

AMERISAFE INC
Form 10-Q
November 07, 2008
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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, 2008

Commission file number: 000-51520

AMERISAFE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas
(State of Incorporation)

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

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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 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 1, 2008, there were 18,841,306 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:

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;

decreased level of business activity of our policyholders;

the cyclical nature of the workers' compensation insurance industry;

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

changes in general economic conditions, including interest rates, inflation and other factors;

negative developments in 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 rating agency policies or practices;

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

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

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

changes in legal theories of liability under our insurance policies;

decreased demand for our insurance; and

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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.

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, 2007. 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)**

	September 30, 2008 (unaudited)	December 31, 2007
Assets		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value \$661,634 and \$640,037 in 2008 and 2007, respectively)	\$ 684,307	\$ 639,691
Fixed maturity securities available-for-sale, at fair value (cost \$0 and \$32,425 in 2008 and 2007, respectively)		32,425
Equity securities available-for-sale, at fair value (cost \$41,571 and \$40,381 in 2008 and 2007, respectively)	33,034	39,629
Total investments	717,341	711,745
Cash and cash equivalents	71,181	47,329
Amounts recoverable from reinsurers	66,189	76,915
Premiums receivable, net	167,120	152,150
Deferred income taxes	31,373	26,418
Accrued interest receivable	8,133	7,079
Property and equipment, net	5,276	5,407
Deferred policy acquisition costs	21,263	18,414
Deferred charges	3,793	3,553
Federal income tax recoverable	958	10
Other assets	24,099	12,833
	\$ 1,116,726	\$ 1,061,853
Liabilities, redeemable preferred stock and shareholders equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 545,417	\$ 537,403
Unearned premiums	149,384	138,402
Reinsurance premiums payable	489	720
Amounts held for others	5,679	2,972
Policyholder deposits	41,663	41,516
Insurance-related assessments	42,832	42,234
Accounts payable and other liabilities	28,215	28,946
Subordinated debt securities	36,090	36,090
	849,769	828,283
Redeemable preferred stock	25,000	25,000
Shareholders equity:		
Common stock:		
Voting \$0.01 par value authorized shares 50,000,000 in 2008 and 2007; issued and outstanding shares 18,841,306 in 2008 and 18,813,040 in 2007	188	188
Additional paid-in capital	174,630	173,589
Accumulated earnings	71,339	33,230

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Accumulated other comprehensive income (loss)	(4,200)	1,563
	241,957	208,570
	\$ 1,116,726	\$ 1,061,853

See accompanying notes.

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(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues				
Gross premiums written	\$ 75,767	\$ 81,138	\$ 242,739	\$ 265,913
Ceded premiums written	(4,574)	(5,352)	(14,030)	(15,212)
Net premiums written	\$ 71,193	\$ 75,786	\$ 228,709	\$ 250,701
Net premiums earned	\$ 71,284	\$ 79,637	\$ 217,727	\$ 232,624
Net investment income	7,712	7,924	22,934	22,282
Net realized gains (losses) on investments	(2,921)	91	(2,860)	127
Fee and other income	200	641	570	918
Total revenues	76,275	88,293	238,371	255,951
Expenses				
Loss and loss adjustment expenses incurred	41,972	54,917	139,217	160,623
Underwriting and certain other operating costs	4,612	5,947	11,764	18,614
Commissions	4,822	5,242	16,176	15,251
Salaries and benefits	5,040	4,664	15,197	13,975
Interest expense	654	900	2,080	2,664
Policyholder dividends	125	276	563	963
Total expenses	57,225	71,946	184,997	212,090
Income before income taxes	19,050	16,347	53,374	43,861
Income tax expense	5,691	4,528	15,265	12,262
Net income	13,359	11,819	38,109	31,599
Preferred stock dividends				
Net income available to common shareholders	\$ 13,359	\$ 11,819	\$ 38,109	\$ 31,599
Earnings per share				
Basic	\$ 0.67	\$ 0.59	\$ 1.90	\$ 1.58
Diluted	\$ 0.65	\$ 0.58	\$ 1.87	\$ 1.56
Shares used in computing earnings per share				
Basic	18,819,463	18,787,598	18,809,061	18,759,235
Diluted	19,207,487	19,091,800	19,119,207	19,074,226

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See accompanying notes.

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

	Nine Months Ended September 30,	
	2008	2007
Operating Activities		
Net income	\$ 38,109	\$ 31,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	869	1,342
Net amortization of investments	2,218	2,123
Deferred income taxes	(1,852)	(141)
Net realized (gains) losses on investments	2,860	(127)
Loss on sale of fixed assets	4	
Share-based compensation	912	790
Changes in operating assets and liabilities:		
Premiums receivable	(14,970)	(29,995)
Accrued interest receivable	(1,054)	(1,429)
Deferred policy acquisition costs and deferred charges	(3,090)	(2,106)
Other assets	(12,214)	(1,851)
Reserves for loss and loss adjustment expenses	8,014	36,872
Unearned premiums	10,982	18,078
Reinsurance balances	10,495	17,497
Amounts held for others and policyholder deposits	2,707	2,073
Accounts payable and other liabilities	14	(1,816)
Net cash provided by operating activities	44,004	72,909
Investing Activities		
Purchases of investments held-to-maturity	(120,485)	(103,511)
Purchases of investments available-for-sale	(4,836)	(367,716)
Proceeds from maturities of investments held-to-maturity	70,238	36,466
Proceeds from sales and maturities of investments available-for-sale	35,544	380,015
Purchases of property and equipment	(742)	(106)
Net cash used in investing activities	(20,281)	(54,852)
Financing Activities		