some or all of the shareholders of AMERISAFE might consider to be desirable.

### ***State Insurance Regulation***

Insurance companies are subject to regulation and supervision by the department of insurance in the state in which they are domiciled and, to a lesser extent, other states in which they conduct business. American Interstate and Silver Oak Casualty are primarily subject to regulation and supervision by the Louisiana Department of Insurance and Workers Compensation Commission. American Interstate of Texas is primarily subject to regulation and supervision by the Texas Department of Insurance and Workers Compensation Commission. These state agencies have broad regulatory, supervisory and administrative powers, including among other things, the power to grant and revoke licenses to transact business, license agencies, set the standards of solvency to be met and maintained, determine the nature of, and limitations on, investments and dividends, approve policy forms and rates in some states, periodically examine financial statements, determine the form and content of required financial statements and periodically examine market conduct.

Detailed annual and quarterly financial statements and other reports are required to be filed with the state insurance departments in all states in which we are licensed to transact business. The financial statements of American Interstate, Silver Oak Casualty and American Interstate of Texas are subject to periodic examination by the department of insurance in each state in which they are licensed to do business.

In addition, many states have laws and regulations that limit an insurer's ability to withdraw from a particular market. For example, states may limit an insurer's ability to cancel or not renew policies. Furthermore, certain states prohibit an insurer from withdrawing one or more lines of business from the state, except pursuant to a plan that is approved by the state insurance department. The state insurance department may disapprove a plan that may lead to market disruption. Laws and regulations that limit cancellation and non-renewal and that subject program withdrawals to prior approval requirements may restrict our ability to exit unprofitable markets.

Insurance agencies are also subject to regulation and supervision by the state insurance departments in the states in which they are licensed. Our wholly owned subsidiary, Amerisafe General Agency, Inc., is licensed as an insurance agent in 28 states and as a managing general insurance agency in 15 states. Amerisafe General Agency is domiciled in Louisiana and is primarily subject to regulation and supervision by the Louisiana

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Department of Insurance, which regulates the solicitation of insurance and the qualification and licensing of agents and agencies that may desire to conduct business in Louisiana.

***State Insurance Department Examinations***

We are subject to periodic examinations by state insurance departments in the states in which we operate. Both Louisiana and Texas insurance departments generally examine its domiciliary insurance companies on a triennial basis. American Interstate Insurance Company and Silver Oak Casualty, Inc. underwent an examination in 2009 that covered calendar years 2006 through 2008. American Interstate of Texas underwent an examination in 2010 that covered calendar year 2009.

***Guaranty Fund Assessments***

In most of the states where we are licensed to transact business, there is a requirement that property and casualty insurers doing business in that state participate in a guaranty association, which is organized to pay contractual benefits owed under insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premium written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets.

Property and casualty insurance company insolvencies or failures may result in additional security fund assessments to us at some future date. At this time, we are unable to determine the impact, if any, such assessments may have on our financial position or results of operations. We have established liabilities for guaranty fund assessments with respect to insurers that are currently subject to insolvency proceedings.

***Residual Market Programs***

Many of the states in which we conduct business or intend to conduct business, require that all licensed insurers participate in a program to provide workers' compensation insurance to those employers who have not or cannot obtain coverage from a carrier on a negotiated basis. The level of required participation in such programs is generally determined by calculating the volume of our voluntary business in that state as a percentage of all voluntary business in that state by all insurers. The resulting factor is the proportion of premium we must accept as a percentage of all of premiums in policies included in that state's residual market program.

Companies generally can fulfill their residual market obligations by either issuing insurance policies to employers assigned to them, or participating in a reinsurance pool where the results of all policies provided through the pool are shared by the participating companies. We utilize both methods, depending on management's evaluation of the most cost-efficient method to adopt in each state that allows a choice of assigned risk or participation in a pooling arrangement. In 2011, we had assigned risks in four states: Alabama, Alaska, North Carolina and Virginia.

***Second Injury Funds***

A number of states operate trust funds that reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. The state-managed trust funds are funded through assessments against insurers and self-insurers providing workers' compensation coverage in the applicable state. Our recoveries from state-managed trust funds for the years ended December 31, 2011, 2010 and 2009 were \$7.0 million, \$4.7 million and \$7.2 million, respectively. Our cash paid for assessments to state-managed trust funds for the years ended December 31, 2011, 2010 and 2009 was \$2.2 million, \$2.5 million and \$3.7 million, respectively.

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### ***Dividend Limitations***

Under Louisiana law, American Interstate and Silver Oak Casualty cannot pay dividends to their shareholders in excess of the lesser of 10% of statutory surplus, or statutory net income, excluding realized investment gains, for the preceding 12-month period without the prior approval of the Louisiana Commissioner of Insurance. However, net income from the previous two calendar years may be carried forward to the extent that it has not already been paid out as dividends. Further, under Texas law, American Interstate of Texas cannot pay dividends to its shareholder in excess of the greater of 10% of statutory surplus, or statutory net income, for the preceding 12-month period without the prior approval of the Texas Commissioner of Insurance.

### ***Federal Law and Regulations***

For the year ended December 31, 2011, we derived 2.9% of our voluntary in-force premiums from employers engaged in the maritime industry. As a provider of workers' compensation insurance for employers engaged in the maritime industry, we are subject to the United States Longshore and Harbor Workers' Compensation Act, or the USL&H Act, and the Merchant Marine Act of 1920, or Jones Act. We are also subject to regulations related to the USL&H Act and the Jones Act.

The USL&H Act, which is administered by the U.S. Department of Labor, generally covers exposures on the navigable waters of the United States and in adjoining waterfront areas, including exposures resulting from stevedoring. The USL&H Act requires employers to provide medical benefits, compensation for lost wages, and rehabilitation services to longshoremen, harbor workers and other maritime workers who may suffer injury, disability or death during the course and scope of their employment. The Department of Labor has the authority to require us to make deposits to serve as collateral for losses incurred under the USL&H Act.

The Jones Act is a federal law, the maritime employer provisions of which provide injured offshore workers, or seamen, with a remedy against their employers for injuries arising from negligent acts of the employer or co-workers during the course of employment on a ship or vessel.

### ***Privacy Regulations***

In 1999, Congress enacted the Gramm-Leach-Bliley Act, which, among other things, protects consumers from the unauthorized dissemination of certain personal information. Subsequently, a majority of states have implemented additional regulations to address privacy issues. These laws and regulations apply to all financial institutions, including insurance companies, and require us to maintain appropriate policies and procedures for managing and protecting certain personal information of our policyholders and to fully disclose our privacy practices to our policyholders. We may also be exposed to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition. In 2000, the National Association of Insurance Commissioners, or the NAIC, adopted the Privacy of Consumer Financial and Health Information Model Regulation, which assisted states in promulgating regulations to comply with the Gramm-Leach-Bliley Act. In 2002, to further facilitate the implementation of the Gramm-Leach-Bliley Act, the NAIC adopted the Standards for Safeguarding Customer Information Model Regulation. Several states have now adopted similar provisions regarding the safeguarding of policyholder information. We have established policies and procedures intended to ensure that we are in compliance with the Gramm-Leach-Bliley related privacy requirements.

### ***Federal and State Legislative and Regulatory Changes***

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. Among the proposals that have in the past been or are at present being considered are the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers and proposals in various state legislatures (some of which proposals have been enacted) to conform portions of their insurance

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laws and regulations to various model acts adopted by the NAIC. We are unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted or the effect, if any, these developments would have on our operations and financial condition.

For information on the Terrorism Risk Act, see Reinsurance Terrorism Reinsurance.

### ***The National Association of Insurance Commissioners***

The NAIC is a group formed by state insurance commissioners to discuss issues and formulate policy with respect to regulation, reporting and accounting of insurance companies. Although the NAIC has no legislative authority and insurance companies are at all times subject to the laws of their respective domiciliary states and, to a lesser extent, other states in which they conduct business, the NAIC is influential in determining the form in which such laws are enacted. Model Insurance Laws, Regulations and Guidelines, which we refer to as the Model Laws, have been promulgated by the NAIC as a minimum standard by which state regulatory systems and regulations are measured. Adoption of state laws that provide for substantially similar regulations to those described in the Model Laws is a requirement for accreditation by the NAIC. The NAIC provides authoritative guidance to insurance regulators on statutory accounting issues by promulgating and updating a codified set of statutory accounting practices in its *Accounting Practices and Procedures* manual. The Louisiana and Texas legislatures have adopted these codified statutory accounting practices.

Under Louisiana law, American Interstate and Silver Oak Casualty are each required to maintain minimum capital and surplus of \$3.0 million. Under Texas law, American Interstate of Texas is required to maintain minimum capital and surplus of \$5.0 million. Property and casualty insurance companies are also subject to certain risk-based capital requirements by the NAIC. Under those requirements, the amount of capital and surplus maintained by a property and casualty insurance company is determined based on the various risk factors related to it. As of December 31, 2011, American Interstate, Silver Oak Casualty, and American Interstate of Texas exceeded the minimum risk-based capital requirements.

The key financial ratios of the NAIC's Insurance Regulatory Information System, or IRIS, which ratios were developed to assist insurance departments in overseeing the financial condition of insurance companies, are reviewed by experienced financial examiners of the NAIC and state insurance departments to select those companies that merit highest priority in the allocation of the regulators' resources. IRIS identifies 13 industry ratios and specifies usual values for each ratio. Departure from the usual values on four or more of the ratios can lead to inquiries from individual state insurance commissioners as to certain aspects of an insurer's business.

The 2011 IRIS results for Silver Oak Casualty and American Interstate Insurance Company of Texas were within expected values. Of the 13 ratios, the investment yield ratio for American Interstate Insurance Company was outside the expected range by one tenth of a percent. This occurred because current low interest rates affected the reinvestment rate for the portfolio.

### ***Statutory Accounting Principles***

Statutory accounting principles, or SAP, are a basis of accounting developed to assist insurance regulators in monitoring and regulating the solvency of insurance companies. SAP is primarily concerned with measuring an insurer's surplus as regards to policyholders. Accordingly, statutory accounting focuses on valuing assets and liabilities of insurers at financial reporting dates in accordance with appropriate insurance law and regulatory provisions applicable in each insurer's domiciliary state.

Generally accepted accounting principles, or GAAP, are concerned with a company's solvency, but are also concerned with other financial measurements, principally income and cash flows. Accordingly, GAAP gives more consideration to appropriate matching of revenue and expenses and accounting for management's stewardship of assets than does SAP. As a direct result, different assets and liabilities and different amounts of assets and liabilities will be reflected in financial statements prepared in accordance with GAAP as compared to SAP.

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Statutory accounting principles established by the NAIC and adopted in part by Louisiana and Texas insurance regulators, determine, among other things, the amount of statutory surplus and statutory net income of American Interstate, Silver Oak Casualty and American Interstate of Texas and thus determine, in part, the amount of funds that are available to pay dividends to AMERISAFE.

**Website Information**

Our corporate website is located at [www.amerisafe.com](http://www.amerisafe.com). Our Annual Report on Form 10-K, annual proxy statement and related proxy card will be made available on our website at the same time they are mailed to shareholders. Our quarterly reports on Form 10-Q, periodic reports on Form 8-K and amendments to those reports that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through our website, free of charge, as soon as reasonably practicable after they have been electronically filed or furnished to the Securities and Exchange Commission, or the SEC. Our website also provides access to reports filed by our directors, executive officers and certain significant shareholders pursuant to Section 16 of the Securities Exchange Act of 1934. In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics and charters for the standing committees of our board of directors are available on our website. The information on our website is not incorporated by reference into this report. In addition, the SEC maintains a website, [www.sec.gov](http://www.sec.gov), which contains reports, proxy and information statements and other information that we file electronically with the SEC.

**Executive Officers of the Registrant**

The table below sets forth information about our executive officers and key employees as of March 1, 2012.

Name	Age	Position
<b>Executive Officers</b>		
C. Allen Bradley, Jr.	60	Chairman and Chief Executive Officer
Geoffrey R. Banta	62	President and Chief Operating Officer
G. Janelle Frost	41	Executive Vice President and Chief Financial Officer
Brendan D. Gau	37	Executive Vice President and Chief Investment Officer
Craig P. Leach	62	Executive Vice President, Sales and Marketing
<b>Key Employees</b>		
Allan E. Farr	53	Senior Vice President, Enterprise Risk Management
Vincent J. Gagliano	39	Senior Vice President, Information Technology
Kelly R. Goins	46	Senior Vice President, Underwriting Operations
Cynthia P. Harris	58	Senior Vice President, Human Resources/Client Services
Leon J. Lagneaux	60	Senior Vice President, Safety Operations
Henry O. Lestage, IV	51	Senior Vice President, Claims Operations

*C. Allen Bradley, Jr.* has served as Chairman of our board of directors since October 2005, our Chief Executive Officer since December 2003 and as a Director since June 2003. From November 2002 to August 2010 he served as President and from November 2002 until December 2003 he served as our Chief Operating Officer. Since joining our company in 1994, Mr. Bradley has had principal responsibility for the management of our underwriting operations (December 2000 through June 2005) and safety services (September 2000 through November 2002) and has served as our General Counsel (September 1997 through December 2003) and Secretary (September 1997 through November 2002). Prior to joining our company, he was engaged in the private practice of law.

*Geoffrey R. Banta* has served as our President since August 2010 and Chief Operating Officer since November 2008. From December 2003 to October 2008, he served as Executive Vice President and Chief Financial Officer. Prior to joining our company in 2003, he held the positions of President and Chief Executive



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Officer from 2001 until November 2003, and Chief Operating Officer from 1996 until 2001, at Scruggs Consulting, an actuarial and management consulting firm. From 1994 to 1996, Mr. Banta was Chief Financial Officer of the Atlanta Casualty Companies, an issuer of non-standard auto insurance.

*G. Janelle Frost* has served as our Executive Vice President and Chief Financial Officer since November 2008. Prior to becoming Chief Financial Officer, Ms. Frost served as Controller from May 2004 to November 2008 and Vice President from May 2006 to November 2008. She has been employed with our company since 1992 and served as Assistant Vice President from May 2004 to May 2006 and Deputy Controller from 1998 to April 2004.

*Brendan D. Gau* has served as our Executive Vice President and Chief Investment Officer since June 2009. Prior to joining our company, Mr. Gau was employed by AIM Capital Management, where he held the positions of Financial Analyst, Portfolio Analyst and Senior Portfolio Manager from 1996 until 2009.

*Craig P. Leach* has served as our Executive Vice President, Sales and Marketing since November 2002. He has served in a variety of sales and key marketing positions within our company since beginning his insurance career with a predecessor to our company in 1980, including Senior Vice President, Sales and Marketing from 1997 until November 2002.

*Allan E. Farr* has served as our Senior Vice President, Enterprise Risk Management since April 2004. He has been employed with our company since 1998 and served as Vice President, Underwriting Services from 1999 until 2004.

*Vincent J. Gagliano* has served as our Senior Vice President, Information Technology, since September 2009. He has been employed with our company since 2001 and during this time, he has served as Senior Business Analyst, Director of Business Intelligence, Assistant Vice President of Business Intelligence, and Vice President, Operations Analysis.

*Kelly R. Goins* has served as our Senior Vice President, Underwriting Operations since March 2005. She has been employed with our company since 1986 and served as Vice President, Underwriting Operations from 2000 until March 2005.

*Cynthia P. Harris* has served as our Senior Vice President, Human Resources/Client Services since January 2003. She has been employed with our company since 1977 and served as Vice President, Policyholder Services and Administration from 1992 until December 2002.

*Leon J. Lagneaux* has served as our Senior Vice President, Safety Operations since March 2005. He has been employed with our company since 1994 and served as Vice President, Safety Operations from 1999 until March 2005.

*Henry O. Lestage, IV* has served as our Senior Vice President, Claims Operations since September 2000. He has been employed with our company since 1987 and served as Vice President, Claims Operations from 1998 until 2000.

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**Item 1A. Risk Factors.**

In evaluating our company, the factors described below should be considered carefully. The occurrence of one or more of these events could significantly and adversely affect our business, prospects, financial condition, results of operations and cash flows.

***Risks Related to Our Business***

**If we do not appropriately 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 to generate sufficient revenue to offset losses, loss adjustment expenses and other underwriting expenses, and to earn an underwriting 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 appropriately, 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;

the complexity inherent in implementing appropriate rating formulae or other pricing methodologies;

costs of ongoing medical treatment;

uncertainties inherent in accurately estimating retention, investment yields, and the duration of our liability for loss and loss adjustment expenses; and

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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.

**The effects of emerging claims 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

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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.

**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 lower premium rates and excess underwriting capacity resulting from increased competition followed by periods of higher premium rates and reduced 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. In 2008 and 2009, the workers' compensation industry experienced both decreasing loss costs in most of the states in which we write business and intense price competition. Because this market cyclical nature 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 expect these cyclical patterns will cause our revenues and net income to fluctuate, which may cause the price of our common stock to be more volatile.

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

In 2011, 68.5% of our gross premiums written were derived from policyholders in the construction, trucking and agriculture 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 economic conditions in the construction, trucking and agricultural industries and upon economic conditions generally.

**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, 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 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 insurance companies that do not sell multiple types of insurance.

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

We record reserves for estimated losses under insurance policies we write and for loss adjustment expenses related to the investigation and settlement of claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. Reserves are based on estimates of the most likely ultimate cost of individual claims. These estimates are inherently uncertain.

Our pre-tax income for any period is impacted by establishing reserves for new claims as well as changes in estimates for previously reported losses. Our focus on writing workers' compensation insurance for employers engaged in hazardous industries results in our experiencing fewer, but more severe, claims. The ultimate cost of resolving severe claims is difficult to predict, particularly in the period shortly after the injury occurs. Substantial judgment is required to determine the relevance of our historical experience and industry information under current facts and circumstances. The interpretation of this historical data can be impacted by external forces, principally frequency and severity of unreported claims, length of time to achieve ultimate settlement of claims, inflation in medical costs and wages, insurance policy coverage interpretations, jury determinations, and legislative changes. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If there are unfavorable changes affecting our assumptions, our reserves may need to be increased. When a reserve estimate is increased, the change decreases pre-tax income by a corresponding amount.

**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 December 31, 2011, our investment portfolio, including cash and cash equivalents, had a carrying value of \$851.5 million. For the year ended December 31, 2011 we had \$26.3 million of net investment income. Our investment portfolio is managed under investment guidelines approved by our board of directors, and is made up predominately of fixed maturity securities and cash and cash equivalents. Although our investment guidelines emphasize capital preservation and liquidity, our investments are subject to a variety of risks, including risks related to general economic conditions, interest rate fluctuations, market illiquidity 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. Unprecedented low interest rates experienced in 2011, 2010 and 2009 have had, and will continue to have, an adverse effect on our investment income. Additionally, changes in interest rates can expose us to prepayment risks on mortgage-backed securities included in our investment portfolio.

Similarly, during periods of market disruption such as we have experienced since late 2008, including periods of rapidly widening credit spreads or illiquidity, the fair values of certain of our fixed maturity securities, such as asset-backed and commercial mortgage-backed securities, could be deemed to be other-than-temporarily impaired, even though we have the intent not to sell these securities and it is not more likely than not that we will be required to sell these securities. Further, rapidly changing and unprecedented equity market conditions could materially impact the valuation of the equity securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly.

During 2011, we recorded an impairment charge for one asset-backed security in our held-to-maturity investment portfolio. We impaired this security because, among other things, a loss of principal was anticipated based upon estimated future cash flows. This charge is included in Net realized gains (losses) on investments on our consolidated statement of income and totaled \$0.2 million for the year ended December 31, 2011. We cannot assure you that our investment portfolio will not suffer additional other-than-temporary investment losses.

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These and other factors affect the capital markets and, consequently, the value of our investment portfolio and our future investment income. Any significant decline in our investment income would adversely affect our revenues and net income.

### **Current economic conditions could adversely affect our financial condition and results of operations.**

The economic downturn experienced throughout the United States is expected to continue in 2012. Negative trends in business investment, consumer confidence and spending, the significant declines and volatility of the capital markets, the availability of credit and the rate of unemployment can adversely affect our business. A continuation of the economic downturn could further adversely impact our growth and profitability. Although we continue to closely monitor market conditions, we cannot predict future conditions or their impact on our premium volume, the value of our investment portfolio and our financial performance. As a result of these existing economic conditions, we could experience future decreases in business activity and incur additional realized and unrealized losses in our investment portfolio, both of which could adversely affect our financial condition and results of operations.

In addition, certain actions taken by the U.S. government to stimulate the economy and stabilize the financial markets have directly impacted the property and casualty insurance industry and our competitors. Additional measures in this regard could negatively impact our financial condition and the competitive landscape.

### **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;

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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

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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.

**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.

As of December 31, 2011, we had \$96.2 million of recoverables from reinsurers. Of this amount, \$48.9 million was unsecured. As of December 31, 2011, our largest recoverables from reinsurers included \$23.4 million from Hannover Reinsurance (Ireland) Limited, \$14.2 million from Aspen Insurance Limited and \$13.9 million from Odyssey America Reinsurance Company. If we are unable to collect amounts recoverable from our reinsurers, our financial condition would be adversely impacted.

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 December 31, 2011, we recognized losses related to uncollectible amounts due from Reliance aggregating \$21.8 million.

**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. We have entered into employment agreements with each of our executive officers. Those agreements expire in March 2012 except for Mr. Gau's agreement which expires June 2012, in each case, unless extended. 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.

**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 December 31, 2011, independent agencies produced 93.8% of our voluntary in-force premiums. No independent agency accounted for more than 2.2% 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.



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

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

profitably increase our business in existing markets;

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 operations and systems as we expand our business.

**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 2012 reinsurance program provides us with reinsurance coverage for each loss occurrence up to \$50.0 million, subject to applicable deductibles, retentions and aggregate limits. However, for any loss occurrence involving only one claimant, our reinsurance coverage is limited to \$10.0 million for any single claimant, subject to applicable deductibles, retentions and aggregate limits. Our 2012 program calls for us to retain the first \$1.0 million of each loss. For losses between \$1.0 million and \$5.0 million, we are subject to an annual aggregate deductible of 6.5% of subject earned premium before our reinsurers are obligated to reimburse us. The three year aggregate limit for all claims for losses between \$1.0 million and \$5.0 million is 13.2% of subject earned premium for Part A and 6.6% of subject earned premium for Part B. For losses between \$5.0 million and \$10.0 million, the three year aggregate limit for all claims for losses between \$5.0 million and \$10.0 million is \$20.0 million. See Business Reinsurance.

The availability, amount, and cost of reinsurance are subject to market conditions and our experience with insured losses. As a result, any material changes in market conditions or our loss experience could adversely affect our financial performance.

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

The 2012 reinsurance treaty program's first casualty excess of loss layers will terminate on January 1, 2014. The second casualty excess of loss and casualty catastrophe layers will terminate on January 1, 2015. When 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 14 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, it is possible that one or more of our current reinsurers could terminate participation in our program. Regarding the first casualty excess of loss treaty, it is possible that one or more of our current reinsurers could terminate continued participation in this loss layer. 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 any of these events, if our reinsurance broker is unable to reallocate the terminated reinsurance among the remaining reinsurers in the program, it could take a significant period of time to identify and negotiate agreements with one or more replacement reinsurers. During this period, we would be exposed to an increased risk of loss, the extent of which would depend on the coverage previously provided by the terminated reinsurance.



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**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.

**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.

**We may require additional capital in the future, which may not be available to us or may be available 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 might not be available to us or might be available only on terms that are not favorable. Future equity offerings could be dilutive to our shareholders and the equity securities issued in any offering may have rights, preferences and privileges senior to 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.

**As an insurance holding company, AMERISAFE is dependent on the results of operations of its insurance subsidiaries, and our Company's ability to pay dividends depends on the regulatory and financial capacity of its subsidiaries to pay dividends to AMERISAFE.**

AMERISAFE is a holding company that transacts business through its operating subsidiaries, including American Interstate Insurance Company. 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. As a result, 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.

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**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, most of which are expected to 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* in Item 1 of this report. 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 case incurred 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 December 31, 2011, we participated in mandatory pooling arrangements in 20 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.

**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 2012 reinsurance treaty program affords limited coverage for up to \$50.0 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 2007, 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 2007 is set to expire on December 31, 2014. 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.

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### ***Risks Related to Our Common Stock***

**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 our insurance subsidiaries 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 or deflationary pressures and other changes in the investment environment that affect returns on our 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 become more volatile.

### **The trading price of our common stock may decline.**

The trading price of our common stock may decline 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;

results of operations that vary from those expected by securities analysts and investors;

developments in the healthcare or insurance industries;

current and expected economic conditions;

changes in laws and regulations;

announcements of claims against us by third parties; and

future issuances or sales of our common stock.

In addition, the stock market experiences significant volatility from time to time that is often unrelated to the operating performance of companies whose shares are traded. These market fluctuations could adversely affect the trading price of our common stock, regardless of our actual operating performance.

**Securities analysts may discontinue coverage of our common stock or may issue negative reports, which may adversely affect the trading price of our common stock.**

There is no assurance that securities analysts will continue to cover our company. If securities analysts do not cover our company, this lack of coverage may adversely affect the trading price of our common stock. The

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trading market for our common stock relies in part on the research and reports that securities analysts publish about us or our business. If one or more of the analysts who cover our company downgrades our common stock, the trading price of our common stock may decline rapidly. If one or more of these analysts ceases to cover our company, we could lose visibility in the market, which, in turn, could also cause the trading price of our common stock to decline.

### **Future sales of our common stock may affect the trading price of our common stock and the future exercise of options may lower our stock price.**

We cannot predict what effect, if any, future sales of our common stock, or the availability of shares for future sale, will have on the trading price of our common stock. Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, may adversely affect the trading price of our common stock and may make it more difficult for you to sell your shares at a time and price that you determine appropriate. As of March 1, 2012, there were 18,150,262 shares of our common stock outstanding. As of that date, there were also outstanding options exercisable to purchase 919,348 shares of our common stock.

### **Provisions of our articles of incorporation and bylaws and the laws of the states of Texas and Louisiana could impede an attempt to replace or remove our directors or otherwise effect a change of control of our company, which could diminish the value of our common stock.**

Our articles of incorporation and bylaws contain provisions that may make it more difficult for shareholders to replace or remove directors even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control of our company that shareholders might consider favorable. Our articles of incorporation and bylaws contain the following provisions that could have an anti-takeover effect:

election of our directors is classified, meaning that the members of only one of three classes of our directors are elected each year;

shareholders have limited ability to call shareholder meetings and to bring business before a meeting of shareholders;

shareholders may not act by written consent, unless the consent is unanimous; and

our board of directors may authorize the issuance of preferred stock with such rights, preferences and privileges as the board deems appropriate.

These provisions may make it difficult for shareholders to replace management and could have the effect of discouraging a future takeover attempt that is not approved by our board of directors, but which individual shareholders might consider favorable.

We are incorporated in Texas. Under the Texas Business Organizations Code, our ability to enter into a business combination with an affiliated shareholder is limited.

In addition, two of our three insurance company subsidiaries, American Interstate and Silver Oak Casualty, are incorporated in Louisiana and the other, American Interstate of Texas, is incorporated in Texas. Under Louisiana and Texas insurance law, advance approval by the state insurance department is required for any change of control of an insurer. Control is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of a domestic insurance company or any entity that controls a domestic insurance company. Obtaining these approvals may result in the material delay of, or deter, any transaction that would result in a change of control.

### **Item 1B. Unresolved Staff Comments.**

None.





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**Item 2. Properties.**

We own our approximately 60,000 square foot executive offices and 3,200 of warehouse space located in DeRidder, Louisiana. We also lease space at other locations for certain of our service and claims representatives.

**Item 3. Legal Proceedings.**

In the ordinary course of our business, we are involved in the adjudication of claims resulting from workplace injuries. We are not involved presently in any legal or administrative proceedings that we believe are likely to have a materially adverse effect on our business, financial condition or results of operations.

**Item 4. Mine Safety Disclosures**

None.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities. Market Information and Holders**

Our common stock is traded on the NASDAQ Global Select Market under the symbol AMSF. As of March 1, 2012, there were 22 holders of record of our common stock.

The table below sets forth the reported high and low sales prices of our common stock as quoted on the NASDAQ during each quarter for the last two fiscal years.

	High	Low
<b>2010</b>		
First Quarter	\$ 18.31	\$ 15.92
Second Quarter	\$ 18.87	\$ 15.50
Third Quarter	\$ 18.98	\$ 16.80
Fourth Quarter	\$ 19.96	\$ 17.50
<b>2011</b>		
First Quarter	\$ 23.72	\$ 17.38
Second Quarter	\$ 23.37	\$ 21.19
Third Quarter	\$ 27.75	\$ 15.58
Fourth Quarter	\$ 24.81	\$ 18.10

**Dividend Policy**

We have not paid cash dividends on our common stock in the prior two years. We currently intend to retain any future earnings to finance our operations, and fund our share repurchase program. As a result, we do not expect to pay any cash dividends on our common stock for the foreseeable future. Any future determination to pay cash dividends on our common stock will be at the discretion of our board of directors and will be dependent on our earnings, financial condition, operating results, capital requirements, any contractual, regulatory or other restrictions on the payment of dividends by our subsidiaries to AMERISAFE, and other factors that our board of directors deem relevant.

AMERISAFE is a holding company and has no direct operations. Our ability to pay dividends in the future depends on the ability of our operating subsidiaries to pay dividends to us. Our insurance company subsidiaries are regulated insurance companies and therefore are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. See Business Regulation Dividend Limitations. in Item 1 of this report.

Our existing revolving credit agreement contains covenants that restrict our ability to pay dividends on our common stock. See Liquidity and Capital Resources. in Item 7 of this report.

**Description of Capital Stock**

AMERISAFE is authorized to issue 60,000,000 shares of capital stock, consisting of:

10,000,000 shares of preferred stock, par value \$0.01 per share; and

50,000,000 shares of common stock, par value \$0.01 per share.

As of March 1, 2012, 18,150,262 shares of common stock were outstanding. As of that date, there were no other shares of our capital stock outstanding.



**Table of Contents****Share Repurchases**

The following table summarizes the Company's purchases of its common stock, par value \$0.01 per share, during the three months ended December 31, 2011:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (1)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program (2)</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)</b>
October 1, 2011 to October 31, 2011	32,610	\$ 18.78	32,610	\$ 24,388
November 1, 2011 to November 30, 2011		\$		\$ 24,388
December 1, 2011 to December 31, 2011		\$		\$ 24,388
<b>Total</b>	<b>32,610</b>		<b>32,610</b>	

(1) Average price per share includes commissions.

(2) The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2011, the Board reauthorized this program with a new limit of \$25.0 million. Unless reauthorized, the program will expire on December 31, 2012.

**Table of Contents****Item 6. Selected Financial Data.**

The following tables summarize certain selected financial data that should be read in conjunction with our audited financial statements and accompanying notes thereto for the year ended December 31, 2011 included in this report and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The financial data for 2007 to 2010 has been adjusted to correct the accounting for our estimate of liability for state guaranty fund assessments. For additional information see Note 1 in the notes of our consolidated financial statements included in this report.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands, except share and per share data)				
<b>Income Statement Data</b>					
Gross premiums written	\$ 272,101	\$ 228,424	\$ 256,454	\$ 307,841	\$ 327,761
Ceded premiums written	(13,881)	(20,549)	(20,158)	(19,650)	(20,215)
Net premiums written	\$ 258,220	\$ 207,875	\$ 236,296	\$ 288,191	\$ 307,546
Net premiums earned	\$ 251,015	\$ 218,881	\$ 250,896	\$ 289,493	\$ 306,906
Net investment income	26,340	26,242	28,014	30,998	30,208
Net realized gains (losses) on investments	2,228	2,449	2,033	(18,856)	147
Fee and other income	1,080	584	1,268	742	1,058
<b>Total revenues</b>	<b>280,663</b>	<b>248,156</b>	<b>282,211</b>	<b>302,377</b>	<b>338,319</b>
Loss and loss adjustment expenses incurred	189,706	157,388	163,316	176,389	198,531
Underwriting and certain other operating costs (1)	22,490	6,277	12,351	13,128	25,038
Commissions	18,507	16,350	18,418	20,592	20,352
Salaries and benefits	19,914	21,405	21,447	20,411	18,896
Interest expense	1,311	1,548	1,810	2,460	3,545
Policyholder dividends (2)	1,464	834	770	3,504	(367)
<b>Total expenses</b>	<b>253,392</b>	<b>203,802</b>	<b>218,112</b>	<b>236,484</b>	<b>265,995</b>
Income before taxes	27,271	44,354	64,099	65,893	72,324
Income tax expense	3,146	9,748	16,536	20,874	21,306
Net income	24,125	34,606	47,563	45,019	51,018
Redemption premium			(875)		
<b>Net income (loss) available to common shareholders</b>	<b>\$ 24,125</b>	<b>\$ 34,606</b>	<b>\$ 46,688</b>	<b>\$ 45,019</b>	<b>\$ 51,018</b>
Portion allocable to common shareholders (3)	100.0%	100.0%	94.1%	94.0%	94.0%
<b>Net income (loss) allocable to common shareholders</b>	<b>\$ 24,125</b>	<b>\$ 34,606</b>	<b>\$ 43,933</b>	<b>\$ 42,318</b>	<b>\$ 47,962</b>
Diluted earnings per common share equivalent	\$ 1.29	\$ 1.81	\$ 2.28	\$ 2.21	\$ 2.51
Diluted weighted average of common share equivalents	18,700,982	19,095,320	19,268,295	19,141,688	19,079,380

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outstanding

**Selected Insurance Ratios**

Current accident year loss ratio (4)	78.2%	81.8%	73.8%	68.0%	67.8%
Prior accident year loss ratio (5)	(2.6)%	(9.9)%	(8.7)%	(7.1)%	(3.1)%
Net loss ratio	75.6%	71.9%	65.1%	60.9%	64.7%
Net underwriting expense ratio (6)	24.3%	20.1%	20.8%	18.7%	20.9%
Net dividend ratio (2) (7)	0.6%	0.4%	0.3%	1.2%	(0.1)%
Net combined ratio (8)	100.5%	92.4%	86.2%	80.8%	85.5%

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	2011	2010	As of December 31, 2009 (In thousands)	2008	2007
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 45,536	\$ 60,966	\$ 63,188	\$ 95,241	\$ 47,329
Investments	805,974	765,537	737,297	704,732	711,745
Amounts recoverable from reinsurers	96,212	95,133	81,878	67,763	77,272
Premiums receivable, net	121,223	122,618	151,570	156,567	152,150
Deferred income taxes	29,286	28,837	26,488	32,188	25,658
Deferred policy acquisition costs	18,756	17,400	18,128	20,289	18,414
Deferred charges	3,120	2,936	3,030	3,381	3,553
Total assets	1,148,509	1,117,923	1,110,499	1,101,357	1,057,218
Reserves for loss and loss adjustment expenses	538,214	532,204	534,655	531,293	537,403
Unearned premiums	118,699	111,494	122,500	137,100	138,402
Insurance-related assessments	21,506	18,718	28,046	33,445	36,188
Debt	25,780	36,090	36,090	36,090	36,090
Redeemable preferred stock (9)				25,000	25,000
Shareholders' equity (10)	350,852	330,192	306,133	255,856	209,981

- (1) Includes policy acquisition expenses and other general and administrative expenses, excluding commissions and salaries and benefits, related to insurance operations and corporate operating expenses.
- (2) In 2007, includes a net \$1.3 million reduction of dividends accrued for policyholders in Florida. Florida law requires payment of dividends to Florida policyholders pursuant to a formula based on underwriting results from policies written in Florida in a consecutive three-year period.
- (3) Reflects the participation rights of our redeemable preferred stock, which was redeemed on December 31, 2009. See Note 12 to our audited financial statements.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) The net dividend ratio is calculated by dividing policyholder dividends by the current year's net premiums earned.
- (8) The net combined ratio is the sum of the net loss ratio, the net underwriting expense ratio and the net dividend ratio.
- (9) Effective as of December 31, 2009, we redeemed all then-outstanding shares of Series C and Series D redeemable preferred stock.
- (10) Shareholders' equity as of December 31, 2007 has been adjusted to correct the accounting for our estimate of liability for state guaranty fund assessments for periods prior to 2007.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto included in Item 8 of this report. This discussion includes forward-looking statements that are subject to risks, uncertainties and other factors described in Item 1A of this report. These factors could cause our actual results in 2012 and beyond to differ materially from those expressed in, or implied by, those forward-looking statements.

**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 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 35 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 12 states and the U.S. Virgin Islands.

Two of the key financial measures that we use to evaluate our performance are return on average equity and growth in book value per share. We calculate return on average equity by dividing annual net income by the average of annual shareholders' equity. Our return on average equity was 7.1% in 2011, 10.9% in 2010 and 16.2% in 2009. We calculate book value per share by dividing ending shareholder's equity by number of common shares outstanding. Our book value per share was \$19.33 at December 31, 2011, \$17.99 at December 31, 2010 and \$16.20 at December 31, 2009.

Investment income is an important element of our net income. Because the period of time between our receipt of premiums and the ultimate settlement of claims is often several years or longer, we are able to invest cash from premiums for significant periods of time. As a result, we are able to generate more investment income from our premiums as compared to insurance companies that operate in other lines of business that pay claims more quickly. From December 31, 2006 to December 31, 2011, our investment portfolio, including cash and cash equivalents, increased from \$665.5 million to \$851.5 million and produced net investment income of \$26.3 million in 2011, \$26.2 million in 2010 and \$28.0 million in 2009.

The use of reinsurance is an important component of our business strategy. We purchase reinsurance to protect us from the impact of large losses. Our reinsurance program for 2012 includes 14 reinsurers that provide coverage to us in excess of a certain specified loss amount, or retention level. Our 2012 reinsurance program provides us with reinsurance coverage for each loss occurrence up to \$50.0 million, subject to applicable deductibles, retentions and aggregate limits. However, for any loss occurrence involving only one claimant, our reinsurance coverage is limited to \$10.0 million for any single claimant, subject to applicable deductibles,



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retentions and aggregate limits. Our 2011 program was substantially similar to our 2012 program which calls for us to retain the first \$1.0 million of each loss. For losses between \$1.0 million and \$5.0 million, we are subject to an annual aggregate deductible of 6.5% of subject earned premium before our reinsurers are obligated to reimburse us. The aggregate limit for all claims for losses between \$1.0 million and \$5.0 million has two parts, as fully described in Business Reinsurance in Item 1 of this report. For losses between \$5.0 million and \$10.0 million, the three year aggregate limit is \$20.0 million. As losses are incurred and recorded, we record amounts recoverable from reinsurers for the portion of the losses ceded to our reinsurers.

Our most significant balance sheet liability is our reserve for loss and loss adjustment expenses. We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances. Reserves are based on estimates of the most likely ultimate cost of individual claims. These estimates are inherently uncertain. In addition, there are no policy limits on the 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.

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. Severe claims, which we define as claims having an estimated ultimate cost of more than \$0.5 million, usually have a material effect on each accident year's loss reserves (and our reported results of operations) as a result of both the number of severe claims reported in any year and the timing of claims in the year. As a result of our 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 example, for the five-year period ended December 31, 2011 we had recorded 178 severe claims, or an average of 36 severe claims per year for accident years 2007 through 2011. The number of severe claims reported in any one accident year as of December 31, 2011 ranged from a low of 26 in 2011 to a high of 43 in 2009. The average reported severity for these claims ranged from \$0.8 million for the 2008 accident year to \$1.2 million for the 2010 accident year. For the five accident years, these severe claims accounted for an average of 12.4 percentage points of our overall loss and loss adjustment expense, or LAE, ratio, measured at December 31, 2011.

Further, the ultimate cost of severe claims is more difficult to estimate, principally due to uncertainties as to medical treatment and outcome and the length and degree of disability. Because of these uncertainties, the estimate of the ultimate cost of severe claims can vary significantly as more information becomes available. As a result, at year end, the case reserve for a severe claim reported early in the year may be more accurate than the case reserve established for a severe claim reported late in the year.

A key assumption used by management in establishing loss reserves is that average per claim case incurred loss and loss adjustment expenses will increase year over year. We believe this increase primarily reflects medical and wage inflation and utilization. However, changes in per average claim case incurred loss and loss adjustment expenses can also be affected by frequency of severe claims in the applicable accident years.

As more fully described in Business Loss Reserves in Item 1 of this report, the estimate for loss and loss adjustment expenses is established based upon management's analysis of historical data, and factors and trends derived from that data, including claims reported, average claim amount incurred, case development, duration, severity and payment patterns, as well as subjective assumptions. This analysis includes reviews of case reserves for individual open severe claims in the current and prior years. Management reviews the outcomes from actuarial analyses to confirm the reasonableness of its reserve estimate.

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Substantial judgment is required to determine the relevance of our historical experience and industry information under current facts and circumstances. The interpretation of this historical and industry data can be impacted by external forces, principally frequency and severity of unreported claims, length of time to achieve ultimate settlement of claims, utilization, inflation in medical costs and wages, insurance policy coverage interpretations, jury determinations and legislative changes. Accordingly, our reserves may prove to be inadequate to cover our actual losses. If we change our estimates, these changes would be reflected in our results of operations during the period in which they are made, with increases in our reserves resulting in decreases in our earnings.

Our gross reserves for loss and loss adjustment expenses at December 31, 2011, 2010 and 2009 were \$538.2 million, \$532.2 million and \$534.7 million, respectively. As a percentage of gross reserves at year end, IBNR represented 22.3% in 2011, 19.6% in 2010 and 20.9% in 2009.

In 2011, we decreased our estimates for prior year loss reserves by \$6.6 million. In 2010, we decreased our estimates for prior year loss reserves by \$21.6 million. In 2009, we decreased our estimates for prior year loss reserves by \$21.9 million.

The workers' compensation insurance industry is cyclical in nature and influenced by many factors, including price competition, medical cost increases, natural and man-made disasters, changes in interest rates, changes in state laws and regulations, and general economic conditions. A hard market in our industry is characterized by decreased competition that results in higher premium rates, more restrictive policy coverage terms, and lower commissions paid to agencies. In contrast, a soft market is characterized by increased competition that results in lower premium rates, expanded policy coverage terms, and higher commissions paid to agencies. We believe that the workers' compensation insurance industry is transitioning from a soft market cycle. Our strategy is to focus on maintaining underwriting profitability.

For additional information regarding our loss reserves and the analyses and methodologies used by management to establish these reserves, see the information under the caption "Business Loss Reserves" in Item 1 of this report.

## **Principal Revenue and Expense Items**

Our revenues consist primarily of the following:

*Net Premiums Earned.* Net premiums earned is the earned portion of our net premiums written. Net premiums written is equal to gross premiums written less premiums ceded to reinsurers. Gross premiums written includes the estimated annual premiums from each insurance policy we write in our voluntary and assigned risk businesses during a reporting period based on the policy effective date or the date the policy is bound, whichever is later.

Premiums are earned on a daily pro rata basis over the term of the policy. At the end of each reporting period, premiums written that are not earned are classified as unearned premiums and are earned in subsequent periods over the remaining term of the policy. Our insurance policies typically have a term of one year. Thus, for a one-year policy written on July 1, 2011 for an employer with constant payroll during the term of the policy, we would earn half of the premiums in 2011 and the other half in 2012. On a monthly basis, we also recognize net premiums earned from mandatory pooling arrangements.

We estimate the annual premiums to be paid by our policyholders when we issue the policies and record those amounts on our balance sheet as premiums receivable. We conduct premium audits on all of our voluntary business policyholders annually, upon the expiration of each policy, including when the policy is renewed. The purpose of these audits is to verify that policyholders have accurately reported their payroll expenses and employee job classifications, and therefore have paid us the premium required under the terms of the policies.

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The difference between the estimated premium and the ultimate premium is referred to as earned but unbilled premium, or EBUB premium. EBUB premium can be higher or lower than the estimated premium. EBUB premium is subject to significant variability and can either increase or decrease earned premium based upon several factors, including changes in premium growth, industry mix and economic conditions. Due to the timing of audits and other adjustments, the ultimate premium earned is generally not determined for several months after the expiration of the policy.

We review the estimate of EBUB premiums on a quarterly basis using historical data and applying various assumptions based on the current market, and we record an adjustment to premium, related losses, and expenses as warranted.

*Net Investment Income and Net Realized Gains and Losses on Investments.* We invest our statutory surplus funds and the funds supporting our insurance liabilities in fixed maturity and equity securities. In addition, a portion of these funds are held in cash and cash equivalents to pay current claims. Our net investment income includes interest and dividends earned on our invested assets, and amortization of premiums and discounts on our fixed-maturity securities. We assess the performance of our investment portfolio using a standard tax equivalent yield metric. Investment income that is tax-exempt is increased by our marginal federal tax rate of 35% to express yield on tax-exempt securities on the same basis as taxable securities. Net realized gains and losses on our investments are reported separately from our net investment income. Net realized gains occur when our investment securities are sold for more than their costs or amortized costs, as applicable. Net realized losses occur when our investment securities are sold for less than their costs or amortized costs, as applicable, or are written down as a result of other-than-temporary impairment. We classify the majority of our fixed maturity securities as held-to-maturity. We also have some fixed-maturity securities classified as available-for-sale, as are our equity securities. Net unrealized gains or losses on our securities classified as available-for-sale are reported separately within accumulated other comprehensive income on our balance sheet.

*Fee and Other Income.* We recognize commission income earned on policies issued by other carriers that are sold by our wholly owned insurance agency subsidiary as the related services are performed. We also recognize a small portion of interest income from mandatory pooling arrangements in which we participate.

Our expenses consist primarily of the following:

*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses incurred represents our largest expense item and, for any given reporting period, includes estimates of future claim payments, changes in those estimates from prior reporting periods and costs associated with investigating, defending, and administering claims. These expenses fluctuate based on the amount and types of risks we insure. We record loss and loss adjustment expenses related to estimates of future claim payments based on case-by-case valuations and statistical analyses. We seek to establish all reserves at the most likely ultimate exposure based on our historical claims experience. It is typical for our more serious claims to take several years to settle and we revise our estimates as we receive additional information about the condition of the injured employees. Our ability to estimate loss and loss adjustment expenses accurately at the time of pricing our insurance policies is a critical factor in our profitability.

*Underwriting and Certain Other Operating Costs.* Underwriting and certain other operating costs are those expenses that we incur to underwrite and maintain the insurance policies we issue. These expenses include state and local premium taxes and fees and other operating costs, offset by commissions we receive from reinsurers under our reinsurance treaty programs. We pay state and local taxes, licenses and fees, assessments, and contributions to state workers' compensation security funds based on premiums. In addition, other operating costs include general and administrative expenses, excluding commissions and salaries and benefits, incurred at both the insurance company and corporate level.

*Commissions.* We pay commissions to our subsidiary insurance agency and to the independent agencies that sell our insurance based on premiums collected from policyholders.

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*Salaries and Benefits.* We pay salaries and provide benefits to our employees.

*Policyholder Dividends.* In limited circumstances, we pay dividends to policyholders in particular states as an underwriting incentive. Additionally, Florida law requires payment of dividends to Florida policyholders pursuant to a formula based on underwriting results from policies written in Florida over a consecutive three-year period.

*Interest Expense.* Interest expense represents amounts we incur on our outstanding indebtedness at the then-applicable interest rate.

*Income Tax Expense.* We incur federal, state, and local income tax expense.

## **Critical Accounting Policies**

Understanding our accounting policies is key to understanding our financial statements. Management considers some of these policies to be very important to the presentation of our financial results because they require us to make significant estimates and assumptions. These estimates and assumptions affect the reported amounts of our assets, liabilities, revenues and expenses and 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.

The following is a description of our critical accounting policies.

*Reserves for Loss and Loss Adjustment Expenses.* We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses, which include defense and cost containment, or DCC, and adjusting and other, or AO, expenses, related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid at any given point in time based on known facts and circumstances.

Our reserves for loss and DCC expenses are estimated using case-by-case valuations based on our estimate of the most likely outcome of the claim at that time. In addition to these case reserves, we establish reserves on an aggregate basis that have been incurred but not reported, or IBNR. Our IBNR reserves are also intended to provide for aggregate changes in case incurred amounts as well as for recently reported claims which an initial case reserve has not been established. The third component of our reserves for loss and loss adjustment expenses is our AO reserve. Our AO reserve is established for those future claims administration costs that cannot be allocated directly to individual claims. The final component of our reserves for loss and loss adjustment expenses is the reserve for mandatory pooling arrangements.

In establishing our reserves, we review the results of analyses using actuarial methods that utilize historical loss data from our more than 26 years of underwriting workers' compensation insurance. The actuarial analysis of our historical data provides the factors we use in estimating our loss reserves. These factors are primarily measures over time of the number of claims paid and reported, average paid and incurred claim amounts, claim closure rates and claim payment patterns. In evaluating the results of our analyses, management also uses substantial judgment in considering other factors that are not considered in these actuarial analyses, including changes in business mix, claims management, regulatory issues, medical trends, employment and wage patterns, insurance policy coverage interpretations, judicial determinations and other subjective factors. Due to the

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inherent uncertainty associated with these estimates, and the cost of incurred but unreported claims, our actual liabilities may vary significantly from our original estimates.

On a quarterly basis, we review our reserves for loss and loss adjustment expenses to determine whether adjustments are required. Any resulting adjustments are included in the results for the current period. In establishing our reserves, we do not use loss discounting, which would involve recognizing the time value of money and offsetting estimates of future payments by future expected investment income. Additional information regarding our reserves for loss and loss adjustment expenses and the actuarial method and other factors used in establishing these reserves can be found under the caption *Business Loss Reserves* in Item 1 of this report.

*Amounts Recoverable from Reinsurers.* Amounts recoverable from reinsurers represent the portion of our paid and unpaid loss and loss adjustment expenses that are assumed by reinsurers and related commissions due from reinsurers. These amounts are separately reported on our balance sheet as assets and do not reduce our reserves for loss and loss adjustment expenses because reinsurance does not relieve us of liability to our policyholders. We are required to pay claims even if a reinsurer fails to pay us under the terms of a reinsurance contract. We calculate amounts recoverable from reinsurers based on our estimates of the underlying loss and loss adjustment expenses, as well as the terms and conditions of our reinsurance contracts, which could be subject to interpretation. In addition, we bear credit risk with respect to our reinsurers, which can be significant because some of the unpaid loss and loss adjustment expenses for which we have reinsurance coverage remain outstanding for extended periods of time.

*Premiums Receivable.* Premiums receivable represents premium-related balances due from our policyholders based on annual premiums for policies written, including surcharges and deposits and it is adjusted for premium audits, endorsements, cancellations, cash transactions and charge offs. The balance is shown net of the allowance for doubtful accounts and it includes an estimate for EBUB. The EBUB estimate is subject to significant variability and can either increase or decrease premiums receivable and earned premiums based upon several factors, including changes in premium growth, industry mix and economic conditions.

*Assessments.* We are subject to various assessments and premium surcharges related to our insurance activities, including assessments and premium surcharges for state guaranty funds and second injury funds. Assessments based on premiums are recorded as an expense as premiums are earned and generally paid one year after the calendar year in which the policies are written. Assessments based on losses are recorded as an expense as losses are incurred and are generally paid within one year of when claims are paid by us. State guaranty fund assessments are used by state insurance oversight agencies to pay claims of policyholders of impaired, insolvent or failed insurance companies and the operating expenses of those agencies. Second injury funds are used by states to reimburse insurers and employers for claims paid to injured employees for aggravation of prior conditions or injuries. In some states, these assessments and premium surcharges may be partially recovered through a reduction in future premium taxes.

*Deferred Policy Acquisition Costs.* We defer commission expenses, premium taxes and certain marketing, sales, underwriting and safety costs that vary with and are primarily related to the acquisition of insurance policies. These acquisition costs are capitalized and charged to expense ratably as premiums are earned. In calculating deferred policy acquisition costs, these costs are limited to their estimated realizable value, which gives effect to the premiums to be earned, anticipated losses and settlement expenses and certain other costs we expect to incur as the premiums are earned, less related net investment income. Judgments as to the ultimate recoverability of these deferred policy acquisition costs are highly dependent upon estimated future profitability of unearned premiums. If the unearned premiums were less than our expected claims and expenses after considering investment income, we would reduce the deferred costs.

*Deferred Income Taxes.* We use the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributed to differences

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between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities resulting from a tax rate change impacts our net income or loss in the reporting period that includes the enactment date of the tax rate change.

In assessing whether our deferred tax assets will be realized, management considers whether it is more likely than not that we will generate future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. If necessary, we establish a valuation allowance to reduce the deferred tax assets to the amounts that are more likely than not to be realized.

*Impairment of Investment Securities.* Impairment of an investment security results in a reduction of the carrying value of the security and the realization of a loss when the fair value of the security declines below our cost or amortized cost, as applicable, for the security, and the impairment is deemed to be other-than-temporary. We regularly review our investment portfolio to evaluate the necessity of recording impairment losses for other-than-temporary declines in the fair value of specific investments. We consider various factors in determining if a decline in the fair value of an individual security is other-than-temporary. Some of the factors we consider include:

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

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

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

any downgrades of the security by a rating agency;

our intent not to sell the security for a sufficient time period for it to recover its value;

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.

*Share-Based Compensation.* In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, *Compensation-Stock Compensation*, we recognize compensation costs for stock option awards over the applicable vesting periods.

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

The table below summarizes certain operating results and key measures we use in monitoring and evaluating our operations.

	2011	Year Ended December 31, 2010 (In thousands)	2009
<b>Income Statement Data</b>			
Gross premiums written	\$ 272,101	\$ 228,424	\$ 256,454
Ceded premiums written	(13,881)	(20,549)	(20,158)
Net premiums written	\$ 258,220	\$ 207,875	\$ 236,296
Net premiums earned	\$ 251,015	\$ 218,881	\$ 250,896
Net investment income	26,340	26,242	28,014
Net realized gains (losses) on investments	2,228	2,449	2,033
Fee and other income	1,080	584	1,268
<b>Total revenues</b>	<b>280,663</b>	<b>248,156</b>	<b>282,211</b>
Loss and loss adjustment expenses incurred	189,706	157,388	163,316
Underwriting and certain other operating costs (1)	22,490	6,277	12,351
Commissions	18,507	16,350	18,418
Salaries and benefits	19,914	21,405	21,447
Interest expense	1,311	1,548	1,810
Policyholder dividends	1,464	834	770
<b>Total expenses</b>	<b>253,392</b>	<b>203,802</b>	<b>218,112</b>
Income before taxes	27,271	44,354	64,099
Income tax expense	3,146	9,748	16,536
<b>Net income</b>	<b>\$ 24,125</b>	<b>\$ 34,606</b>	<b>\$ 47,563</b>
<b>Selected Insurance Ratios</b>			
Current accident year loss ratio (2)	78.2%	81.8%	73.8%
Prior accident year loss ratio (3)	(2.6)%	(9.9)%	(8.7)%
<b>Net loss ratio</b>	<b>75.6%</b>	<b>71.9%</b>	<b>65.1%</b>
Net underwriting expense ratio (4)	24.3%	20.1%	20.8%
Net dividend ratio (5)	0.6%	0.4%	0.3%
Net combined ratio (6)	100.5%	92.4%	86.2%
	2011	As of December 31, 2010 (In thousands)	2009
<b>Balance Sheet Data</b>			
Cash and cash equivalents	\$ 45,536	\$ 60,966	\$ 63,188
Investments	805,974	765,537	737,297
Amounts recoverable from reinsurers	96,212	95,133	81,878
Premiums receivable, net	121,223	122,618	151,570
Deferred income taxes	29,286	28,837	26,488
Deferred policy acquisition costs	18,756	17,400	18,128

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Deferred charges	3,120	2,936	3,030
Total assets	1,148,509	1,117,923	1,110,499
Reserves for loss and loss adjustment expenses	538,214	532,204	534,655
Unearned premiums	118,699	111,494	122,500
Insurance-related assessments	21,506	18,718	28,046
Debt	25,780	36,090	36,090
Shareholders' equity	350,852	330,192	306,133

- (1) Includes policy acquisition expenses, and other general and administrative expenses, excluding commissions and salaries and benefits, related to insurance operations and corporate operating expenses.



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- (2) 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.
- (3) 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.
- (4) 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.
- (5) The net dividend ratio is calculated by dividing policyholder dividends by the current year's net premiums earned.
- (6) The net combined ratio is the sum of the net loss ratio, the net underwriting expense ratio and the net dividend ratio.

**Overview of Operating Results*****Year Ended December 31, 2011 Compared to Year Ended December 31, 2010***

**Gross Premiums Written.** Gross premiums written for 2011 were \$272.1 million, compared to \$228.4 million for 2010, an increase of 19.1%. The increase was attributable to a \$33.1 million increase in premiums resulting from payroll audits and related premium adjustments, a \$10.6 million increase in annual premiums on voluntary policies written during the period and a \$0.1 million increase in premiums from mandatory pooling arrangements. These increases were partially offset by a \$0.2 million decrease in direct assigned risk premiums. Related premium adjustments in 2011 include a \$0.3 million increase in earned but unbilled, or EBUB, premium. Premium adjustments for the same period in 2010 included a \$2.5 million decrease in EBUB premium.

**Net Premiums Written.** Net premiums written for 2011 were \$258.2 million, compared to \$207.9 million for 2010, an increase of 24.2%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 5.2% for 2011, compared to 8.6% for 2010. The decrease in ceded premiums as a percentage of gross premiums earned is a result of a change in our reinsurance treaties.

**Net Premiums Earned.** Net premiums earned for 2011 were \$251.0 million, compared to \$218.9 million for 2010, an increase of 14.7%. The increase was attributable to the increase in net premiums written, offset by an increase in unearned premiums.

**Net Investment Income.** Net investment income in 2011 was \$26.3 million, compared to \$26.2 million in 2010, an increase of 0.4%. The pre-tax investment yield on our investment portfolio was 3.1% per annum for 2011, compared to 3.2% per annum for 2010. The tax-equivalent yield on our investment portfolio was 4.6% per annum for 2011, compared to 4.4% per annum for 2010. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate. Average invested assets, including cash and cash equivalents, increased 3.3%, from an average of \$806.7 million for 2010 to an average of \$833.4 million for 2011.

**Net Realized Gains (Losses) on Investments.** Net realized gains on investments in 2011 totaled \$2.2 million, compared to \$2.4 million in 2010. Net realized gains in 2011 resulted from \$2.4 million in gains from called fixed maturity securities, the sale of equity securities and the sale of fixed maturity securities from the available-for-sale portfolio. These gains were offset by an other-than-temporary impairment of \$0.2 million on one asset-backed security from our held-to-maturity portfolio. Net realized gains in 2010 primarily resulted from \$3.1 million in gains from called fixed-maturity securities and the sale of certain equity and fixed-maturity securities from the available-for-sale portfolio. These gains were offset by an other-than-temporary impairment of \$0.7 million on one equity security.

**Loss and Loss Adjustment Expenses Incurred.** Loss and LAE incurred totaled \$189.7 million for 2011, compared to \$157.4 million for 2010, an increase of \$32.3 million, or 20.5%. The current accident year losses and LAE incurred were \$196.3 million, or 78.2% of net premiums earned, compared to \$179.0 million, or 81.8% of net premiums earned for 2010. We recorded favorable prior accident year development of \$6.6 million in 2011, compared to \$21.6 million in 2010. This is further discussed below in Prior Year Development. Our net loss ratio was 75.6% for 2011, compared to 71.9% for 2010.

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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 2011 were \$60.9 million, compared to \$44.0 million for 2010, an increase of 38.3%. This increase was primarily due to a \$10.5 million increase in insurance related assessments, a \$3.7 million decrease in experience-rated commissions, a \$2.2 million increase in commission expense and a \$1.6 million decrease in ceding commission related to our 2011 reinsurance agreement. Offsetting these increases were a \$1.5 million decrease in salaries and benefits and a \$0.3 million decrease in consulting expense. In 2010, we experienced large rate reductions in certain loss-based assessments. Our underwriting expense ratio increased to 24.3% in 2011 from 20.1% in 2010.

*Interest expense.* Interest expense for 2011 was \$1.3 million, compared to \$1.5 million for 2010. Weighted average borrowings for 2011 were \$31.1 million, compared to \$36.1 million for 2010. The weighted average interest rate decreased to 4.2% per annum for 2011 from 4.3% per annum for 2010.

*Income tax expense.* Income tax expense for 2011 was \$3.1 million, compared to \$9.7 million for 2010. The decrease was primarily attributable to a decrease in pre-tax income, from \$44.4 million for 2010 to \$27.3 million for 2011. The effective tax rate also decreased to 11.5% for 2011, compared to 22.0% for 2010. This decrease is due to the higher level of tax-exempt investment income relative to our lower pre-tax income. The rate decrease included a \$1.4 million expense reduction in 2011 for the change in valuation allowance for deferred tax assets related to unrealized losses on our investment portfolio. In 2010, the effective rate included a \$0.9 million expense reduction for deferred tax assets related to unrealized losses on our investment portfolio.

***Year Ended December 31, 2010 Compared to Year Ended December 31, 2009***

*Gross Premiums Written.* Gross premiums written for 2010 were \$228.4 million, compared to \$256.5 million for 2009, a decrease of 10.9%. The decrease was attributable to a \$28.2 million decrease in annual premiums on voluntary policies written during the period, a \$1.3 million decrease in premiums from mandatory pooling arrangements, a \$0.4 million decrease in direct assigned risk premiums and a \$1.9 million increase in premiums resulting from payroll audits and related premium adjustments. Related premium adjustments in 2010 include a \$2.5 million decrease in EBUB premium. Premium adjustments for the same period in 2009 included a \$6.0 million decrease in EBUB premium.

*Net Premiums Written.* Net premiums written for 2010 were \$207.9 million, compared to \$236.3 million for 2009, a decrease of 12.0%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 8.6% for 2010, compared to 7.4% for 2009. Ceded premiums earned for our lowest layer of reinsurance in 2010 and 2009 was based on a flat amount of premium, thus with a decrease in gross earned the percent increased.

*Net Premiums Earned.* Net premiums earned for 2010 were \$218.9 million, compared to \$250.9 million for 2009, a decrease of 12.8%. The decrease was attributable to the decline in net premiums written offset by earnings from premiums written in the previous four quarters.

*Net Investment Income.* Net investment income in 2010 was \$26.2 million, compared to \$28.0 million in 2009, a decrease of 6.3%. The pre-tax investment yield on our investment portfolio was 3.2% per annum for 2010, compared to 3.5% per annum for 2009. The tax-equivalent yield on our investment portfolio was 4.4% per annum for 2010, compared to 4.8% per annum for 2009. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate. Monthly average invested assets, including cash and cash equivalents, decreased 0.6%, from a monthly average of \$811.9 million for 2009 to a monthly average of \$806.7 million for 2010.

*Net Realized Gains (Losses) on Investments.* Net realized gains on investments in 2010 totaled \$2.4 million, compared to \$2.0 million in 2009. Net realized gains in 2010 primarily resulted from \$3.1 million in gains from called fixed-maturity securities and the sale of certain available-for-sale equity and fixed-maturity securities.

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These gains were offset by an other-than-temporary impairment of \$0.7 million on one equity security. Net realized gains in 2009 were attributable to \$1.7 million in gains from the sale of certain equities and \$0.3 million in gains from the sale of one asset-backed security.

*Loss and Loss Adjustment Expenses Incurred.* Loss and LAE incurred totaled \$157.4 million for 2010, compared to \$163.3 million for 2009, a decrease of \$5.9 million, or 3.6%. The current accident year losses and LAE incurred were \$179.0 million, or 81.8% of net premiums earned, compared to \$185.2 million, or 73.8% of net premiums earned for 2009. The increase in the current accident year loss ratio was mainly driven by frequency and severity. However the higher current accident year loss ratio amounted to a decrease in losses incurred due to lower earned premiums. We recorded favorable prior accident year development of \$21.6 million in 2010, compared to \$21.9 million in 2009. This is further discussed below in Prior Year Development. Our net loss ratio was 71.9% for 2010, compared to 65.1% for 2009.

*Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits.* Underwriting and certain other operating costs, commissions and salaries and benefits for 2010 were \$44.0 million, compared to \$52.2 million for 2009, a decrease of 15.7%. This decrease was primarily due to a \$4.0 million decrease in insurance-related assessments, a \$2.1 million decrease in commissions, a \$1.7 million decrease in the provision for accounts receivable write-offs, a \$0.5 million decrease in legal expenses and a \$0.3 million decrease in mandatory pooling arrangement fees. Income from the commutation of certain reinsurance contracts commutations decreased \$0.4 million. Salaries and benefits were flat overall. However, salary expense in 2010 included \$1.2 million of additional compensation due to change in the forfeiture assumptions for options granted in November 2005 that fully vested in 2010. Our underwriting expense ratio decreased to 20.1% in 2010 from 20.8% in 2009.

*Interest expense.* Interest expense for 2010 was \$1.5 million, compared to \$1.8 million for 2009. Weighted average borrowings for both periods were \$36.1 million. The weighted average interest rate decreased to 4.3% per annum for 2010 from 4.9% per annum for 2009.

*Income tax expense.* Income tax expense for 2010 was \$9.7 million, compared to \$16.5 million for 2009. The decrease was primarily attributable to a decrease in pre-tax income, from \$64.1 million for 2009 to \$44.4 million for 2010. The effective tax rate also decreased to 22.0% for 2010, compared to 25.8% for 2009. This decrease is due to the higher level of tax-exempt investment income relative to our lower pre-tax income. The rate decrease included a \$0.9 million expense reduction in 2010 for the change in valuation allowance for deferred tax assets related to unrealized losses on our investment portfolio. In 2009, the effective rate included a \$0.7 million expense reduction for deferred tax assets related to unrealized losses on our investment portfolio.

**Prior Year Development**

The Company recorded favorable prior accident year loss and loss adjustment expense development of \$6.6 million in 2011, \$21.6 million in 2010 and \$21.9 million in 2009. The table below sets forth the favorable or unfavorable development for accident years 2006 through 2010 and, collectively, all accident years prior to 2006.

	Favorable/(Unfavorable) Development for Year Ended December 31,		
	2011	2010	2009
2010	\$ (23.3)	\$	\$
2009	0.3	(3.4)	
2008	4.7	4.7	(3.4)
2007	11.5	9.3	12.4
2006	4.0	6.3	5.8
Prior to 2006	9.4	4.7	7.1
<b>Total net development</b>	<b>\$ 6.6</b>	<b>\$ 21.6</b>	<b>\$ 21.9</b>

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The table below sets forth the number of open claims as of December 31, 2011, 2010 and 2009, and the numbers of claims reported and closed during the years then ended.

	Twelve Months Ended December 31,		
	2011	2010	2009
Open claims at beginning of period	5,129	4,511	4,793
Claims reported	5,986	5,800	5,275
Claims closed	(5,931)	(5,182)	(5,557)
Open claims at end of period	5,184	5,129	4,511

At December 31, 2011, our incurred amounts for certain accident years, particularly 2006, 2007 and 2008, 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 historical claims data. However, as of December 31, 2011, actual results for these accident years have been better than our assumptions would have predicted. At the same time, actual results for accident year 2010 are higher than we predicted. We do not presently intend to modify our assumptions for establishing reserves in light of recent results. However, if actual results for current and future accident years are consistent with, or different 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.

**Liquidity and Capital Resources**

Our principal sources of operating funds are premiums, investment income, and proceeds from maturities of investments. Our primary uses of operating funds include payments for claims and operating expenses. We pay claims and operating expenses using cash flow from operations and invest our excess cash in fixed maturity and equity securities. We presently expect that our projected cash flow from operations will provide us sufficient liquidity to fund future operations, including payment of claims and operating expenses, payment of interest on our subordinated notes and other holding company expenses, for at least the next 18 months.

We forecast claim payments based on our historical trends. We seek to manage the funding of claim payments by actively managing available cash and forecasting cash flows on a short- and long-term basis. Cash payments, net of reinsurance, for claims were \$179.1 million in 2011, \$164.9 million in 2010 and \$163.8 million in 2009. We fund claim payments out of cash flow from operations, principally premiums, net of amounts ceded to our reinsurers, and net investment income. Our investment portfolio has increased from \$582.9 million at December 31, 2005 to \$851.5 million at December 31, 2011.

As discussed above under Overview, we purchase reinsurance to protect us against severe claims and catastrophic events. Based on our estimates of future claims, we believe we are sufficiently capitalized to satisfy the deductibles and retentions in our 2012 reinsurance program. We reevaluate our reinsurance program at least annually, taking into consideration a number of factors, including cost of reinsurance, our liquidity requirements, operating leverage and coverage terms.

Even if we maintain our existing retention levels, if the cost of reinsurance increases, our cash flow from operations would decrease as we would cede a greater portion of our written premiums to our reinsurers. Conversely, our cash flow from operations would increase if the cost of reinsurance declined relative to our retention.

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Net cash provided by operating activities was \$43.7 million in 2011, as compared to \$44.8 million in 2010, and \$27.3 million in 2009. Major components of cash provided by operating activities in 2011 were net premiums collected of \$260.1 million, investment income collected of \$31.2 million and amounts recovered from reinsurers of \$3.1 million, offset by claim payments of \$182.0 million, \$65.2 million of operating expenditures, federal taxes paid of \$2.0 million and dividends to policyholders paid of \$1.6 million. Major components of cash provided by operating activities in 2010 were net premiums collected of \$236.6 million, investment income collected of \$30.6 million and amounts recovered from reinsurers of \$3.8 million, offset by claim payments of \$167.4 million, \$49.2 million of operating expenditures, federal taxes paid of \$6.5 million and dividends to policyholder paid of \$3.2 million. Major components of cash provided by operating activities in 2009 were net premiums collected of \$239.7 million, investment income collected of \$32.1 million and amounts recovered from reinsurers of \$5.4 million, offset by claim payments of \$171.1 million, \$59.1 million of operating expenditures, federal taxes paid of \$18.8 million, and dividends to policyholders paid of \$1.0 million.

Net cash used in investing activities was \$42.9 million in 2011, as compared to \$36.7 million in 2010 and \$33.8 million in 2009. In 2011, major components of net cash used in investing activities included investment purchases of \$294.8 million and net purchases of furniture, fixtures and equipment of \$1.1 million, offset by proceeds from sales and maturities of investment of investments of \$253.0 million. In 2010, major components of net cash used in investing activities included investment purchases of \$194.5 million and net purchases of furniture, fixtures and equipment of \$3.2 million, offset by proceeds from sales and maturities of investments of \$161.0 million. In 2009, major components of net cash used in investing activities included investment purchases of \$186.4 million and net purchases of furniture, fixtures and equipment of \$1.0 million, offset by proceeds from sales and maturities of investments of \$153.6 million.

Net cash used in financing activities was \$16.2 million in 2011, as compared to net cash used in financing activities of \$10.4 million in 2010 and net cash used in financing activities of \$25.5 million in 2009. Major components of cash used in financing activities in 2011 included \$10.3 million for the purchase of our common stock, \$10.3 million for the redemption of subordinated debt securities, \$3.3 million of proceeds from the exercise of stock options and \$1.0 million of tax benefit from share-based compensation. Major components of cash used in financing activities in 2010 included \$12.1 million for the purchase of our common stock, \$1.5 million of proceeds from the exercise of stock options and \$0.2 million of tax benefit from share-based compensation. Major components of cash used in financing activities in 2009 included \$25.9 million for the redemption of all outstanding shares of Series C and D redeemable preferred stock and proceeds of \$0.3 million from the exercise of stock options.

Interest on our outstanding subordinated notes accrues at a floating rate equal to the three-month LIBOR plus a marginal rate. Our \$25.8 million issuance of subordinated notes due 2034 have a marginal interest rate of 3.8% and, as of December 31, 2011, had an effective rate of 4.3%. These notes are currently repayable at the option of the Company. In March 2012, the Board authorized the Company to redeem \$12.9 million aggregate principal amount of these notes.

In July 2011, the Company redeemed all \$10.3 million of subordinated notes from ACT I and the related trust was canceled.

In October 2007, the Company entered into an agreement providing for a line of credit in the maximum amount of \$20.0 million with Frost Bank, NA. The agreement expired in October 2010. The Company renewed this agreement in the fourth quarter 2010 for an additional three years to mature in December of 2013. Under the agreement, advances may be made either in the form of loans or letters of credit. Borrowings under the agreement accrue at interest rates based upon prime rate or LIBOR. The Company pays a fee of 3/8% (three eighths of one percent ) on the unused portion of the loan in arrears quarterly for a fee of \$75,000 annually, assuming the line of credit is not used during the calendar year. The line of credit is unsecured. At December 31, 2011, there were no outstanding borrowings.

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The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2011, the Board reauthorized this program. As of December 31, 2011, we had repurchased a total of 1,258,250 shares of our outstanding common stock for \$22.4 million. The Company had \$24.4 million available for future purchases at December 31, 2011. The purchases will continue to be affected from time to time depending upon market conditions and subject to applicable regulatory considerations. It is anticipated that future purchases will be funded from available capital.

AMERISAFE is a holding company that transacts business through its operating subsidiaries, including American Interstate, Silver Oak Casualty and American Interstate of Texas. AMERISAFE's primary assets are the capital stock of these insurance subsidiaries. The ability of AMERISAFE to fund its operations depends upon the surplus and earnings of its 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. Based upon the prescribed calculation, the insurance subsidiaries could pay to AMERISAFE dividends of up to \$21.4 million after March of 2012 without seeking regulatory approval. See *Business Regulation Dividend Limitations* in Item 1 of this report.

In March 2009, we commuted certain reinsurance agreements with Lincoln National Life Insurance Company, Connecticut General Life Insurance and Phoenix Life Insurance Company covering portions of the 1998 accident year. We received cash of \$2.5 million in exchange for releasing Lincoln National, Connecticut General and Phoenix Life from their reinsurance obligations under the commuted agreements. As a result of the commutation, we recorded additional pre-tax income of approximately \$0.3 million in the first quarter of 2009. Lincoln National remains obligated to subsidiaries of the Company under other reinsurance agreements.

## **Investment Portfolio**

The principal objectives of our investment portfolio are to preserve capital and surplus and to maintain appropriate liquidity for corporate requirements. Additional objectives are to support our A.M. Best rating and to maximize after-tax income and total return. We presently expect to maintain sufficient liquidity from funds generated by operations to meet our anticipated insurance obligations and operating and capital expenditure needs. Excess funds from operations will be invested in accordance with our investment policy and statutory requirements.

We allocate our portfolio into four categories: cash and cash equivalents, short term investments, fixed maturity securities and equity securities. Cash and cash equivalents include cash on deposit, money market funds and municipal securities, corporate securities and certificates of deposit with an original maturity of less than 90 days. Short-term investments include municipal securities, corporate securities and certificates of deposit with an original maturity greater than 90 days but less than one year. Our fixed maturity securities include obligations of the U.S. Treasury or U.S. agencies, obligations of states and their subdivisions, long-term certificates of deposit, U.S. Dollar-denominated obligations of the U.S. or Canadian corporations, U.S. agency-based mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities.

Under Louisiana and Texas law, as applicable, each of American Interstate, Silver Oak Casualty and American Interstate of Texas is required to invest only in securities that are either interest-bearing, interest-accruing or eligible for dividends, and must limit its investment in the securities of any single issuer to five percent of the insurance company's assets. As of December 31, 2011, we were in compliance with these requirements.

We employ diversification policies and balance investment credit risk and related underwriting risks to minimize our total potential exposure to any one business sector or security.

As of December 31, 2011, our investment portfolio, including cash and cash equivalents, totaled \$851.5 million, an increase of 3.0% from December 31, 2010. The majority of our fixed maturity securities are classified as held-to-maturity, as defined by FASB ASC Topic 320, *Investments-Debt and Equity Securities*. As such, the

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reported value of those securities is equal to their amortized cost, and is not impacted by changing interest rates. The remainder of our fixed maturity securities and all of equity securities are classified as available-for-sale and reported at fair value.

On January 1, 2008, we adopted FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a fair value hierarchy and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. As disclosed in Note 19 of the financial statements, our securities available-for-sale are classified using Level 1 and 2 inputs. We did not elect the fair value option prescribed under FASB ASC Topic 825, *Financial Instruments*, for any financial assets or financial liabilities in 2010 or 2011.

The composition of our investment portfolio, including cash and cash equivalents, as of December 31, 2011 is shown in the following table.

	Carrying Value (In thousands)	Percentage of Portfolio	Effective Interest Rate
<b>Fixed maturity securities held-to-maturity:</b>			
State and political subdivisions	\$ 441,273	51.8%	3.6%
Corporate bonds	92,682	10.9%	2.7%
Commercial mortgage-backed securities	51,550	6.1%	5.5%
U.S. agency-based mortgage-backed securities	46,096	5.4%	5.2%
U.S. Treasury securities and obligations of U.S. Government agencies	9,141	1.1%	4.2%
Asset-backed securities	5,306	0.6%	3.2%
<b>Total fixed maturity securities held-to-maturity</b>	<b>646,048</b>	<b>75.9%</b>	<b>3.7%</b>
<b>Fixed maturity securities available-for-sale:</b>			
State and political subdivisions	57,762	6.8%	4.1%
Corporate bonds	42,980	5.0%	2.8%
<b>Total fixed maturity securities available-for-sale</b>	<b>100,742</b>	<b>11.8%</b>	<b>3.5%</b>
<b>Equity securities</b>	<b>12,240</b>	<b>1.4%</b>	<b>5.2%</b>
Cash and cash equivalents	45,536	5.4%	0.3%
Short-term investments	46,944	5.5%	1.1%
<b>Total investments, including cash and cash equivalents</b>	<b>\$ 851,510</b>	<b>100%</b>	<b>3.4%</b>

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

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

any reduction or elimination of preferred stock 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.

The following table summarizes the fair value of, and the amount of unrealized losses on, our investment securities, segregated by the time period each security has been in a continuous unrealized loss position as of December 31, 2011 and 2010:

	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)				
December 31, 2011:				
Fixed maturity securities	\$ 40,422	\$ (382)	\$ 10,610	\$ (1,231)
Equity securities	2,789	(197)		
December 31, 2010:				
Fixed maturity securities	\$ 88,643	\$ (1,517)	\$ 12,185	\$ (1,527)
Equity securities				

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

In 2011, we recorded an impairment charge of \$0.2 million related to one asset-backed security in our held-to-maturity investment portfolio. We impaired this security because, among other things, a loss of principal was anticipated based upon estimated future cash flows. The impairment charge is included in Net realized gains (losses) on investments for 2011.

In 2010, we recorded an impairment charge of \$0.7 million related to one equity security. The impairment charge is included in Net realized gains (losses) on investments for 2010. We also sold certain equity securities classified as available-for-sale for which an other-than-temporary impairment had previously been recognized. The realized gain of \$2.5 million on these previously impaired securities is included in Net realized gains (losses) on investments for 2010.

There were no impairment charges recorded in 2009. In order to recapture realized capital gains for income tax purposes, we sold certain equity securities and one fixed-maturity security which was classified as held-to-maturity. These particular securities had been impaired in 2008. The held-to-maturity security was eligible for sale because the security had been downgraded below investment grade. With limited securities classified as available-for-sale, the sale of this fixed-maturity security was needed to maximize our carryback potential. The realized gain of \$1.9 million on the sale of these previously impaired securities is included in Net realized gains (losses) on investments for 2009.

The pre-tax investment yield on our investment portfolio was 3.1% per annum during the twelve months ended December 31, 2011, compared to 3.2% per annum during the same period in 2010.



**Table of Contents****Contractual Obligations and Commitments**

We manage risk on certain long-duration claims by settling these claims through the purchase of annuities from unaffiliated life insurance companies. In the event these companies are unable to meet their obligations under these annuity contracts, we could be liable to the claimants, but our reinsurers remain obligated to indemnify us for all or part of these obligations in accordance with the terms of our reinsurance contracts. As of December 31, 2011, the present value of these annuities was \$92.9 million, as estimated by our annuity providers. Substantially all of the annuities are issued or guaranteed by life insurance companies that have an A.M. Best rating of A (Excellent) or better. For additional information, see Note 17 to our consolidated financial statements in Item 8 of this report.

We lease equipment and office space under noncancelable operating leases. Future minimum lease payments at December 31, 2011, were as follows:

Year	Future Minimum Lease Payments (In thousands)
2012	\$ 194
2013	100
2014	36
2015	4
	\$ 334

Rental expense was \$0.3 million in 2011, \$0.5 million in 2010 and \$0.9 million in 2009.

The table below provides information with respect to our long-term debt and contractual commitments as of December 31, 2011.

Contractual Obligations	Total	Payment Due By Period			More Than 5 Years
		Less Than 1 Year	1-3 Years (In thousands)	4-5 Years	
Subordinated notes (1)	\$ 25,780	\$	\$	\$	\$ 25,780
Loss and loss adjustment expenses (2)	538,214	190,014	190,641	80,715	76,844
Loss-based insurance assessments (3)	9,921	3,503	3,514	1,488	1,416
Capital lease obligations					
Operating lease obligations	334	194	140		
Purchase obligations	2,240	1,702	538		
<b>Total</b>	<b>\$ 576,489</b>	<b>\$ 195,413</b>	<b>\$ 194,833</b>	<b>\$ 82,203</b>	<b>\$ 104,040</b>

- (1) Amounts do not include interest payments associated with these obligations. Interest rates on our subordinated notes are variable and may change on a quarterly basis. See [Liquidity and Capital Resources](#) above for further discussion of our subordinated notes.
- (2) The loss and loss adjustment expense payments due by period in the table above are based upon the loss and loss adjustment expense estimates as of December 31, 2011 and actuarial estimates of expected payout patterns and are not contractual liabilities as to a time certain. Our contractual liability is to provide benefits under the policy. As a result, our calculation of loss and loss adjustment expense payments due by period is subject to the same uncertainties associated with determining the level of loss and loss adjustment expenses generally and to the additional uncertainties arising from the difficulty of predicting when claims (including claims that have not yet been reported to us) will be paid. For a discussion of our loss and loss adjustment expense process, see [Business Loss Reserves](#) in Item 1 of this report. Actual payments of loss and loss adjustment expenses by period will vary, perhaps materially, from the amounts shown in the table above to the extent that current estimates of loss and loss adjustment expenses vary from actual ultimate claims



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amounts and as a result of variations between expected and actual payout patterns. See **Risk Factors** **Risks Related to Our Business** **Our loss reserves are based on estimates and may be inadequate to cover our actual losses** in Item 1A of this report for a discussion of the uncertainties associated with estimating loss and loss adjustment expenses.

- (3) We are subject to various annual assessments imposed by certain of the states in which we write insurance policies. These assessments are generally based upon the amount of premiums written or losses paid during the applicable year. Assessments based on premiums are generally paid within one year after the calendar year in which the policies are written, while assessments based on losses are generally paid within one year after the loss is paid. When we establish a reserve for loss and loss adjustment expenses for a reported claim, we accrue our obligation to pay any applicable assessments. If settlement of the claim is to be paid out over more than one year, our obligation to pay any related loss-based assessments extends for the same period of time. Because our reserves for loss and loss adjustment expenses are based on estimates, our accruals for loss-based insurance assessments are also based on estimates. Actual payments of loss and loss adjustment expenses may differ, perhaps materially, from our reserves. Accordingly, our actual loss-based insurance assessments may vary, perhaps materially, from our accruals.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

**Item 7A. 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.

***Credit Risk***

Credit risk is the potential loss arising principally from adverse changes in the financial condition of the issuers of our fixed maturity securities and the financial condition of our reinsurers.

We address the credit risk related to the issuers of our fixed maturity securities by primarily investing in fixed maturity securities that are rated as investment grade by one or more of Moody's, Standard & Poor's or Fitch. We also independently monitor the financial condition of all issuers of our fixed maturity securities. To limit our risk exposure, we employ diversification policies that limit our credit exposure to any single issuer or business sector.

We are also subject to credit risk with respect to our reinsurers. Although our reinsurers are obligated to reimburse us to the extent we cede risk to them, we are ultimately liable to our policyholders on all risks we have reinsured. As a result, reinsurance contracts do not limit our ultimate obligations to pay claims and, in some cases, we might not be able to collect amounts recoverable from our reinsurers. We address this credit risk by initially selecting reinsurers with an A.M. Best rating of A- (Excellent) or better and by performing, along with our reinsurance broker, periodic credit reviews of our reinsurers. If one of our reinsurers suffers a credit downgrade, we may consider various options to lessen the risk of asset impairment, including commutation, novation or letters of credit. See **Management's Discussion and Analysis of Financial Condition and Results of Operations** **Liquidity and Capital Resources** in Item 7 of this report.

***Interest Rate Risk***

Interest rate risk is the risk that we may incur losses due to adverse changes in interest rates. As of December 31, 2011, we had fixed maturity securities with a fair value of \$786.0 million and a carrying value of

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\$746.8 million. These securities are all subject to interest rate risk, but because we classify the majority of our fixed maturity securities as held-to-maturity, changes in fair values have a small effect on the carrying value of our portfolio. We manage our exposure to interest rate risk with respect to these securities by investing in a portfolio of securities with moderate effective duration. At December 31, 2011, the effective duration of the total investment portfolio, including cash and short term investments, was 3.2 years.

We are also subject to interest rate risk on our subordinated debt security, which has quarterly adjustable interest rates based on LIBOR plus a fixed margin. As such, fluctuations in interest rates have a direct effect on interest expense associated with our subordinated debt security.

The table below summarizes the interest rate risk associated with our fixed maturity securities by illustrating the sensitivity of the fair value and carrying value of our fixed maturity securities as of December 31, 2011 to selected hypothetical changes in interest rates, and the associated impact on our shareholders' equity.

Hypothetical Change in	Fair Value	Estimated Change in Fair Value	Carrying Value	Estimated Change in Carrying Value	Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
<b>Interest Rates</b>					
200 basis point increase	\$ 723,850	\$ (62,134)	\$ 734,783	\$ (12,007)	(3.4)%
100 basis point increase	754,704	(31,280)	740,765	(6,025)	(1.7)%
No change	785,984		746,790		
100 basis point decrease	813,515	27,531	752,086	5,296	1.5%
200 basis point decrease	821,012	35,028	754,166	7,376	2.1%

**Equity Price Risk**

Equity price risk is the risk that we may incur losses due to adverse changes in the market prices of the equity securities we hold in our investment portfolio. We classify our portfolio of equity securities as available-for-sale and carry these securities on our balance sheet at fair value. Accordingly, adverse changes in the market prices of our equity securities result in a decrease in the value of our total assets and shareholders' equity. In order to minimize our exposure to equity price risk, we independently monitor the financial condition of our equity securities, and diversify our investments. In addition, we limit the percentage of equity securities held in our investment portfolio to the lesser of 10% of the investment portfolio or 30% of shareholders' equity. As of December 31, 2011, the equity securities in our investment portfolio had a fair value of \$12.2 million, representing 3.5% of shareholders' equity on that date. See *Business Investments* in Item 1 of this report.

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**Item 8. Financial Statements and Supplementary Data.**

	<b>Page</b>
<b>Audited Financial Statements as of December 31, 2011 and 2010 and for the three years in the period ended December 31, 2011:</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	63
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Schedules I, III, IV and V are not applicable and have been omitted.	

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors

AMERISAFE, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of AMERISAFE, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also include the financial statement schedules listed in the Index at Item 15. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AMERISAFE, Inc. and Subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AMERISAFE, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2012, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana

March 9, 2012



**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

	December 31,	
	2011	2010
<b>Assets</b>		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value \$685,242 and \$683,463 in 2011 and 2010, respectively)	\$ 646,048	\$ 663,345
Fixed maturity securities available-for-sale, at fair value (cost \$98,077 and \$21,865 in 2011 and 2010, respectively)	\$ 100,742	\$ 21,649
Equity securities available-for-sale, at fair value (cost \$11,776 and \$1,687 in 2011 and 2010, respectively)	12,240	1,773
Short-term investments	46,944	78,770
<b>Total investments</b>	<b>805,974</b>	<b>765,537</b>
Cash and cash equivalents	45,536	60,966
Amounts recoverable from reinsurers	96,212	95,133
Premiums receivable, net	121,223	122,618
Deferred income taxes	29,286	28,837
Accrued interest receivable	9,520	7,704
Property and equipment, net	7,628	7,547
Deferred policy acquisition costs	18,756	17,400
Deferred charges	3,120	2,936
Federal income taxes recoverable		2,293
Other assets	11,254	6,952
	<b>\$ 1,148,509</b>	<b>\$ 1,117,923</b>
<b>Liabilities and shareholders equity</b>		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 538,214	\$ 532,204
Unearned premiums	118,699	111,494
Amounts held for others	29,981	22,667
Policyholder deposits	37,228	39,187
Insurance-related assessments	21,506	18,718
Accounts payable and other liabilities	25,633	20,653
Payable for investments purchased	616	6,718
Subordinated debt securities	25,780	36,090
	<b>797,657</b>	<b>787,731</b>
Shareholders equity:		
Common stock:		
Voting \$0.01 par value authorized shares 50,000,000 in 2011 and 2010; 19,408,512 and 19,060,649 issued and 18,150,262 and 18,352,041 shares outstanding shares in 2011 and 2010, respectively	194	191
Additional paid-in capital	185,734	180,884
Treasury stock at cost (1,258,250 shares in 2011 and 708,608 shares in 2010)	(22,370)	(12,102)
Accumulated earnings	185,079	160,954
Accumulated other comprehensive income	2,215	265
	<b>350,852</b>	<b>330,192</b>

\$ 1,148,509      \$ 1,117,923

See accompanying notes.

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

(In thousands, except share data)

	Year Ended December 31,		
	2011	2010	2009
<b>Revenues</b>			
Premiums earned	\$ 251,015	\$ 218,881	\$ 250,896
Net investment income	26,340	26,242	28,014
Net realized gains on investments	2,228	2,449	2,033
Fee and other income	1,080	584	1,268
<b>Total revenues</b>	<b>280,663</b>	<b>248,156</b>	<b>282,211</b>
<b>Expenses</b>			
Loss and loss adjustment expenses incurred	189,706	157,388	163,316
Underwriting and certain other operating costs	22,490	6,277	12,351
Commissions	18,507	16,350	18,418
Salaries and benefits	19,914	21,405	21,447
Interest expense	1,311	1,548	1,810
Policyholder dividends	1,464	834	770
<b>Total expenses</b>	<b>253,392</b>	<b>203,802</b>	<b>218,112</b>
Income before income taxes	27,271	44,354	64,099
Income tax expense	3,146	9,748	16,536
<b>Net income</b>	<b>24,125</b>	<b>34,606</b>	<b>47,563</b>
Redemption premium			(875)
<b>Net income available to common shareholders</b>	<b>\$ 24,125</b>	<b>\$ 34,606</b>	<b>\$ 46,688</b>
<b>Earnings per share</b>			
Basic	\$ 1.32	\$ 1.86	\$ 2.33
Diluted	\$ 1.29	\$ 1.81	\$ 2.28
<b>Shares used in computing earnings per share</b>			
Basic	18,250,173	18,637,167	18,860,197
Diluted	18,700,982	19,095,320	19,268,295

See accompanying notes.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

(In thousands, except share data)

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amounts				
Balance at January 1, 2009	18,856,602	\$ 188			\$ 175,163	\$ 79,660	\$ 845	\$ 255,856
Comprehensive income:								
Net income						47,563		47,563
Other comprehensive income:								
Change in unrealized gains, net of tax							1,131	1,131
Change in deferred tax valuation allowance							752	752
Comprehensive income								49,446
Common stock issued upon exercise of options	32,800	1			295			296
Restricted common stock issued	5,844				131			131
Share-based compensation					1,233			1,233
Tax benefit of share-based compensation					46			46
Redemption of Series C preferred stock						(175)		(175)
Redemption of Series D preferred stock						(700)		(700)
Balance at December 31, 2009	18,895,246	\$ 189			\$ 176,868	\$ 126,348	\$ 2,728	\$ 306,133
Comprehensive income:								
Net income						34,606		34,606
Other comprehensive income:								
Change in unrealized gains, net of tax							(1,748)	(1,748)
Change in deferred tax valuation allowance							(715)	(715)
Comprehensive income								32,143
Common stock issued upon exercise of options	153,157	2			1,453			1,455
Restricted common stock issued	12,246				163			163
Share-based compensation					2,162			2,162
Tax benefit of share-based compensation					238			238
Purchase of Treasury Stock Common			(708,608)	(12,102)				(12,102)
Balance at December 31, 2010	19,060,649	\$ 191	(708,608)	\$ (12,102)	\$ 180,884	\$ 160,954	\$ 265	\$ 330,192
Comprehensive income:								
Net income						24,125		24,125
Other comprehensive income:								
Change in unrealized gains, net of tax							1,986	1,986
Change in deferred tax valuation allowance							(36)	(36)
Comprehensive income								26,075
Common stock issued upon exercise of options	338,350	3			3,336			3,339
Restricted common stock issued	9,513				210			210
Share-based compensation					261			261
Tax benefit of share-based compensation					1,043			1,043
Purchase of Treasury Stock Common			(549,642)	(10,268)				(10,268)
Balance at December 31, 2011	19,408,512	\$ 194	(1,258,250)	\$ (22,370)	\$ 185,734	\$ 185,079	\$ 2,215	\$ 350,852

See accompanying notes.



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

(In thousands)

	Year Ended December 31,		
	2011	2010	2009
<b>Operating activities</b>			
Net income	\$ 24,125	\$ 34,606	\$ 47,563
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	1,015	1,028	1,164
Net amortization/accretion of investments	6,660	4,989	4,013
Deferred income taxes	(1,555)	(2,123)	5,842
Net realized gains on investments	(2,228)	(2,449)	(2,033)
Loss/(gain) on sale of asset	32	(16)	24
Share-based compensation	471	2,325	1,364
Changes in operating assets and liabilities:			
Premiums receivable	1,395	28,952	4,997
Accrued interest receivable	(1,816)	(539)	82
Deferred policy acquisition costs and deferred charges	(1,539)	821	2,512
Other assets	(2,008)	(9,268)	(7,979)
Reserve for loss and loss adjustment expenses	6,010	(2,451)	3,362
Unearned premiums	7,205	(11,006)	(14,600)
Reinsurance balances	140	(13,248)	(14,116)
Amounts held for others and policyholder deposits	5,355	6,082	4,954
Accounts payable and other liabilities	447	7,141	(9,851)
Net cash provided by operating activities	43,709	44,844	27,298
<b>Investing activities</b>			
Purchases of investments held-to-maturity	(86,669)	(68,095)	(105,928)
Purchases of investments available-for-sale	(120,637)	(36,936)	
Purchases of short-term investments	(87,460)	(89,427)	(80,478)
Proceeds from sale of investments held-to-maturity			1,240
Proceeds from maturities of investments held-to-maturity	97,863	66,021	114,099
Proceeds from sales and maturities of investments available-for-sale	36,329	30,157	12,229
Proceeds from sales and maturities of short-term investments	118,759	64,813	26,035
Purchases of property and equipment	(1,128)	(3,206)	(1,017)
Proceeds from sales of property and equipment		16	3
Net cash used in investing activities	(42,943)	(36,657)	(33,817)
<b>Financing activities</b>			
Proceeds from stock option exercise	3,339	1,455	295
Tax benefit from share-based payments	1,043	238	46
Purchase of treasury stock common	(10,268)	(12,102)	
Redemption of Subordinate Debt Security	(10,310)		
Redemption of Series C preferred stock			(5,175)
Redemption of Series D preferred stock			(20,700)
Net cash used in financing activities	(16,196)	(10,409)	(25,534)
Change in cash and cash equivalents	(15,430)	(2,222)	(32,053)
Cash and cash equivalents at beginning of year	60,966	63,188	95,241

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Cash and cash equivalents at end of year	\$ 45,536	\$ 60,966	\$ 63,188
<b>Supplemental disclosure of cash flow information</b>			
Interest paid	\$ 1,412	\$ 1,547	\$ 1,931
Income taxes paid	\$ 1,000	\$ 6,256	\$ 18,817

See accompanying notes.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2011**

**1. Summary of Significant Accounting Policies**

***Organization***

AMERISAFE, Inc. is an insurance holding company incorporated in the state of Texas. The accompanying consolidated financial statements include the accounts of AMERISAFE and its subsidiaries: American Interstate Insurance Company ( AIIC ) and its insurance subsidiaries, Silver Oak Casualty, Inc. ( SOCI ) and American Interstate Insurance Company of Texas ( AIIC-TX ), 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. AIIC-TX 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 service company servicing only affiliated 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 AIIC-TX, as well as by nonaffiliated insurance carriers. The assets and operations of AGAI are not significant to that of the consolidated entity.

The terms AMERISAFE, the Company, we, us, or our refer to AMERISAFE, Inc. and its consolidated subsidiaries, as the context requires.

The Company provides workers compensation and general liability insurance for companies primarily in special trade groups, including construction, trucking and agriculture. Assets and revenues of AIIC represent approximately 99% of comparable consolidated amounts of the Company for each of 2011, 2010 and 2009.

***Basis of Presentation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ( GAAP ). The preparation of financial statements in accordance 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 reported period. Actual results could differ from those estimates.

***Adjustments to Financial Statements***

The Company's prior annual financial statements, including the years ended December 31, 2010 and 2009, have been adjusted to correct the accounting related to our accrual for state guaranty fund assessments (liability) and where applicable, the corresponding premium tax offset (asset).

In most states, each insurance company that writes workers compensation insurance in that state is required to participate in a state guaranty association. These associations levy assessments on all member insurers based on premium written. State guaranty fund assessments are used by state insurance oversight agencies to cover losses of insolvent or rehabilitated insurance companies and for the operating expenses of the agencies. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. We record any expected offset in Other Assets on our consolidated balance sheet.



**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011**

During 2011, we undertook a comprehensive state-by-state analysis of our estimate of liability for these assessments. The analysis performed in the third and fourth quarter of 2011 resulted in a decrease in the estimate of liability of \$15.2 million (pre-tax) and a corresponding decrease in the premium tax receivable offset of \$7.5 million (pre-tax). In the third quarter of 2011, we recorded a favorable change in the estimated guaranty fund liability of \$2.8 million (pre-tax) as a change in estimate. At that time, our analysis of these state guaranty fund assessments had not been completed for all states. This earlier decrease, which is a component part of the \$15.2 million decrease, has also been corrected in financial statements included in this report.

The Company evaluated this adjustment in connection with preparing its financial statements at and for the year ended December 31, 2011 and determined that this change should be reported as a correction of an error in the liability recorded in prior periods rather than a change in estimate. The error in the guaranty fund liability resulted because the assumptions we used to determine the estimate had not been updated timely. We incorrectly continued to use our assessment experience without validating and updating for more recent experience. Our prior period estimates were made annually and assumed higher levels of assessments consistent with our actual experience for 2005 and prior years. We have concluded that the impact of these adjustments on the prior reporting periods is not material to the consolidated financial statements for any prior period.

The following table reflects the adjustments to the financial statement line items at December 31, 2010. (dollars in thousands).

## Consolidated Balance Sheet

	At December 31, 2010		
	As Reported	Adjustments	As Adjusted
Deferred income taxes	\$ 31,512	\$ (2,675)	\$ 28,837
Other assets	14,488	(7,536)	6,952
<b>Total assets</b>	<b>1,128,134</b>	<b>(10,211)</b>	<b>1,117,923</b>
Insurance-related assessments	33,898	(15,180)	18,718
<b>Total liabilities</b>	<b>802,911</b>	<b>(15,180)</b>	<b>787,731</b>
Shareholders' equity	325,223	4,969	330,192
<b>Total liabilities and shareholders' equity</b>	<b>1,128,134</b>	<b>(10,211)</b>	<b>1,117,923</b>

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011**

The following table reflects the adjustments to the financial statement line items for the years ended December 31, 2009 and 2010 (dollars in thousands except per share data).

## Consolidated Statement of Operations

	For the Year Ended December 31, 2009		
	As Reported	Adjustments	As Adjusted
Underwriting and certain other operating costs	\$ 14,092	\$ (1,741)	\$ 12,351
Income before income taxes	62,358	1,741	64,099
Income tax expense	15,927	609	16,536
Net income	46,431	1,132	47,563
Earnings per share basic	\$ 2.27	\$ .06	\$ 2.33
Earnings per share diluted	\$ 2.22	\$ .06	\$ 2.28

	For the Year Ended December 31, 2010		
	As Reported	Adjustments	As Adjusted
Underwriting and certain other operating costs	\$ 8,204	\$ (1,927)	\$ 6,277
Income before income taxes	42,427	1,927	44,354
Income tax expense	9,074	674	9,748
Net income	33,353	1,253	34,606
Earnings per share basic	\$ 1.79	\$ .07	\$ 1.86
Earnings per share diluted	\$ 1.75	\$ .06	\$ 1.81

Comprehensive income for 2009 as reported was \$48,314,000 and adjusted to \$49,446,000.

Comprehensive income for 2010 as reported was \$30,890,000 and adjusted to \$32,143,000.

Additionally, retained earnings at January 1, 2009 was increased by \$2,584,000.

The adjustments did not change subtotals of net cash provided by operating activities, investing activities, or cash flows used in financing activities.

See note 21 for additional information regarding our unaudited quarterly financial data for the years ended December 31, 2011 and 2010, which data reflects this correction.

**Investments**

The Company has the ability and positive intent to hold certain investments until maturity. Therefore, investments classified as held-to-maturity fixed maturity securities are recorded at amortized cost. Equity securities and fixed-maturity securities classified as available-for-sale are recorded at fair value. Temporary changes in the fair value of these securities are reported in shareholders' equity as a component of other comprehensive income, net of deferred income taxes.

Investment income is recognized as it is earned. The discount or premium on fixed maturities is amortized using the constant yield method. Anticipated prepayments, where applicable, are considered when determining the amortization of premiums or discounts. Realized investment gains and losses are determined using the specific identification method.



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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2011**

The Company regularly reviews the fair value of its investments. Impairment of an investment security results in a reduction of the carrying value of the security and the realization of a loss when the fair value of the security declines below the cost or amortized cost, as applicable, for the security and the impairment is deemed to be other-than-temporary. The Company regularly reviews its investment portfolio to evaluate the existence of other-than-temporary declines in the fair value of investments. The Company considers various factors in determining if a decline in the fair value of an individual security is other-than-temporary, including but not limited to a reduction or interruption in scheduled cash flows, the financial condition of the issuer, how long and by how much the fair value has been below amortized cost, losses due to credit concerns, downgrades and the Company's intent to sell or ability to hold the security.

Other-than-temporary impairment losses on equity securities are recognized in net income and are measured as the difference between cost and fair value. Impairment losses on fixed maturities are recognized in the financial statements depending on the facts and circumstances related to the specific security. If we intend to sell a security or it is more likely than not that we would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, an other-than-temporary impairment would be recognized in net income for the difference between amortized cost and fair value. If we do not expect to recover the amortized cost basis, we do not plan to sell the security and if it is not more likely than not that we would be required to sell a security before the recovery of its amortized cost, less any current period credit loss, the recognition of the other-than-temporary impairment is bifurcated. The credit loss portion would be recognized in net income and the noncredit loss portion in other comprehensive income.

***Cash and Cash Equivalents***

Cash equivalents include short-term money market funds and corporate bonds with an original maturity of three months or less.

***Short-Term Investments***

Short-term investments include municipal securities, corporate bonds and certificates of deposit with an original maturity greater than three months but less than one year.

***Premiums Receivable***

Premiums receivable consist primarily of premium-related balances due from policyholders. The Company considers premiums receivable as past due based on the payment terms of the underlying policy. The balance is shown net of the allowance for doubtful accounts. Receivables due from insureds are charged off when a determination has been made that a specific balance will not be collected based upon the collection efforts of Company personnel. An estimate of amounts that are likely to be charged off is established as an allowance for doubtful accounts as of the balance sheet date. The estimate is primarily comprised of specific balances that are considered probable to be charged off after all collection efforts have ceased, as well as historical trends and an analysis of the aging of the receivables.

***Property and Equipment***

The Company's property and equipment, including certain costs incurred to develop or obtain software for internal use, are stated at cost less accumulated depreciation. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the respective assets, generally 39 years for buildings and three to seven years for all other fixed assets.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2011**

***Deferred Policy Acquisition Costs***

The direct costs of acquiring and renewing business are capitalized to the extent recoverable and are amortized over the effective period of the related insurance policies in proportion to premium revenue earned. These capitalized costs consist mainly of sales commissions, premium taxes and other underwriting costs. The Company evaluates deferred policy acquisition costs for recoverability by comparing the unearned premiums to the estimated total expected claim costs and related expenses, offset by anticipated investment income. The Company would reduce the deferred costs if the unearned premiums were less than expected claims and expenses after considering investment income, and report any adjustments in amortization of deferred policy acquisition costs. There were no adjustments necessary in 2011, 2010 or 2009.

***Reserves for Loss and Loss Adjustment Expenses***

Reserves for loss and loss adjustment expenses represent the estimated ultimate cost of all reported and unreported losses incurred through December 31. The Company does not discount loss and loss adjustment expense reserves. The reserves for loss and loss adjustment expenses are estimated using individual case-basis valuations, statistical analyses and estimates based upon experience for unreported claims and their associated loss and loss adjustment expenses. Such estimates may be more or less than the amounts ultimately paid when the claims are settled. The estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in these estimates, management believes that the reserves for loss and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Any adjustments are included in current operations.

Subrogation recoverables, as well as deductible recoverables from policyholders, are estimated using individual case-basis valuations and aggregate estimates. Deductibles that are recoverable from policyholders and other recoverables from state funds decrease the liability for loss and loss adjustment expenses.

The Company funds its obligations under certain settled claims where the payment pattern and ultimate cost are fixed and determinable on an individual claim basis through the purchase of annuities. These annuities are purchased from unaffiliated carriers and name the claimant as payee. The cost of purchasing the annuity is recorded as paid loss and loss adjustment expenses. To the extent the annuity funds estimated future claims, reserves for loss and loss adjustment expense are reduced.

***Premium Revenue***

Premiums on workers' compensation and general liability insurance are based on actual payroll costs or production during the policy term and are normally billed monthly in arrears or annually. However, the Company generally requires a deposit at the inception of a policy.

Premium revenue is earned on a pro rata basis over periods covered by the policies. The reserve for unearned premiums on these policies is computed on a daily pro rata basis.

The Company estimates the annual premiums to be paid by its policyholders when the Company issues the policies and records those amounts on the balance sheet as premiums receivable. The Company conducts premium audits on all of its voluntary business policyholders annually, upon the expiration of each policy, including when the policy is renewed. The purpose of these audits is to verify that policyholders have accurately reported their payroll expenses and employee job classifications, and therefore have paid the Company the premium required under the terms of the policies. The difference between the estimated premium and the ultimate premium is referred to as earned but unbilled premium, or EBUB premium. EBUB premium can be

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higher or lower than the estimated premium. EBUB premium is subject to significant variability and can either increase or decrease earned premium based upon several factors, including changes in premium growth, industry mix and economic conditions. Due to the timing of audits and other adjustments, ultimate premium earned is generally not determined for several months after the expiration of the policy.

The Company estimates EBUB premiums on a quarterly basis using historical data and applying various assumptions based on the current market and records an adjustment to premium, related losses, and expenses as warranted.

***Reinsurance***

Reinsurance premiums, losses and allocated loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Amounts recoverable from reinsurers include balances currently owed to the Company for losses and allocated loss adjustment expenses that have been paid to policyholders, amounts that are currently reserved for and will be recoverable once the related expense has been paid and experience-rated commissions recoverable upon commutation.

Upon management's determination that an amount due from a reinsurer is uncollectible due to the reinsurer's insolvency or other matters, the amount is written off.

Ceding commissions are earned from certain reinsurance companies and are intended to reimburse the Company for policy acquisition costs related to those premiums ceded to the reinsurers. Ceding commission income is recognized over the effective period of the related insurance policies in proportion to premium revenue earned and is reflected as a reduction in underwriting and other operating costs.

Experience-rated commissions are earned from certain reinsurance companies based on the financial results of the applicable risks ceded to the reinsurers. These commission revenues on reinsurance contracts are recognized during the related reinsurance treaty period and are based on the same assumptions used for recording loss and allocated loss adjustment expenses. These commissions are reflected as a reduction in underwriting and other operating costs and are adjusted as necessary as experience develops or new information becomes known. Any such adjustments are included in current operations. Experience-rated commissions reduced underwriting and other operating costs by \$5.7 million in 2011, \$9.5 million in 2010 and \$9.9 million in 2009.

***Fee and Other Income***

The Company recognizes income related to commissions earned by AGAI as the related services are performed.

***Advertising***

All advertising expenditures incurred by the Company are charged to expense in the period to which they relate and are included in underwriting and other operating costs in the consolidated statements of income. Total advertising expenses incurred were \$421,000 in 2011, \$413,000 in 2010 and \$444,000 in 2009.

***Income Taxes***

The Company accounts for income taxes using the liability method. The provision for income taxes has two components, amounts currently payable or receivable and deferred amounts. Deferred income tax assets and



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liabilities are recognized for the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company considers deferred tax assets to be recoverable if it is probable that the related tax losses can be offset by future taxable income. The Company includes reversal of existing temporary differences, tax planning strategies available and future operating income in this assessment. To the extent the deferred tax assets exceed the amount expected to be recovered in future years, the Company records a valuation allowance for the amount determined unrecoverable.

***Insurance-Related Assessments***

Insurance-related assessments are accrued in the period in which they have been incurred. The Company is subject to a variety of assessments related to insurance commerce, including those by state guaranty funds and workers' compensation second-injury funds. State guaranty fund assessments are used by state insurance oversight agencies to cover losses of policyholders of insolvent or rehabilitated insurance companies and for the operating expenses of such agencies. The Company has a premium tax benefit accrued of \$3.3 million for mandatory assessments that may be recovered through a reduction in future premium taxes in certain states. Assessments related to premiums are generally paid one year after the calendar year in which the premium is written, while assessments related to losses are generally paid within one year of when the loss is paid.

***Policyholder Dividends***

The Company writes certain policies for which the policyholder may participate in favorable claims experience through a dividend. An estimated provision for workers' compensation policyholders' dividends is accrued as the related premiums are earned. Dividends do not become a fixed liability unless and until declared by the respective Boards of Directors of AMERISAFE's insurance subsidiaries. The dividend to which a policyholder may be entitled is set forth in the policy and is related to the amount of losses sustained under the policy. Dividends are calculated after the policy expiration. The Company is able to estimate the policyholder dividend liability because the Company has information regarding the underlying loss experience of the policies written with dividend provisions and can estimate future dividend payments from the policy terms. Additionally, Florida law requires payment of dividends to Florida policyholders pursuant to a formula based on underwriting results from policies written in Florida over a consecutive three-year period.

***Variable Interest Entities***

In December 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. In July 2011, the Company redeemed all \$10,310,000 million of subordinated debt securities from ACT I and the trust was canceled. The debt securities had been the sole assets of ACT I, and the payments under the debt securities were the sole revenues of ACT I.

In April 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.



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The Company concluded that the equity investment in ACT II is not at risk since the subordinated debt securities issued by the Company are the sole assets of ACT II. Accordingly, the Trust is considered a variable interest entity. The Company is not considered to be the primary beneficiary of ACT II and has not consolidated this entity.

***Earnings Per Share***

The Company computes earnings per share in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 260, *Earnings Per Share*. Additionally, for periods prior to January 1, 2010, the Company applied 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. The Company's 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 applicable 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 EPS include potential common shares assumed issued under the treasury stock method, which reflects the potential dilution that would occur if any outstanding options or warrants were exercised or restricted stock becomes vested, and includes the if converted method for participating securities if the effect is dilutive. The two-class method of calculating diluted EPS is used in the event the if converted method is anti-dilutive.

***Stock-Based Compensation***

The Company recognizes the impact of its share-based compensation in accordance with FASB ASC Topic 718, *Compensation-Stock Compensation*. All share-based grants are recognized as compensation expense over the vesting period.

***Recent Accounting Pronouncements***

In October 2010, the FASB issued Accounting Standards Update 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (previously referred to as Emerging Issues Task Force ( EITF ) Issue 09-G). This guidance changes the accounting for costs associated with acquiring or renewing insurance contracts in response to diversity in practice in the capitalization and amortization of those costs. Under the new guidance, deferrable costs will be limited to incremental direct costs of successful contract acquisition incurred with independent third parties and the portion of total employee compensation and payroll-related fringe benefits related to time spent performing specified acquisition activities (e.g., underwriting, policy issuance and processing) for successful acquisition efforts. Companies will have a choice between prospective and retrospective adoption. The new guidance will be effective for fiscal years beginning after December 15, 2011. Pursuant to the new guidance, the Company will adopt the standard on a retrospective basis and expects to reduce shareholders' equity as of January 1, 2010 by approximately \$2.2 million.

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In May 2011, the FASB issued Accounting Standards Update 2011-04 Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and the International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between GAAP and IFRS, and in some limited cases, changes principles to achieve convergence between GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. The new guidance will be effective for interim and annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, Presentation of Comprehensive Income. This guidance requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

**2. Investments**

Short-term investments held at December 31, 2011 include \$37.0 million of corporate bonds, certificates of deposit of \$9.7 million and \$0.3 million of municipal securities. All certificates of deposits are fully insured by the Federal Deposit Insurance Corporation.

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as held-to-maturity at December 31, 2011 are summarized as follows:

	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	(In thousands)			
States and political subdivisions	\$ 441,273	\$ 29,026	\$ (360)	\$ 469,939
Corporate bonds	92,682	1,539	(130)	94,091
Commercial mortgage-backed securities	51,550	4,195		55,745
U.S. agency-based mortgage-backed securities	46,096	4,162	(44)	50,214
U.S. Treasury securities and obligations of U.S. Government agencies	9,141	1,634		10,775
Asset-backed securities	5,306	17	(845)	4,478
<b>Totals</b>	<b>\$ 646,048</b>	<b>\$ 40,573</b>	<b>\$ (1,379)</b>	<b>\$ 685,242</b>

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011**

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as available-for-sale at December 31, 2011 are summarized as follows:

	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>(In thousands)</b>			
<b>Fixed Maturity:</b>				
States and political subdivisions	\$ 55,275	\$ 2,488	\$ (1)	\$ 57,762
Corporate bonds	42,802	411	(233)	42,980
<b>Total Fixed Maturity</b>	<b>98,077</b>	<b>2,899</b>	<b>(234)</b>	<b>100,742</b>
Equity securities	11,776	661	(197)	12,240
<b>Totals</b>	<b>\$ 109,853</b>	<b>\$ 3,560</b>	<b>\$ (431)</b>	<b>\$ 112,982</b>

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as held-to-maturity at December 31, 2010 are summarized as follows:

	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>(In thousands)</b>			
States and political subdivisions	\$ 466,898	\$ 14,044	\$ (1,797)	\$ 479,145
U.S. agency-based mortgage-backed securities	62,090	3,951	(101)	65,940
Corporate bonds	60,825	1,423	(27)	62,221
Commercial mortgage-backed securities	51,571	2,513		54,084
U.S. Treasury securities and obligations of U.S. Government agencies	14,819	972		15,791
Asset-backed securities	6,392	17	(877)	5,532
Long-term certificates of deposit	750			750
<b>Totals</b>	<b>\$ 663,345</b>	<b>\$ 22,920</b>	<b>\$ (2,802)</b>	<b>\$ 683,463</b>

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as available-for-sale at December 31, 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:</b>				

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Corporate bonds	\$ 15,946	\$ 10	\$ (147)	\$ 15,809
U.S. Treasury securities and obligations of U.S. Government agencies	5,919	16	(95)	5,840
Total Fixed Maturity	21,865	26	(242)	21,649
Equity securities	1,687	86		1,773
Totals	\$ 23,552	\$ 112	\$ (242)	\$ 23,422

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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 December 31, 2011, by contractual maturity, is as follows:

	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>
	<b>(In thousands)</b>	
<b>Maturity:</b>		
Due in 2012	\$ 107,892	\$ 108,537
In 2013 through 2016	179,896	187,744
In 2017 through 2021	130,807	144,980
After 2021	124,501	133,544
U.S. agency-based mortgage-backed securities	46,096	50,214
Commercial mortgage-backed securities	51,550	55,745
Asset-backed securities	5,306	4,478
<b>Totals</b>	<b>\$ 646,048</b>	<b>\$ 685,242</b>

A summary of the cost or amortized cost and fair value of investments in fixed maturity securities, classified as available-for-sale at December 31, 2011, by contractual maturity, is as follows:

	<b>Cost or Amortized Cost</b>	<b>Fair Value</b>
	<b>(In thousands)</b>	
<b>Maturity:</b>		
Due in 2012	\$ 7,706	\$ 7,749
In 2013 through 2016	23,355	23,324
In 2017 through 2021	15,664	15,943
After 2021	51,352	53,726
<b>Totals</b>	<b>\$ 98,077</b>	<b>\$ 100,742</b>

At December 31, 2011, there were \$18,889,134 of held-to-maturity investments on deposit with regulatory agencies of states in which the Company does business.

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A summary of the Company's realized gains and losses on sales, calls or redemptions of investments for 2011, 2010 and 2009 is as follows:

	<b>Fixed Maturity Securities Available for Sale</b>	<b>Equity Securities</b>	<b>Other</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Year ended December 31, 2011</b>				
Proceeds from sales	\$ 21,560	\$ 14,769	\$	\$ 36,329
Gross realized investment gains	\$ 815	\$ 1,621	\$	\$ 2,436
Gross realized investment (losses)		(98)	(1)	(99)
Net realized investment gain	815	1,523	(1)	2,337
Impairments			(169)	(169)
Other, including gains on calls and redemptions			60	60
Net realized investment gains	\$ 815	\$ 1,523	\$ (110)	\$ 2,228
<b>Year ended December 31, 2010</b>				
Proceeds from sales	\$ 15,462	\$ 14,695	\$	\$ 30,157
Gross realized investment gains	\$	\$ 2,650	\$	\$ 2,650
Gross realized investment (losses)				
Net realized investment gain		2,650		2,650
Impairments		(693)		(693)
Other, including gains on calls and redemptions	411		81	492
Net realized investment gains	\$ 411	\$ 1,957	\$ 81	\$ 2,449
<b>Year ended December 31, 2009</b>				
Proceeds from sales	\$	\$ 12,229	\$	\$ 12,229
Gross realized investment gains	\$	\$ 1,650	\$	\$ 1,650
Gross realized investment (losses)				
Net realized investment gain		1,650		1,650
Impairments				
Other, including gains on calls and redemptions			383	383
Net realized investment gains	\$	\$ 1,650	\$ 383	\$ 2,033

Major categories of the Company's net investment income are summarized as follows:

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	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Gross investment income:			
Fixed maturity securities	\$ 26,769	\$ 26,571	\$ 28,163
Short-term investments and cash and cash equivalents	590	819	711
Equity securities	181	71	477
Total gross investment income	27,540	27,461	29,351
Investment expenses	(1,200)	(1,219)	(1,337)
Net investment income	\$ 26,340	\$ 26,242	\$ 28,014

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The following table summarizes, as of December 31, 2011, the gross unrealized losses on securities that were at a loss for either less than twelve months or twelve months or longer:

	Less Than 12 Months		As of December 31, 2011 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:						
Corporate bonds	\$ 23,063	\$ 130	\$	\$	\$ 23,063	\$ 130
States and political subdivisions	2,291	3	5,718	357	8,009	360
U.S. agency-based mortgage-backed securities			1,012	44	1,012	44
Asset-backed securities	545	15	3,880	830	4,425	845
<b>Total held-to-maturity securities</b>	<b>25,899</b>	<b>148</b>	<b>10,610</b>	<b>1,231</b>	<b>36,509</b>	<b>1,379</b>
<b>Available-for Sale</b>						
Fixed maturity securities:						
Corporate bonds	\$ 14,301	\$ 233	\$	\$	\$ 14,301	\$ 233
States and political subdivisions	222	1			222	1
Equity Securities	2,789	197			2,789	197
<b>Total available-for-sale securities</b>	<b>17,312</b>	<b>431</b>			<b>17,312</b>	<b>431</b>
<b>Total</b>	<b>\$ 43,211</b>	<b>\$ 579</b>	<b>\$ 10,610</b>	<b>\$ 1,231</b>	<b>\$ 53,821</b>	<b>\$ 1,810</b>



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The following table summarizes, as of December 31, 2010, the gross unrealized losses on securities that were at a loss for either less than twelve months or twelve months or longer:

	Less Than 12 Months		As of December 31, 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	\$ 65,976	\$ 1,200	\$ 4,135	\$ 597	\$ 70,111	\$ 1,797
Corporate bonds	3,480	27			3,480	27
U.S. agency-based mortgage-backed securities	1,016	5	3,289	96	4,305	101
Asset-backed securities	715	43	4,761	834	5,476	877
<b>Total held-to-maturity securities</b>	<b>71,187</b>	<b>1,275</b>	<b>12,185</b>	<b>1,527</b>	<b>83,372</b>	<b>2,802</b>
<b>Available-for Sale</b>						
Fixed maturity securities:						
Corporate bonds	\$ 13,446	\$ 147	\$	\$	\$ 13,446	\$ 147
U.S Treasury securities and obligations of U.S. government agencies	2,010	95			2,010	95
<b>Total available-for-sale securities</b>	<b>15,456</b>	<b>242</b>			<b>15,456</b>	<b>242</b>
<b>Total</b>	<b>\$ 86,643</b>	<b>\$ 1,517</b>	<b>\$ 12,185</b>	<b>\$ 1,527</b>	<b>\$ 98,828</b>	<b>\$ 3,044</b>

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

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

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

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

any downgrades of the security by a rating agency;

our intent not to sell the security for a sufficient time period for it to recover its value;

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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The Company reviewed all securities with unrealized losses in accordance with the impairment policy described above. The Company 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. The Company expects 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 the Company will be required to sell the security before the recovery of its amortized cost basis. In addition, none of the unrealized losses on debt securities are considered credit losses.

In 2011, we recorded an impairment charge of \$0.2 million related to one asset-backed security in our held-to-maturity investment portfolio. We impaired this security because, among other things, a loss of principal was anticipated based upon estimated future cash flows.

**3. Premiums Receivable**

Premiums receivable consist primarily of premium-related balances due from policyholders. The balance is shown net of the allowance for doubtful accounts. The components of premiums receivable are shown below:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Premiums receivable	\$ 126,796	\$ 127,722
Allowance for doubtful accounts	(5,573)	(5,104)
Premiums receivable, net	\$ 121,223	\$ 122,618

The following summarizes the activity in the allowance for doubtful accounts:

	<b>2011</b>	<b>December 31,</b>	
		<b>2010</b>	<b>2009</b>
		<b>(In thousands)</b>	
Balance, beginning of year	\$ 5,104	\$ 4,917	\$ 3,228
Provision for bad debts	1,209	915	2,996
Write-offs	(740)	(728)	(1,307)
Balance, end of year	\$ 5,573	\$ 5,104	\$ 4,917

Included in premiums receivable at December 31, 2011, 2010 and 2009 is the Company's estimate for EBUB premium of \$2.1 million, \$1.8 million and \$4.2 million, respectively.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****4. Deferred Policy Acquisition Costs**

The Company incurs certain costs related to acquiring policies. These costs are deferred and expensed over the life of the related policies. Major categories of the Company's deferred policy acquisition costs are summarized as follows:

	December 31,	
	2011	2010
	(In thousands)	
Agents commissions	\$ 11,745	\$ 11,005
Premium taxes	3,569	2,954
Deferred underwriting expenses	3,442	3,441
Total deferred policy acquisition costs	\$ 18,756	\$ 17,400

The following summarizes the activity in the deferred policy acquisition costs:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Balance, beginning of year	\$ 17,400	\$ 18,128	\$ 20,289
Policy acquisition costs deferred	40,802	32,442	34,967
Amortization expense during the year	(39,446)	(33,170)	(37,128)
Balance, end of year	\$ 18,756	\$ 17,400	\$ 18,128

**5. Property and Equipment**

Property and equipment consist of the following:

	December 31,	
	2011	2010
	(In thousands)	
Land and office building	\$ 7,578	\$ 7,471
Furniture and equipment	6,552	6,503
Software	8,720	7,968
Automobiles	81	81
	22,931	22,023
Accumulated depreciation	(15,303)	(14,476)
Property and equipment, net	\$ 7,628	\$ 7,547

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The Company had no capital lease obligations at December 31, 2011. At December 31, 2010, furniture and equipment included property held under capital leases of \$86,000 and software included property held under capital leases of \$103,000. Accumulated depreciation at December 31, 2010 includes \$136,000 that is related to these properties.

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The Company cedes certain premiums and losses to various reinsurers under quota share and excess-of-loss treaties. These reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. Ceded reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements. To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers on a continual basis. The effect of reinsurance on premiums written and earned in 2011, 2010 and 2009 was as follows:

	2011 Premiums		2010 Premiums		2009 Premiums	
	Written	Earned	Written	Earned	Written	Earned
	(In thousands)					
Gross	\$ 272,101	\$ 264,896	\$ 228,424	\$ 239,430	\$ 256,454	\$ 271,054
Ceded	(13,881)	(13,881)	(20,549)	(20,549)	(20,158)	(20,158)
Net premiums	\$ 258,220	\$ 251,015	\$ 207,875	\$ 218,881	\$ 236,296	\$ 250,896

The amounts recoverable from reinsurers consist of the following:

	December 31,	
	2011	2010
	(In thousands)	
Unpaid losses recoverable:		
Case basis	\$ 35,069	\$ 38,075
Incurred but not reported	25,868	27,461
Paid losses recoverable	764	795
Experience-rated commissions recoverable	34,511	28,802
Total	\$ 96,212	\$ 95,133

Amounts recoverable from reinsurers consists of ceded case reserves, ceded incurred but not reported ( IBNR ) reserves, paid losses recoverable and experience-rated commissions recoverable. Ceded case and ceded IBNR reserves represent the portion of gross loss and loss adjustment expense liabilities that are recoverable under reinsurance agreements, but are not yet due from reinsurers. Paid losses recoverable are receivables currently due from reinsurers for ceded paid losses. The Company considers paid losses recoverable outstanding for more than 90 days to be past due. At December 31, 2011, there were no paid losses recoverable past due. Experience-rated commissions recoverable represents earned commission from certain reinsurance companies based on the financial results of the applicable risks ceded to the reinsurers.

The Company received reinsurance recoveries of \$2,861,000 in 2011, \$3,667,000 in 2010 and \$6,376,000 in 2009.

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At December 31, 2011, unsecured reinsurance recoverables from reinsurers that exceeded 1.5% of statutory surplus of the Company's insurance subsidiary are shown below (in thousands). The A.M. Best Company rating for the reinsurer is shown parenthetically.

Hannover Reinsurance (Ireland) Limited (A)	\$ 23,387
Aspen Insurance (Bermuda) Limited (A)	14,191
Odyssey America Reinsurance Corporation (A)	13,889
Minnesota Workers' Compensation Reinsurance Association (NR)	7,830
Clearwater Insurance Company (B++)	6,433
St. Paul Fire & Marine Insurance Company (A+)	6,147
Finial Reinsurance Company (A-)	5,606
SCOR Reinsurance Company (A)	5,137
Other reinsurers	13,592
Total reinsurance recoverables	96,212
Letters of credit and funds held	(47,307)
Total unsecured reinsurance recoverables	\$ 48,905

**7. Income Taxes**

The Company's deferred income tax assets and liabilities are as follows:

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Deferred income tax assets:		
Discounting of net unpaid loss and loss adjustment expenses	\$ 20,576	\$ 22,587
Unearned premiums	10,446	9,873
Accrued expenses and other	3,555	3,730
Accrued policyholder dividends	698	742
Capital loss carryforward	568	1,297
Impaired securities	94	145
Accrued insurance-related assessments	3,472	355
Total deferred tax assets	39,409	38,729
Less valuation allowance		(1,406)
Net deferred income tax assets	39,409	37,323
Deferred income tax liabilities:		
Deferred policy acquisition costs	(7,667)	(7,178)
Deferred charges	(852)	(789)
Unrealized gain on securities available-for-sale	(1,192)	(124)

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Property and equipment and other	(52)	(90)
Salvage and subrogation	(360)	(305)
Total deferred income tax liabilities	(10,123)	(8,486)
Net deferred income taxes	\$ 29,286	\$ 28,837



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The components of consolidated income tax expense (benefit) are as follows:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
<b>Current:</b>			
Federal	\$ 4,529	\$ 11,617	\$ 10,226
State	172	254	468
	4,701	11,871	10,694
<b>Deferred:</b>			
Federal	(1,555)	(2,123)	5,842
<b>Total</b>	<b>\$ 3,146</b>	<b>\$ 9,748</b>	<b>\$ 16,536</b>

In 2011 and 2010, the Company recorded a reduction of \$1.4 million and \$0.2 million, respectively, in the valuation allowance of \$3.0 million established in 2008 for unrealized losses resulting from other-than-temporary impairments.

Income tax expense from operations is different from the amount computed by applying the U.S. federal income tax statutory rate of 35% to income before income taxes as follows:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Income tax computed at federal statutory tax rate	\$ 9,545	\$ 15,524	\$ 22,434
Tax-exempt interest, net	(5,105)	(5,133)	(5,503)
State income tax	172	254	468
Dividends received deduction	(29)	(6)	(83)
Valuation allowance	(1,442)	(869)	(701)
Other	5	(22)	(79)
	<b>\$ 3,146</b>	<b>\$ 9,748</b>	<b>\$ 16,536</b>

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no uncertain tax positions as of December 31, 2011 and 2010.

Tax years 2008 through 2011 are subject to examination by the federal and state taxing authorities. The Company is currently undergoing an examination by the Internal Revenue Service for tax year 2009.

**8. Line of Credit**

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In October 2007, the Company entered into an agreement providing for a line of credit in the maximum amount of \$20.0 million with Frost Bank, NA. The agreement expired in October of 2010. The Company renewed this agreement in the fourth quarter 2010 for an additional three years to mature in December of 2013. Under the agreement, advances may be made either in the form of loans or letters of credit. Borrowings under the agreement accrue at interest rates based upon prime rate or LIBOR. The Company pays a fee of 3/8% (three eighths of one percent ) on the unused portion of the loan in arrears quarterly for a fee of \$75,000 annually, assuming the line of credit is not used during the calendar year. The line of credit is unsecured. No borrowings or letters of credit were outstanding under the line of credit arrangement at December 31, 2011 or 2010.

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**9. Subordinated Debt Securities**

On December 16, 2003, the Company entered into a trust preferred securities transaction pursuant to which it issued \$10,310,000 aggregate principal amount of subordinated debt securities due in 2034. To effect the transaction, the Company formed a Delaware statutory trust, Amerisafe Capital Trust I ( ACT I ). ACT I issued \$10,000,000 of preferred securities to investors and \$310,000 of common securities to the Company. ACT I used the proceeds from these issuances to purchase the subordinated debt securities. In July 2011, the Company redeemed all \$10,310,000 of subordinated debt securities from ACT I and the trust was canceled. The Company paid interest on its ACT I subordinated debt securities quarterly at a rate equal to LIBOR plus 4.10% per annum (4.4% at December 31, 2010). ACT I paid interest on its preferred securities at the same rate. Payments of principal, interest and premium, if any, on the ACT I preferred securities were guaranteed by the Company.

On April 29, 2004, the Company entered into a second trust preferred securities transaction pursuant to which it issued \$25,780,000 aggregate principal amount of subordinated debt securities due in 2034. To effect the transaction, the Company formed a Delaware statutory trust, Amerisafe Capital Trust II ( ACT II ). ACT II issued \$25,000,000 of preferred securities to investors and \$780,000 of common securities to the Company. ACT II used the proceeds from these issuances to purchase the subordinated debt securities. The Company pays interest on its ACT II subordinated debt securities quarterly at a rate equal to LIBOR plus 3.80% per annum (4.3% at December 31, 2011). ACT II pays interest on its preferred securities at the same rate. The Company subordinated debt securities and ACT II preferred securities are currently repayable at the option of the Company. Payments of principal, interest and premium, if any, on the ACT II preferred securities are guaranteed by the Company.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****10. Loss and Loss Adjustment Expenses**

The following table provides a reconciliation of the beginning and ending reserve balances, net of related amounts recoverable from reinsurers, for 2011, 2010 and 2009:

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Reserves for loss and loss adjustment expenses ( LAE )	\$ 532,204	\$ 534,655	\$ 531,293
Less amounts recoverable from reinsurers on unpaid loss and LAE	65,536	60,435	56,596
Reserves for loss and LAE, net of related amounts recoverable from reinsurers, at beginning of year	466,668	474,220	474,697
Add:			
Provision for loss and LAE for claims occurring in the current year, net of reinsurance	196,269	179,022	185,201
Change in estimated loss and LAE for claims occurring in prior years, net of reinsurance	(6,563)	(21,634)	(21,885)
Incurred losses during the current year, net of reinsurance	189,706	157,388	163,316
Less loss and LAE payments for claims, net of reinsurance, occurring during:			
Current year	53,213	47,385	42,174
Prior years	125,884	117,555	121,619
	179,097	164,940	163,793
Reserves for loss and LAE, net of related amounts recoverable from reinsurers, at end of year	477,277	466,668	474,220
Add amounts recoverable from reinsurers on unpaid loss and LAE	60,937	65,536	60,435
Reserves for loss and LAE	\$ 538,214	\$ 532,204	\$ 534,655

The foregoing reconciliation reflects favorable development of the net reserves at December 31, 2011, 2010, and 2009. The favorable development reduced loss and loss adjustment expense incurred by \$6.6 million, \$21.6 million and \$21.9 million in 2011, 2010 and 2009, respectively. The revisions to the Company's reserves reflect new information gained by claims adjusters in the normal course of adjusting claims and is reflected in the financial statements when the information becomes available. It is typical for more serious claims to take several years to settle and the Company continually revises estimates as more information about claimants' medical conditions and potential disability becomes known and the claims get closer to being settled.

The anticipated effect of inflation is implicitly considered when estimating liabilities for loss and loss adjustment expenses. Average severities are projected based on historical trends adjusted for implemented changes in underwriting standards, policy provisions and general economic trends. These anticipated trends are monitored based on actual development and are modified if necessary.



**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****11. Statutory Accounting and Regulatory Requirements**

The Company's insurance subsidiaries file financial statements prepared in accordance with statutory accounting principles prescribed or permitted by the insurance regulatory authorities of the states in which the subsidiaries are domiciled. Statutory-basis shareholder's capital and surplus at December 31, 2011, 2010 and 2009 of the directly owned insurance subsidiary, AIIC, and the combined statutory-basis net income and realized investment gains for all AMERISAFE's insurance subsidiaries for the three years in the period ended December 31, 2011, were as follows (in thousands):

	2011 (unaudited)	2010	2009
Capital and surplus	\$ 314,397	\$ 320,388	\$ 323,477
Net income	26,969	30,484	55,159
Realized investment gains (losses)	2,121	3,040	2,008

Property and casualty insurance companies are subject to certain risk-based capital (RBC) requirements specified by the National Association of Insurance Commissioners. Under these requirements, a target minimum amount of capital and surplus maintained by a property/casualty insurance company is determined based on the various risk factors related to it. At December 31, 2011, the capital and surplus of AIIC and its subsidiaries exceeded the minimum RBC requirement.

Pursuant to regulatory requirements, AIIC cannot pay dividends to the Company in excess of the lesser of 10% of statutory surplus, or statutory net income, excluding realized investment gains, for the preceding 12-month period, without the prior approval of the Louisiana Commissioner of Insurance. However, for purposes of this dividend calculation, net income from the previous two calendar years may be carried forward to the extent that it has not already been paid out as dividends. AIIC paid \$32.0 million in dividends to the Company in 2011, \$32.3 million in 2010 and \$10.0 million in 2009. Based upon the above described calculation, AIIC could pay to the Company dividends of up to \$21.4 million after March of 2012 without seeking regulatory approval.

**12. Capital Stock*****Common Stock***

The Company is authorized to issue 50,000,000 shares of common stock, par value \$0.01 per share. At December 31, 2011, there were 19,408,512 shares of common stock issued and 18,150,262 shares outstanding.

***Preferred Stock***

Shareholders approved an amended Certificate of Formation for the Company on June 15, 2010 under which the Company is authorized to issue 10,000,000 shares of preferred stock, par value \$0.01 per share. At December 31, 2011, there were no shares of preferred stock outstanding.

***Amendment to Certificate of Formation***

On June 15, 2010, our shareholders approved an amendment to our Certificate of Formation. Among other things, the amendment eliminated the following classes of capital stock:

- (a) Non-voting common stock (5,000,000 shares authorized),
- (b) Series A preferred stock (1,500,000 shares authorized of which 862,924 shares were canceled and not eligible for reissue),



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**AMERISAFE, INC. AND SUBSIDIARIES**

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- (c) Series B preferred stock (1,500,000 shares authorized),
- (d) Convertible preferred stock (300,000 shares designated Series C and 200,000 shares designated as Series D),
- (e) Series E preferred stock (500,000 shares authorized of which 317,744 shares were canceled and not eligible for reissue),
- (f) Junior preferred stock (10,000,000 shares authorized).

No shares of these classes of capital stock were outstanding at December 31, 2011 or 2010. No shares of these classes of capital stock were issued in the three year period ended December 31, 2011. Effective December 31, 2009, all outstanding shares of Series C preferred stock and Series D preferred stock were redeemed and canceled.

**13. Stock Options and Restricted Stock**

***2005 Incentive Plan***

The AMERISAFE 2005 Equity Incentive Plan (the "2005 Incentive Plan") is administered by the Compensation Committee of the Board and is designed to provide incentive compensation to executive officers and other key management personnel. The 2005 Incentive Plan permits awards in the form of incentive stock options, as defined in Section 422(b) of the Internal Revenue Code of 1986, non-qualified stock options, restricted shares of common stock and restricted stock units. The maximum number of shares of common stock that may be issued pursuant to option grants and restricted stock and restricted stock unit awards under the 2005 Incentive Plan is 1,900,000 shares, subject to the authority of the Board to adjust this amount in the event of a merger, consolidation, reorganization, stock dividend, stock split, combination of shares, recapitalization or similar transaction affecting the common stock. Officers, other key employees, consultants and other persons performing services for the Company that are equivalent to those typically provided by Company employees are eligible to participate in the 2005 Incentive Plan. However, only employees (including Company officers) can receive grants of incentive stock options.

Stock options granted under the 2005 Incentive Plan have an exercise price of not less than 100% of the fair value of the common stock on the date of grant. However, any stock options granted to holders of more than 10% of the Company's voting stock will have an exercise price of not less than 110% of the fair value of the common stock on the date of grant. Stock option grants are exercisable, subject to vesting requirements determined by the Compensation Committee, for periods of up to ten years from the date of grant, except for any grants to holders of more than 10% of the Company's voting stock, which will have exercise periods limited to a maximum of five years. Stock options generally expire 90 days after the cessation of an optionee's service as an employee. However, in the case of an optionee's death or disability, the unexercised portion of a stock option remains exercisable for up to one year after the optionee's death or disability. Stock options granted under the 2005 Incentive Plan are not transferable, except by will or the laws of descent and distribution.

The Company uses the Black-Scholes-Merton option pricing model to estimate the fair value of each option on the date of grant. The expected terms of options are developed by considering the Company's historical attrition rate for those employees at the officer level, who are eligible to receive options. Further, the Company aggregates individual awards into homogenous groups based upon grant date. Expected volatility is estimated using daily historical volatility for six companies within the property and casualty insurance sector. The Company believes that historical volatility of this peer group is currently the best estimate of expected volatility of the market price of the Company's common shares. The dividend yield is assumed to be zero as the Company has not historically paid cash dividends nor expects to pay cash dividends in the near future. The risk-free interest rate is the yield on the grant date of U.S. Treasury zero coupon securities with a maturity comparable to the expected term of the options.





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At December 31, 2011, 256,009 shares of common stock were available for future awards under the 2005 Incentive Plan.

No options were granted under the 2005 Incentive Plan in 2011 or 2010. The assumptions used in the Black-Scholes-Merton pricing model for options granted under the 2005 Incentive Plan in 2009 were as follows:

	<b>2009</b>	
Expected Volatility	35.5%	35.6%
Weighted-Average Risk-Free Interest Rate	3.5%	4.5%
Weighted-Average Expected Life	6.5 years	
Expected Dividend Yield	0.0%	

The following table summarizes information about the stock options outstanding under the 2005 Incentive Plan at December 31, 2009, 2010 and 2011:

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Life (in years)</b>
Outstanding at January 1, 2009	1,419,055	9.82	8.2
Granted	94,000	17.42	
Exercised	(32,800)	9.00	
Canceled, forfeited, or expired	(11,400)		
<b>Outstanding at December 31, 2009</b>	<b>1,468,855</b>	<b>10.34</b>	<b>7.4</b>
Exercisable at December 31, 2009	974,255	9.39	7.0
Outstanding at January 1, 2010	1,468,855	10.34	7.4
Granted			
Exercised	(153,157)	9.50	
Canceled, forfeited, or expired	(45,000)		
<b>Outstanding at December 31, 2010</b>	<b>1,270,698</b>	<b>10.28</b>	<b>6.4</b>
Exercisable at December 31, 2010	1,118,498	9.49	6.1
Outstanding at January 1, 2011	1,270,698	10.28	6.4
Granted			
Exercised	(338,350)	9.87	
Canceled, forfeited, or expired	(13,000)		
<b>Outstanding at December 31, 2011</b>	<b>919,348</b>	<b>10.37</b>	<b>5.5</b>

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Exercisable at December 31, 2011

832,948

9.70

5.2

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The weighted-average grant date fair values of options granted during 2009 were \$7.47. No options were granted in 2010 or 2011.

	2011	2010	2009
Cash received from option exercises	\$ 3,339,000	\$ 1,455,000	\$ 295,000
Total tax benefits realized for tax deductions from options exercised	1,025,000	233,000	47,000
Total intrinsic value of options exercised	4,240,000	1,238,000	252,000
Fair value of shares vested	315,000	1,245,000	1,160,000
Aggregate intrinsic value of vested shares outstanding	11,288,000	8,961,000	8,360,000

The following table summarizes information about the restricted stock outstanding under the 2005 Incentive Plan at December 31, 2011:

	Shares	Weighted-Average Grant-Date Fair Value per Share
Nonvested balance at January 1, 2009	9,198	13.15
Granted		
Vested	(9,198)	13.15
Forfeited		
Nonvested balance at December 31, 2009		
Granted		
Vested		
Forfeited		
Nonvested balance at December 31, 2010		
Granted		
Vested		
Forfeited		
Nonvested balance at December 31, 2011		

The Company recognized compensation expense of \$261,000, \$2,162,000 and \$1,233,000 in 2011, 2010 and 2009, respectively, related to awards made under the 2005 Incentive Plan.

**2010 Restricted Stock Plan**

In 2010, the Company's shareholders approved an amendment to the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2010 Restricted Stock Plan). The Plan is administered by the Compensation Committee of the Board and provides for the automatic grant of restricted stock awards to non-employee directors of the Company. Awards to non-employee directors are generally subject to terms including non-transferability, immediate vesting upon death or total disability of a director, forfeiture of unvested shares upon termination of service by a director and acceleration of vesting upon a change of control of the Company. The maximum number of shares of common stock that may be

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issued pursuant to restricted stock awards under the 2010 Restricted Stock Plan is 100,000 shares, subject to the authority of the Board to adjust this amount in the event of a merger, consolidation, reorganization, stock split, combination of shares, recapitalization or similar transaction affecting the common stock. At December 31, 2011, there were 78,657 shares of common stock available for future awards under the 2010 Restricted Stock Plan.

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Under the 2010 Restricted Stock Plan, each non-employee director is automatically granted a restricted stock award for a number of shares equal to \$30,000 divided by the closing price of the Company's common stock on the date of the annual meeting of shareholders at which the non-employee director is elected or is continuing as a member of the Board. Each restricted stock award vests on the date of the next annual meeting of shareholders following the date of grant, subject to the continued service of the non-employee director.

As of December 31, 2011, there were 9,513 shares of restricted stock outstanding under the 2010 Restricted Stock Plan, all of which will vest on the date of the annual meeting of shareholders in 2012.

The following table summarizes information about the restricted stock outstanding under the 2010 Restricted Stock Plan at December 31, 2011:

	Shares	Weighted-Average Grant-Date Fair Value per Share
Nonvested balance at January 1, 2009	6,468	16.22
Granted	5,844	15.39
Vested	(6,468)	16.22
Forfeited		
Nonvested balance at December 31, 2009	5,844	15.39
Granted	12,246	17.76
Vested	(6,260)	15.56
Forfeited		
Nonvested balance at December 31, 2010	11,830	17.75
Granted	9,513	22.06
Vested	(11,830)	17.75
Forfeited		
Nonvested balance at December 31, 2011	9,513	22.06

The Company recognized compensation expense of \$210,000 in 2011, \$163,000 in 2010 and \$131,000 in 2009 related to the 2010 Restricted Stock Plan. In 2011, total tax benefits realized for tax deductions from vesting of restricted stock was \$18,000. In 2010, total tax benefits realized for tax deductions from vesting of restricted stock was \$5,000. In 2009, total tax expense of \$2,000 was for tax from vesting of restricted stock.

**14. Earnings Per Share**

Diluted earnings per share includes 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 result is dilutive. The two-class method of calculating diluted earnings per share is used whether the if converted result is dilutive or anti-dilutive.



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The calculation of basic and diluted EPS for the years ended December 31, 2011, 2010 and 2009 are presented below.

	<b>For the Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands, except per share amounts)</b>		
<b>Basic EPS:</b>			
Net income	\$ 24,125	\$ 34,606	\$ 47,563
Redemption Premium			(875)
Income available to common shareholders	\$ 24,125	\$ 34,606	\$ 46,688
Amount allocable to common shareholders	100.0%	100.0%	94.1%
Income allocable to common shareholders	\$ 24,125	\$ 34,606	\$ 43,933
Weighted-average common shares outstanding	18,250	18,637	18,860
Basic earnings per share	\$ 1.32	\$ 1.86	\$ 2.33
<b>Diluted EPS:</b>			
Income allocable to common shareholders	\$ 24,125	\$ 34,606	\$ 43,933
Weighted average common shares outstanding	18,250	18,637	18,860
<b>Diluted effect:</b>			
Stock options	440	449	396
Restricted stock	11	9	12
Weighted average diluted shares outstanding	18,701	19,095	19,268
Diluted earnings per share	\$ 1.29	\$ 1.81	\$ 2.28

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-money vested stock options are not considered to be participating securities.

	<b>Years Ended</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Numerator:</b>			
Basic weighted average common shares	18,250,173	18,637,167	18,860,197
Add: Other common shares eligible for common dividends:			
Weighted average restricted shares and stock options (including tax benefit component)	450,809	458,153	408,098



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Weighted average participating common shares	18,700,982	19,095,320	19,268,295
Denominator:			
Weighted average participating common shares	18,700,982	19,095,320	19,268,295
Add: Other classes of securities, including contingently issuable common shares and convertible preferred shares:			
Weighted average common shares issuable upon conversion of Series C preferred shares			242,287
Weighted average common shares issuable upon conversion of Series D preferred shares			969,154
Weighted average participating shares	18,700,982	19,095,320	20,479,736
Portion allocable to common shareholders	100.0%	100.0%	94.1%

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	<b>Pre-Tax Amount</b>	<b>Tax Expense (In thousands)</b>	<b>Net-of-Tax Amount</b>
<b>December 31, 2011</b>			
Unrealized gain on securities:			
Unrealized gain on available-for-sale securities	\$ 3,127	\$ 1,094	\$ 2,033
Change in unrealized losses on fixed maturity securities with OTTI	(21)	(7)	(14)
Less amortization of differences between fair value and amortized cost for fixed maturity security transfer	(159)	(56)	(103)
Less reclassification adjustment for gains realized in net income	107	37	70
Change in deferred tax valuation allowance		36	(36)
Net unrealized gain	3,054	1,104	1,950
Other comprehensive income	\$ 3,054	\$ 1,104	\$ 1,950
<b>December 31, 2010</b>			
Unrealized gain on securities:			
Unrealized loss on available-for-sale securities	\$ (632)	\$ (221)	\$ (411)
Less amortization of differences between fair value and amortized cost for fixed maturity security transfer	(405)	(141)	(264)
Less reclassification adjustment for losses realized in net income	(1,651)	(578)	(1,073)
Change in deferred tax valuation allowance		715	(715)
Net unrealized loss	(2,688)	(225)	(2,463)
Other comprehensive income	\$ (2,688)	\$ (225)	\$ (2,463)
<b>December 31, 2009</b>			
Unrealized gain on securities:			
Unrealized gain on available-for-sale securities	\$ 2,497	\$ 874	\$ 1,623
Less amortization of differences between fair value and amortized cost for fixed maturity security transfer	(983)	(344)	(639)
Less reclassification adjustment for gains realized in net income	226	79	147
Change in deferred tax valuation allowance		(752)	752
Net unrealized gain	1,740	(143)	1,883
Other comprehensive income	\$ 1,740	\$ (143)	\$ 1,883

**16. Employee Benefit Plan**

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The Company's 401(k) benefit plan is available to all employees. The Company matches up to 2% of employee compensation for participating employees, subject to certain limitations. Employees are fully vested in employer contributions to this plan after five years. Company contributions to this plan were \$316,000 in 2011, \$307,000 in 2010 and \$313,000 in 2009.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****17. Commitments and Contingencies**

The Company is a party to various legal actions arising principally from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating reserves for loss and loss adjustment expenses. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

The Company provides workers' compensation insurance in several states that maintain second-injury funds. Incurred losses on qualifying claims that exceed certain amounts may be recovered from these state funds. There is no assurance that the applicable states will continue to provide funding under these programs.

The Company manages risk on certain long-duration claims by settling these claims through the purchase of annuities from unaffiliated carriers. In the event these carriers are unable to meet their obligations under these contracts, the Company could be liable to the claimants. The following table summarizes (in thousands) the fair value of the annuities at December 31, 2011, that the Company has purchased to satisfy its obligations. The A.M. Best Company rating is shown parenthetically.

	<b>Statement Value of Annuities Exceeding 1% of Statutory Surplus</b>
<b>Life Insurance Company</b>	
American General Life Insurance (A)	\$ 20,172
Pacific Life and Annuity Company (A+)	13,940
New York Life Insurance Company (A++)	11,909
Metropolitan Life Insurance Company (A+)	9,486
Aviva Life Insurance Company (A)	7,252
John Hancock Life Insurance Company USA (A+)	7,030
Genworth Life Insurance Company (A)	5,358
Liberty Life Assurance Company of Boston (A)	4,794
Other	12,948
	\$ 92,889

Substantially all of the annuities are issued or guaranteed by life insurance companies that have an A.M. Best Company rating of A (Excellent) or better.

The Company leases equipment and office space under noncancelable operating leases. At December 31, 2011, future minimum lease payments are as follows (in thousands):

2012	\$ 194
2013	100
2014	36
2015	4
	\$ 334

Rental expense was \$293,000 in 2011, \$475,000 in 2010 and \$856,000 in 2009.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****18. Concentration of Operations**

The Company derives its revenues primarily from its operations in the workers compensation insurance line of business. Total net premiums earned for the different lines of business are shown below:

	2011		2010		2009	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)					
Workers compensation	\$ 249,966	99.6%	\$ 217,810	99.5%	\$ 249,758	99.5%
General liability	1,049	0.4%	1,071	0.5%	1,138	0.5%
<b>Total net premiums earned</b>	<b>\$ 251,015</b>	<b>100.0%</b>	<b>\$ 218,881</b>	<b>100.0%</b>	<b>\$ 250,896</b>	<b>100.0%</b>

Net premiums earned during 2011, 2010 and 2009 for the top ten states in 2011 and all others are shown below:

	2011		2010		2009	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
	(Dollars in thousands)					
Louisiana	\$ 28,157	11.2%	\$ 23,406	10.7%	\$ 25,559	10.2%
Georgia	21,496	8.6	19,308	8.8	23,358	9.3
Pennsylvania	19,265	7.7	16,784	7.7	14,731	5.9
North Carolina	17,071	6.8	17,038	7.8	19,842	7.9
Oklahoma	16,037	6.4	14,544	6.6	18,872	7.5
Virginia	15,660	6.2	13,680	6.3	14,702	5.9
Illinois	14,673	5.8	14,294	6.5	17,220	6.9
Texas	11,073	4.4	8,858	4.0	11,104	4.4
Kansas	9,486	3.8	7,126	3.3	8,096	3.2
Minnesota	9,388	3.7	7,887	3.6	9,005	3.6
All others	88,709	35.4	75,956	34.7	88,407	35.2
<b>Total net premiums earned</b>	<b>\$ 251,015</b>	<b>100.0%</b>	<b>\$ 218,881</b>	<b>100.0%</b>	<b>\$ 250,896</b>	<b>100.0%</b>

**19. Fair Values of Financial Instruments**

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.

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*Investments* The fair values for fixed maturity and equity securities are based on quoted market prices where available. For those securities not actively traded, fair values were obtained from a third-party investment manager.

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

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011**

*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:

	2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
<b>Assets:</b>				
Fixed maturity securities held to maturity	\$ 646,048	\$ 685,242	\$ 663,345	\$ 683,463
Fixed maturity securities available for sale	100,742	100,742	21,649	21,649
Equity securities	12,240	12,240	1,773	1,773
Cash and cash equivalents	45,536	45,536	60,966	60,966
Short-term investments	46,944	46,944	78,770	78,770
<b>Liabilities:</b>				
Subordinated debt securities:				
ACT I			10,310	10,310
ACT II	25,780	25,780	25,780	25,780

The Company carries available-for-sale securities at fair value in our consolidated financial statements and determines fair value measurements and disclosure in accordance with FASB ASC Topic 820, *Fair Value Measurements and Disclosure*

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 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.

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 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.



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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2011**

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.

The fair values of the Company's investments are based upon prices provided by an independent pricing service. The Company has reviewed these prices for reasonableness and has not adjusted any prices received from the independent provider. Securities reported at fair value utilizing Level 1 inputs represent assets whose fair value is determined based upon observable unadjusted quoted market prices for identical assets in active markets. Level 2 securities represent assets whose fair value is determined using observable market information such as previous day trade prices, quotes from less active markets or quoted prices of securities with similar characteristics.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011**

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010 are as follows:

	Level 1 Inputs	December 31, 2011		Total Fair Value
		Level 2 Inputs (in thousands)	Level 3 Inputs	
<b>Securities available for sale - equity</b>				
Domestic common stock	\$ 11,460	\$	\$	\$ 11,460
<b>Securities available for sale - fixed maturity</b>				
States and political subdivisions		57,761		57,761
Corporate bonds		42,981		42,981
Total available for sale - fixed maturity	\$	\$ 100,742	\$	\$ 100,742
Total available for sale	\$ 11,460	\$ 100,742	\$	\$ 112,202

	Level 1 Inputs	December 31, 2010		Total Fair Value
		Level 2 Inputs (in thousands)	Level 3 Inputs	
<b>Securities available for sale - equity</b>				
Domestic common stock	\$ 683	\$	\$	\$ 683
<b>Securities available for sale - fixed maturity</b>				
U.S. Treasury securities and obligations of U.S. Government agencies	5,840			5,840
Corporate bonds	8,601	7,208		15,809
Total available for sale - fixed maturity	\$ 14,441	\$ 7,208	\$	\$ 21,649
Total available for sale	\$ 15,124	\$ 7,208	\$	\$ 22,332

In addition, the Company held common securities in unconsolidated variable interest entities of \$780,000 at December 31, 2011 and \$1,090,000 at December 31, 2010, which are carried at cost.

At December 31, 2011, the Company held one security measured at fair value on a nonrecurring basis due to a recognized impairment of \$169,000. The security is valued using Level 2 inputs and had a value of \$563,621 at December 31, 2011.

**20. Subsequent Events**

On March 1, 2012, the Company's Board of Directors authorized the redemption of \$12,890,000 of the \$25,780,000 aggregate principal amount of subordinated debt securities. The redemption is expected to occur in the second quarter of 2012.



**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2011****21. Quarterly Financial Data (Unaudited)**

The following table represents unaudited quarterly financial data for the years ended December 31, 2011 and 2010. Financial data for the three months ended September 30, 2011 and for the three months ended December 31, 2010 have been adjusted to correct the accounting of our estimate of liability for state guaranty fund assessments. See Note 1.

	March 31	Three Months Ended		December 31
		June 30	September 30	
(In thousands, except per share amounts)				
<b>2011</b>				
Premiums earned	\$ 60,089	\$ 60,261	\$ 64,454	\$ 66,211
Net investment income	6,546	6,597	6,495	6,702
Net realized gains on investments	103	145	512	1,468
Total revenues	66,959	67,051	71,743	74,910
Income before income taxes	7,486	4,793	5,498	9,494
Net income	6,627	4,569	4,871	8,058
Earnings per share:				
Basic	0.36	0.25	0.27	0.45
Diluted	0.35	0.24	0.26	0.44
Comprehensive income	6,535	5,360	6,149	8,031
<b>2010</b>				
Premiums earned	\$ 55,058	\$ 52,982	\$ 54,412	\$ 56,429
Net investment income	6,540	6,675	6,569	6,458
Net realized gains on investments	2,552	293	(561)	165
Total revenues	64,382	60,095	60,538	63,141
Income before income taxes	13,619	13,442	4,869	12,424
Net income	11,277	10,424	4,358	8,547
Earnings per share:				
Basic	0.60	0.56	0.24	0.46
Diluted	0.58	0.54	0.23	0.45
Comprehensive income	8,934	10,170	4,637	8,402

Previously reported amounts for the three months ended September 30, 2011 for income before income taxes, net income, basic earnings per share, diluted earnings per share and comprehensive income were \$8,300, \$6,692, \$0.37, \$0.36 and \$7,970, respectively. Adjustment amounts for income before income taxes, net income, basic earnings per share, diluted earnings per share and comprehensive income were decreases of \$2,802, \$1,821, \$0.10, \$0.10 and \$1,821, respectively.

Previously reported amounts for the three months ended December 31, 2010 for income before income taxes, net income, basic earnings per share, diluted earnings per share and comprehensive income were \$10,497, \$7,294, \$0.40, \$0.39 and \$7,149, respectively. Adjustment amounts for income before income taxes, net income, basic earnings per share, diluted earnings per share and comprehensive income were increases of \$1,927, \$1,253, \$0.06, \$0.06 and \$1,253, respectively.

**Table of Contents****Schedule II. Condensed Financial Information of Registrant****AMERISAFE, INC.****CONDENSED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Assets</b>		
Investments:		
Short-term investments	\$ 25,564	\$ 12,246
Fixed-maturity securities held to maturity, at amortized cost	701	
Fixed-maturity securities available-for-sale, at fair value	2,933	
Equity securities available-for-sale, at fair value	780	1,773
Investment in subsidiaries	323,142	331,811
Total investments	353,120	345,830
Cash and cash equivalents	14,887	19,830
Deferred income taxes	1,458	1,622
Notes receivable from subsidiaries	5,501	
Property and equipment, net	2,018	1,894
Other assets	860	642
	\$ 377,844	\$ 369,818
<b>Liabilities, redeemable preferred stock and shareholders equity</b>		
Liabilities:		
Accounts payable and other liabilities	\$ 596	\$ 607
Note payable to subsidiaries		2,042
Payable for securities purchased	616	887
Subordinated debt securities	25,780	36,090
Total liabilities	26,992	39,626
Shareholders equity (net of Treasury stock of \$22,370 and \$12,102 at December 31, 2011 and December 31, 2010, respectively)	350,852	330,192
	\$ 377,844	\$ 369,818

**Table of Contents****Schedule II. Condensed Financial Information of Registrant (Continued)****AMERISAFE, INC.****CONDENSED STATEMENTS OF INCOME**

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>		
<b>Revenues</b>			
Net investment income	\$ 478	\$ (211)	\$ 553
Fee and other income	9,710	7,258	7,071
Total revenues	10,188	7,047	7,624
<b>Expenses</b>			
Other operating costs	4,827	6,956	6,646
Interest expense	1,311	1,548	1,810
Total expenses	6,138	8,504	8,456
Income (loss) before income taxes and equity in earnings of subsidiaries	4,050	(1,457)	(832)
Income tax expense (benefit)	1,213	(307)	(289)
Gain (loss) before equity in earnings of subsidiaries	2,837	(1,150)	(543)
Equity in net income of subsidiaries	21,288	35,756	48,106
Net income	\$ 24,125	\$ 34,606	\$ 47,563

**Table of Contents****Schedule II. Condensed Financial Information of Registrant (Continued)****AMERISAFE, INC.****CONDENSED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
<b>Operating activities</b>			
Net cash (used in) provided by operating activities	\$ (3,646)	\$ 5,338	\$ 577
<b>Investing activities</b>			
Purchases of investments	(57,148)	(12,491)	(10,253)
Proceeds from sales of investments	40,990	1,090	10,253
Purchases of property and equipment	(943)	(486)	(805)
Dividends from subsidiary	32,000	32,300	10,000
Net cash provided by investing activities	14,899	20,413	9,195
<b>Financing activities</b>			
Proceeds from stock option exercise	3,339	1,455	295
Tax benefit from share-based payments	1,043	238	45
Redemption of preferred stock			(25,875)
Redemption of Subordinated Debt Security	(10,310)		
Purchase of treasury stock	(10,268)	(12,102)	
Net cash used in financing activities	(16,196)	(10,409)	(25,535)
Change in cash and cash equivalents	(4,943)	15,342	(15,763)
Cash and cash equivalents at beginning of year	19,830	4,488	20,251
Cash and cash equivalents at end of year	\$ 14,887	\$ 19,830	\$ 4,488

**Table of Contents****Schedule VI. Supplemental Information Concerning Property Casualty Insurance Operations****AMERISAFE, INC. AND SUBSIDIARIES**

	Deferred Policy Acquisition Cost	Reserves for Unpaid Loss and Loss Adjustment Expense	Unearned Premium	Earned Premium	Net Investment Income	Loss and LAE Related to Current Period	Loss and LAE Related to Prior Periods	Amortization of Deferred Policy Acquisition Costs	Paid Claims and Claim Adjustment Expenses	Net Premiums Written
	(In thousands)									
2011	\$ 18,756	\$ 538,214	\$ 118,699	\$ 251,015	\$ 26,340	\$ 196,269	\$ (6,563)	\$ (39,446)	\$ 179,097	\$ 258,220
2010	17,400	532,204	111,494	218,881	26,242	179,022	(21,634)	(33,170)	164,940	207,875
2009	18,128	534,655	122,500	250,896	28,014	185,201	(21,885)	(37,128)	163,793	236,296



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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

*Evaluation of Disclosure 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 specified by the SEC. We note that the design of any system of controls is based in part upon certain 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.

*Management's Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Our internal control over financial reporting is a process designed under the supervision of our chief executive officer and our chief financial officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria described in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's assessment under the framework in Internal Control - Integrated Framework, our management has concluded that internal control over financial reporting was effective as of December 31, 2011.

Our independent registered public accounting firm, Ernst & Young LLP, has audited the effectiveness of internal controls over financial reporting, as stated in their report included herein.

*Changes in Internal Control Over Financial Reporting*

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

*Limitations on Controls*

Because of its inherent limitations, management does not expect that our disclosure control and our internal control over financial reporting will prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate. Any control system, no matter how well designed and operated, is based upon certain assumptions and can only provide reasonable, not absolute assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to errors or fraud will not occur or that all control issues and instances of fraud, if any within the Company, have been detected.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors

AMERISAFE, Inc. and Subsidiaries

We have audited AMERISAFE, Inc. and Subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AMERISAFE, Inc. and Subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on AMERISAFE, Inc. and Subsidiaries internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AMERISAFE, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of AMERISAFE, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated March 9, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

New Orleans, Louisiana

March 9, 2012

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### **Item 9B. Other Information.**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by Item 10 with respect to our executive officers and key employees is included in Part I of this report.

The information required by Item 10 with respect to our directors is incorporated by reference to the information included under the caption Election of Directors in our Proxy Statement for the 2012 Annual Meeting of Shareholders. We plan to file such Proxy Statement within 120 days after December 31, 2011, the end of our fiscal year.

The information required by Item 10 with respect to compliance with Section 16 of the Exchange Act is incorporated by reference to the information included under the caption Section 16(a) Beneficial Ownership Reporting Compliance in our Proxy Statement for the 2012 Annual Meeting of Shareholders.

The information required by Item 10 with respect to our audit committee and our audit committee financial expert is incorporated by reference to the information included under the caption The Board, Its Committees and Its Compensation Audit Committee in our Proxy Statement for the 2012 Annual Meeting of Shareholders.

The information required by Item 10 with respect to our code of business conduct and ethics for executive and financial officers and directors is posted on our website at [www.amerisafe.com](http://www.amerisafe.com) in the Investor Relations section under Governance Code of Conduct. We will post information regarding any amendment to, or waiver from, our code of business conduct and ethics on our website in the Investor Relations section under Governance.

### **Item 11. Executive Compensation.**

The information required by Item 11 is incorporated by reference to the information included under the captions Executive Compensation, The Board, Its Committees, and Its Compensation Director Compensation, Compensation Committee Interlocks and Insider Participation, Compensation Discussion and Analysis and Compensation Committee Report in our Proxy Statement for the 2012 Annual Meeting of Shareholders.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by Item 12 is incorporated by reference to the information included under the captions Security Ownership of Management and Certain Beneficial Holders and Equity Compensation Plan Information in our Proxy Statement for the 2012 Annual Meeting of Shareholders.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence.**

The information required by Item 13 with respect to certain relationships and related transactions is incorporated by reference to the information included under the caption Executive Compensation Certain Relationships and Related Transactions in our Proxy Statement for the 2012 Annual Meeting of Shareholders.

The information required by Item 13 with respect to director independence is incorporated by reference to the information included under the caption The Board, Its Committees and Its Compensation Director Independence in our Proxy Statement for the 2012 Annual Meeting of Shareholders.



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**Item 14. Principal Accountant Fees and Services.**

The information required by Item 14 with respect to the fees and services of Ernst & Young LLP, our independent registered public accounting firm, and the audit committee's pre-approved policies and procedures, are incorporated by reference to the information included under the caption "Independent Public Accountants" in our Proxy Statement for the 2012 Annual Meeting of Shareholders.

**Table of Contents****PART IV****Item 15. Exhibits and Financial Statement Schedules.**

The following consolidated financial statements and schedules are filed in Item 8 of Part II of this report:

	<b>Page</b>
<b>Financial Statements:</b>	
<u>Report of Independent Registered Public Accounting Firm</u>	63
<u>Consolidated Balance Sheets</u>	64
<u>Consolidated Statements of Income</u>	65
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	66
<u>Consolidated Statements of Cash Flows</u>	67
<u>Notes to Consolidated Financial Statements</u>	68
<b>Financial Statement Schedules:</b>	
<u>Schedule II. Condensed Financial Information of Registrant</u>	102
<u>Schedule VI. Supplemental Information Concerning Property-Casualty Insurance Operations</u>	105
(Schedules I, III, IV and V are not applicable and have been omitted.)	
<b>Exhibits:</b>	
3.1	Amended and Restated Certificate of Formation of AMERISAFE, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed August 6, 2010)
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed August 6, 2010)
10.1*	Employment Agreement, dated March 1, 2008 by and between the Company and C. Allen Bradley, Jr. (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed March 6, 2008).
10.2*	Employment Agreement, dated March 1, 2008 by and between the Company and Geoffrey R. Banta  (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K filed March 6, 2008)
10.3*	Employment Agreement, dated March 1, 2008 by and between the Company and Craig P. Leach (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K filed March 6, 2008)
10.4*	Employment Agreement, dated November 1, 2008 by and between the Company and G. Janelle Frost (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 7, 2008)
10.5*	Employment Agreement, dated June 23, 2009 by and between the Company and Brendan Gau (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 6, 2009)
10.6*	AMERISAFE, Inc. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1, Amendment No. 3 (File No. 333-127133), filed October 31, 2005)
10.7*	Form of Incentive Stock Option Award Agreement for the AMERISAFE, Inc. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1, Amendment No. 3 (File No. 333-127133), filed October 31, 2005)
10.8*	Form of Non-Qualified Stock Option Award Agreement for the AMERISAFE, Inc. 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1, Amendment No. 3 (File No. 333-127133), filed October 31, 2005)

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**Exhibits:**

10.9*	AMERISAFE, Inc. 2010 Restated Non-Employee Director Restricted Stock Plan (incorporated by reference to Appendix B to the Company's Definitive Form 14A filed April 26, 2010)
10.10*	Form of Restricted Stock Award Agreement for the AMERISAFE, Inc. 2010 Restated Non-Employee Director Restricted Stock Plan (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K, filed March 7, 2011)
10.11*	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 6, 2010)
10.12*	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-127133), filed August 3, 2005)
10.13*	AMERISAFE, Inc. Management Annual Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 29, 2008).
10.14	First Casualty Excess of Loss Reinsurance Contract, effective as of January 1, 2008, issued to the Company by the reinsurers and named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed February 15, 2008)
10.15	Second Casualty Excess of Loss Reinsurance Contract, effective as of January 1, 2008, issued to the Company by the reinsurers and named therein (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed February 15, 2008)
10.16	Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2008, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed February 15, 2008)
10.17	Second Casualty Excess of Loss Reinsurance Agreement, effective as of January 1, 2009 issued to the Company by Hannover Reinsurance (Ireland), Limited (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K, filed March 9, 2009)
10.18	Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2009 issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K, filed March 9, 2009)
10.19	Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2010 issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K, filed March 7, 2011)
10.20	First Casualty Excess of Loss Reinsurance Contract, effective as of January 1, 2011, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K, filed March 7, 2011)
10.21	Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2011, issued to the Company by the reinsurers named therein (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K, filed March 7, 2011)
10.22	Second Casualty Excess of Loss Reinsurance Agreement, effective as of January 1, 2012 issued to the Company by the reinsurers named therein
10.23	Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2012, issued to the Company by the reinsurers named therein
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to the Company's Registration Statement on Form S-1 (File No. 333-127133), filed August 3, 2005)
23.1	Consent of Ernst & Young LLP
24.1	Powers of Attorney for our directors and certain executive officers

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**Exhibits:**

31.1	Certification of C. Allen Bradley 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 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
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Management contract, compensatory plan or arrangement



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 on March 9, 2012.

AMERISAFE, INC.

By: /s/ C. ALLEN BRADLEY, JR.  
**C. Allen Bradley, Jr.**  
**Chairman and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 29, 2012.

/s/ C. ALLEN BRADLEY, JR.	Chairman,
<b>C. Allen Bradley, Jr.</b>	Chief Executive Officer and Director (Principal Executive Officer)
/s/ G. JANELLE FROST	Executive Vice President and
<b>G. Janelle Frost</b>	Chief Financial Officer (Principal Financial and Accounting Officer)
*	Director
<b>Philip A. Garcia</b>	
*	Director
<b>Jared A. Morris</b>	
*	Director
<b>Millard E. Morris</b>	
*	Director
<b>Daniel Phillips</b>	
*	Director
<b>Randall Roach</b>	
	Director
<b>Sean M. Traynor</b>	
*	Director

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**Austin P. Young, III**

G. Janelle Frost, by signing her name hereto, does hereby sign this Annual Report on Form 10-K on behalf of the above-named directors of AMERISAFE, Inc. on this 9th day of March 2012, pursuant to powers of attorney executed on behalf of such directors and contemporaneously filed with the Securities and Exchange Commission.

\*By:                    /s/ G. JANELLE FROST  
**G. Janelle Frost, Attorney-in-Fact**

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**EXHIBIT INDEX**

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