AMERISAFE INC
Form 10-Q
November 04, 2011
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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, 2011

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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (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 November 1, 2011, there were 18,067,272 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 types of insurance offered, premium rates, coverage availability, payment terms, claims management, safety services, policy terms, overall financial strength, financial ratings and reputation;
- the cyclical nature of the workers compensation insurance industry;
- greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- adverse developments in economic, competitive or regulatory conditions within the workers compensation insurance industry;
- 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;
- changes in regulations, laws, rates or rating factors applicable to us, our policyholders or the agencies that sell our insurance;
- developments in capital markets that adversely affect the performance of our investments;
- changes in rating agency policies or practices;
- 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;
- 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, 2010. 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, 2011 (unaudited)	December 31, 2010
Assets		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value $676,287 and $683,463 in 2011 and 2010, respectively)	$ 642,033	$ 663,345
Fixed maturity securities available-for-sale, at fair value (cost $63,011 and $21,865 in 2011 and 2010, respectively)	64,754	21,649
Equity securities available-for-sale, at fair value (cost $14,306 and $1,687 in 2011 and 2010, respectively)	14,599	1,773
Short-term investments	46,186	78,770
Total investments	767,572	765,537
Cash and cash equivalents	68,940	60,966
Amounts recoverable from reinsurers	94,447	95,133
Premiums receivable, net	133,083	122,618
Deferred income taxes	29,370	31,512
Accrued interest receivable	9,215	7,704
Property and equipment, net	7,452	7,547
Deferred policy acquisition costs	19,793	17,400
Deferred charges	3,439	2,936
Federal income tax recoverable	3,504	2,293
Other assets	16,382	14,488
	$ 1,153,197	$ 1,128,134
Liabilities and shareholders equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	$ 532,249	$ 532,204
Unearned premiums	126,175	111,494
Reinsurance premiums payable	955	7
Amounts held for others	27,815	22,667
Policyholder deposits	37,342	39,187
Insurance-related assessments	34,182	33,898
Securities payable	5,955	6,718
Accounts payable and other liabilities	24,258	20,646
Subordinated debt securities	25,780	36,090
	814,711	802,911
Shareholders equity:		
Common stock:		
	193	191

Voting $0.01 par value authorized shares 50,000,000 in 2011 and 2010; 19,287,912 and 19,060,649 shares issued and 18,062,272 and 18,352,041 shares outstanding in 2011 and 2010, respectively		
Additional paid-in capital	183,936	180,884
Treasury stock at cost (1,225,640 and 708,608 shares in 2011 and 2010, respectively)	(21,758)	(12,102)
Accumulated earnings	173,873	155,985
Accumulated other comprehensive income, net	2,242	265
	338,486	325,223
	$ 1,153,197	$ 1,128,134

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, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues				
Gross premiums written	$ 65,698	$ 52,197	$ 209,973	$ 176,281
Ceded premiums written	(3,517)	(5,334)	(10,487)	(14,576)
Net premiums written	$ 62,181	$ 46,863	$ 199,486	$ 161,705
Net premiums earned	$ 64,454	$ 54,412	$ 184,804	$ 162,452
Net investment income	6,495	6,569	19,638	19,784
Net realized gains (losses) on investments	512	(561)	760	2,284
Fee and other income	282	118	551	495
Total revenues	71,743	60,538	205,753	185,015
Expenses				
Loss and loss adjustment expenses incurred	49,327	46,660	140,079	117,998
Underwriting and certain other operating costs	3,947	(834)	14,718	5,852
Commissions	4,800	4,087	13,583	12,079
Salaries and benefits	4,821	5,104	14,768	15,270
Interest expense	277	400	1,036	1,160
Policyholder dividends	271	252	990	726
Total expenses	63,443	55,669	185,174	153,085
Income before income taxes	8,300	4,869	20,579	31,930
Income tax expense	1,608	511	2,691	5,871
Net income	6,692	4,358	17,888	26,059
Net income available to common shareholders	$ 6,692	$ 4,358	$ 17,888	$ 26,059
Earnings per share				
Basic	$ 0.37	$ 0.24	$ 0.98	$ 1.39
Diluted	$ 0.36	$ 0.23	$ 0.95	$ 1.36
Shares used in computing earnings per share				
Basic	18,294,040	18,528,110	18,306,516	18,711,097
Diluted	18,708,721	18,982,574	18,766,733	19,155,258

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, 2011	Nine Months Ended September 30, 2010
Operating Activities		
Net income	$ 17,888	$ 26,059
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	778	772
Net amortization of investments	4,559	3,623
Deferred income taxes	2,127	(4,317)
Net realized gains on investments	(760)	(2,284)
Share-based compensation	361	872
Changes in operating assets and liabilities:		
Premiums receivable, net	(10,465)	8,346
Accrued interest receivable	(1,511)	(1,271)
Deferred policy acquisition costs and deferred charges	(2,896)	(815)
Other assets and federal income tax recoverable	(3,105)	4,388
Reserves for loss and loss adjustment expenses	45	6,664
Unearned premiums	14,681	(747)
Reinsurance balances	1,634	(15,011)
Amounts held for others and policyholder deposits	3,303	3,218
Accounts payable and other liabilities	3,133	(9,035)
Net cash provided by operating activities	29,772	20,462
Investing Activities		
Purchases of investments held-to-maturity	(59,697)	(56,791)
Purchases of investments available-for-sale	(76,551)	(21,663)
Purchases of short-term investments	(64,623)	(62,047)
Proceeds from maturities of investments held-to-maturity	76,513	44,452
Proceeds from sales and maturities of investments available-for-sale	23,554	25,831
Proceeds from sales and maturities of short-term investments	96,961	52,514
Purchases of property and equipment	(683)	(2,302)
Net cash used in investing activities	(4,526)	(20,006)
Financing Activities		
Proceeds from stock option exercises	1,993	1,335
Tax benefit from share-based payments	701	210
Treasury shares purchased	(9,656)	(10,373)
Redemption of subordinated debt security	(10,310)	
Net cash used in financing activities	(17,272)	(8,828)
Change in cash and cash equivalents	7,974	(8,372)
Cash and cash equivalents at beginning of period	60,966	63,188
Cash and cash equivalents at end of period	$ 68,940	$ 54,816

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 affiliated insurance companies. AGAI, a wholly owned subsidiary of the Company, is a general agent for the Company. AGAI sells insurance, which is underwritten by AIIC, SOCI and 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 2011 and 2010.

In the opinion of 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, 2010.

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

Note 2. Stock Options and Restricted Stock

The Company has two equity incentive plans: the AMERISAFE 2005 Equity Incentive Plan (the 2005 Incentive Plan) and the AMERISAFE 2010 Non-Employee Director Restricted Stock Plan (the 2010 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, 2010 for additional information regarding the Company s incentive plans.

Pursuant to the 2010 Restricted Stock Plan, 11,830 shares of restricted common stock granted in June 2010 to non-employee directors vested on June 15, 2011, the date of the annual shareholders meeting. On June 15, 2011, non-employee directors were granted 9,513 shares of restricted common stock in accordance with the 2010 Restricted Stock Plan. The market value of the restricted shares granted was $0.2 million.

During the nine months ended September 30, 2011, there were 217,750 stock options exercised. Related to these exercises, the Company received $2.0 million of stock option proceeds. 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.

The Company recognized share-based compensation expense of $0.1 million in the quarter ended September 30, 2011, compared to $0.4 million for the same period in 2010. The Company recognized share-based compensation expense of $0.4 million in the nine months ended September 30, 2011, compared to $0.9 million for the same period in 2010.

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Note 3. Earnings Per Share

We compute earnings per share in accordance with FASB ASC Topic 260, Earnings Per Share. 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.

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(in thousands, except share and per share amounts)			
Basic EPS:				
Net income	$ 6,692	$ 4,358	$ 17,888	$ 26,059
Basic weighted average common shares	18,294,040	18,528,110	18,306,516	18,711,097
Basic earnings per common share	$ 0.37	$ 0.24	$ 0.98	$ 1.39
Diluted EPS:				
Net income	$ 6,692	$ 4,358	$ 17,888	$ 26,059
Diluted weighted average common shares:				
Weighted average common shares	18,294,040	18,528,110	18,306,516	18,711,097
Stock options	405,207	448,304	451,613	437,779
Restricted stock	9,474	6,160	8,604	6,382
Diluted weighted average common shares	18,708,721	18,982,574	18,766,733	19,155,258
Diluted earnings per common share	$ 0.36	$ 0.23	$ 0.95	$ 1.36

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, 2011 are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
States and political subdivisions	$ 441,686	$ 25,263	$ (426)	$ 466,523
U.S. agency-based mortgage-backed securities	49,969	4,275	(56)	54,188
Commercial mortgage-backed securities	51,556	3,097		54,653
U.S. Treasury securities and obligations of U.S. Government agencies	13,194	1,481		14,675
Corporate bonds	79,981	1,549	(58)	81,472
Asset-backed securities	5,647	25	(896)	4,776
Totals	$ 642,033	$ 35,690	$ (1,436)	$ 676,287

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as available-for-sale at September 30, 2011 are summarized as follows:

	Cost	Fair Value

		Gross Unrealized Gains	Gross Unrealized Losses	
		(in thousands)		
States and political subdivisions	$ 31,052	$ 1,856	$	$ 32,908
Corporate bonds	31,959	81	(194)	31,846
Equity securities	14,306	436	(143)	14,599
Totals	$ 77,317	$ 2,373	$ (337)	$ 79,353

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

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

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
U.S. Treasury securities and obligations of U.S. Government agencies	$ 5,919	$ 16	$ (95)	$ 5,840
Corporate bonds	15,946	10	(147)	15,809
Equity securities	1,687	86		1,773
Totals	$ 23,552	$ 112	$ (242)	$ 23,422

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, 2011, by contractual maturity, is as follows:

Remaining Time to Maturity	Carrying Value	Fair Value
	(In thousands)	
Less than one year	$ 101,770	$ 102,462
One to five years	179,874	187,513
Five to ten years	138,499	150,958
More than ten years	114,718	121,737
U.S. agency-based mortgage-backed securities	49,969	54,188
Commercial mortgage-backed securities	51,556	54,653
Asset-backed securities	5,647	4,776
Total	$ 642,033	$ 676,287

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, 2011, by contractual maturity, is as follows:

Remaining Time to Maturity	Carrying Value	Fair Value
	(In thousands)	
Less than one year	$ 5,244	$ 5,261
One to five years	18,953	18,894
Five to ten years	8,366	8,374
More than ten years	30,448	32,225
Total	$ 63,011	$ 64,754

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The following table summarizes, as of September 30, 2011, 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, 2011					
	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	$ 1,133	$ 45	$ 6,046	$ 381	$ 7,179	$ 426
U.S. agency-based mortgage-backed securities	542	13	899	43	1,441	56
Corporate bonds	13,995	58			13,995	58
Asset-backed securities	1,200	72	3,514	824	4,714	896
Total held-to-maturity securities	16,870	188	10,459	1,248	27,329	1,436
Available-for Sale						
Fixed maturity securities:						
States and political subdivisions	$	$	$	$	$	$
U.S. Treasury securities and obligations of U.S. Government agencies						
Corporate bonds	17,599	194			17,599	194
Equity Securities	2,701	143			2,701	143
Total available-for-sale securities	20,300	337			20,300	337
Total	$ 37,170	$ 525	$ 10,459	$ 1,248	$ 47,629	$ 1,773

In the three months ended September 30, 2011, we sold equity and fixed maturity securities classified as available-for-sale. The carrying value of these securities at disposal was $9.6 million. Realized gains on the sale of these securities totaled $0.5 million.

In the nine months ended September 30, 2011, we sold equity and fixed maturity securities classified as available-for-sale. An other-than-temporary impairment had previously been recognized on one of the equity securities. The carrying value of these securities at disposal was $22.4 million. Realized gains on the sale of these securities totaled $0.9 million. In the nine months ended September 30, 2011, we recognized an other-than-temporary impairment of $0.2 million on an asset-based security in our held-to-maturity portfolio.

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

- any reduction or elimination of preferred stock dividends, or nonpayment of scheduled principal or interest payments;
- the financial condition and near-term prospects of the issuer of the applicable security, including any specific events that may affect its operations or earnings;

- 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.

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 current conditions in the capital markets, the impact of those conditions on market liquidity and prices generally and changes to market interest rates since the date of purchase. 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.

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

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, 2011, 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 uncertain tax positions recognized for the quarters ended September 30, 2011 and 2010.

Tax years 2007 through 2010 are subject to examination by the federal and state taxing authorities. The Company is currently undergoing an examination by the Internal Revenue Service for tax year 2009.

Note 6. Comprehensive Income

Comprehensive income was $8.0 million for the three months ended September 30, 2011, compared to $4.6 million for the three months ended September 30, 2010. Comprehensive income was $19.9 million for the nine months ended September 30, 2011, compared to $23.7 million for the same period in 2010. The difference between net income as reported and comprehensive income was due to changes in unrealized gains and losses, net of tax and a change in the deferred tax asset valuation allowance of $0.5 million and $0.7 million for the three and nine months ended September 30, 2011, respectively, and ($0.0) and ($0.8) million for the three and nine months ended September 30, 2010, respectively.

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.

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.

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

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

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

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

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

The fair values of the Company s investments are based upon prices provided by an independent pricing service. The Company has reviewed these prices for reasonableness and has not adjusted any prices received from the independent provider. Securities reported at fair value utilizing Level 1 inputs represent assets whose fair value is determined based upon observable unadjusted quoted market prices for identical assets in active markets. Level 2 securities represent assets whose fair value is determined using observable market information such as previous day trade prices, quotes from less active markets or quoted prices of securities with similar characteristics. There were no significant transfers between Level 1 and Level 2 during the nine months ended September 30, 2011.

At September 30, 2011, 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	$ 13,819	$	$	$ 13,819
Securities available for sale fixed maturity				
Corporate Bonds	27,072	4,774		31,846
States and Political Subdivisions		32,908		32,908
Total available for sale fixed maturity	$ 27,072	$ 37,682	$	$ 64,754
Total available for sale	$ 40,891	$ 37,682	$	$ 78,573

At December 31, 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	$ 683	$	$	$ 683
Securities available for sale fixed maturity				
U.S. Treasury securities and obligations of U.S. Government agencies	5,840			5,840

Corporate Bonds	8,601	7,208		15,809
Total available for sale fixed maturity	$ 14,441	$ 7,208	$	$ 21,649
Total available for sale	$ 15,124	$ 7,208	$	$ 22,332

At September 30, 2011, the Company held one security measured at fair value on a nonrecurring basis due to an impairment recognized of $0.2 million. The security is valued using Level 2 inputs and has a value of $0.6 million at September 30, 2011.

In addition, the Company held common securities in unconsolidated variable interest entities of approximately $0.8 million at September 30, 2011, and $1.1 million at December 31, 2010, 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.

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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 an independent pricing service.

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, 2011		As of December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Assets:				
Fixed maturity securities held-to-maturity	$ 642,033	$ 676,287	$ 663,345	$ 683,463
Fixed maturity securities available-for-sale	64,754	64,754	21,649	21,649
Equity securities	14,599	14,599	1,773	1,773
Cash and cash equivalents	68,940	68,940	60,966	60,966
Short-term Investments	46,186	46,186	78,770	78,770
Liabilities:				
Subordinated debt securities:				
ACT I			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 October 27, 2011, the Company announced that its Board of Directors voted to renew the previously authorized share repurchase program through December 31, 2012. In addition, the Board authorized a new limit of up to $25.0 million effective October 1, 2011. During the three months ended September 30, 2011, 357,970 shares were purchased for $6.8 million, or an average price (including commissions) of $18.99 per share. During the nine months ended September 30, 2011, 517,032 shares were purchased for $9.7 million, or an average price (including commissions) of $18.67 per share.

Note 9. Variable Interest Entities

In 2003, the Company formed Amerisafe Capital Trust I (ACT I) for the sole purpose of issuing $10.0 million in trust preferred securities. ACT I used the proceeds from the sale of these securities and the Company s initial capital contribution to purchase $10.31 million 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 July 2011, the Company redeemed the $10.31 million of subordinated debt securities from ACT I and the trust was canceled.

In 2004, the Company formed Amerisafe Capital Trust II (ACT II) for the sole purpose of issuing $25.0 million in trust preferred securities. ACT II used the proceeds from the sale of these securities and the Company s initial capital contribution to purchase $25.78 million 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 investment in ACT II is not at risk since the subordinated debt securities issued by the Company are the sole assets of ACT II. Accordingly, the Trust is considered a variable interest entity. The Company is not considered to be the primary beneficiary of ACT II and has not consolidated this entity.

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Note 10. Recently Issued Accounting Pronouncements

In October 2010, the FASB issued ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (previously referred to as EITF Issue 09-G). This guidance changes the accounting for costs associated with acquiring or renewing insurance contracts in response to diversity in practice in the capitalization and amortization of those costs. Under the new guidance, deferrable costs will be limited to incremental direct costs of successful contract acquisition incurred with independent third parties and the portion of total employee compensation and payroll-related fringe benefits related to time spent performing specified acquisition activities (e.g., underwriting, policy issuance and processing) for successful acquisition efforts. Companies will have a choice between prospective and retrospective adoption. The new guidance will be effective for fiscal years beginning after December 15, 2011. Management estimates the effect of adoption of this new guidance on our consolidated financial position or results of operations to result in a change between $2.0 million and $3.0 million, pre-tax.

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

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

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, 2010.

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, 2011 and 2010. 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 33 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 14 states and the U.S. Virgin Islands.

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Critical Accounting Policies

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

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, 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, 2010.

Results of Operations

The following table summarizes our consolidated financial results for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	$ 65,698	$ 52,197	$ 209,973	$ 176,281
Net premiums earned	64,454	54,412	184,804	162,452
Net investment income	6,495	6,569	19,638	19,784
Total revenues	71,743	60,538	205,753	185,015
Total expenses	63,443	55,669	185,174	153,085
Net income	6,692	4,358	17,888	26,059
Diluted earnings per common share	$ 0.36	$ 0.23	$ 0.95	$ 1.36
Other Key Measures				
Net combined ratio (1)	98.0%	101.7%	99.6%	93.4%
Return on average equity (2)	7.9%	5.5%	7.2%	11.2%
Book value per share (3)	$ 18.74	$ 17.26	$ 18.74	$ 17.26

(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 for the applicable period.
(3) Book value per share is calculated by dividing shareholders equity by total outstanding shares.

Consolidated Results of Operations for Three Months Ended September 30, 2011 Compared to September 30, 2010

Gross Premiums Written. Gross premiums written for the quarter ended September 30, 2011 were $65.7 million, compared to $52.2 million for the same period in 2010, an increase of 25.9%. The increase was attributable to a $9.1 million increase in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $4.4 million increase in annual premiums on voluntary policies written during the period.

Net Premiums Written. Net premiums written for the quarter ended September 30, 2011 were $62.2 million, compared to $46.9 million for the same period in 2010, an increase of 32.7%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 5.2% for the third quarter of 2011, compared to 8.9% for the third quarter of 2010. The decrease in ceded premiums as a percentage of gross premiums earned is a result of a change in our 2011 reinsurance treaties. For additional information, see Business Reinsurance in our Annual Report on Form 10-K for the year ended December 31, 2010.

Net Premiums Earned. Net premiums earned for the third quarter of 2011 were $64.5 million, compared to $54.4 million for the same period in 2010, an increase of 18.5%. The increase was primarily attributable to the increase in net premiums written in the quarter.

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Net Investment Income. Net investment income for the quarter ended September 30, 2011 was $6.5 million, compared to $6.6 million for the same period in 2010. Average invested assets, including cash and cash equivalents, were $830.5 million in the quarter ended September 30, 2011, compared to an average of $803.8 million for the same period in 2010, an increase of 3.3%. The pre-tax investment yield on our investment portfolio was 3.1% per annum during the quarter ended September 30, 2011, compared to 3.3% per annum for the third quarter of 2010. The tax-equivalent yield on our investment portfolio was 4.6% per annum for the quarter ended September 30, 2011 and for the same period in 2010. 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 three months ended September 30, 2011 totaled $0.5 million, compared to net realized losses of $0.6 million for the same period in 2010. Net realized gains in the third quarter of 2011 were attributable to $0.5 million in realized gains from the sale of equity securities and fixed maturity securities from the available-for-sale portfolio. 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. These losses were offset by $0.1 million in gains from called fixed maturity securities and the sale of fixed maturity securities from the available-for-sale portfolio.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $49.3 million for the three months ended September 30, 2011, compared to $46.7 million for the same period in 2010, an increase of $2.7 million, or 5.7%. The current accident year losses and LAE incurred were $50.4 million, or 78.2% of net premiums earned, compared to $52.0 million, or 95.5% of net premiums earned, for the same period in 2010. We recorded favorable prior accident year development of $1.1 million in the third quarter of 2011, compared to $5.3 million in the same period of 2010, as further discussed below in Prior Year Development. Our net loss ratio was 76.5% in the third quarter of 2011, compared to 85.8% for the same period of 2010.

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, 2011 were $13.6 million, compared to $8.4 million for the same period in 2010, an increase of 62.4%. This increase was primarily due to a $3.2 million increase in assessments and premium taxes, a $0.7 million increase in commission expense, a $1.0 million decrease in experience-rated commissions and a $0.3 million decrease in ceding commission related to our 2011 reinsurance agreement. Offsetting these increases were a $0.3 million decrease in salaries and benefits. In the third quarter of 2011, assessment expense was favorably impacted by a $2.7 million change in estimated premium-based assessments. For the same period in 2010, assessments were decreased by rate reductions in certain loss-based assessments. Our expense ratio was 21.1% in the third quarter of 2011 compared to 15.4% in the third quarter of 2010.

Interest expense. Interest expense for the third quarter of 2011 was $0.3 million, compared to $0.4 million for the same period in 2010. Weighted average borrowings for the quarter ended September 30, 2011 were $26.4 million, compared to $36.1 million for the same period in 2010. The weighted average interest rate decreased to 4.1% per annum for the third quarter of 2011 from 4.4% per annum for the third quarter of 2010.

Income tax expense. Income tax expense for the three months ended September 30, 2011 was $1.6 million, compared to $0.5 million for the same period in 2010. The increase was attributable to an increase in pre-tax income to $8.3 million in the third quarter of 2011 from $4.9 million in the third quarter of 2010. The effective tax rate also increased to 19.4% in the third quarter of 2011 from 10.5% in the third quarter of 2010.

Consolidated Results of Operations for Nine Months Ended September 30, 2011 Compared to September 30, 2010

Gross Premiums Written. Gross premiums written for the nine months ended September 30, 2011 were $210.0 million, compared to $176.3 million for the same period in 2010, an increase of 19.1%. The increase was attributable to a $26.8 million increase in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $7.4 million increase in annual premiums on voluntary policies written during the period. These increases were partially offset by a $0.3 million decrease in assumed premium from mandatory pooling arrangements.

Net Premiums Written. Net premiums written for the nine months ended September 30, 2011 were $199.5 million, compared to $161.7 million for the same period in 2010, an increase of 23.4%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 5.4% for the nine months ended September 30, 2011, compared to 8.2% for the same period in 2010. The decrease in ceded premiums as a percentage of gross premiums earned is a result of a change in our 2011 reinsurance treaties. For additional information, see Business Reinsurance in our Annual Report on Form 10-K for the year ended December 31, 2010.

Net Premiums Earned. Net premiums earned for the nine months ended September 30, 2011 were $184.8 million, compared to $162.5 million for the same period in 2010, an increase of 13.8%. The increase was attributable to the increase in net premiums written, offset by an increase in unearned premiums.

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Net Investment Income. Net investment income for the nine months ended September 30, 2011 was $19.6 million, compared to $19.8 million for the same period in 2010. Average invested assets, including cash and cash equivalents, were $828.4 million in the nine months ended September 30, 2011, compared to an average of $802.8 million for the same period in 2010, an increase of 3.2%. The pre-tax investment yield on our investment portfolio was 3.1% per annum during the nine months ended September 30, 2011, compared to 3.3% per annum during the same period in 2010. The tax-equivalent yield on our investment portfolio was 4.6% per annum for the nine months ended September 30, 2011 and for the same period in 2010. 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, 2011 totaled $0.8 million, compared to $2.3 million for the same period in 2010. Net realized gains in the nine months ended September 30, 2011 resulted from $0.9 million in gains from called fixed maturity securities, the sale of equity securities and the sale of fixed maturity securities from the available-for-sale portfolio. These gains were offset by an other-than-temporary impairment of $0.2 million on one asset-backed security from our held-to-maturity portfolio. Net realized gains in 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.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $140.1 million for the nine months ended September 30, 2011, compared to $118.0 million for the same period in 2010, an increase of $22.1 million, or 18.7%. The current accident year losses and LAE incurred were $144.5 million, or 78.2% of net premiums earned, compared to $131.9 million, or 81.2% of net premiums earned, for the same period in 2010. We recorded favorable prior accident year development of $4.4 million for the nine months ended September 30, 2011, compared to $13.9 million in the same period of 2010, as further discussed below in Prior Year Development. Our net loss ratio was 75.8% for the nine months ended September 30, 2011, compared to 72.6% for the same period of 2010.

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, 2011 were $43.1 million, compared to $33.2 million for the same period in 2010, an increase of 29.7%. This increase was primarily due to a $4.7 million increase in insurance-related assessments, a $1.5 million increase in commission expense, a $3.2 million decrease in experience-rated commissions, and a $0.9 million decrease in ceding commission related to our 2011 reinsurance agreement. Offsetting these increases was a $0.5 million decrease in salaries and benefits. In 2011, assessment expense was favorably impacted by a $2.7 million change in estimated premium-based assessments. For the same period in 2010, assessments were decreased by rate reductions in certain loss-based assessments. Our expense ratio was 23.3% for the nine months ended September 30, 2011, compared to 20.4% in the same period of 2010.

Interest expense. Interest expense for the nine months ended September 30, 2011 was $1.0 million, compared to $1.2 million for the same period in 2010. Weighted average borrowings for the nine months ended September 30, 2011 were $33.0 million, compared to $36.1 million for the same period in 2010. The weighted average interest rate decreased to 4.2% per annum for the nine months ended September 30, 2011 from 4.3% for the nine months ended September 30, 2010.

Income tax expense. Income tax expense for the nine months ended September 30, 2011 was $2.7 million, compared to $5.9 million for the same period in 2010. The decrease was primarily attributable to a decline in pre-tax income. The effective tax rate also decreased to 13.1% for the nine months ended September 30, 2011 from 18.4% for the nine months ended September 30, 2010. This decrease is due to the higher level of tax-exempt investment income relative to our lower pre-tax income.

Liquidity and Capital Resources

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

Net cash provided by operating activities was $29.8 million for the nine months ended September 30, 2011, which represented a $9.3 million increase from $20.5 million in net cash provided by operating activities for the nine months ended September 30, 2010. This increase in operating cash flow was attributable to a $19.0 million increase in premiums collected, a $4.8 million decrease in federal income taxes paid and a $1.2 million decrease in policyholder dividends paid. Offsetting these increases were a $14.1 million increase in losses paid, a $1.3 million decrease in reinsurance recoveries and a $0.3 million increase in expense disbursements.

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Net cash used in investing activities was $4.5 million for the nine months ended September 30, 2011, compared to $20.0 million for the same period in 2010. Cash provided by sales and maturities of investments totaled $197.0 million for the nine months ended September 30, 2011, compared to $122.8 million for the same period in 2010. A total of $200.9 million in cash was used to purchase investments in the nine months ended September 30, 2011, compared to $140.5 million in purchases for the same period in 2010. A total of $0.7 million in cash was used to purchase property and equipment in the nine months ended September 30, 2011, compared to $2.3 million for the same period in 2010.

Net cash used in financing activities in the nine months ended September 30, 2011 was $17.3 million, compared to $8.8 million for the same period in 2010. In the nine months ended September, 30, 2011, repurchases of outstanding shares of our common stock totaled $9.7 million, compared to $10.4 million for the same period in 2010. In the nine months ended September 30, 2011, redemption of subordinated debt securities totaled $10.3 million. Proceeds from stock option exercises totaled $2.0 million for the nine months ended September 30, 2011, compared to $1.3 million for the same period in 2010.

In March 2010, the Company announced that its Board of Directors had approved a stock repurchase program. On October 27, 2011, the Company announced that its Board of Directors voted to renew the previously authorized share repurchase program through December 31, 2012. In addition, the Board authorized a new limit of up to $25 million effective October 1, 2011. Since beginning its share repurchase program, the Company repurchased a total of 1,225,640 shares of its outstanding common stock for $21.8 million, or an average price (including commissions) of $17.75 per share.

Investment Portfolio

As of September 30, 2011, our investment portfolio, including cash and cash equivalents, totaled $836.5 million, an increase of 3.8% from September 30, 2010. 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, 2011, is shown in the following table:

	Carrying Value	Percentage of Portfolio
	(in thousands)	
Fixed maturity securities held-to-maturity:		
States and political subdivisions	$ 441,686	52.8%
U.S. agency-based mortgage-backed securities	49,969	6.0%
Commercial mortgage-backed securities	51,556	6.2%
U.S. Treasury securities and obligations of U.S. Government agencies	13,194	1.6%
Corporate bonds	79,981	9.6%
Asset-backed securities	5,647	0.7%
Total fixed maturity securities held-to-maturity	642,033	76.9%
Fixed maturity securities available-for-sale:		
States and political subdivisions	32,908	3.9%
Corporate bonds	31,846	3.8%
Total fixed maturity securities available-for-sale	64,754	7.7%
Equity securities	14,599	1.7%
Cash and cash equivalents	68,940	8.2%
Short-term investments	46,186	5.5%
Total investments, including cash and cash equivalents	$ 836,512	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.

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Prior Year Development

The Company recorded favorable prior accident year development of $1.1 million in the three months ended September 30, 2011. The table below sets forth the favorable or unfavorable development for the three and nine months ended September 30, 2011 and 2010 for accident years 2006 through 2010 and, collectively, for all accident years prior to 2006.

	Favorable/(Unfavorable) Development			
	Three Months Ended September 30, 2011	**Three Months Ended September 30, 2010**	**Nine Months Ended September 30, 2011**	**Nine Months Ended September 30, 2010**
	(in millions)			
Accident Year				
2010	$ (1.4)	$	$ (20.5)	$
2009	0.2	(3.5)	0.2	(3.3)
2008	0.3	0.4	4.0	0.6
2007	1.0	4.1	8.9	7.4
2006	0.0	2.1	3.8	5.3
Prior to 2006	1.0	2.2	8.0	3.9
Total net development	$ 1.1	$ 5.3	$ 4.4	$ 13.9

The table below sets forth the number of open claims as of September 30, 2011 and 2010, 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,**	
	2011	**2010**	**2011**	**2010**
Open claims at beginning of period	5,132	4,614	5,129	4,511
Claims reported	1,765	1,748	4,584	4,401
Claims closed	(1,442)	(1,211)	(4,258)	(3,761)
Open claims at end of period	5,455	5,151	5,455	5,151

The number of open claims at September 30, 2011 increased by 304 claims, or 5.9%, as compared to the number of open claims at September 30, 2010. 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 three and nine months ended September 30, 2011.

At September 30, 2011, our incurred amounts for certain accident years, particularly 2006, 2007 and 2008, have not developed to the degree management previously expected. The assumptions we used in establishing our reserves for these accident years were based on our 25 years of historical claims data. However, as of September 30, 2011, actual results for these accident years have been better than our assumptions would have predicted. At the same time, actual results for accident year 2010 are higher than we predicted. We do not presently intend to modify our assumptions for establishing reserves in light of recent results. However, if actual results for current and future accident years are consistent with, or different than, our results in these recent accident years, our historical claims data will reflect 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, 2010.

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, 2010, 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, 2010.

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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 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, 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)
July 1, 2011 to July 31, 2011		$		$ 20,412
August 1, 2011 to August 31, 2011	206,177	18.96	206,177	16,504
September 1, 2011 to September 30, 2011	151,793	19.03	151,793	25,000
Total	357,970		357,970	

(1) Average price per share includes commissions.

(2) In March 2010, the Company s Board of Directors approved a stock repurchase program. On October 27, 2011, the Company announced that its Board of Directors voted to renew the previously authorized share repurchase program through December 31, 2012. In addition, the Board authorized a new limit of up to $25 million effective October 1, 2011.

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Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of 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
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

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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 4, 2011	/s/ C. Allen Bradley, Jr. **C. Allen Bradley, Jr.** **Chairman and Chief Executive Officer** **(Principal Executive Officer)**
November 4, 2011	/s/ G. Janelle Frost **G. Janelle Frost** **Executive Vice President and Chief Financial Officer** **(Principal Financial and Accounting Officer)**

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