AMERISAFE INC
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

Commission file number:

001-12251

AMERISAFE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas	**75-2069407**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**
2301 Highway 190 West, DeRidder, Louisiana	**70634**
(Address of Principal Executive Offices)	**(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 x 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	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 Exchange Act). Yes ¨ No x

As of October 29, 2010, there were 18,434,928 shares of the Registrant s common stock, par value $.01 per share, outstanding.

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FORWARD-LOOKING STATEMENTS

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

- decreased level of business activity of our policyholders caused by decreased economic activity generally, and in particular in the industries we target;
- general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;
- decreased demand for our insurance;
- greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- adverse developments in economic, competitive or regulatory conditions within the workers compensation insurance industry;
- increased competition on the basis of premium rates, coverage availability, payment terms, claims management, safety services, policy terms, types of insurance offered, overall financial strength, financial ratings and reputation;
- developments in capital markets that adversely affect the performance of our investments;
- the cyclical nature of the workers compensation insurance industry;
- changes in the availability, cost or quality of reinsurance and the failure of our reinsurers to pay claims in a timely manner or at all;
- changes in regulations, laws, rates or rating factors applicable to us, our policyholders or the agencies that sell our insurance;
- changes in rating agency policies or practices;
- loss of the services of any of our senior management or other key employees;

- changes in legal theories of liability under our insurance policies;

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

- other risks and uncertainties described from time to time in our filings with the Securities and Exchange Commission (SEC).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report, including under Item 1A, Risk Factors of Part I to our Annual Report on Form 10-K for the year ended December 31, 2009. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value $710,280 and $678,905 in 2010 and 2009, respectively)	$ 675,052	$ 666,418
Fixed maturity securities available-for-sale, at fair value (cost $9,999 and $0 in 2010 and 2009, respectively)	10,069	
Equity securities available-for-sale, at fair value (cost $2,430 and $14,424 in 2010 and 2009, respectively)	2,430	16,571
Short-term investments	63,702	54,308
Total investments	751,253	737,297
Cash and cash equivalents	54,816	63,188
Amounts recoverable from reinsurers	97,611	81,878
Premiums receivable, net	143,224	151,570
Deferred income taxes	32,898	28,489
Accrued interest receivable	8,436	7,165
Property and equipment, net	6,899	5,369
Deferred policy acquisition costs	18,651	18,128
Deferred charges	3,323	3,030
Federal income tax recoverable	4,064	7,415
Other assets	14,243	15,280
	$ 1,135,418	$ 1,118,809
Liabilities and shareholders equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	$ 541,319	$ 534,655
Unearned premiums	121,753	122,500
Reinsurance premiums payable	722	
Amounts held for others	18,999	14,915
Policyholder deposits	39,992	40,857
Insurance-related assessments	34,360	40,072
Securities payable	584	2,979
Accounts payable and other liabilities	23,397	24,324
Subordinated debt securities	36,090	36,090
	817,216	816,392
Shareholders equity:		

Common stock:		
Voting $0.01 par value authorized shares 50,000,000 in 2010 and 2009; 19,047,394 and 18,879,846 shares issued and 18,434,928 and 18,879,846 shares outstanding in 2010 and 2009, respectively	190	189
Additional paid-in capital	179,284	176,868
Treasury stock at cost (612,466 shares in 2010 and none in 2009)	(10,373)	
Accumulated earnings	148,691	122,632
Accumulated other comprehensive income, net	410	2,728
	318,202	302,417
	$ 1,135,418	$ 1,118,809

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Revenues				
Gross premiums written	$ 52,197	$ 55,119	$ 176,281	$ 207,085
Ceded premiums written	(5,334)	(4,051)	(14,576)	(14,115)
Net premiums written	$ 46,863	$ 51,068	$ 161,705	$ 192,970
Net premiums earned	$ 54,412	$ 58,133	$ 162,452	$ 193,926
Net investment income	6,569	6,877	19,784	21,231
Net realized (losses) gains on investments	(561)	1,956	2,284	1,999
Fee and other income	118	242	495	1,083
Total revenues	60,538	67,208	185,015	218,239
Expenses				
Loss and loss adjustment expenses incurred	46,660	33,358	117,998	120,647
Underwriting and certain other operating costs	(834)	3,339	5,852	11,792
Commissions	4,087	3,865	12,079	13,975
Salaries and benefits	5,104	5,331	15,270	16,011
Interest expense	400	417	1,160	1,411
Policyholder dividends	252	201	726	523
Total expenses	55,669	46,511	153,085	164,359
Income before income taxes	4,869	20,697	31,930	53,880
Income tax expense	511	5,626	5,871	14,046
Net income	4,358	15,071	26,059	39,834
Net income available to common shareholders	$ 4,358	$ 15,071	$ 26,059	$ 39,834
Earnings per share				
Basic	$ 0.24	$ 0.75	$ 1.39	$ 1.99
Diluted	$ 0.23	$ 0.74	$ 1.36	$ 1.95
Shares used in computing earnings per share				
Basic	18,528,110	18,862,044	18,711,097	18,854,169
Diluted	18,982,574	19,273,287	19,155,258	19,247,406

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2010	2009
Operating Activities		
Net income	$ 26,059	$ 39,834
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	772	902
Net amortization of investments	3,623	2,934
Deferred income taxes	(4,317)	4,766
Net realized gains on investments	(2,284)	(1,999)
Gain on sale of fixed assets		(1)
Share-based compensation	872	1,016
Changes in operating assets and liabilities:		
Premiums receivable	8,346	(9,641)
Accrued interest receivable	(1,271)	(996)
Deferred policy acquisition costs and deferred charges	(815)	836
Other assets and federal income tax recoverable	4,388	(4,841)
Reserves for loss and loss adjustment expenses	6,664	12,805
Unearned premiums	(747)	(956)
Reinsurance balances	(15,011)	(22,830)
Amounts held for others and policyholder deposits	3,218	1,700
Accounts payable and other liabilities	(9,035)	(1,625)
Net cash provided by operating activities	20,462	21,904
Investing Activities		
Purchases of investments held-to-maturity	(56,791)	(74,255)
Purchases of investments available-for-sale	(21,663)	
Purchases of short-term investments	(62,047)	(38,138)
Proceeds from maturities of investments held-to-maturity	44,452	78,162
Proceeds from sales and maturities of investments available-for-sale	25,831	12,206
Proceeds from sales and maturities of short-term investments	52,514	10,496
Purchases of property and equipment	(2,302)	(967)
Proceeds from sales of property and equipment		2
Net cash used in investing activities	(20,006)	(12,494)
Financing Activities		
Proceeds from stock option exercises	1,335	157
Tax benefit from share-based payments	210	21
Treasury shares purchased	(10,373)	
Net cash (used in)/provided by financing activities	(8,828)	178
Change in cash and cash equivalents	(8,372)	9,588

Cash and cash equivalents at beginning of period	63,188	95,241
Cash and cash equivalents at end of period	$ 54,816	$ 104,829

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Basis of Presentation

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

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

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, the results of operations and cash flows for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934 and therefore do not include all information and footnotes to be in conformity with accounting principles generally accepted in the United States (GAAP). The results for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited condensed consolidated financial statements contained herein should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009.

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

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

Note 2. Stock Options and Restricted Stock

In connection with the initial public offering of shares of the Company s common stock in November 2005, the Company s shareholders approved the AMERISAFE 2005 Equity Incentive Plan (the 2005 Incentive Plan) and the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2005 Restricted Stock Plan). See Note 13 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 for additional information regarding the Company s incentive plans.

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

In June 2010, the Company s shareholders approved an amendment to the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2010 Restated Restricted Stock Plan). On June 15, 2010, non-employee directors were granted 11,830 shares of restricted common stock in accordance with the 2010 Restated Restricted Stock Plan. The market value of the restricted shares granted was $0.2 million, and those restricted shares will vest at the next annual shareholders meeting.

During the nine months ended September 30, 2010, there were 139,902 stock options exercised. Related to these exercises, the Company received $1.3 million of stock option proceeds. During the nine months ended September 30, 2009, there were 17,400 stock options exercised. Related to these exercises, the Company received $0.2 million of stock option proceeds.

The Company recognized share-based compensation expense of $0.4 million in both the quarters ended September 30, 2010 and 2009. The Company recognized share-based compensation expense of $0.9 million in the nine months ended September 30, 2010, compared to $1.0 million for the same period in 2009.

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 3. Earnings Per Share

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

Under the two-class method, net income is allocated between common stock and any securities other than common stock that are eligible to participate in dividends with common stock. Our redeemable preferred stock and unvested restricted stock qualified as participating securities under ASC Topic 260 in 2009. With redemption of the Series C and D preferred shares in December 2009, the two-class method is no longer applicable in 2010 for redeemable preferred stock.

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

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(in thousands, except share and per share amounts)			
Basic EPS:				
Net income available to common shareholders	$ 4,358	$ 15,071	$ 26,059	$ 39,834
Portion allocable to common shareholders	100.0%	94.1%	100.0%	94.1%
Net income allocable to common shareholders	$ 4,358	$ 14,178	$ 26,059	$ 37,468
Basic weighted average common shares	18,528,110	18,862,044	18,711,097	18,854,169
Basic earnings per common share	$ 0.24	$ 0.75	$ 1.39	$ 1.99
Diluted EPS:				
Net income allocable to common shareholders	$ 4,358	$ 14,178	$ 26,059	$ 37,468
Diluted weighted average common shares:				
Weighted average common shares	18,528,110	18,862,044	18,711,097	18,854,169
Stock options	448,304	397,835	437,779	382,675
Restricted stock	6,160	13,408	6,382	10,562
Diluted weighted average common shares	18,982,574	19,273,287	19,155,258	19,247,406

Diluted earnings per common share	$	0.23	$	0.74	$	1.36	$	1.95

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Numerator:				
Basic weighted average common shares	18,528,110	18,862,044	18,711,097	18,854,169
Add: Other common shares eligible for common dividends:				
Weighted average restricted shares and stock options (including tax benefit component)	454,464	411,243	444,161	393,237
Weighted average participating common shares	18,982,574	19,273,287	19,155,258	19,247,406
Denominator:				
Weighted average participating common shares	18,982,574	19,273,287	19,155,258	19,247,406
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
Weighted average common shares issuable upon conversion of Series D preferred shares		971,817		971,817
Weighted average participating shares	18,982,574	20,488,057	19,155,258	20,462,176
Portion allocable to common shareholders	100.0%	94.1%	100.0%	94.1%

Note 4. Investments

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as held-to-maturity at September 30, 2010 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	$ 473,974	$ 25,962	$ (397)	$ 499,539
U.S. agency-based mortgage-backed securities	63,859	4,072	(135)	67,796
Commercial mortgage-backed securities	51,576	3,337		54,913
U.S. Treasury securities and obligations of U.S. Government agencies	14,829	1,560		16,389

Corporate bonds	63,473	1,812	(64)	65,221
Asset-backed securities	6,591	19	(938)	5,672
Long-term certificates of deposit	750			750
Total fixed maturity securities	$ 675,052	$ 36,762	$ (1,534)	$ 710,280

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Fixed maturity securities:				
Corporate bonds	$ 9,999	$ 70	$	$ 10,069
Equity securities	$ 2,430	$	$	$ 2,430

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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, 2010, by contractual maturity, is as follows:

Remaining Time to Maturity	Carrying Value	Fair Value
	(In thousands)	
Less than one year	$ 65,298	$ 66,044
One to five years	236,581	245,766
Five to ten years	122,542	133,217
More than ten years	128,605	136,872
U.S. agency-based mortgage-backed securities	63,859	67,796
Commercial mortgage-backed securities	51,576	54,913
Asset-backed securities	6,591	5,672
Total	$ 675,052	$ 710,280

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

Remaining Time to Maturity	Cost	Fair Value
	(In thousands)	
Less than one year	$	$
One to five years	8,778	8,821
Five to ten years		
More than ten years	1,221	1,248
U.S. agency-based mortgage-backed securities		
Commercial mortgage-backed securities		
Asset-backed securities		
Total	$ 9,999	$ 10,069

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

The following table summarizes, as of September 30, 2010, the fair value of, and the amount of unrealized losses on, our investment securities, segregated by the time period each security has been in a continuous unrealized loss position:

	As of September 30, 2010					
	Less Than 12 Months		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)					
Held-to-Maturity						
Fixed maturity securities:						
States and political subdivisions	$ 13,120	$ 36	$ 5,391	$ 360	$ 18,511	$ 396
U.S. agency-based mortgage-backed securities			4,782	135	4,782	135
Commercial mortgage-backed securities						
U.S. Treasury securities and obligations of U.S. Government agencies						
Corporate bonds	11,030	63	1,498	2	12,528	65
Asset-backed securities			4,851	938	4,851	938
Total held-to-maturity securities	24,150	99	16,522	1,435	40,672	1,534
Available-for Sale						
Fixed maturity securities:						
Corporate bonds	$	$	$	$	$	$
Equity securities						
Total available-for-sale securities						
Total	$ 24,150	$ 99	$ 16,522	$ 1,435	$ 40,672	$ 1,534

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;

our intent whether or not to sell the security;

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

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

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

We reviewed all securities with unrealized losses in accordance with the impairment policy described above. We determined that the unrealized losses in the fixed maturity securities portfolios related primarily to changes in market interest rates since the date of purchase and current conditions in the capital markets and the impact of those conditions on market liquidity and prices generally. 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.

In September 2010, we recorded an impairment charge for one equity security, whose fair value we determined was other-than-temporarily impaired. This charge is included in Net realized gains (losses) on investments, and totaled $0.7 million for the quarter ended September 30, 2010.

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, 2010, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The current quarter effective tax rate decreased significantly due to a higher percentage of tax-exempt interest relative to pre-tax earnings in the quarter ended September 30, 2010.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no uncertain tax positions recognized for the quarters and nine months ended September 30, 2010 and 2009.

Tax years 2006 through 2009 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

Note 6. Comprehensive Income

Comprehensive income was $4.6 million for the three months ended September 30, 2010, as compared to $16.5 million for the three months ended September 30, 2009. Comprehensive income was $23.7 million for the nine months ended September 30, 2010, as compared to $40.8 million for the same period in 2009. The difference between net income as reported and comprehensive income was due to changes in unrealized gains and losses, net of tax and in 2010, due to a change in the deferred tax asset valuation allowance of $0.8 million.

Note 7. Fair Value Measurements

We carry available-for-sale securities at fair value in our consolidated financial statements and determine fair value measurements and disclosure in accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures.

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.

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

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

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

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

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

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

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

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

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

Securities classified by the Company as available-for-sale investments were reported at fair value utilizing 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, 2010, 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
		(in thousands)		
Securities available for sale equity	$ 1,340	$	$	$ 1,340
Securities available for sale fixed maturity	$ 10,069	$	$	$ 10,069

In addition, the Company held common securities in unconsolidated variable interest entities of approximately $1.1 million, which are carried at cost. These variable interest entities are further discussed below in Note 9.

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

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

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

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

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

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

	As of September 30, 2010		As of December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Assets:				
Fixed maturity securities held-to-maturity	$ 675,052	$ 710,280	$ 666,418	$ 678,905
Fixed maturity securities available-for-sale	10,069	10,069		
Equity securities	2,430	2,430	16,571	16,571
Cash and cash equivalents	54,816	54,816	63,188	63,188
Short-term Investments	63,702	63,702	54,308	54,308
Liabilities:				
Subordinated debt securities:				
ACT I	10,310	10,310	10,310	10,310
ACT II	25,780	25,780	25,780	25,780

Note 8. Treasury Stock

In March 2010, the Company announced that its Board of Directors had approved a share repurchase program of its common stock. On November 4, 2010, the Company announced that its Board of Directors voted to renew the previously authorized share repurchase program by one year, to December 31, 2011. In addition, the Board authorized a new limit of up to $25 million effective October 1, 2010. During the three months ended September 30, 2010, 213,318 shares were purchased for $3.7 million, or an average price (including commissions) of $17.51 per share. During the nine months ended September 30, 2010, 612,466 shares were purchased for $10.4 million, or an average price (including commissions) of $16.94 per share.

Note 9. Variable Interest Entities

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

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

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

Note 10. Recently Issued Accounting Pronouncements

On September 29, 2010, the Emerging Issues Task Force (EITF) Issue 09-G, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts was ratified by the FASB. This guidance changes the accounting for costs associated with acquiring or renewing insurance contracts in response to diversity in practice in the capitalization and amortization of those costs. Under the new guidance, deferrable costs will be limited to incremental direct costs of successful contract acquisition incurred with independent third parties and the portion of total employee compensation and payroll-related fringe benefits related to time spent performing specified acquisition activities (e.g., underwriting, policy issuance and processing) for successful acquisition efforts. Companies will have a choice between prospective and retrospective adoption. The new guidance will be effective for fiscal years beginning after December 15, 2011. Management estimates the effect of adoption of this new guidance on our consolidated financial position or results of operations to be between $2.0 million and $3.0 million, pre-tax.

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

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q, together with Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2009.

We begin our discussion with an overview of our Company to give you an understanding of our business and the markets we serve. We then discuss our critical accounting policies. This is followed with a discussion of our results of operations for the three and nine months ended September 30, 2010 and 2009. This discussion includes an analysis of certain significant period-to-period variances in our consolidated statements of operations. Our cash flows and financial condition are discussed under the caption Liquidity and Capital Resources.

Business Overview

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

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

Critical Accounting Policies

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

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, premiums receivable, assessments, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities and share-based compensation. These critical accounting policies are more fully described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of Part II to our Annual Report on Form 10-K for the year ended December 31, 2009.

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Results of Operations

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	$ 52,197	$ 55,119	$ 176,281	$ 207,085
Net premiums earned	54,412	58,133	162,452	193,926
Net investment income	6,569	6,877	19,784	21,231
Total revenues	60,538	67,208	185,015	218,239
Total expenses	55,669	46,511	153,085	164,359
Net income	4,358	15,071	26,059	39,834
Diluted earnings per common share	$ 0.23	$ 0.74	$ 1.36	$ 1.95
Other Key Measures				
Net combined ratio (1)	101.7%	79.3%	93.4%	84.0%
Return on average equity (2)	5.5%	19.3%	11.2%	17.8%
Book value per share (3)	$ 17.26	$ 15.94	$ 17.26	$ 15.94

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

(2) Return on average equity is calculated by dividing the annualized net income by the average shareholders equity, including redeemable preferred stock, for the applicable period. On December 31, 2009, the Company redeemed all outstanding shares of its Series C and D redeemable preferred stock for $25.9 million.

(3) Book value per share is calculated by dividing shareholders equity, including redeemable preferred stock, by total outstanding shares.

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

Gross Premiums Written. Gross premiums written for the quarter ended September 30, 2010 were $52.2 million, compared to $55.1 million for the same period in 2009, a decrease of 5.3%. The decrease was attributable to a $9.1 million decrease in annual premiums on voluntary policies written during the period, a $0.2 million decrease in assumed premium from mandatory pooling arrangements and a $0.2 million decrease in direct assigned risk premiums. These decreases were partially offset by a $6.6 million increase in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters. Related premium adjustments include a $0.4 million decrease in earned but unbilled (EBUB) premium in the third quarter of 2010. In the third quarter of 2009, premium adjustments included a $5.4 million decrease in EBUB premium.

Net Premiums Written. Net premiums written for the quarter ended September 30, 2010 were $46.9 million, compared to $51.1 million for the same period in 2009, a decrease of 8.2%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 8.9% for the third quarter of 2010, compared to 6.5% for the third quarter of 2009.

Net Premiums Earned. Net premiums earned for the third quarter of 2010 were $54.4 million, compared to $58.1 million for the same period in 2009, a decrease of 6.4%. The decrease was attributable to the decline in net premiums written in the previous four quarters.

Net Investment Income. Net investment income for the quarter ended September 30, 2010 was $6.6 million, compared to $6.9 million for the same period in 2009, a decrease of 4.5%. Average invested assets, including cash and cash equivalents, were $803.4 million in the quarter ended September 30, 2010, compared to an average of $815.0 million for the same period in 2009, a decrease of 1.4%. The pre-tax investment yield on our investment portfolio was 3.3% per annum during the quarter ended September 30, 2010, compared to 3.4% per annum for the third quarter of 2009. The tax-equivalent yield on our investment portfolio was 4.6% per annum for the quarter ended September 30, 2010, compared to 4.7% per annum for the same period in 2009. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized losses on investments for the three months ended September 30, 2010 totaled $0.6 million, compared to net realized gains of $2.0 million for the same period in 2009. Net realized losses in the third quarter of 2010 primarily resulted from an other-than-temporary impairment of $0.7 million on one equity security. Offsetting these losses were $0.1 million of realized gains from called fixed maturity securities and the sale of fixed maturity securities from the available-for-sale portfolio. Net realized gains in the third quarter of 2009 were attributable to $1.6 million in gains from the sale of certain equities and $0.3 million in gains from the sale of one asset-backed security.

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Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $46.7 million for the three months ended September 30, 2010, compared to $33.4 million for the same period in 2009, an increase of $13.3 million, or 39.9%. The current accident year losses and LAE incurred were $52.0 million, or 95.5% of net premiums earned, compared to $40.1 million, or 69.0% of net premiums earned, for the same period in 2009. The increase in the current accident year loss ratio was mainly driven by frequency and severity. We recorded favorable prior accident year development of $5.3 million in the third quarter of 2010, compared to $6.7 million in the same period of 2009, as further discussed below in Prior Year Development. Our net loss ratio was 85.8% in the third quarter of 2010, compared to 57.4% in the same period of 2009.

Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits. Underwriting and certain other operating costs, commissions and salaries and benefits for the quarter ended September 30, 2010 were $8.4 million, compared to $12.5 million for the same period in 2009, a decrease of 33.3%. This decrease was primarily due to a $2.4 million decrease in assessments and premium taxes. Assessments were decreased by rate reductions in certain loss-based assessments. Other decreases were a $1.8 million decrease in accounts receivable write-offs and a $0.2 million decrease in salaries and benefits. Offsetting these expense reductions was a $0.2 million increase in commission expense and a $0.4 million decrease in experience-rated commissions from our 2009 reinsurance agreement. Our expense ratio was 15.4% in the third quarter of 2010 compared to 21.6% in the third quarter of 2009.

Interest expense. Interest expense for the third quarter of 2010 was $0.4 million, compared to $0.4 million for the same period in 2009. Weighted average borrowings for both periods were $36.1 million, however the weighted average interest rate decreased to 4.4% per annum for the third quarter of 2010 from 4.6% per annum for the third quarter of 2009.

Income tax expense. Income tax expense for the three months ended September 30, 2010 was $0.5 million, compared to $5.6 million for the same period in 2009. The decrease was primarily attributable to a decline in pre-tax income to $4.9 million in the third quarter of 2010 from $20.7 million in the third quarter of 2009. The effective tax rate also decreased to 10.5% in the third quarter of 2010 from 27.2% in the third quarter of 2009. This decrease is due to the higher level of tax-exempt investment income relative to our lower pre-tax income. The effective tax rate for the third quarter of 2010 included an expense increase of $0.2 million for the change in valuation allowance for deferred tax assets.

Consolidated Results of Operations for Nine Months Ended September 30, 2010 Compared to September 30, 2009

Gross Premiums Written. Gross premiums written for the nine months ended September 30, 2010 were $176.3 million, compared to $207.1 million for the same period in 2009, a decrease of 14.9%. The decrease was attributable to a $25.7 million decrease in annual premiums on voluntary policies written during the period, a $3.8 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters, a $1.0 million decrease in assumed premiums from mandatory pooling arrangements and a $0.3 million decrease in direct assigned risk premiums. Related premium adjustments in 2010 include a $2.4 million decrease in earned but unbilled (EBUB) premium. Premium adjustments for the same period in 2009 included a $5.2 million decrease in EBUB premium.

Net Premiums Written. Net premiums written for the nine months ended September 30, 2010 were $161.7 million, compared to $193.0 million for the same period in 2009, a decrease of 16.2%. The decrease was primarily attributable to the decline in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 8.2% for the nine months ended September 30, 2010, compared to 6.8% for the same period in 2009.

Net Premiums Earned. Net premiums earned for the nine months ended September 30, 2010 were $162.5 million, compared to $193.9 million for the same period in 2009, a decrease of 16.2%. The decrease was attributable to the decline in net premiums written in the previous four quarters.

Net Investment Income. Net investment income for the nine months ended September 30, 2010 was $19.8 million, compared to $21.2 million for the same period in 2009, a decrease of 6.8%. Average invested assets, including cash and cash equivalents, were $802.8 million in the nine months ended September 30, 2010, compared to an average of $810.8 million for the same period in 2009, a decrease of 1.0%. The pre-tax investment yield on our investment portfolio was 3.3% per annum during the nine months ended September 30, 2010, compared to 3.5% per annum during the same period in 2009. The tax-equivalent yield on our investment portfolio was 4.6% per annum for the nine months ended September 30, 2010, compared to 4.7% per annum for the same period in 2009. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized gains on investments for the nine months ended September 30, 2010 totaled $2.3 million compared to $2.0 million for the same period in 2009. Net realized gains in the nine months ended September 30, 2010 primarily resulted from $3.0 million in gains from called fixed maturity securities and the sale of certain equity and fixed-maturity securities from the available-for-sale portfolio. These gains were offset by an other-than-temporary impairment of $0.7 million on one equity security. 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 $0.3 million in gains from the sale of one asset-backed security.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $118.0 million for the nine months ended September 30, 2010, compared to $120.6 million for the same period in 2009, a decrease of $2.6 million, or 2.2%. The current accident year losses and LAE incurred were $131.9 million, or 81.2% of net premiums earned, compared to $133.8 million, or 69.0% of net premiums earned, for the same period in 2009. The increase in the current accident year loss ratio was mainly driven by frequency and severity. We recorded favorable prior accident year development of $13.9 million for the nine months ended September 30, 2010, compared to $13.1 million in the same period of 2009, as further discussed below in Prior Year Development. Our net loss ratio was 72.6% for the nine months ended September 30, 2010, compared to 62.2% in the same period of 2009.

Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits. Underwriting and certain other operating costs, commissions and salaries and benefits for the nine months ended September 30, 2010 were $33.2 million, compared to $41.8 million for the same period in 2009, a decrease of 20.5%. This decrease was primarily due to a $4.6 million decrease in assessments and premium taxes. Assessments were decreased by rate reductions in certain loss-based assessments. Other decreases were a $1.9 million decrease in commission expense, a $1.7 million decrease in accounts receivable write-offs, a $0.7 million decrease in salaries and benefits, a $0.7 million decrease in legal and professional expenses and a $0.3 million decrease in mandatory pooling arrangement fees. Offsetting these expense reductions was a $1.3 million decrease in experience-rated commissions from our 2009 reinsurance agreement and a $0.3 million decrease in income from the commutation of certain reinsurance contracts. Our expense ratio was 20.4% for the nine months ended September 30, 2010, compared to 21.5% in the same period of 2009.

Interest expense. Interest expense for the nine months ended September 30, 2010 was $1.2 million, compared to $1.4 million for the same period in 2009. Weighted average borrowings for both periods were $36.1 million; however, the weighted average interest rate decreased to 4.3% per annum for the nine months ended September 30, 2010 from 5.0% per annum for the nine months ended September 30, 2009.

Income tax expense. Income tax expense for the nine months ended September 30, 2010 was $5.9 million, compared to $14.0 million for the same period in 2009. The decrease was primarily attributable to a decrease in pre-tax income. Our effective tax rate was 18.4% for the nine months ended September 30, 2010, compared to 26.1% for the same period in 2009. This decrease is due to the higher level of tax-exempt investment income relative to our lower pre-tax income. The effective rate for 2010 included an aggregate reduction of $0.8 million for the change in valuation allowance for deferred tax assets. The sale of securities impaired in 2008 and the sale of other securities from the available-for-sale portfolio in 2010 resulted in a reduction in the valuation allowance of $1.0 million, thereby reducing tax expense. This reduction was offset by a $0.2 million valuation allowance recorded for one equity security impaired in the third quarter of 2010. Pre-tax income decreased to $31.9 million for the nine months ended September 30, 2010, compared to $53.9 million for the same period in 2009.

Liquidity and Capital Resources

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

Net cash provided by operating activities was $20.5 million for the nine months ended September 30, 2010, which represented a $1.4 million decrease from $21.9 million in net cash provided by operating activities for the nine months ended September 30, 2009. This decrease in operating cash was attributable to a $12.3 million decrease in premiums collected, a $2.0 million increase in policyholder dividends paid, a $1.2 million decrease in net investment income and a $0.7 million decrease in reinsurance recoveries. Offsetting these decreases in operating cash flow were a $7.2 million decrease in federal income taxes paid, a $3.9 million decrease in losses paid and a $2.3 million decrease in expense disbursements.

Net cash used in investing activities was $20.0 million for the nine months ended September 30, 2010, compared to $12.5 million for the same period in 2009. Cash provided by sales and maturities of investments totaled $122.8 million for the nine months ended September 30, 2010, compared to $100.9 million for the same period in 2009. A total of $140.5 million in cash was used to purchase investments in the nine months ended September 30, 2010, compared to $112.4 million in purchases for the same period in 2009. A total of $2.3 million in cash was used to purchase property and equipment in the nine months ended September 30, 2010, compared to $0.1 million for the same period in 2009.

Net cash used in financing activities in the nine months ended September 30, 2010 was $8.8 million, compared to $0.2 million net cash provided by financing activities for the same period in 2009. In the nine months ended September, 30, 2010, repurchases of outstanding shares of our common stock totaled $10.4 million and proceeds from stock option exercises totaled $1.3 million.

In March 2010, the Company announced that its Board of Directors had approved a stock repurchase program. On November 4, 2010, the Company announced that its Board of Directors voted to renew the previously authorized share repurchase program by one year, to December 31, 2011. In addition, the Board authorized a new limit of up to $25 million effective October 1, 2010. As of September 30, 2010, the Company had repurchased a total of 612,466 shares of its outstanding common stock for $10.4 million under the program.

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Investment Portfolio

As of September 30, 2010, our investment portfolio, including cash and cash equivalents, totaled $806.1 million, a decrease of 1.9% from September 30, 2009. Effective April 1, 2010, purchases of fixed maturity securities are classified as available-for-sale or held-to-maturity based on the individual security. Such classification is made at the time of purchase. The reported value of our fixed maturity securities classified as held-to-maturity, as defined by FASB ASC Topic 320, Investments-Debt and Equity Securities, was equal to their amortized cost, and thus was not impacted by changing interest rates. Our equity securities and fixed maturity securities classified as available-for-sale were reported at fair value.

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

	Carrying Value	Percentage of Portfolio
	(in thousands)	
Fixed maturity securities held-to-maturity:		
States and political subdivisions	$ 473,974	58.8%
U.S. agency-based mortgage-backed securities	63,859	7.9%
Commercial mortgage-backed securities	51,576	6.4%
U.S. Treasury securities and obligations of U.S. Government agencies	14,829	1.8%
Corporate bonds	63,473	7.9%
Asset-backed securities	6,591	0.8%
Long-term certificates of deposit	750	0.1%
Total fixed maturity securities held-to-maturity	675,052	83.7%
Fixed maturity securities available-for-sale:		
Corporate bonds	10,069	1.2%
Total fixed maturity securities available-for-sale	10,069	1.2%
Equity securities	2,430	0.3%
Cash and cash equivalents	54,816	6.8%
Short-term investments	63,702	8.0%
Total investments, including cash and cash equivalents	$ 806,069	100.0%

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

In the three months ended September 30, 2010, we sold certain fixed maturity securities classified as available-for-sale. The carrying value of these securities at disposal was $3.8 million. Realized gains on the sale of these securities totaled $0.1 million. In the nine months ended September 30, 2010, we sold certain equity and fixed maturity securities classified as available-for-sale. An other-than-temporary impairment had previously been recognized on the equity securities. The carrying value of these securities at disposal was $22.9 million. Realized gains on the sale of these securities totaled $2.9 million. Additionally, in the three and nine months ended September 30, 2010, we recognized an other-than-temporary impairment of $0.7 million on one equity security.

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Prior Year Development

The Company recorded favorable prior accident year development of $5.3 million in the three months ended September 30, 2010. The table below sets forth the favorable or unfavorable development for the three and nine months ended September 30, 2010 for accident years 2005 through 2009 and, collectively, for all accident years prior to 2005.

	Favorable/(Unfavorable) Development	
	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	(in millions)	
Accident Year		
2009	$ (3.5)	$ (3.3)
2008	0.4	0.6
2007	4.1	7.4
2006	2.1	5.3
2005	1.5	1.7
Prior to 2005	0.7	2.2
Total net development	$ 5.3	$ 13.9

The table below sets forth the number of open claims as of September 30, 2010 and 2009, and the number of claims reported and closed during the three and nine months then ended.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Open claims at beginning of period	4,614	4,604	4,511	4,793
Claims reported	1,748	1,400	4,401	4,002
Claims closed	(1,211)	(1,323)	(3,761)	(4,114)
Open claims at end of period	5,151	4,681	5,151	4,681

The number of open claims at September 30, 2010 increased by 470 claims, or 10.0%, as compared to the number of open claims at September 30, 2009. We partially attribute the increase in the number of claims to frequency and extended duration. Efforts continue to close prior year claims, especially in those circumstances where the claim could be settled for less than the corresponding case reserve amount (which amount represents the estimated ultimate cost to settle the claim, undiscounted). Management believes that these efforts have contributed, in part, to the favorable prior accident year development recorded for the nine months ended September 30, 2010.

At September 30, 2010, our case incurred amounts for certain accident years, particularly 2006, 2007 and 2009, have developed differently than management previously expected. The assumptions we used in establishing our reserves for these accident years were based on our 24 years of historical claims data. However, as of September 30, 2010, actual results for certain accident years, particularly 2006 and 2007, have been better than our assumptions would have predicted. At the same time, actual results for accident year 2009 are higher than we predicted. We do not presently intend to modify our assumptions for establishing reserves in light of these recent results for the 2006, 2007 and 2009 accident years. Our historical claims data will reflect these changes and, over time, will impact the reserves we establish for future claims.

Our reserves for loss and loss adjustment expenses are inherently uncertain and our focus on providing workers compensation insurance to employers engaged in hazardous industries results in our receiving relatively fewer but more severe claims than many other workers compensation insurance companies. As a result of this focus on higher severity, lower frequency business, our reserve for loss and loss adjustment expenses may have greater volatility than other workers compensation insurance companies. For additional information, see Business Loss Reserves in our Annual Report on Form 10-K for the year ended December 31, 2009.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Since December 31, 2009, there have been no material changes in the quantitative or qualitative aspect of our market risk profile. For additional information regarding the Company s exposure to certain market risks, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Item 4. Controls and Procedures.

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

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.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)
July 1, 2010 to July 31, 2010	830	$ 17.00	830	$ 18,300

August 1, 2010 to August 31, 2010	207,388	$	17.51	207,388	$ 14,700
September 1, 2010 to September 30, 2010	5,100	$	17.58	5,100	$ 25,000
Total	213,318			213,318	

(1) In March 2010, the Company s Board of Directors approved a stock repurchase program. On November 4, 2010, the Company announced that its Board of Directors voted to renew the previously authorized share repurchase program by one year, to December 31, 2011. In addition, the Board authorized a new limit of up to $25 million effective October 1, 2010.

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Item 3. Defaults Upon Senior Securities.

None.

Item 4. Reserved.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
3.1	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed August 6, 2010)
10.1	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Company s Current Report of Form 8-K filed August 6, 2010)
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of G. Janelle Frost filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and G. Janelle Frost filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

AMERISAFE, INC.

November 5, 2010

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

November 5, 2010

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

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