

AMERISAFE INC  
Form 10-Q  
November 06, 2009  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009**

Commission file number:

000-51520

**AMERISAFE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Edgar Filing: AMERISAFE INC - Form 10-Q

Texas  
(State of Incorporation)

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

2301 Highway 190 West, DeRidder, Louisiana  
(Address of Principal Executive Offices)

70634  
(Zip Code)

Registrant's telephone number, including area code: (337) 463-9052

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 2, 2009, there were 18,879,846 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<b>PART I - FINANCIAL INFORMATION</b>	
<u>Forward-Looking Statements</u>	3
Item 1 <u>Financial Statements</u>	4
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
Item 4 <u>Controls and Procedures</u>	21
<b><u>PART II - OTHER INFORMATION</u></b>	
Item 1 <u>Legal Proceedings</u>	21
Item 1A <u>Risk Factors</u>	21
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
Item 3 <u>Defaults Upon Senior Securities</u>	21
Item 4 <u>Submission of Matters to a Vote of Security Holders</u>	21
Item 5 <u>Other Information</u>	21
Item 6 <u>Exhibits</u>	21

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

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

decreased level of business activity of our policyholders caused by decreased business activity in the industries we target;

changes in general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;

decreased demand for our insurance;

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

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

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

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

the cyclical nature of the workers' compensation insurance industry;

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

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

changes in rating agency policies or practices;

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

changes in legal theories of liability under our insurance policies;

## Edgar Filing: AMERISAFE INC - Form 10-Q

the effects of U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts; and

other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission (SEC).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report, including under the caption "Risk Factors" in Item 1A, "Risk Factors" of Part I to our Annual Report on Form 10-K for the year ended December 31, 2008. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

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

	<b>September 30, 2009 (unaudited)</b>	<b>December 31, 2008</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value \$691,929 and \$664,084 in 2009 and 2008, respectively)	\$ 673,124	\$ 680,276
Equity securities available-for-sale, at fair value (cost \$14,444 and \$25,002 in 2009 and 2008, respectively)	16,109	24,431
Short-term investments	27,591	25
<b>Total investments</b>	<b>716,824</b>	<b>704,732</b>
Cash and cash equivalents	104,829	95,241
Amounts recoverable from reinsurers	91,606	67,763
Premiums receivable, net	166,208	156,567
Deferred income taxes	28,290	33,580
Accrued interest receivable	8,243	7,247
Property and equipment, net	5,606	5,542
Deferred policy acquisition costs	19,424	20,289
Deferred charges	3,410	3,381
Federal income tax recoverable	3,441	
Other assets	14,891	13,491
	<b>\$ 1,162,772</b>	<b>\$ 1,107,833</b>
<b>Liabilities, redeemable preferred stock and shareholders equity</b>		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 544,098	\$ 531,293
Unearned premiums	136,144	137,100
Reinsurance premiums payable	1,013	
Amounts held for others	11,705	8,450
Policyholder deposits	40,813	42,368
Insurance-related assessments	41,633	42,505
Securities payable	4,308	1,550
Accounts payable and other liabilities	26,694	30,205
Subordinated debt securities	36,090	36,090
	<b>842,498</b>	<b>829,561</b>
Redeemable preferred stock	25,000	25,000
Shareholders equity:		
Common stock:		
Voting \$0.01 par value authorized shares 50,000,000 in 2009 and 2008; issued and outstanding shares 18,879,846 in 2009 and 18,856,602 in 2008	189	188

Edgar Filing: AMERISAFE INC - Form 10-Q

Additional paid-in capital	176,356	175,163
Accumulated earnings	116,910	77,076
Accumulated other comprehensive income	1,819	845
	295,274	253,272
	\$ 1,162,772	\$ 1,107,833

See accompanying notes.

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

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Revenues</b>				
Gross premiums written	\$ 55,119	\$ 75,767	\$ 207,085	\$ 242,739
Ceded premiums written	(4,051)	(4,574)	(14,115)	(14,030)
Net premiums written	\$ 51,068	\$ 71,193	\$ 192,970	\$ 228,709
Net premiums earned	\$ 58,133	\$ 71,284	\$ 193,926	\$ 217,727
Net investment income	6,877	7,712	21,231	22,934
Net realized gains (losses) on investments	1,956	(2,921)	1,999	(2,860)
Fee and other income	242	200	1,083	570
<b>Total revenues</b>	<b>67,208</b>	<b>76,275</b>	<b>218,239</b>	<b>238,371</b>
<b>Expenses</b>				
Loss and loss adjustment expenses incurred	33,358	41,972	120,647	139,217
Underwriting and certain other operating costs	3,339	4,612	11,792	11,764
Commissions	3,865	4,822	13,975	16,176
Salaries and benefits	5,331	5,040	16,011	15,197
Interest expense	417	654	1,411	2,080
Policyholder dividends	201	125	523	563
<b>Total expenses</b>	<b>46,511</b>	<b>57,225</b>	<b>164,359</b>	<b>184,997</b>
Income before income taxes	20,697	19,050	53,880	53,374
Income tax expense	5,626	5,691	14,046	15,265
Net income	15,071	13,359	39,834	38,109
Preferred stock dividends				
Net income available to common shareholders	\$ 15,071	\$ 13,359	\$ 39,834	\$ 38,109
<b>Earnings per share</b>				
Basic	\$ 0.75	\$ 0.67	\$ 1.99	\$ 1.90
Diluted	\$ 0.74	\$ 0.65	\$ 1.95	\$ 1.87
<b>Shares used in computing earnings per share</b>				
Basic	18,862,044	18,819,463	18,854,169	18,809,061
Diluted	19,273,287	19,207,487	19,247,406	19,119,207



Edgar Filing: AMERISAFE INC - Form 10-Q

See accompanying notes.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Net income	\$ 39,834	\$ 38,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	902	869
Net amortization of investments	2,934	2,218
Deferred income taxes	4,766	(1,852)
Net realized (gains) losses on investments	(1,999)	2,860
(Gain)/loss on sale of fixed assets	(1)	4
Share-based compensation	1,016	912
Changes in operating assets and liabilities:		
Premiums receivable	(9,641)	(14,970)
Accrued interest receivable	(996)	(1,054)
Deferred policy acquisition costs and deferred charges	836	(3,090)
Other assets	(4,841)	(5,104)
Reserves for loss and loss adjustment expenses	12,805	8,014
Unearned premiums	(956)	10,982
Reinsurance balances	(22,830)	3,385
Amounts held for others and policyholder deposits	1,700	2,854
Accounts payable and other liabilities	(1,625)	(133)
Net cash provided by operating activities	21,904	44,004
<b>Investing Activities</b>		
Purchases of investments held-to-maturity	(74,255)	(120,485)
Purchases of investments available-for-sale		(4,836)
Purchases of short-term investments	(38,138)	
Proceeds from maturities of investments held-to-maturity	78,162	70,238
Proceeds from sales and maturities of short-term investments	10,496	
Proceeds from sales and maturities of investments available-for-sale	12,206	35,544
Purchases of property and equipment	(967)	(742)
Proceeds from sales of property and equipment	2	
Net cash used in investing activities	(12,494)	(20,281)
<b>Financing Activities</b>		
Proceeds from stock option exercises	157	113
Tax benefit from share-based payments	21	16
Net cash provided by financing activities	178	129
Change in cash and cash equivalents	9,588	23,852
Cash and cash equivalents at beginning of period	95,241	47,304

Cash and cash equivalents at end of period	\$ 104,829	\$ 71,156
--	------------	-----------

See accompanying notes.

**Table of Contents**

**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1. Basis of Presentation**

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

The Company provides workers compensation and general liability insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking, agriculture, logging, oil and gas and maritime. Assets and revenues of AIIC represent more than 99% of comparable consolidated amounts of the Company for each of 2009 and 2008.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, the results of operations and cash flows for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934 and therefore do not include all information and footnotes to be in conformity with accounting principles generally accepted in the United States (GAAP). The results for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited condensed consolidated financial statements contained herein should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2008.

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

Certain prior year amounts have been reclassified to conform with the current year presentation.

*Recently Issued Accounting Pronouncements*

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance, now codified as FASB Accounting Standards Codification (ASC) Topic 105, Generally Accepted Accounting Principles, as the single source of authoritative nongovernmental U.S. GAAP. ASC Topic 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. All existing accounting standards documents will be superseded and all other accounting literature not included in the FASB Codification will be considered non-authoritative. These provisions of ASC Topic 105 are effective for interim and annual periods ending after September 15, 2009 and, accordingly, are effective for the Company for the current fiscal reporting period. The adoption of this pronouncement did not have an impact on the Company's financial condition or results of operations, but will impact our financial reporting process by eliminating all references to pre-codification standards. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards, and all other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

**Note 2. Stock Options and Restricted Stock**

In connection with the initial public offering of shares of the Company's common stock in November 2005, the Company's shareholders approved the AMERISAFE 2005 Equity Incentive Plan (the 2005 Incentive Plan) and the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2005 Restricted Stock Plan). See Note 13 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 for additional information regarding the Company's incentive plans.



**Table of Contents**

**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

In February 2008, the compensation committee of our board of directors approved incentive compensation awards to each of the Company's executive officers for services rendered in 2007. The awards were composed of cash bonuses and grants of restricted common stock that were made pursuant to the Company's 2005 Incentive Plan. Vesting of those 9,198 restricted shares took place in March 2009.

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

In August 2009, the Company granted options to purchase an aggregate of 75,000 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.

During the nine months ended September 30, 2009, there were 17,400 stock options exercised. Related to these exercises, the Company received \$157,000 of stock option proceeds.

The Company recognized share-based compensation expense of \$379,000 in the quarter ended September 30, 2009, compared to \$335,000 for the same period in 2008. The Company recognized share-based compensation expense of \$1.0 million in the nine months ended September 30, 2009, compared to \$912,000 for the same period in 2008. In the second quarter of 2009, the Company updated forfeiture assumptions for certain stock options, resulting in additional compensation expense of \$310,000.

**Note 3. Earnings Per Share**

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

Under the two-class method, net income is allocated between common stock and any securities other than common stock that are eligible to participate in dividends with common stock. Our redeemable preferred stock and unvested restricted stock qualifies as participating securities under ASC Topic 260.

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(in thousands except per share amounts)				
<b>Basic EPS:</b>				
Net income available to common shareholders	\$ 15,071	\$ 13,359	\$ 39,834	\$ 38,109
Portion allocable to common shareholders	94.1%	94.1%	94.1%	94.0%
Net income allocable to common shareholders	\$ 14,178	\$ 12,571	\$ 37,468	\$ 35,822
Basic weighted average common shares	18,862,044	18,819,463	18,854,169	18,809,061
Basic earnings per common share	\$ 0.75	\$ 0.67	\$ 1.99	\$ 1.90
<b>Diluted EPS:</b>				
Net income allocable to common shareholders	\$ 14,178	\$ 12,571	\$ 37,468	\$ 35,822
<b>Diluted weighted average common shares:</b>				
Weighted average common shares	18,862,044	18,819,463	18,854,169	18,809,061
Stock options	397,835	376,275	382,675	290,813
Restricted stock	13,408	11,749	10,562	19,333
Diluted weighted average common shares	19,273,287	19,207,487	19,247,406	19,119,207
Diluted earnings per common share	\$ 0.74	\$ 0.65	\$ 1.95	\$ 1.87

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Numerator:</b>				
Basic weighted average common shares	18,862,044	18,819,463	18,854,169	18,809,061
<b>Add: Other common shares eligible for common dividends:</b>				
Weighted average restricted shares and stock options (including tax benefit component)	411,243	388,024	393,237	310,146
Weighted average participating common shares	19,273,287	19,207,487	19,247,406	19,119,207
<b>Denominator:</b>				
Weighted average participating common shares	19,273,287	19,207,487	19,247,406	19,119,207
<b>Add: Other classes of securities, including contingently issuable common shares and convertible preferred shares:</b>				
Weighted average common shares issuable upon conversion of Series C preferred shares	242,953	242,953	242,953	242,953
	971,817	971,817	971,817	971,817

## Edgar Filing: AMERISAFE INC - Form 10-Q

Weighted average common shares issuable upon conversion of Series D preferred shares

Weighted average participating shares	20,488,057	20,422,257	20,462,176	20,333,977
Portion allocable to common shareholders	94.1%	94.1%	94.1%	94.0%



**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(unaudited)****Note 4. Investments**

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

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Fixed maturity securities:				
States and political subdivisions	\$ 486,441	\$ 21,833	\$ (1,097)	\$ 507,177
U.S. agency-based mortgage-backed securities	85,409	3,910	(4)	89,315
Commercial mortgage-backed securities	51,596		(5,809)	45,787
U.S. Treasury securities and obligations of U.S. Government agencies	15,575	1,094		16,669
Corporate bonds	26,884	1,213	(76)	28,021
Asset-backed securities	7,219		(2,259)	4,960
Total fixed maturity securities	673,124	28,050	(9,245)	691,929

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Equity securities	\$ 14,444	\$ 1,799	\$ (134)	\$ 16,109

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

Remaining Time to Maturity	Carrying Value	Fair Value
	(In thousands)	
Less than one year	\$ 36,424	\$ 36,662
One to five years	209,892	216,477
Five to ten years	127,528	135,741
More than ten years	155,056	162,987
U.S. agency-based mortgage-backed securities	85,409	89,315
Commercial mortgage-backed securities	51,596	45,787
Asset-backed securities	7,219	4,960

Total	\$ 673,124	\$ 691,929
-------	------------	------------

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

The following table summarizes, as of September 30, 2009, the fair value of, and the amount of unrealized losses on, our investment securities, segregated by the time period each security has been in a continuous unrealized loss position:

	Less Than 12 Months		As of September 30, 2009 12 Months or Greater		Total	
	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
	(in thousands)					
Fixed maturity securities:						
States and political subdivisions	\$ 2,654	\$ 48	\$ 33,059	\$ 1,049	\$ 35,713	\$ 1,097
U.S. agency-based mortgage-backed securities	2,935	4			2,935	4
Commercial mortgage-backed securities			45,787	5,809	45,787	5,809
U.S. Treasury securities and obligations of U.S. Government agencies	2,514				2,514	
Corporate bonds	250	1	1,425	75	1,675	76
Asset-backed securities	38	16	4,923	2,243	4,961	2,259
Total fixed maturity securities	8,391	69	85,194	9,176	93,585	9,245
Equity securities	1,898	134			1,898	134
Total	\$ 10,289	\$ 203	\$ 85,194	\$ 9,176	\$ 95,483	\$ 9,379

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

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

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

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

any downgrades of the security by a rating agency;

## Edgar Filing: AMERISAFE INC - Form 10-Q

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

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

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

We reviewed all securities with unrealized losses in accordance with the impairment policy described above. We determined that the unrealized losses in the fixed maturity securities portfolio related primarily to changes in market interest rates since the date of purchase, current conditions in the capital markets and the impact of those conditions on market liquidity and prices generally, and the transfer of the investments from the available-for-sale classification to the held-to-maturity classification in January 2004. We expect to recover the carrying value of these securities since management does not intend to sell the securities and it is not more likely than not that we will be required to sell the security before the recovery of its amortized cost basis. In addition, none of the unrealized losses on debt securities are considered credit losses.

---

**Table of Contents**

**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

In April 2009, the FASB issued guidance, now codified as FASB ASC Topic 320, Investments-Debt and Equity Securities, to address concerns regarding recognition and presentation of other-than-temporary impairments. The pronouncement is effective for interim and annual periods ending after June 15, 2009. For debt securities, the amount of other-than-temporary impairment related to a credit loss or impairments on securities are recognized in earnings and reflected as a reduction in the cost basis of the security. The amount of the other-than-temporary impairment on debt securities related to other factors is recorded as a component of stockholders' equity in other comprehensive income or loss with no change to the cost basis of the security. For equity securities, the amount of the other-than-temporary impairment due to the extent and duration that fair values are below cost is recognized in earnings and reflected as a reduction in the cost basis of the security. The adoption of ASC Topic 320 did not have a material impact on the Company's consolidated financial condition or results of operations.

**Note 5. Income Taxes**

In accordance with FASB ASC Topic 740, Income Taxes, we provide for the recognition and measurement of deferred income tax benefits based on the likelihood of their realization in future years. As of September 30, 2009, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no such uncertain positions for the quarters and nine months ended September 30, 2009 and 2008.

Tax years 2005 through 2008 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

**Note 6. Comprehensive Income**

Comprehensive income was \$16.4 million for the three months ended September 30, 2009, as compared to \$11.7 million for the three months ended September 30, 2008. Comprehensive income was \$40.8 million for the nine months ended September 30, 2009, as compared to \$32.3 million for the same period in 2008. The difference between net income as reported and comprehensive income was due to changes in unrealized gains and losses, net of tax.

**Note 7. Fair Value Measurements**

Effective January 1, 2008, the Company adopted FASB ASC Topic 820, Fair Value Measurements and Disclosures, for financial assets and liabilities, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Effective January 1, 2009, the Company adopted the provisions of ASC Topic 820 for all non-financial assets and non-financial liabilities.

The Company determined the fair values of its financial instruments based on the fair value hierarchy established in ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard defines fair value, describes three levels of inputs that may be used to measure fair value, and expands disclosures about fair value measurements.

Fair value is defined in ASC Topic 820 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is the price to sell an asset or transfer a liability and, therefore, represents an exit price, not an entry price. Fair value is the exit price in the principal market (or, if lacking a principal market, the most advantageous market) in which the reporting entity would transact. Fair value is a market-based measurement, not an entity-specific measurement, and, as such, is determined based on the assumptions that market participants would use in pricing the asset or liability. The exit price objective of a fair value measurement applies regardless of the reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

## Edgar Filing: AMERISAFE INC - Form 10-Q

ASC Topic 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset, also known as current replacement cost. Valuation techniques used to measure fair value are to be consistently applied.

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

In ASC Topic 820, inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

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

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

Valuation techniques used to measure fair value are intended to maximize the use of observable inputs and minimize the use of unobservable inputs. ASC Topic 820 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

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

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are to be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

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

At September 30, 2009, assets and liabilities measured at fair value on a recurring basis are summarized below:

	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total Fair Value</b>
	<b>(in thousands)</b>			
Securities available for sale	\$ 15,019	\$	\$	\$ 15,019

## Edgar Filing: AMERISAFE INC - Form 10-Q

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

At September 30, 2009, all fixed maturity securities were classified as held-to-maturity and carried at amortized cost.

In February 2007, the FASB issued guidance, now codified as FASB ASC Topic 825, Financial Instruments, 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. ASC Topic 825 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.



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

In April 2009, the FASB issued additional guidance, now codified as FASB ASC Topic 825, Financial Instruments, extending the disclosure requirements regarding the fair value of financial instruments to interim financial statements of publicly traded companies. These requirements are effective for interim reporting periods ending after June 15, 2009.

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

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

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

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

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

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

	As of September 30, 2009		As of December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In thousands)				
<b>Assets:</b>				
Fixed maturity securities	\$ 673,124	\$ 691,929	\$ 680,276	\$ 664,084
Equity securities	14,444	16,109	24,431	24,431
Cash and cash equivalents	104,829	104,829	95,241	95,241
Short Term Investments	27,591	27,591	25	25
<b>Liabilities:</b>				
<b>Subordinated debt securities:</b>				
ACT I	10,310	10,310	10,310	10,310
ACT II	25,780	25,780	25,780	25,780

**Note 8. Subsequent Events**

In May 2009, the FASB issued guidance, now codified as FASB ASC Topic 855, Subsequent Events, which establishes general standards of accounting for, and disclosures of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This pronouncement is effective for interim or fiscal periods ending after June 15, 2009. The adoption of ASC Topic 855 did not have a significant impact on the consolidated financial condition or results of operations.

## Edgar Filing: AMERISAFE INC - Form 10-Q

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

## **Table of Contents**

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

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q, together with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2008.

We begin our discussion with an overview of our Company to give you an understanding of our business and the markets we serve. We then discuss our critical accounting policies. This is followed with a discussion of our results of operations for the three and nine months ended September 30, 2009 and 2008. This discussion includes an analysis of certain significant period-to-period variances in our consolidated statements of operations. Our cash flows and financial condition are discussed under the caption Liquidity and Capital Resources.

### **Business Overview**

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

We actively market our insurance in 30 states and the District of Columbia through independent agencies, as well as through our wholly owned insurance agency subsidiary. We are also licensed in an additional 17 states and the U.S. Virgin Islands.

### **Critical Accounting Policies**

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

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, assessments, deferred policy acquisition costs, deferred income taxes and the valuation and determination of impairment of investment securities. These critical accounting policies are more fully described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of Part II to our Annual Report on Form 10-K for the year ended December 31, 2008.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	\$ 55,119	\$ 75,767	\$ 207,085	\$ 242,739
Net premiums earned	58,133	71,284	193,926	217,727
Net investment income	6,877	7,712	21,231	22,934
Total revenues	67,208	76,275	218,239	238,371
Total expenses	46,511	57,225	164,359	184,997
Net income	15,071	13,359	39,834	38,109
Diluted earnings per common share	\$ 0.74	\$ 0.65	\$ 1.95	\$ 1.87
<b>Other Key Measures</b>				
Net combined ratio (1)	79.3%	79.4%	84.0%	84.0%
Return on average equity (2)	19.3%	20.5%	17.8%	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 September 30, 2009 Compared to September 30, 2008**

**Gross Premiums Written.** Gross premiums written for the quarter ended September 30, 2009 were \$55.1 million, compared to \$75.8 million for the same period in 2008, a decrease of 27.3%. The decrease was attributable to a \$9.0 million decrease in annual premiums on voluntary policies written during the period, a \$10.9 million decrease in premiums resulting from payroll audits and related premium adjustments, a \$485,000 decrease in direct assigned risk premiums, and a \$264,000 decrease in assumed premiums from mandatory pooling arrangements. The decrease from payroll audits and related premium adjustments includes a \$5.0 million decrease in earned but unbilled (EBUB) premium. In connection with recent payroll audits, the EBUB premium estimate was updated to reflect future decreased premium from policy audits resulting from projected lower payrolls during the current economic climate.

**Net Premiums Written.** Net premiums written for the quarter ended September 30, 2009 were \$51.1 million, compared to \$71.2 million for the same period in 2008, a decrease of 28.3%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums written, ceded premiums were 7.3% for the third quarter of 2009, compared to 6.0% for the third quarter of 2008.

**Net Premiums Earned.** Net premiums earned for the third quarter of 2009 were \$58.1 million, compared to \$71.3 million for the same period in 2008, a decrease of 18.4%. The decrease was attributable to the decline in net premiums written in the previous four quarters.

**Net Investment Income.** Net investment income for the third quarter of 2009 was \$6.9 million, compared to \$7.7 million for the same period in 2008, a decrease of 10.8%. Average invested assets, including cash and cash equivalents, were \$815.0 million in the quarter ended September 30, 2009, compared to an average of \$782.8 million for the same period in 2008, an increase of 4.1%. Offsetting this increase was a decrease in the tax-equivalent yield on our investment portfolio, from 5.7% per annum as of September 30, 2008, to 3.6% per annum as of September 30, 2009. The pre-tax investment yield on our investment portfolio was 3.4% per annum during the quarter ended September 30, 2009, compared to 4.0% per annum during the same period in 2008.

**Table of Contents**

*Net Realized Gains (Losses) on Investments.* Net realized gains on investments for the three months ended September 30, 2009 totaled \$2.0 million, compared to net realized losses of \$2.9 million for the same period in 2008. Net realized gains in the third quarter primarily resulted from \$1.6 million in gains from the sale of certain equities and \$290,000 in gains from the sale of one asset-backed security. Net realized losses in the third quarter of 2008 were attributable to \$381,000 in realized losses from the sale of equity securities and \$2.5 million in other-than-temporary impairments of certain equities and asset-backed securities.

*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$33.4 million for the three months ended September 30, 2009, compared to \$42.0 million for the same period in 2008, a decrease of \$8.6 million, or 20.5%. The current accident year loss and LAE incurred decreased as a result of lower premiums earned in the third quarter of 2009, as compared to the same period in 2008. In addition, we recorded favorable prior accident year development of \$6.7 million in the third quarter of 2009, compared to \$6.6 million in the same period of 2008, as further discussed below in *Prior Year Development*. Our net loss ratio was 57.4% in the third quarter of 2009, compared to 58.9% in the same period of 2008.

*Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits.* Underwriting and certain other operating costs, commissions and salaries and benefits for the quarter ended September 30, 2009 were \$12.5 million, compared to \$14.5 million for the same period in 2008, a decrease of 13.4%. This decrease was primarily due to a \$1.4 million decrease in insurance-related assessments, a \$958,000 decrease in commissions, and a \$508,000 decrease in premium taxes. There was also a decrease of \$388,000 in accounts receivable write-offs and a \$438,000 increase in experience-rated commissions from our 2009 reinsurance agreements. Offsetting these expense reductions was a \$1.4 million decrease in income from the commutation of certain reinsurance contracts. Our expense ratio was 21.6% in the third quarter of 2009 compared to 20.3% in the third quarter of 2008.

*Interest expense.* Interest expense for the third quarter of 2009 was \$417,000, compared to \$654,000 for the same period in 2008. Weighted average borrowings for both periods were \$36.1 million, however the weighted average interest rate decreased to 4.6% per annum for the third quarter of 2009 from 6.8% per annum for the third quarter of 2008.

*Income tax expense.* Income tax expense for the three months ended September 30, 2009 was \$5.6 million, compared to \$5.7 million for the same period in 2008. The decrease was primarily attributable to a decrease in our effective tax rate to 27.2% for the quarter ended September 30, 2009, compared to 29.9% for the same period in 2008. The rate decrease included a \$678,000 expense reduction for the change in valuation allowance for deferred tax assets related to unrealized losses on our investment portfolio. Pre-tax income increased to \$20.7 million for the three months ended September 30, 2009, compared to \$19.1 million for the same period in 2008.

***Consolidated Results of Operations for Nine Months Ended September 30, 2009 Compared to September 30, 2008***

*Gross Premiums Written.* Gross premiums written for the nine months ended September 30, 2009 was \$207.1 million, compared to \$242.7 million for the same period in 2008, a decrease of 14.7%. The decrease was attributable to a \$16.4 million decrease in annual premiums on voluntary policies written during the period, a \$17.5 million decrease in premiums resulting from payroll audits and related premium adjustments, \$1.6 million decrease in direct assigned risk premiums and a \$122,000 decrease in premiums from mandatory pooling arrangements. The decrease from payroll audits and related premium adjustments includes a \$6.4 million decrease in EBUB premium. In connection with recent payroll audits, the EBUB premium estimate was updated to reflect future decreased premium from policy audits resulting from projected lower payrolls during the current economic climate.

*Net Premiums Written.* Net premiums written for the nine months ended September 30, 2009 were \$193.0 million, compared to \$228.7 million for the same period in 2008, a decrease of 15.6%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums written, ceded premiums were 6.8% for the nine months ended September 30, 2009, compared to 5.8% for the same period in 2008.

*Net Premiums Earned.* Net premiums earned for the nine months ended September 30, 2009 were \$193.9 million, compared to \$217.7 million for the same period in 2008, a decrease of 10.9%. The decrease was attributable to a decline in net premiums written in the previous four quarters, which caused the flow of premium earnings to also decrease.

*Net Investment Income.* Net investment income for the nine months ended September 30, 2009 was \$21.2 million, compared to \$22.9 million for the same period in 2008, a decrease of 7.4%. The change was attributable to a decrease in the tax-equivalent yield on our investment portfolio, from 5.7% per annum as of September 30, 2008, to 3.6% per annum as of September 30, 2009. The pre-tax investment yield on our investment portfolio was 3.5% per annum during the nine months ended September 30, 2009, compared to 4.0% per annum during the same period in 2008. Average invested assets, including cash and cash equivalents increased 4.9%, from an average of \$773.2 million for the nine months ended September 30, 2008 to an average of \$810.8 million for the same period in 2009.



## **Table of Contents**

*Net Realized Gains (Losses) on Investments.* Net realized gains on investments for the nine months ended September 30, 2009 totaled \$2.0 million, compared to net realized losses of \$2.9 million for the same period in 2008. Net realized gains in the nine months ended September 30, 2009 primarily resulted from \$1.6 million in gains from the sale of certain equities and \$290,000 in gains from the sale of one asset-backed security. Net realized losses in the nine months ended September 30, 2008 were attributable to \$320,000 in realized losses from the sale of equity securities and \$2.5 million in other-than-temporary impairments of certain equities and asset-backed securities.

*Loss and Loss Adjustment Expenses Incurred.* Loss and LAE incurred totaled \$120.6 million for the nine months ended September 30, 2009, compared to \$139.2 million for the same period in 2008, a decrease of \$18.6 million, or 13.3%. The current accident year loss and LAE incurred decreased as a result of lower premiums earned in the nine months ended September 30, 2009, as compared to the same period in 2008. The net loss ratio for the current accident year was the same in both 2009 and 2008 for the nine months ended September 30. In addition, we recorded favorable prior accident year development of \$13.1 million in 2009, compared to \$11.1 million in 2008, as further discussed below in Prior Year Development. Our net loss ratio was 62.2% for the nine months ended September 30, 2009, compared to 63.9% for the same period in 2008.

*Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits.* Underwriting and certain other operating costs, commissions and salaries and benefits for the nine months ended September 30, 2009 were \$41.8 million, compared to \$43.1 million for the same period in 2008, a decrease of 3.2%. This decrease was primarily due to a \$2.2 million decrease in commissions, \$1.3 million of experience-rated commission from our 2009 reinsurance agreements, a \$1.3 million decrease in premium taxes and a \$531,000 decrease in insurance-related assessments. Offsetting these expense reductions was a \$3.0 million decrease in income from the commutation of certain reinsurance contracts. Our expense ratio was 21.5% for the nine months ended September 30, 2009 compared to 19.8% for the same period in 2008.

*Interest expense.* Interest expense for the nine months ended September 30, 2009 was \$1.4 million, compared to \$2.1 million for the comparable period of 2008. Weighted average borrowings for both periods were \$36.1 million. The weighted average interest rate decreased to 5.0% per annum for the nine months ended September 30, 2009 from 7.2% per annum for the nine months ended September 30, 2008.

*Income tax expense.* Income tax expense for the nine months ended September 30, 2009 was \$14.0 million, compared to \$15.3 million for the same period in 2008. The decrease was primarily attributable to a decrease in our effective tax rate to 26.1% for the nine months ended September 30, 2009, compared to 28.6% for the same period in 2008. The rate decrease included a \$678,000 expense reduction for the change in valuation allowance for deferred tax assets related to unrealized losses on our investment portfolio. Pre-tax income increased to \$53.9 million for the nine months ended September 30, 2009, compared to \$53.4 million for the same period in 2008.

## **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 \$21.9 million for the nine months ended September 30, 2009, which represented a \$22.1 million decrease in cash provided by operating activities, from \$44.0 million in net cash provided by operating activities for the nine months ended September 30, 2008. This decrease in operating cash was attributable to a \$29.9 million decrease in premiums collected, a \$9.9 million decrease in reinsurance recoveries and a \$782,000 decrease in net investment income. Offsetting these decreases in operating cash flow were a \$7.1 million decrease in losses paid, a \$4.9 million decrease in expense disbursements, a \$4.0 million decrease in federal income taxes paid and a \$3.5 million decrease in policyholder dividends paid.

Net cash used in investing activities was \$12.5 million for the nine months ended September 30, 2009, compared to \$20.3 million for the same period in 2008. Cash provided by sales and maturities of investments totaled \$100.9 million for the nine months ended September 30, 2009, compared to \$105.8 million for the same period in 2008. A total of \$112.4 million in cash was used to purchase investments in the nine months ended September 30, 2009, compared to \$125.3 million in purchases for the same period in 2008.

Net cash provided by financing activities in the nine months ended September 30, 2009 was \$178,000, as compared to \$129,000 in the same period in 2008. In the nine months ended September 30, 2009, proceeds from stock option exercises totaled \$157,000 and tax benefits related to share-based compensation was \$21,000. In the nine months ended September 30, 2008, proceeds from stock option exercises totaled \$113,000 and tax benefits related to share-based compensation was \$16,000.





**Table of Contents**

On March 30, 2009, we commuted certain reinsurance agreements with Lincoln National Life Insurance Company ( Lincoln National ), Connecticut General Life Insurance Company ( Continental General ) and Phoenix Life Insurance Company ( Phoenix Life ) covering portions of the 1998 accident year. Lincoln National remains obligated to subsidiaries of the Company under other reinsurance agreements. We received cash of \$2.5 million in exchange for releasing Lincoln National, Connecticut General and Phoenix Life from their reinsurance obligations under the commuted agreements. As a result of the commutation, we recorded additional pre-tax income of approximately \$344,000 in the first quarter of 2009.

**Investment Portfolio**

As of September 30, 2009, our investment portfolio, including cash and cash equivalents, totaled \$821.7 million, an increase of 4.2% from September 30, 2008. Our fixed maturity securities are classified as held-to-maturity, as defined by FASB ASC Topic 320, Investments-Debt and Equity Securities. As such, the reported value of those securities is equal to their amortized cost, and is not impacted by changing interest rates. Our equity securities are classified as available-for-sale and reported at fair value.

On January 1, 2008, we adopted FASB ASC Topic 820 that establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. As disclosed in Note 7 of the financial statements, our securities available-for-sale are classified using Level 1 inputs. We did not elect the fair value option prescribed under FASB ASC Topic 825 for any financial assets or financial liabilities as of September 30, 2009.

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

	Carrying Value	Percentage of Portfolio
	(in thousands)	
Fixed maturity securities:		
States and political subdivisions	\$ 486,441	59.2%
U.S. agency-based mortgage-backed securities	85,409	10.4%
Commercial mortgage-backed securities	51,596	6.3%
U.S. Treasury securities and obligations of U.S. Government agencies	15,575	1.9%
Corporate bonds	26,884	3.2%
Asset-backed securities	7,219	.9%
Total fixed maturity securities	673,124	81.9%
Equity securities	16,109	1.9%
Cash and cash equivalents	104,829	12.8%
Short-term investments	27,591	3.4%
Total investments, including cash and cash equivalents	\$ 821,653	100.0%

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

In September 2009, we sold one fixed-maturity security which was classified as held-to-maturity. This particular security was impaired in both the third and fourth quarters of 2008. The security was eligible for sale because of a major downgrade. In order to recapture realized capital gains for taxes, we needed to recognize a certain amount of losses in this calendar year. With limited securities classified as available-for-sale, the sale of this fixed-maturity security was needed to maximize our carryback potential. The carrying value at disposal was \$950,000. Therefore, we recognized a \$290,000 realized gain in the third quarter of 2009.

**Table of Contents****Prior Year Development**

The Company recorded favorable prior accident year development of \$6.7 million in the three months ended September 30, 2009. The table below sets forth the favorable or unfavorable development for three and nine months ended September 30, 2009 for accident years 2004 through 2008 and, collectively, for all accident years prior to 2004.

<b>Accident Year</b>	<b>Favorable/(Unfavorable) Development</b>	
	<b>Three Months Ended September 30, 2009</b>	<b>Nine Months Ended September 30, 2009</b>
	<b>(in millions)</b>	
2008	\$ 0.2	\$ (4.6)
2007	2.9	7.4
2006	0.4	5.0
2005	0.5	0.7
2004	0.5	0.3
Prior to 2004	2.2	4.3
<b>Total net development</b>	<b>\$ 6.7</b>	<b>\$ 13.1</b>

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2009</b>	<b>September 30, 2008</b>	<b>September 30, 2009</b>	<b>September 30, 2008</b>
Open claims at beginning of period	4,604	5,133	4,793	5,300
Claims reported	1,400	1,776	4,002	4,889
Claims closed	(1,323)	(1,788)	(4,114)	(5,068)
<b>Open claims at end of period</b>	<b>4,681</b>	<b>5,121</b>	<b>4,681</b>	<b>5,121</b>

The number of open claims at September 30, 2009 decreased by 440 claims, or 8.6%, as compared to the number of open claims at September 30, 2008. The decline in the number of open claims is attributable, in part, to our increased efforts in recent periods to close prior year claims, especially in those circumstances where the claim could be settled for less than the corresponding case reserve amount (which amount represents the estimated ultimate cost to settle the claim, undiscounted). As a result of these efforts, the number of open claims decreased from September 30, 2008 to September 30, 2009, which management believes contributed, in part, to the favorable prior accident year development recorded for the nine months ended September 30, 2009.

At September 30, 2009, our case incurred amounts for certain accident years, particularly 2006 and 2007, have not developed to the degree management previously expected. The assumptions we used in establishing our reserves for these accident years were based on our 23 years of historical claims data. However, as of September 30, 2009, actual results for certain accident years have been better than our assumptions would have predicted. We do not presently intend to modify our assumptions for establishing reserves in light of these recent results for the 2006 and 2007 accident years. However, if actual results for current and future accident years are consistent with, or better than, our results in these recent accident years, our historical claims data will reflect this change and, over time, will impact the reserves we establish for future claims.

Our reserves for loss and loss adjustment expenses are inherently uncertain and our focus on providing workers' compensation insurance to employers engaged in hazardous industries results in our receiving relatively fewer but more severe claims than many other workers' compensation insurance companies. As a result of this focus on higher severity, lower frequency business, our reserve for loss and loss adjustment expenses may have greater volatility than other workers' compensation insurance companies. For additional information, see **Business Loss Reserves** in our Annual Report on Form 10-K for the year ended December 31, 2008.



**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

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

Since December 31, 2008, there have been no material changes in the quantitative or qualitative aspect of our market risk profile. For additional information regarding the Company's exposure to certain market risks, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

**Item 4. Controls and Procedures.**

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

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

**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.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Description</b>
10.1	Employment Agreement, dated June 23, 2009 by and between the Registrant and Brendan Gau.
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of G. Janelle Frost filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and G. Janelle Frost filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**Table of Contents**

**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.

November 6, 2009

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

November 6, 2009

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

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
10.1	Employment Agreement, dated June 23, 2009 by and between the Registrant and Brendan Gau.
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of G. Janelle Frost filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and G. Janelle Frost filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002