FreightCar America, Inc.
Form 10-K
March 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

or

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

Commission file number: 000-51237

FREIGHTCAR AMERICA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**25-1837219**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
Two North Riverside Plaza, Suite 1300, Chicago, Illinois	**60606**
(Address of principal executive offices)	**(Zip Code)**

(800) 458-2235

(Registrant s telephone number, including area code)

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 Global Market**

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 x

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 x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark 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 the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of June 30, 2015 was $250.2 million, based on the closing price of $20.88 per share on the Nasdaq Global Market.

As of February 19, 2016, there were 12,344,544 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Part of Form 10-K
Portions of the registrant s definitive Proxy Statement for the 2015 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days of the end of the registrant s fiscal year ended December 31, 2015.	Part III

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FREIGHTCAR AMERICA, INC.

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PART I

Item 1. Business.

OVERVIEW

We are a diversified manufacturer of railcars and railcar components. We design and manufacture a broad variety of railcar types for transportation of bulk commodities and containerized freight products primarily in North America, including open top hoppers, covered hoppers, and gondolas along with intermodal and non-intermodal flat cars. We and our predecessors have been manufacturing railcars since 1901. Over the last several years, we have introduced a number of new or redesigned railcar types. We believe we are the leading manufacturer of aluminum-bodied railcars including coal cars in North America, based on the number of railcars delivered.

Our railcar manufacturing facilities are located in Cherokee, Alabama (Shoals), Danville, Illinois and Roanoke, Virginia. Our Shoals facility is an important part of our long-term growth strategy as we continue to expand our railcar product and service offerings outside of our traditional coal car market. While our Danville and Roanoke facilities will continue to support our coal car products, we believe the Shoals facility will allow us to produce a broader variety of railcars in a cost-effective and efficient manner. Our Shoals facility delivered its first railcars during the fourth quarter of 2013 and production continued to ramp up during 2014 and 2015. Our Danville facility resumed production in June 2014 after being idled for 14 months. Given the challenged coal market and the completion of our recent rebuild program, operations at our Danville facility will be significantly curtailed in 2016.

We also lease freight cars through our JAIX Leasing Company subsidiary. We offer railcar leasing and refurbishment alternatives to our customers, an approach designed to enhance our position as a full service provider to the railcar industry. Although we continually look for opportunities to package our leased assets for sale to our leasing company partners, these leased assets may not be converted to sales, and may remain revenue producing assets into the foreseeable future.

We also refurbish and rebuild railcars and sell forged, cast and fabricated parts for all of the railcars we produce, as well as those manufactured by others. Through September 30, 2015, FreightCar Rail Services, LLC (FCRS) provided railcar repair and maintenance and inspections for all types of freight railcars. FCRS had repair and maintenance and inspection facilities in Grand Island, Nebraska and Hastings, Nebraska and serviced freight cars and unit coal trains utilizing key rail corridors in the Midwest and Western regions of the United States. On September 30, 2015, the Company sold its railcar repair and maintenance services business. The sale allows the Company to increase its focus on its railcar manufacturing, parts and leasing business as the Company continues to broaden its product portfolio through the introduction of new railcar types and implements operational improvements, enhancing productivity through training, technology and automation. During the fourth quarter of 2013 we decided to close our underperforming maintenance and repair shop in Clinton, Indiana and during the third quarter of 2014, those repair shop assets were sold to a strategic buyer.

Our primary customers are railroads, shippers and financial institutions, which represented 69%, 17% and 15%, respectively, of our total sales attributable to each type of customer for the year ended December 31, 2015. In the year ended December 31, 2015, we delivered 8,980 railcars, including 3,395 coal cars, which compared to 7,102 railcars, including 4,038 coal cars, delivered in the year ended December 31, 2014. Our deliveries for the year ended December 31, 2015 included 2,600 rebuilt railcars compared to 3,090 rebuilt railcars delivered in 2014. Our total backlog of firm orders for railcars decreased from 14,791 railcars as of December 31, 2014 to 9,840 railcars as of December 31, 2015. Our backlog as of December 31, 2015 includes a variety of railcar types almost all of which were orders for non-coal cars. The estimated sales value of our backlog is $926 million as of December 31, 2015. As of December 31, 2014, 77% of our backlog consisted of orders for non-coal cars. Our backlog as of December 31, 2015 included no rebuilt railcars compared to 2,600 rebuilt railcars in our backlog as of December 31, 2014.

Our Internet website is www.freightcaramerica.com. We make available, free of charge, on or through our website items related to Corporate governance, including, among other things, our Corporate governance guidelines, charters of various committees of the Board of Directors and our code of business conduct and ethics. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments thereto, are available on our website and on the SEC s website at www.sec.gov. Any stockholder of our company may also obtain copies of these documents, free of charge, by sending a request in writing to Investor Relations at FreightCar America, Inc., Two North Riverside Plaza, Suite 1300, Chicago, Illinois 60606.

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OUR PRODUCTS AND SERVICES

We design and manufacture a broad variety of freight cars including covered hoppers, open top hoppers, gondolas, intermodal and non-intermodal flat cars that transport numerous types of dry bulk and containerized freight products.

In the last five years, we have added 31 new or redesigned products to our portfolio, including various covered hopper car products with cubic capacities from 3,282 cubic foot to 6,250 cubic foot; 52 and 66 mill gondolas; coil gondolas; triple hoppers and hybrid aluminum/stainless steel railcars; ore hopper and gondola railcars; ballast hopper cars; aggregate hopper cars (with manual, independent or fully automatic transverse or longitudinal door systems); intermodal flats (including the 3-unit, 53-foot well cars) and non-intermodal flat cars (including slab, hot slab, ribbon rail and bulkhead flats). Focused product development activity continues in areas where we can leverage our technical knowledge base and capabilities to realize market opportunities.

The types of railcars listed below include the major types of railcars that we are capable of manufacturing; however, some of the types of railcars listed below have not been ordered by any of our customers or manufactured by us in a number of years. We refurbish and rebuild railcars and sell forged, cast and fabricated parts for all of the railcars we produce, as well as those manufactured by others. Through September 30, 2015, we also provided general railcar repair and maintenance and inspections for all types of freight-carrying railcars. Many of our railcars are produced using a patented one-piece center sill, the main longitudinal structural component of the railcar. The one-piece center sill provides a higher carrying capacity, but weighs significantly less than traditional multiple-piece center sills. In addition to railcars designed for use in North America, we have manufactured railcars for export to Latin America and the Middle East. Railroads outside of North America are constructed with a variety of track gauges that are sized differently than in North America, which requires us, in some cases, to alter our manufacturing specifications accordingly.

Any of the railcar types listed below may be further developed to meet the characteristics of the materials being transported and customer specifications.

Stainless Steel and Hybrid Stainless Steel/Aluminum Coal Cars. We manufacture a series of stainless steel and hybrid stainless steel and aluminum AutoFlood and BethGon coal cars designed to serve the Eastern railroads. These coal cars are designed to withstand the rigors of Eastern coal transportation service. They offer a unique balance of maximized payload, light weight, efficient unloading and long service life. Our coal car product offerings include aluminum-bodied flat-bottom gondola railcars and steel or stainless steel-bodied triple hopper railcars for coal, metallurgical coke and petroleum coke service.

VersaFlood Series. Our VersaFlood series open-top hopper railcars include steel, stainless steel or hybrid steel and aluminum-bodied designs equipped with three-pocket (transverse gate) or two-pocket (longitudinal gate) discharge door systems with manual, independent or fully automatic door operation. The VersaFlood product series offers versatile design options for transportation of aggregates, sand or minerals.

Covered Hopper Cars. Our covered hopper railcar product offerings encompass a wide range of cubic foot (cf) capacity designs for shipping dry bulk commodities of varying densities including: 3,282 cf covered hopper cars for cement, sand and roofing granules; 4,300 cf covered hopper cars for potash or similar commodities; 5,200 cf and 5,400 cf covered hopper cars for grain and other agricultural products; and 6,250 cf covered hopper cars for plastic pellets.

Dynastack Series. Our intermodal doublestack railcar product offerings include a stand-alone 40 foot well car, the DynaStack® articulated, 5-unit, 40 foot and the DynaStack® 3-unit, 53 foot well cars for transportation of international and domestic containers.

Boxcars. Our high capacity boxcar railcar product offering, featuring an inside length of 60 9 , capacity of 7,550 cf, double plug doors, galvanized steel roof panels and nailable steel floors, primarily designed for transporting paper products, paper rolls, lumber and wood products and foodstuffs.

Aluminum Coal Cars. The BethGon® is the leader in the aluminum-bodied coal gondola railcar segment. Since we introduced the steel BethGon railcar in the late 1970s and the aluminum BethGon railcar in 1986, the BethGon railcar has become the most widely used coal car in North America. Our current BethGon II features lighter

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weight, higher capacity and increased durability suitable for long-haul coal carrying railcar service. We have received several patents on the features of the BethGon II and continue to explore ways to increase the BethGon II s capacity and reliability.

Our aluminum bodied open-top hopper railcar, the AutoFlood , is a five-pocket coal car equipped with a bottom discharge gate mechanism. We began manufacturing AutoFlood railcars in 1984, and introduced the AutoFlood II and AutoFlood III designs in 1996 and 2002, respectively. Both the AutoFlood II and AutoFlood III designs incorporate the automatic rapid discharge system, the MegaFlo door system, a patented mechanism that uses an over-center locking design, enabling the cargo door to close with tension rather than by compression. Further, AutoFlood railcars can be equipped with rotary couplers to permit rotary unloading.

Other Railcar Types. Our portfolio of railcar types also includes 52 and 66 mill gondola railcars used to transport steel products and scrap; slab, hot slab and coil steel railcars designed specifically for transportation of steel slabs and coil steel products, respectively; non-intermodal flat railcars and bulkhead flat railcars designed to transport a variety of products, including machinery and equipment, steel and structural steel components (including pipe), wood and forest products and other bulk industrial products; woodchip hopper and gondola railcars designed to haul woodchips and municipal waste or other low-density commodities; and a variety of non-coal carrying open top hopper railcars designed to carry ballast, iron ore, taconite pellets and other bulk commodities; the AVC Aluminum Vehicle Carrier design used to transport commercial and light vehicles (automobiles and trucks) from assembly plants and ports to rail distribution centers; and the articulated bulk container railcar designed to carry dense bulk products such as waste products in 20 foot containers.

MANUFACTURING

We have railcar production facilities in Cherokee, Alabama, Danville, Illinois and Roanoke, Virginia. Our facilities are each certified or approved for certification by the Association of American Railroads (the AAR), which sets railcar manufacturing industry standards for quality control. Our Shoals manufacturing facility delivered its first railcars during the fourth quarter of 2013 and provides a solid platform from which to pursue a broad range of non-coal car business including intermodal well cars, non-intermodal flat cars and various open-top hopper, covered hopper and gondola cars. During the fourth quarter of 2014, we announced a $10 million expansion at our Shoals facility to add additional production capacity to meet demand for our new types of railcars. The new production capacity became operational in the second quarter of 2015. During 2015, we added approximately 360 employees to support increased production levels at our Shoals facility. Our Danville facility resumed production in June 2014 after being idled for 14 months. We will continue to adjust salaried and hourly labor personnel levels at all of our facilities to coincide with production requirements.

Our manufacturing process involves four basic steps: fabrication, assembly, finishing and inspection. Each of our facilities has numerous checkpoints at which we inspect products to maintain quality control, a process that our operations management continuously monitors. In our fabrication processes, we employ standard metal working tools, many of which are computer controlled. Each assembly line typically involves 15 to 20 manufacturing positions, depending on the complexity of the particular railcar design. We use mechanical fastening in the fitting and assembly of our aluminum-bodied railcar parts, while we typically use welding for the assembly of our steel-bodied railcars. For aluminum-bodied railcars, we begin the finishing process by cleaning the railcar s surface and then applying the decals. In the case of steel-bodied railcars, we begin the finishing process by blasting the surface area of the railcar, painting it and then applying decals. Once we have completed the finishing process, our employees, along with representatives of the customer purchasing the particular railcars, inspect all railcars for adherence to specifications.

CUSTOMERS

We have strong long-term relationships with many large purchasers of railcars. Long-term customer relationships are particularly important in the railcar industry, given the limited number of buyers of railcars.

Our customer base consists mostly of North American railroads, financial institutions and shippers. We believe that our customers preference for reliable, high-quality products, the relatively high cost for customers to switch manufacturers, our technological leadership in developing and enhancing innovative products and the competitive pricing of our railcars have helped us maintain our long-standing relationships with our customers.

In 2015, revenue from three customers, Norfolk Southern Railway Company, CSX Transportation Inc. and CitiCorp Railmark, Inc, accounted for approximately 22%, 19% and 10%, respectively, of total revenue. In 2015, sales to our top five customers accounted for approximately 64% of total revenue. In 2014, revenue from three customers, CSX Transportation Inc., SMBC Rail Services and Progress Rail Services Corporation, accounted for approximately 36%, 20% and 13%, respectively, of total revenue. In 2014, sales to our top five customers accounted for approximately 86% of total revenue. Our railcar sales to customers outside the United States were $62.6 million and $18.3 million in 2015 and 2014, respectively. Many of our customers do not purchase railcars every year since railcar fleets are not necessarily replenished or augmented every year. The size and frequency of railcar orders often results in a small number of customers representing a significant portion of our sales in a given year.

SALES AND MARKETING

Our direct sales group is organized geographically and consists of regional sales managers and contract administrators, a manager of customer service and support staff. The regional sales managers are responsible for managing customer relationships. Our contract administrators are responsible for preparing proposals and other inside sales activities. Our manager of customer service is responsible for after-sale follow-up and in-field product performance reviews.

RESEARCH AND DEVELOPMENT

We utilize the latest engineering methods, tools and processes to ensure that new products and processes meet our customers requirements and are delivered in a timely manner. We develop and introduce new railcar designs as a result of a combination of customer feedback and close observation of developing market trends. We work closely with our customers to understand their expectations and design railcars that meet their needs. New product designs are tested and validated for compliance with AAR standards prior to introduction. This comprehensive approach provides the criteria and direction that ensure we are developing products that our customers desire and perform as expected. Costs associated with research and development are expensed as incurred and totaled $0.4 million, $0.3 million and $0.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

BACKLOG

We define backlog as the value of those products or services which our customers have committed in writing to purchase from us or lease from us when built, but which have not yet been recognized as sales. Our contracts may include cancellation clauses under which customers are required, upon cancellation of the contract, to reimburse us for costs incurred in reliance on an order and in some cases, to compensate us for lost profits. However, customer orders may be subject to customer requests for delays in railcar deliveries, inspection rights and other customary industry terms and conditions, which could prevent or delay backlog from being converted into sales.

The following table depicts our reported railcar backlog in number of railcars and estimated future sales value attributable to such backlog, for the periods shown.

	Year Ended December 31,		
	2015	**2014**	**2013**
Railcar backlog at start of period	14,791	6,826	2,881
Railcars delivered	(8,980)	(7,102)	(3,821)

Railcar orders	4,029	15,067	7,766
Railcar backlog at end of period (1)	9,840	14,791	6,826
Estimated revenue from backlog at end of period (in thousands) (2)	$ 925,977	$ 1,268,907	$ 492,018

(1) Railcar backlog includes 0, 2,600 and 3,680 rebuilt railcars as of December 31, 2015, 2014 and 2013, respectively.

(2) Estimated revenue from backlog reflects the total revenue attributable to the backlog reported at the end of the particular period as if such backlog were converted to actual sales. Estimated revenue from backlog does not reflect potential price increases and decreases under customer contracts that provide for variable pricing based on changes in the cost of raw materials. Although we continually look for opportunities to package our leased assets for sale to our leasing company partners, these leased assets may not be converted to sales.

Although our reported backlog is typically converted to sales within two years, our reported backlog may not be converted to sales in any particular period, if at all, and the actual sales from these contracts may not equal our reported backlog estimates. See Item 1A. Risk Factors Risks Related to Our Business The level of our reported backlog may not necessarily indicate what our future sales will be and our actual sales may fall short of the estimated sales value attributed to our backlog. In addition, due to the large size of railcar orders and variations in the mix of railcars, the size of our reported backlog at the end of any given period may fluctuate significantly. See Item 1A. Risk Factors Risks Related to the Railcar Industry The variable purchase patterns of our customers and the timing of completion, delivery and customer acceptance of the railcar may cause our revenues and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results.

SUPPLIERS AND MATERIALS

The cost of raw materials and components represents a substantial majority of the manufacturing costs of most of our railcar product lines. As a result, the management of raw materials and components purchasing is critical to our profitability. We enjoy generally strong relationships with our suppliers, which helps to ensure access to supplies when railcar demand is high.

Our primary aluminum suppliers are Sapa Extrusions and Constellium N.V. (formerly Alcan Inc.). Aluminum prices generally are fixed at the time a railcar order is accepted, mitigating the effect of future fluctuations in prices. Our primary stainless steel supplier is Crompion International, L.L.C. and our primary carbon steel suppliers are International Truck and Engine Investments Corporation, an affiliate of Navistar, Inc., O Neal Steel Inc. and Roll Form Group.

Our primary component suppliers include Amsted Industries, Inc., which supplies us with truck components, brake components, couplers and bearings, and Summit Railroad Products, Inc., which supplies us with axles and wheels. Roll Form Group is the sole supplier of our roll-formed center sills, which were used in 77% and 88% of our new railcars produced in 2015 and 2014, respectively. A center sill is the primary structural component of a railcar. In addition, during 2013, we entered into an agreement with International Truck and Engine Investments Corporation, an affiliate of Navistar, Inc., pursuant to which it has contracted to supply us with various fabricated parts, components and subassemblies as well as providing truck and wheel and axle assembly services and blast and paint finishing services primarily for our Shoals facility. Other suppliers provide brake systems, castings, bearings, fabrications and various other components. The railcar industry is periodically subject to supply constraints for some of the key railcar components. See Item 1A. Risk Factors Risks Related to the Railcar Industry Limitations on the supply of railcar components could adversely affect our business because they may limit the number of railcars we can manufacture.

Except as described above, there are usually at least two suppliers for each of our raw materials and specialty components. No single supplier accounted for more than 16% and 17% of our total purchases in 2015 and 2014, respectively. Our top ten suppliers accounted for 58% and 65% of our total purchases in 2015 and 2014, respectively.

COMPETITION

We operate in a competitive marketplace. Competition is based on price, delivery timing, product design, reputation for product quality and customer service and support.

We have four principal competitors in the North American railcar market that primarily manufacture railcars for third-party customers, which are Trinity Industries, Inc., The Greenbrier Companies, Inc., American Railcar Industries, Inc. and National Steel Car Limited.

Competition in the North American market from railcar manufacturers located outside of North America is limited by, among other factors, high shipping costs and familiarity with the North American market.

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INTELLECTUAL PROPERTY

We have several U.S. and international patents and pending applications, registered trademarks, copyrights and trade names. Key patents include our one-piece center sill, our hopper railcar with automatic individual door system and our railroad car tub. The protection of our intellectual property is important to our business.

EMPLOYEES

As of December 31, 2015, we had 1,662 employees, of whom 233 were salaried and 1,429 were hourly wage earners, and approximately 381, or 23%, of our employees were members of unions. As of December 31, 2014, we had 1,381 employees, of whom 230 were salaried and 1,151 were hourly wage earners, and approximately 402, or 29%, of our employees were members of unions. See Item 1A. Risk Factors Risks Related to Our Business Labor disputes could disrupt our operations and divert the attention of our management and may have a material adverse effect on our operations and profitability.

REGULATION

The Federal Railroad Administration, or FRA, administers and enforces U.S. federal laws and regulations relating to railroad safety. These regulations govern equipment and safety compliance standards for freight railcars and other rail equipment used in interstate commerce. The AAR promulgates a wide variety of rules and regulations governing safety and design of equipment, relationships among railroads with respect to freight railcars in interchange and other matters. The AAR also certifies freight railcar manufacturers and component manufacturers that provide equipment for use on railroads in the United States as well as providers of railcar repair and maintenance services. New products must generally undergo AAR testing and approval processes. As a result of these regulations, we must maintain certifications with the AAR as a freight railcar manufacturer and provider of railcar repair and maintenance services, and products that we sell must meet AAR and FRA standards.

We are also subject to oversight in other jurisdictions by foreign regulatory agencies and to the extent that we expand our business internationally, we will increasingly be subject to the regulations of other non-U.S. jurisdictions.

ENVIRONMENTAL MATTERS

We are subject to comprehensive federal, state, local and international environmental laws and regulations relating to the release or discharge of materials into the environment, the management, use, processing, handling, storage, transport or disposal of hazardous materials, or otherwise relating to the protection of human health and the environment. These laws and regulations not only expose us to liability for our own negligent acts, but also may expose us to liability for the conduct of others or for our actions that were in compliance with all applicable laws at the time these actions were taken. In addition, these laws may require significant expenditures to achieve compliance, and are frequently modified or revised to impose new obligations. Civil and criminal fines and penalties may be imposed for non-compliance with these environmental laws and regulations. Our operations that involve hazardous materials also raise potential risks of liability under the common law.

Environmental operating permits are, or may be, required for our operations under these laws and regulations. These operating permits are subject to modification, renewal and revocation. We regularly monitor and review our operations, procedures and policies for compliance with these laws and regulations. Despite these compliance efforts, risk of environmental liability is inherent in the operation of our businesses, as it is with other companies engaged in similar businesses. We believe that our operations and facilities are in substantial compliance with applicable laws and regulations and that any noncompliance is not likely to have a material adverse effect on our operations or financial condition.

Future events, such as changes in or modified interpretations of existing laws and regulations or enforcement policies, or further investigation or evaluation of the potential health hazards of products or business activities, may give rise to additional compliance and other costs that could have a material adverse effect on our financial condition and operations. In addition, we have in the past conducted investigation and remediation activities at properties that we own to address historic contamination. To date, such costs have not been material. Although we believe we have satisfactorily addressed all known material contamination through our remediation activities, there can be no assurance that these activities have addressed all historic contamination. The discovery of historic contamination or the release of hazardous substances into the environment could require us in the future to incur investigative or remedial costs or other liabilities that could be material or that could interfere with the operation of our business.

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In addition to environmental laws, the transportation of commodities by railcar raises potential risks in the event of a derailment or other accident. Generally, liability under existing law in the United States for a derailment or other accident depends on the negligence of the party, such as the railroad, the shipper or the manufacturer of the railcar or its components. However, for the shipment of certain hazardous commodities, strict liability concepts may apply.

Item 1A. Risk Factors.

The factors described below are the principal risks that could materially adversely affect our operating results and financial condition. Other factors may exist that we do not consider significant based on information that is currently available. In addition, new risks may emerge at any time, and we cannot predict those risks or estimate the extent to which they may affect us.

RISKS RELATED TO THE RAILCAR INDUSTRY

We operate in a highly cyclical industry, and our industry and markets are influenced by factors that are beyond our control, including U.S. and international economic conditions. Such factors could adversely affect demand for our railcar offerings.

Historically, the North American railcar market has been highly cyclical and we expect it to continue to be highly cyclical. During the previous industry cycle, industry-wide railcar deliveries declined from a peak of 74,729 railcars in 2006 to a low of 16,535 railcars in 2010. During this period, our railcar production declined from approximately 18,764 railcars in 2006 to 2,229 railcars in 2010. Our industry and the markets for which we supply railcars are influenced by factors that are beyond our control, including U.S. and international economic conditions. Downturns in economic conditions could result in lower sales volumes, lower prices for railcars and a loss of profits. The cyclicality of the markets in which we operate may adversely affect our operating results and cash flow. In addition, fluctuations in the demand for our railcars may cause comparisons of our sales and operating results between different fiscal years to be less meaningful as indicators of our future performance.

We operate in a competitive industry and we may be unable to compete successfully against other railcar manufacturers.

We operate in a competitive marketplace and face substantial competition from established competitors in the railcar industry in North America. We have four principal competitors that primarily manufacture railcars for third-party customers. Some of these manufacturers have greater financial and technological resources than us, and they may increase their participation in the railcar segments in which we compete. In addition to price, competition is based on delivery timing, product performance and technological innovation, quality, customer service and other factors. In particular, technological innovation by any of our existing competitors, or new competitors entering any of the markets in which we do business, could put us at a competitive disadvantage and impair our ability to compete successfully against other railcar manufacturers or retain our market share in our established markets. Increased competition for the sales of our railcar products could result in price reductions, reduced margins and loss of market share, which could negatively affect our prospects, business, financial condition and results of operations.

We depend upon a small number of customers that represent a large percentage of our sales. The loss of any single customer, or a reduction in sales to any such customer, could have a material adverse effect on our business, financial condition and results of operations.

Since railcars are typically sold pursuant to large, periodic orders, a limited number of customers typically represent a significant percentage of our railcar sales in any given year. Over the last five years, our top five customers in each year based on sales accounted for, in the aggregate, approximately 68% of our total sales for the five-year period. In 2015, sales to our top three customers accounted for approximately 22%, 19% and 10%, respectively, of our total sales. In 2014, sales to our top three customers accounted for approximately 36%, 20% and 13%, respectively, of our total sales. Although we have long-standing relationships with many of our major customers, the loss of any significant portion of our sales to any major customer, the loss of a single major customer or a material adverse change in the financial condition of any one of our major customers could have a material adverse effect on our business, financial condition and results of operations.

The variable purchase patterns of our customers and the timing of completion, delivery and customer acceptance of orders may cause our revenues and income from operations to vary substantially each quarter, which will result in significant fluctuations in our quarterly results.

Most of our individual customers do not make purchases every year, since they do not need to replace, replenish or increase their railcar fleets on a yearly basis. Many of our customers place orders for products on an as-needed basis, sometimes only once every few years. As a result, the order levels for railcars, the mix of railcar types ordered and the railcars ordered by any particular customer have varied significantly from quarterly period to quarterly period in the past and may continue to vary significantly in the future. Therefore, our results of operations in any particular quarterly period may be significantly affected by the number of railcars delivered and product mix of railcars delivered in any given quarterly period. Additionally, because we record the sale of a new and rebuilt railcar at the time (1) we complete production, (2) the railcar is accepted by the customer following inspection, (3) the risk for any damage or loss with respect to the railcar passes to the customer, and (4) title to the railcar transfers to the customer, and not when the order is taken, the timing of the completion, delivery and acceptance of significant customer orders will have a considerable effect on fluctuations in our quarterly results. As a result of these quarterly fluctuations, we believe that comparisons of our sales and operating results between quarterly periods may not be meaningful and, as such, these comparisons should not be relied upon as indicators of our future performance.

Our ability to sell new railcars may be limited by other factors, including the availability and price of used railcars offered for sale and new or used railcars offered for lease by leasing companies and others.

Our customers may consider alternatives to the purchase of new railcars, including the purchase of used railcars, refurbishment of existing railcars or the lease of new or used railcars. Our competitors may also be able to offer railcar leases at favorable lease rates, negatively impacting our ability to sell new railcars, which may result in price reductions, reduced margins and loss of market share. These additional competitive factors could negatively affect our prospects, business, financial condition and results of operations.

The potential cost volatility of the raw materials that we use to manufacture railcars, especially aluminum and steel, and delivery delays associated with these raw materials may adversely affect our financial condition and results of operations.

The production of railcars and our operations require substantial amounts of steel and aluminum. The cost of steel, aluminum and all other materials (including scrap metal) used in the production of our railcars represents a significant majority of our direct manufacturing costs. Our business is subject to the risk of price increases and periodic delays in the delivery of aluminum, steel and other materials, all of which are beyond our control. Any fluctuations in the price or availability of aluminum or steel, or any other material used in the production of our railcars, may have a material adverse effect on our business, results of operations or financial condition. In addition, if any of our suppliers were unable to continue its business or were to seek bankruptcy relief, the availability or price of the materials we use could be adversely affected. Deliveries of our materials may also fluctuate depending on supply and demand for the material or governmental regulation relating to the material, including regulation relating to the importation of the material.

Limitations on the supply of railcar components could adversely affect our business because they may limit the number of railcars we can manufacture.

We rely upon third-party suppliers for various components for our railcars. In the future, suppliers of railcar components may be unable to meet the short-term or longer-term demand of our industry for certain railcar components. In the event that any of our suppliers of railcar components were to stop or reduce their production, go out of business, refuse to continue their business relationships with us, become subject to work stoppages or ration their supply of components, our business could be disrupted. During periods of high or rapidly increasing railcar demand, we have in the past experienced challenges sourcing certain railcar components to meet our production requirements. In addition, our ability to increase our railcar production to expand our business and/or meet any increase in demand, with new or additional manufacturing capabilities, depends on our ability to obtain an adequate supply of these railcar components. While we believe that we could secure alternative sources for these components, we may incur substantial delays and significant expense in doing so, the quality and reliability of these alternative sources may not be the same and our operating results may be significantly affected. In an effort to secure a supply of components, we have developed foreign sources that require deposits on some occasions. In the event of a material adverse business condition, such deposits may be forfeited. In addition, if one of our competitors entered into a preferred supply arrangement with, or was otherwise favored by, a particular supplier, we would be at a competitive disadvantage, which could negatively affect our operating results. Furthermore, alternative suppliers might charge significantly higher prices for railcar components than we currently pay. Such circumstances could have a material adverse impact on our customer relationships, financial condition and results of operations.

RISKS RELATED TO OUR BUSINESS

Lack of acceptance of our new railcar offerings by our customers could adversely affect our business.

Our growth strategy depends in part on our continued development and sale of new railcar designs and design changes to existing railcars to penetrate railcar markets in which we currently do not compete and to expand or maintain our market share in the railcar markets in which we currently compete. We have dedicated significant resources to the development, manufacturing and marketing of new railcar designs. We typically make decisions to develop and market new railcars and railcars with modified designs without firm indications of customer acceptance. New or modified railcar designs may require customers to alter their existing business methods or threaten to displace existing equipment in which our customers may have a substantial capital investment. Many railcar purchasers prefer to maintain a standardized fleet of railcars and railcar purchasers with established railcar fleets are generally resistant to railcar design changes. Therefore, any new or modified railcar designs that we develop may not gain widespread acceptance in the marketplace and any such products may not be able to compete successfully with existing railcar designs or new railcar designs that may be introduced by our competitors.

To the extent we expand our sales of products and services internationally, we will increase our exposure to international economic and political risks.

Conducting business outside the United States, for example through our sales to other countries, subjects us to various risks, including changing economic, legal and political conditions, work stoppages, currency fluctuations, terrorist activities directed at U.S. companies, armed conflicts and unexpected changes in the United States and the laws of other countries relating to tariffs, trade restrictions, transportation regulations, foreign investments and taxation. If we fail to obtain and maintain certifications of our railcars and railcar parts in the various countries where we may operate, we may be unable to market and sell our railcars in those countries.

In addition, more stringent rules relating to labor or the environment, adverse tax consequences and price exchange controls could limit our operations and make the distribution of our products internationally more difficult. Furthermore, any material changes in the quotas, regulations or duties on imports imposed by the U.S. government and agencies or on exports by non-U.S. governments and their respective agencies could affect our ability to export the railcars that we manufacture in the United States. The uncertainty of the legal environment could limit our ability to enforce our rights effectively.

The level of our reported backlog may not necessarily indicate what our future sales will be and our actual sales may fall short of the estimated sales value attributed to our backlog.

We define backlog as the sales value of products or services to which our customers have committed in writing to purchase from us or lease from us when built, that have not yet been recognized as revenue. In this annual report on Form 10-K, we have disclosed our backlog, or the number of railcars for which we have purchase orders or firm operating leases for railcars to be built, in various periods and the estimated sales value (in dollars) that would be attributable to this backlog once the backlog is converted to actual sales. We consider backlog to be an indicator of future sales of railcars. However, our reported backlog may not be converted into sales in any particular period, if at all, and the actual sales (including any compensation for lost profits and reimbursement for costs) from such contracts may not equal our reported estimates of backlog value. For example, we rely on third-party suppliers for castings, wheels and components for our railcars and if these third parties were to stop or reduce their supply of heavy castings, wheels and other components, our actual sales could fall short of the estimated sales value attributed to our backlog. Also, customer orders may be subject to cancellation, inspection rights and other customary industry terms, and delivery dates may be subject to delay or could prevent the backlog from being converted to sales, thereby extending the date on which we will deliver the associated railcars and realize revenues attributable to such railcar backlog.

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Our warranties may expose us to potentially significant claims, which may damage our reputation and adversely affect our business, financial condition and results of operations.

We warrant that new railcars produced by us will be free from defects in material and workmanship under normal use and service identified for a period of up to five years from the time of sale. Accordingly, we may be subject to a risk of product liability or warranty claims in the event that the failure of any of our products results in property damage, personal injury or death, or does not conform to our customers specifications. Although we currently maintain product liability insurance coverage, product liability claims, if made, may exceed our insurance coverage limits or insurance may not continue to be available on commercially acceptable terms, if at all. These types of product liability and warranty claims may result in costly product recalls, significant repair costs and damage to our reputation, all of which could adversely affect our results of operations. This risk may increase over the short-term due to our limited warranty claim experience for our new product offerings.

Business that we may acquire in the future may fail to perform to expectations or we may be unable to successfully integrate acquired business with our existing business.

We may engage in future acquisitions, which in each case could materially affect our business, operating results, and financial condition. However, we may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. Future acquisitions may not strengthen our competitive position or achieve our desired goals and may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses and reduce our cash available for operations and other uses. There can be no assurance that we will be able to effectively manage the integration of businesses we may acquire in the future, or be able to retain and motivate key personnel from those businesses.

If we lose key personnel, our operations and ability to manage the day-to-day aspects of our business may be adversely affected.

We believe our success depends to a significant degree upon the continued contributions of our executive officers and key employees, both individually and as a group. Our future performance will substantially depend on our ability to retain and motivate them. If we lose key personnel or are unable to recruit qualified personnel, our ability to manage the day-to-day aspects of our business may be adversely affected.

The loss of the services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations. Because our senior management team has many years of experience in the railcar industry and other manufacturing and capital equipment industries, it could be difficult to replace any of them without adversely affecting our business operations. Our future success will also depend in part upon our continuing ability to attract and retain highly qualified personnel. We do not currently maintain key person life insurance.

Shortages of skilled labor may adversely impact our operations.

We depend on skilled labor in the manufacture and repair of railcars. Some of our facilities are located in areas where demand for skilled laborers often exceeds supply. Shortages of some types of skilled laborers may restrict our ability to maintain or increase production rates and could cause our labor costs to increase.

Labor disputes could disrupt our operations and divert the attention of our management and may have a material adverse effect on our operations and profitability.

As of December 31, 2015, we had a collective bargaining agreement with a union representing approximately 11% of our total active labor force that expires on March 31, 2017 and a collective bargaining agreement with a union representing approximately 12% of our total active labor force that expires on October 31, 2018. Disputes with the unions representing our employees could result in strikes or other labor protests which could disrupt our operations and divert the attention of management from operating our business. If we were to experience a strike or work stoppage, it could be difficult for us to find a sufficient number of employees with the necessary skills to replace these employees. Any such labor disputes could have a material adverse effect on our financial condition, results of operations or cash flows.

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We rely upon a single supplier to supply us with all of our roll-formed center sills for our railcars, and any disruption of our relationship with this supplier could adversely affect our business.

We rely upon a single supplier to manufacture all of our roll-formed center sills for our railcars, which are based upon our proprietary and patented process. A center sill is the primary longitudinal structural component of a railcar, which helps the railcar withstand the weight of the cargo and the force of being pulled during transport. Our center sill is formed into its final shape without heating by passing steel plate through a series of rollers. Of the new railcars that we produced in 2015 and 2014, 77% and 88%, respectively, were manufactured using this roll-formed center sill. Although we have a good relationship with our supplier and have not experienced any significant delays, manufacturing shortages or failures to meet our quality requirements and production specifications in the past, our supplier could stop production of our roll-formed center sills, go out of business, refuse to continue its business relationship with us or become subject to work stoppages. While we believe that we could secure alternative manufacturing sources, our present supplier is currently the only manufacturer of our roll-formed center sills for our railcars. We may incur substantial delays and significant expense in finding an alternative source, our results of operations may be significantly affected and the quality and reliability of these alternative sources may not be the same. Moreover, alternative suppliers might charge significantly higher prices for our roll-formed center sills than we currently pay.

Equipment failures, delays in deliveries or extensive damage to our facilities could lead to production or service curtailments or shutdowns.

We have railcar production facilities in Cherokee, Alabama, Danville, Illinois and Roanoke, Virginia. An interruption in railcar production capabilities at these facilities, as a result of equipment failure or other factors, could reduce or prevent our production of railcars. A halt of production at any of our manufacturing facilities could severely affect delivery times to our customers. Any significant delay in deliveries to our customers could result in the termination of contracts, cause us to lose future sales and negatively affect our reputation among our customers and in the railcar industry and our results of operations. Our facilities are also subject to the risk of catastrophic loss due to unanticipated events, such as fires, explosions, floods or weather conditions. We may experience plant shutdowns or periods of reduced production as a result of equipment failures, delays in deliveries or extensive damage to any of our facilities, which could have a material adverse effect on our business, results of operations or financial condition.

The Company may be unable to renew its lease arrangements at its manufacturing facilities at commercially acceptable terms

Our manufacturing operations are located at facilities that are leased from third parties. As each lease expires, we may be unable to negotiate renewals on commercially acceptable terms. Failure to renew our leases at commercially acceptable terms could have a potential adverse impact on our operations.

We might fail to adequately protect our intellectual property, which may result in our loss of market share, or third parties might assert that our intellectual property infringes on their intellectual property, which would be costly to defend and divert the attention of our management.

The protection of our intellectual property is important to our business. We rely on a combination of trademarks, copyrights, patents and trade secrets to protect our intellectual property. However, these protections might be inadequate. For example, we have patents for portions of our railcar designs that are important to our market leadership in the coal car segment. Our pending or future trademark, copyright and patent applications might not be approved or, if allowed, might not be sufficiently broad. Conversely, third parties might assert that our technologies or other intellectual property infringe on their proprietary rights. In either case, litigation may result, which could result in substantial costs and diversion of our management team s efforts. Regardless of whether we are ultimately successful in any litigation, such litigation could adversely affect our business, results of operations and financial condition.

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Our information technology and other systems are subject to cybersecurity risk, including the misappropriation of customer information and other breaches of information security. Security breaches and other disruptions could compromise our information, expose us to liability and harm our reputation and business.

In the ordinary course of our business, we collect and store sensitive data on our networks, including intellectual property, our proprietary business information and that of our customers, suppliers and business partners and personally identifiable information and other personal information of our customers and employees. While we continually work to safeguard our systems and to mitigate potential security risks, our information and processes are exposed to increasing global information security threats and more sophisticated and targeted computer crime, which may result in our data being subject to a security breach, a system failure, a computer virus, malicious software or unauthorized or fraudulent use by our employees or other third parties. Any compromise of our data security and access to or public disclosure or loss of personal or confidential business information could result in legal claims or proceedings with third parties, liability or regulatory penalties under the laws that protect the privacy of personal information, disruption of our operations, damage to our reputation, loss of business or remediation costs, any of which could have a material adverse effect on our prospects, business, financial condition and results of operations.

We are subject to a variety of environmental laws and regulations and the cost of complying with environmental requirements or any failure by us to comply with such requirements may have a material adverse effect on our business, financial condition and results of operations.

We are subject to a variety of federal, state and local environmental laws and regulations, including those governing air quality and the handling, disposal and remediation of waste products, fuel products and hazardous substances. Although we believe that we are in material compliance with all of the various regulations and permits applicable to our business, we may not at all times be in compliance with such requirements. The cost of complying with environmental requirements may also increase substantially in future years. If we violate or fail to comply with these regulations, we could be fined or otherwise sanctioned by regulators. In addition, these requirements are complex, change frequently and may become more stringent over time, which could have a material adverse effect on our business. We have in the past conducted investigation and remediation activities at properties that we own to address historic contamination. However, there can be no assurance that these remediation activities have addressed all historic contamination. Environmental liabilities that we incur, including those relating to the off-site disposal of our wastes, if not covered by adequate insurance or indemnification, will increase our costs and have a negative impact on our profitability.

The agreement governing our revolving credit facility contains various covenants that, among other things, limit our discretion in operating our business and provide for certain minimum financial requirements.

The agreement governing our revolving credit facility contains various covenants that, among other things, limit our management s discretion by restricting our ability to incur additional debt, enter into certain transactions with affiliates, make investments and other restricted payments and create liens. Our failure to comply with these financial covenants and other covenants under our revolving credit facility could lead to an event of default under the agreement governing any other indebtedness that we may have outstanding at the time, permitting the lenders to accelerate all borrowings under such agreement and to foreclose on any collateral. In addition, any such events may make it more difficult or costly for us to borrow additional funds in the future. Our failure to raise capital if and when needed could have a material adverse effect on our results of operations and financial condition.

The market price of our securities may fluctuate significantly, which may make it difficult for stockholders to sell shares of our common stock when desired or at attractive prices.

Since our initial public offering in April 2005 until December 31, 2015, the trading price of our common stock ranged from a low of $12.82 per share to a high of $78.34 per share. The price for our common stock may fluctuate in response to a number of events and factors, such as quarterly variations in operating results and our reported backlog, the cyclical nature of the railcar market, announcements of new products by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions. Additionally, volatility or a lack of positive performance in our stock price may adversely affect our ability to retain key employees, all of whom have been granted stock options or other stock awards.

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Item 1B. Unresolved Staff Comments.
None.

Item 2. Properties.
The following table presents information on our leased and owned operating properties as of December 31, 2015:

Use	Location	Size	Leased or Owned	Lease Expiration Date
Corporate headquarters	Chicago, Illinois	15,540 square feet	Leased	March 31, 2022
Railcar assembly and component manufacturing	Danville, Illinois	308,665 square feet on 36.5 acres of land	Owned	
Railcar assembly and component manufacturing	Roanoke, Virginia	383,709 square feet on 15.5 acres of land	Leased	December 31, 2024
Railcar assembly and component manufacturing	Cherokee, Alabama	712,608 square feet	Leased	December 31, 2021
Administrative	Johnstown, Pennsylvania	29,500 square feet on 1.02 acres of land	Owned	
Parts warehouse	Johnstown, Pennsylvania	86,000 square feet	Leased	December 31, 2016

Item 3. Legal Proceedings.
The Company is involved in various warranty and repair claims and, in certain cases, related pending and threatened legal proceedings with its customers in the normal course of business. In the opinion of management, the Company s potential losses in excess of the accrued warranty and legal provisions, if any, are not expected to be material to the Company s consolidated financial condition, results of operations or cash flows.

On July 8, 2013, the Company filed a Complaint for Declaratory Judgment (the Complaint) in the United States District Court for the Northern District of Illinois, Eastern Division (the Illinois Court). The case named as defendants the United Steel, Paper & Forestry, Rubber, Manufacturing, Energy, Allied Industrial & Services Workers International Union, AFL-CIO, CLC (the USW), as well as approximately 650 individual Retiree Defendants (as defined in the Complaint). On July 9, 2013, the USW and certain Retiree Defendants (collectively, the Pennsylvania Plaintiffs) filed a putative class action in the United States District Court for the Western District of Pennsylvania (the Pennsylvania Court), captioned as *Zanghi, et al. v. FreightCar America, Inc., et al.,* Case No. 3:13-cv-146. Both of the complaints related to the Company s decision to terminate welfare benefits previously provided to the Retiree Defendants.

On August 20, 2015, the Company reached a settlement agreement with the USW and the other plaintiffs. Pursuant to the settlement agreement, the parties agreed that (1) USW will create a voluntary employee s beneficiary association trust fund (the VEBA) that will administer the payment of health and welfare benefits to class members and will be administered independently of the Company, (2) the Company will make a one-time contribution to the VEBA of

$31.5 million, (3) the Company will pay an award for plaintiffs attorneys fees in the amount of $1.3 million, (4) if the Company fails to make the required payments to the VEBA prior to February 16, 2016, interest on the unpaid amounts will accrue at a rate of 5% per annum, subject to a cap of $250,000, and (5) class members will fully and finally release all claims against the Company in accordance with the terms of the settlement agreement. The Pennsylvania Court granted final approval of the settlement on January 19, 2016. The plaintiffs had until February 18, 2016 to file an appeal of the court order granting final approval of the settlement. On February 17, 2016 certain class members requested a 30-day extension to file an appeal, which the Pennsylvania Court denied on February 22, 2016. The Company expects to make the cash settlement payment on or after March 23, 2016.

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On April 17, 2015 and September 30, 2015, National Steel Car Limited (NSC) filed Complaints for Patent Infringement against the Company in the United States District Court for the Northern District of Illinois (Eastern Division) in Chicago, Illinois. The Complaints assert five United States patents against certain aggregate gondola freight cars sold to Martin-Marietta and Progress Rail. The Complaints seek injunctive relief and an unspecified amount of damages. On January 29, 2016, NSC amended the Complaints, alleging that eighteen offers to sell made by the Company also infringed NSC s patents. The Company filed its Answer to NSC s Amended Complaint on February 16, 2016, responding to NSC s newly raised allegations, and adding new affirmative defenses as well as counterclaims for non-infringement and invalidity. The Company believes that the complaints are without merit and intends to vigorously defend against the allegations. While the ultimate outcome of these proceedings cannot be determined at this time, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the Company s financial position, results of operations or cash flows.

On September 29, 2008, Bral Corporation, a supplier of certain railcar parts to us, filed a complaint agIGN="bottom">

Proceeds from stock option exercises	34	730
Tax benefit (expense) from share-based payments	(4)	170
Net cash provided by financing activities	30	900
Change in cash and cash equivalents	6,924	21,949
Cash and cash equivalents at beginning of period	47,329	26,748
Cash and cash equivalents at end of period	$54,253	$48,697

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Basis of Presentation

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

The Company provides workers compensation and general liability insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking and logging. Assets and revenues of AIIC represent more than 99% of comparable consolidated amounts of the Company for each of 2008 and 2007.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, the results of operations and cash flows for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934 and therefore do not include all information and footnotes to be in conformity with accounting principles generally accepted in the United States (GAAP). The results for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited condensed consolidated financial statements contained herein should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Stock Options and Restricted Stock

In connection with the initial public offering of shares of the Company s common stock in November 2005, the Company s shareholders approved the AMERISAFE 2005 Equity Incentive Plan (the 2005 Incentive Plan) and the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2005 Restricted Stock Plan). See Note 13 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 for additional information regarding the Company s incentive plans.

In March 2007, the compensation committee of our board of directors approved incentive compensation awards to each of the Company s executive officers for services rendered in 2006. The awards were composed of cash bonuses and grants of restricted common stock. The restricted stock awards were made pursuant to the Company s 2005 Incentive Plan. Vesting of those 13,030 restricted shares took place in March 2008.

In January 2008, the Company granted options to purchase an aggregate of 20,000 shares of the Company s common stock at a per-share exercise price equal to the market value of the Company s common stock on the date of grant in connection with the employment of a new officer. Those options were made pursuant to the Company s 2005 Incentive Plan.

In February 2008, the compensation committee of our board of directors approved incentive compensation awards to each of the Company s executive officers for services rendered in 2007. The awards were composed of cash bonuses and grants of restricted common stock that were made pursuant to the Company s 2005 Incentive Plan. The market value of the 9,198 restricted shares granted was $121,000. Those restricted shares not forfeited will vest in March 2009, the first anniversary of the date of grant.

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Pursuant to the 2005 Restricted Stock Plan, 5,943 shares of restricted common stock granted to non-employee directors in June 2007 vested on June 16, 2008, the date of the annual shareholders meeting. Also on June 16, 2008, non-employee directors were granted 6,468 shares of restricted common stock in accordance with the 2005 Restricted Stock Plan. The market value of the restricted shares granted was $105,000, and those restricted shares will vest at the next annual shareholders meeting.

During the six months ended June 30, 2008, there were 3,800 stock options exercised. Related to these exercises, the Company received $34,000 of stock option proceeds.

The Company recognized share-based compensation expense of $350,000 in the quarter ended June 30, 2008, compared to $273,000 for the same period in 2007. The Company recognized share-based compensation expense of $577,000 in the six months ended June 30, 2008, compared to $554,000 for the same period in 2007.

Note 3. Earnings Per Share

We compute earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share. Additionally, we apply the two-class method in computing basic and diluted earnings per share. The two-class method was introduced in SFAS 128, and further clarified in Emerging Issues Task Force (EITF) No. 03-06, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share, (Issue 03-6). Under the two-class method, net income is allocated between common stock and any securities other than common stock that are eligible to participate in dividends with common stock. Our redeemable preferred stock qualifies as participating securities under SFAS 128 and EITF 03-06.

The two-class method allocates net income available to common shareholders and participating securities to the extent that each security shares in earnings as if all earnings for the period had been distributed. The amount of earnings allocable to common shareholders is divided by the weighted-average number of common shares outstanding for the period. Participating securities that are convertible into common stock are included in the computation of basic earnings per share if the effect is dilutive.

Diluted earnings per share includes potential common shares assumed issued under the treasury stock method, which reflects the potential dilution that would occur if any outstanding options are exercised. Diluted earnings per share also includes the if converted method for participating securities if the effect is dilutive. The two-class method of calculating diluted earnings per share is used whether the if converted result is dilutive or anti-dilutive.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Basic EPS:				
Net income available to common shareholders	$ 12,827	$ 11,362	$ 24,750	$ 19,780
Portion allocable to common shareholders	94.0%	94.0%	94.0%	94.0%
Net income allocable to common shareholders	$ 12,057	$ 10,683	$ 23,265	$ 18,595
Basic weighted average common shares	18,809,250	18,779,248	18,803,805	18,744,818
Basic earnings per common share	$ 0.64	$ 0.57	$ 1.24	$ 0.99
Diluted EPS:				
Net income allocable to common shareholders	$ 12,057	$ 10,683	$ 23,265	$ 18,595

Diluted weighted average common shares:				
Weighted average common shares	18,809,250	18,779,248	18,803,805	18,744,818
Stock options	275,674	321,818	240,807	302,884
Restricted stock	6,751	8,386	16,061	7,447
Diluted weighted average common shares	19,091,675	19,109,452	19,060,673	19,055,149
Diluted earnings per common share	$ 0.63	$ 0.56	$ 1.22	$ 0.98

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AMERISAFE, INC. AND SUBSIDIARIES

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(unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Numerator:				
Basic weighted average common shares	18,809,250	18,779,248	18,803,805	18,744,818
Add: Other common shares eligible for common dividends:				
Weighted average restricted shares and stock options (including tax benefit component)	282,425	330,204	256,868	310,331
Weighted average participating common shares	19,091,675	19,109,452	19,060,673	19,055,149
Denominator:				
Weighted average participating common shares	19,091,675	19,109,452	19,060,673	19,055,149
Add: Other classes of securities, including contingently issuable common shares and convertible preferred shares:				
Weighted average common shares issuable upon conversion of Series C preferred shares	242,953	242,953	242,953	242,953
Weighted average common shares issuable upon conversion of Series D preferred shares	971,817	971,817	971,817	971,817
Weighted average participating shares	20,306,445	20,324,222	20,275,443	20,269,919
Portion allocable to common shareholders	94.0%	94.0%	94.0%	94.0%

Note 4. Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. At the adoption date and as of June 30, 2008, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense, which were zero for the quarters and six months ended June 30, 2008 and 2007.

Tax years 2004 through 2007 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Note 5. Comprehensive Income

Comprehensive income was $11.4 million for the three months ended June 30, 2008, as compared to $11.7 million for the same period in 2007. Comprehensive income was $20.7 million for the six months ended June 30, 2008, as compared to $20.0 million for the same period in 2007. The difference between net income as reported and comprehensive income was the result of changes in unrealized gains and losses, net of tax.

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 6. Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (FAS 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157. This FSP delays the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years.

The Company determined the fair values of its financial instruments based on the fair value hierarchy established in SFAS 157, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard defines fair value, describes three levels of inputs that may be used to measure fair value, and expands disclosures about fair value measurements.

Fair value is defined in SFAS 157 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is the price to sell an asset or transfer a liability and, therefore, represents an exit price, not an entry price. Fair value is the exit price in the principal market (or, if lacking a principal market, the most advantageous market) in which the reporting entity would transact. Fair value is a market-based measurement, not an entity-specific measurement, and, as such, is determined based on the assumptions that market participants would use in pricing the asset or liability. The exit price objective of a fair value measurement applies regardless of the reporting entity s intent and/or ability to sell the asset or transfer the liability at the measurement date.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset, also known as current replacement cost. Valuation techniques used to measure fair value are to be consistently applied.

In SFAS 157, inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

- Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

- Unobservable inputs are inputs that reflect the reporting entity s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Valuation techniques used to measure fair value are intended to maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

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.

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters.

Securities classified by the Company as available-for-sale investments were reported at fair value utilizing mostly Level 1 inputs. The fair value measurements consider quoted prices in active markets for identical assets. Level 2 inputs such as previous day and subsequent day trade prices were used if a trade for the security was not made on the date of measurement.

At June 30, 2008, assets and liabilities measured at fair value on a recurring basis are summarized below:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Securities available for sale	$ 34,626	$	$	$ 34,626

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

At June 30, 2008, all fixed maturity securities were classified as held-to-maturity and carried at amortized cost.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value, and establishes presentation and disclosure requirements for similar assets and liabilities measured at fair value. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008, the effective date of the standard and has not elected the option for any financial assets or financial liabilities subsequent to the effective date.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q, together with Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2007.

We begin our discussion with an overview of our Company to give you an understanding of our business and the markets we serve. We then discuss our critical accounting policies. This is followed with a discussion of our results of operations for the three and six months ended June 30, 2008 and 2007. This discussion includes an analysis of certain significant period-to-period variances in our consolidated statements of operations. Our cash flows and financial condition are discussed under the caption Liquidity and Capital Resources.

Business Overview

AMERISAFE is a holding company that markets and underwrites workers compensation insurance through its insurance subsidiaries. Workers compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our business strategy is focused on providing this coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking and logging. Employers engaged in hazardous industries pay substantially higher than average rates for workers compensation insurance compared to employers in other industries, as measured per payroll dollar. The higher premium rates are due to the nature of the work performed and the inherent workplace danger of our target employers. Hazardous industry employers also tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. We provide proactive safety reviews of employers workplaces. These safety reviews are a vital component of our underwriting process and also promote safer workplaces. We utilize intensive claims management practices that we believe permit us to reduce the overall cost of our claims. In addition, our audit services ensure that our policyholders pay the appropriate premiums required under the terms of their policies and enable us to monitor payroll patterns or aberrations that cause underwriting, safety, or fraud concerns. We believe that the higher premiums typically paid by our policyholders, together with our disciplined underwriting and safety, claims and audit services, provide us with the opportunity to earn attractive returns for our shareholders.

We actively market our insurance in 30 states and the District of Columbia through independent agencies, as well as through our wholly owned insurance agency subsidiary. We are also licensed in an additional 15 states and the U.S. Virgin Islands.

Critical Accounting Policies

It is important to understand our accounting policies in order to understand our financial statements. Management considers some of these policies to be critically important to the presentation of our financial results because they require us to make estimates and assumptions. These estimates and assumptions affect the reported amounts of our assets, liabilities, revenues and expenses and the related disclosures. Some of the estimates result from judgments that can be subjective and complex and, consequently, actual results in future periods might differ from these estimates.

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, assessments, deferred policy acquisition costs, deferred income taxes and the valuation and determination of impairment of investment securities. These critical accounting policies are more fully described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of Part II to our Annual Report on Form 10-K for the year ended December 31, 2007.

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Results of Operations

The following table summarizes our consolidated financial results for the three and six months ended June 30, 2008 and 2007.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	$ 85,995	$ 94,290	$ 166,972	$ 184,775
Net premiums earned	72,143	77,106	146,443	152,987
Net investment income	7,405	7,433	15,222	14,358
Total revenues	79,830	84,713	162,096	167,658
Total expenses	62,245	69,084	127,772	140,144
Net income	12,827	11,362	24,750	19,780
Diluted earnings per common share	$ 0.63	$ 0.56	$ 1.22	$ 0.98
Other Key Measures				
Net combined ratio (1)	85.4%	88.4%	86.3%	90.4%
Return on average equity (2)	20.6%	22.8%	20.3%	20.3%

(1) The net combined ratio is calculated by dividing the sum of loss and loss adjustment expenses incurred, underwriting and certain other operating costs, commissions, salaries and benefits, and policyholder dividends by the current period s net premiums earned.

(2) Return on average equity is calculated by dividing the annualized net income by the average shareholders equity, including redeemable preferred stock, for the applicable period.

Consolidated Results of Operations for Three Months Ended June 30, 2008 Compared to June 30, 2007

Gross Premiums Written. Gross premiums written for the quarter ended June 30, 2008 were $86.0 million, compared to $94.3 million for the same period in 2007, a decrease of 8.8%. The decrease was attributable to a $4.9 million decrease in annual premiums on voluntary policies written during the period, a $2.6 million decrease in premiums resulting from payroll audits and related premium adjustments and a $1.0 million decrease in direct assigned risk premiums. Offsetting these decreases was a $224,000 increase in assumed premiums from mandatory pooling arrangements.

Net Premiums Written. Net premiums written for the quarter ended June 30, 2008 were $81.3 million, compared to $89.4 million for the same period in 2007, a decrease of 9.0%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums written, ceded premiums were 5.4% for the second quarter of 2008, compared to 5.2% for the second quarter of 2007.

Net Premiums Earned. Net premiums earned for the second quarter of 2008 were $72.1 million, compared to $77.1 million for the same period in 2007, a decrease of 6.4%. The decrease was attributable to the decline in net premiums written, offset by premium earnings from premiums written in the previous four quarters.

Net Investment Income. Net investment income was $7.4 million for both the second quarter of 2008 and the second quarter of 2007. Average invested assets, including cash and cash equivalents, were $771.3 million in the quarter ended June 30, 2008, compared to an average of $697.8 million in the same period in 2007, a growth of 10.5%. Offsetting this growth was a decrease in the tax-equivalent yield on our investment portfolio, from 5.8% per annum as of June 30, 2007, to 5.4% per annum as of June 30, 2008. The pre-tax investment yield on our investment portfolio was 3.8% per annum during the quarter ended June 30, 2008, compared to 4.3% per annum during the same period in 2007.

Net Realized Gains on Investments. Net realized gains on investments for the three months ended June 30, 2008 totaled $53,000, compared to $36,000 for the same period in 2007. Net realized gains in the both periods were the result of sales of equity securities and calls on fixed maturity securities.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $47.3 million for the three months ended June 30, 2008, compared to $53.2 million for the same period in 2007, a decrease of $5.9 million, or 11.1%. The current accident year loss and LAE incurred decreased as a result of lower premiums earned in the second quarter of 2008, as compared to the same period in 2007. In addition, this decrease was partially due to favorable prior accident year development of $2.8 million in the second quarter of 2008, compared to no change in loss and LAE incurred for prior accident years for the same period in 2007.

Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits. Underwriting and certain other operating costs, commissions and salaries and benefits for the quarter ended June 30, 2008 were $14.1 million, compared to $14.8 million for the same period in 2007, a decrease of 4.6%. This decrease was primarily due to $2.4 million of experience-rated commissions from our 2008 reinsurance agreements, which acts as an offset to expenses, and a $1.5 million decrease in insurance-related assessments. Offsetting these decreases, commissions increased $1.4 million due to the introduction of certain incentive programs, income from commutation of reinsurance contracts decreased $719,000, salary and benefits increased $546,000 and premium taxes increased $452,000.

Interest expense. Interest expense for the second quarter of 2008 was $657,000, compared to $886,000 for the same period in 2007. Weighted average borrowings for both periods were $36.1 million. The weighted average interest rate decreased to 7.5% per annum for the second quarter of 2008 from 9.4% per annum for the second quarter of 2007.

Income tax expense. Income tax expense for the three months ended June 30, 2008 was $4.8 million, compared to $4.3 million for the same period in 2007. The increase was primarily attributable to a $2.0 million increase in our pre-tax income, from $15.6 million for the three months ended June 30, 2007, to $17.6 million for the same period in 2008. Our effective tax rate for the quarter ended June 30, 2008 was 27.1%, compared to 27.3% for the same period in 2007.

Consolidated Results of Operations for Six Months Ended June 30, 2008 Compared to June 30, 2007

Gross Premiums Written. Gross premiums written for the first half of 2008 were $167.0 million, compared to $184.8 million for the same period in 2007, a decrease of 9.6%. The decrease was attributable to an $11.2 million decrease in annual premiums on voluntary policies written during the period, a $5.2 million decrease in premiums resulting from payroll audits and related premium adjustments, a $1.2 million decrease in direct assigned risk premiums and a $246,000 decrease in premiums from mandatory pooling arrangements.

Net Premiums Written. Net premiums written for the six months ended June 30, 2008 were $157.5 million, compared to $174.9 million for the same period in 2007, a decrease of 9.9%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums written, ceded premiums were 5.7% for the first half of 2008, compared to 5.3% for the first half of 2007.

Net Premiums Earned. Net premiums earned for the first half of 2008 were $146.4 million, compared to $153.0 million for the same period in 2007, a decrease of 4.3%. The decrease was attributable to a decline in net premiums written offset by earnings from premiums written in the previous four quarters.

Net Investment Income. Net investment income for the first six months of 2008 was $15.2 million, compared to $14.4 million for the same period in 2007, an increase of 6.0%. The change was attributable to an 11.7% increase in our average invested assets, including cash and cash equivalents, from an average of $686.6 million in the first half of 2007 to an average of $767.1 million for the same period in 2008. Offsetting this growth was a decrease in the tax-equivalent yield on our investment portfolio, from 5.8% per annum as of June 30, 2007, to 5.4% per annum as of June 30, 2008. The pre-tax investment yield on our investment portfolio was 4.0% per annum during the six months ended June 30, 2008, compared to 4.2% per annum during the same period in 2007.

Net Realized Gains on Investments. Net realized gains on investments for the six months ended June 30, 2008 totaled $61,000, compared to $36,000 for the same period in 2007. Net realized gains in the both periods were the result of sales of equity securities and calls on fixed maturity securities.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $97.2 million for the six months ended June 30, 2008, compared to $105.7 million for the same period in 2007, a decrease of $8.5 million, or 8.0%. The current accident year loss and LAE incurred decreased as a result of lower premiums earned in the first half of 2008, as compared to the same period in 2007. In addition, this decrease was partially due to favorable prior accident year development of $4.5 million in 2008, compared to no change in loss and LAE incurred for prior accident years for the same period in 2007.

Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits. Underwriting and certain other operating costs, commissions and salaries and benefits for the first half of 2008 were $28.7 million, compared to $32.0 million for the same period in 2007, a decrease of 10.4%. This decrease was primarily due to $4.7 million of experience-rated commissions from our 2008 reinsurance agreements, which acts as an offset to expenses, and a $1.9 million decrease in insurance-related assessments. Offsetting these decreases, commissions increased $1.3 million relating to the introduction of

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certain incentive programs, income from commutation of reinsurance contracts decreased $719,000 and salary and benefits increased $846,000.

Interest expense. Interest expense for the first six months of 2008 was $1.4 million, compared to $1.8 million for the comparable period of 2007. Weighted average borrowings for both periods were $36.1 million. The weighted average interest rate decreased to 7.4% per annum for the first half of 2008 from 9.3% per annum for the first half of 2007.

Income tax expense. Income tax expense for the six months ended June 30, 2008 was $9.6 million, compared to $7.7 million for the same period in 2007. The increase was primarily attributable to a $6.8 million increase in our pre-tax income, from $27.5 million for the six months ended June 30, 2007, to $34.3 million for the same period in 2008. Our effective tax rate for the six months ended June 30, 2008 was 27.9%, compared to 28.1% for the same period in 2007. The decrease in the effective tax rate from the six months ended June 30, 2007 to the same period in 2008 was attributable to a higher percentage of pre-tax income from tax-exempt interest income.

Liquidity and Capital Resources

Our principal sources of operating funds are premiums, investment income and proceeds from sales and maturities of investments. Our primary uses of operating funds include payments of claims and operating expenses. Currently, we pay claims using cash flow from operations and invest our excess cash in fixed maturity and equity securities.

Net cash provided by operating activities was $17.5 million for the six months ended June 30, 2008, which represented a $32.5 million decrease in cash provided by operating activities, from $50.0 million in net cash provided by operating activities for the six months ended June 30, 2007. This decrease in operating cash was partially attributable to an $18.5 million decrease in reinsurance recoveries resulting from commutations in the first six months of 2008, compared to the same period in 2007. Other contributing factors to our operating cash flow were a $6.7 million increase in federal income taxes paid for the six months ended June 30, 2008, a $4.1 million decrease in premiums collected, a $2.0 million decrease in expense disbursements and a $1.7 million increase in claim payments. Also, dividends paid to policyholders increased $3.9 million in the first six months of 2008, compared to the same period in 2007, mainly attributable to Florida policyholders.

Net cash used in investing activities was $10.6 million for the first half of 2008, compared to $29.0 million for the same period in 2007. Cash provided by sales and maturities of investments totaled $83.0 million for the six months ended June 30, 2008 compared to $357.4 million for the same period in 2007. A total of $93.3 million in cash was used to purchase investments in the first half of 2008, compared to $386.3 million in purchases for the same period in 2007. The decrease in sales and purchases of investments from 2007 was due to a decrease in the use of variable rate demand obligations (sometimes referred to as floaters), which we bought and sold regularly in 2007, and which were recorded on a gross basis.

Net cash provided by financing activities in the first half of 2008 was $30,000, as compared $900,000 in the same period in 2007. In the first six months of 2008, proceeds from stock option exercises totaled $34,000 and tax expense related to share-based compensation was $4,000. In the first six months of 2007, proceeds from stock option exercises totaled $730,000 and tax benefits from share-based compensation totaled $170,000.

On June 20, 2008, we commuted certain reinsurance agreements with Hannover Ruckversicherungs-Aktiengesellschaft (Hannover), covering portions of the 2003, 2004, 2005 and 2006 accident years. Hannover remains obligated to subsidiaries of the Company under other reinsurance agreements. We received cash of approximately $7.5 million in exchange for releasing Hannover from its reinsurance obligations under the commuted agreements. As a result of the commutation, we recorded additional pre-tax income of approximately $991,000 in the second quarter of 2008.

Investment Portfolio

As of June 30, 2008, our investment portfolio, including cash and cash equivalents, totaled $768.7 million, an increase of 7.5% from June 30, 2007. Our fixed maturity securities are classified as held-to-maturity, as defined by SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. As such, the reported value of those securities is equal to their amortized cost, and is not impacted by changing interest rates. In 2007, we invested in variable rate demand obligations (VRDOs), which are long-term bonds that bear floating interest rates and provide investors with the option to tender or put the bonds at par, generally on a daily, weekly or monthly basis. Due to the fact that we purchased these securities with the intent to hold less than thirty days, we classified VRDOs as available-for-sale, as defined by SFAS No. 115. As such, VRDOs were reported at fair value on our balance sheet. We sold all of our available-for-sale fixed maturity securities as of January 15, 2008. Our equity securities are also classified as available-for-sale and reported at fair value. For the six months ended June 30, 2008, gross unrealized gains and losses for our equity securities decreased $5.6 million, from an overall unrealized loss of $752,000 at December 31, 2007 to an overall unrealized loss of $6.4 million at June 30, 2008.

On January 1, 2008, we adopted SFAS 157 that 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 6

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of the financial statements, our securities available-for sale are classified with using Level 1 inputs. We did not elect the fair value option prescribed under SFAS 159 for any financial assets or financial liabilities as of June 30, 2008.

The composition of our investment portfolio, including cash and cash equivalents, as of June 30, 2008 is shown in the following table.

	Carrying Value	Percentage of Portfolio
	(in thousands)	
Fixed maturity securities:		
States and political subdivisions	$ 465,095	60.5%
U.S. agency-based mortgage-backed securities	91,780	12.0%
Commercial mortgage-backed securities	51,620	6.7%
U.S. Treasury securities and obligations of U.S. Government agencies	39,769	5.2%
Corporate bonds	16,190	2.1%
Asset-backed securities	14,309	1.9%
Total fixed maturity securities	678,763	88.4%
Equity securities	35,716	4.6%
Cash and cash equivalents	54,253	7.0%
Total investments, including cash and cash equivalents	$ 768,732	100.0%

We regularly evaluate our investment portfolio to identify other-than-temporary impairments in the fair values of the securities held in our investment portfolio. As of June 30, 2008, there were no other-than-temporary declines in the fair values of the securities held in our investment portfolio. The tax-equivalent investment yield on our investment portfolio was 5.4% per annum for the period ended June 30, 2008, compared to 5.8% for the same period in 2007.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk, interest rate risk and equity price risk. We currently have no exposure to foreign currency risk.

Since December 31, 2007, there have been no material changes in the quantitative or qualitative aspect of our market risk profile. For additional information regarding the Company s exposure to certain market risks, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information we are required to disclose in reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms. We note that the design of any system of controls is based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

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

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.
None.

Item 1A. Risk Factors.
None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
None.

Item 3. Defaults Upon Senior Securities.
None.

Item 4. Submission of Matters to a Vote of Security Holders.
The company held its 2008 Annual Meeting of Shareholders on June 16, 2008. Shareholders were asked to vote on the election of two directors, and to ratify the appointment of Ernst & Young, LLP as the company s independent registered accounting firm for 2008. The results were as follows:

Proposal 1

Election of Directors

Nominees for election to a term expiring at the company s Annual Meeting in 2011:

	Shares Voted For	Shares Withheld
C. Allen Bradley, Jr.	15,672,197	1,542,881
Austin P. Young, III	16,240,416	974,662

Proposal 2

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

Registered Public Accounting Firm for 2008

Shares Voted For	Shares Voted Against	Shares Abstaining
16,573,914	636,859	4,573

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Geoffrey R. Banta filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and Geoffrey R. Banta filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	AMERISAFE, INC.
August 8, 2008	/s/ C. Allen Bradley, Jr.
	C. Allen Bradley, Jr. Chairman, President and Chief Executive Officer (Principal Executive Officer)
August 8, 2008	/s/ Geoffrey R. Banta
	Geoffrey R. Banta Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Geoffrey R. Banta filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and Geoffrey R. Banta filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002