

AMERISAFE INC
Form 10-Q
May 12, 2006

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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 **MARCH 31, 2006**

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)

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 May 5, 2006, there were 17,440,000 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, should, 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:

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 rating agency policies or practices;

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;

negative developments in the workers compensation insurance industry;

decreased level of business activity of our policyholders;

decreased demand for our insurance;

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

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

changes in legal theories of liability under our insurance policies;

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

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

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

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

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with the Securities and Exchange Commission, including the information in Item 1A, Risk Factors of Part I to our Annual Report on Form 10-K for the year ended December 31, 2005. 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)

| | March 31, 2006 (unaudited) | December 31, 2005 |
|---|--|------------------------------|
| Assets | | |
| Investments: | | |
| Fixed maturity securities held-to-maturity, at amortized cost | \$ 484,723 | \$ 465,648 |
| Fixed maturity securities available-for-sale, at fair value | 683 | 1,695 |
| Equity securities available-for-sale, at fair value | 70,528 | 66,275 |
| | | |
| Total investments | 555,934 | 533,618 |
| Cash and cash equivalents | 44,833 | 49,286 |
| Amounts recoverable from reinsurers | 123,818 | 122,562 |
| Premiums receivable, net | 130,610 | 123,934 |
| Deferred income taxes | 23,020 | 22,413 |
| Accrued interest receivable | 5,726 | 4,597 |
| Property and equipment, net | 6,090 | 6,321 |
| Deferred policy acquisition costs | 17,998 | 16,973 |
| Deferred charges | 3,649 | 3,182 |
| Other assets | 10,522 | 9,434 |
| | \$ 922,200 | \$ 892,320 |
| | | |
| Liabilities, redeemable preferred stock and shareholders equity | | |
| Liabilities: | | |
| Reserves for loss and loss adjustment expenses | \$ 493,985 | \$ 484,485 |
| Unearned premiums | 133,018 | 124,524 |
| Reinsurance premiums payable | | 694 |
| Amounts held for others | 1,444 | 1,484 |
| Policyholder deposits | 37,932 | 38,033 |
| Insurance-related assessments | 37,271 | 35,135 |
| Federal income tax payable | 3,455 | 1,677 |
| Accounts payable and other liabilities | 22,821 | 22,852 |
| Subordinated debt securities | 36,090 | 36,090 |
| | | |
| Total liabilities | 766,016 | 744,974 |
| | | |
| Redeemable preferred stock | 50,000 | 50,000 |
| | | |
| Shareholders equity: | | |
| Common stock: | | |
| Voting \$0.01 par value issued and outstanding shares 17,440,000 in 2006 and 17,424,054 in 2005 | 174 | 174 |
| Additional paid-in capital | 145,346 | 145,206 |

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| | | |
|--|------------|------------|
| Accumulated deficit | (47,110) | (54,346) |
| Accumulated other comprehensive income | 7,774 | 6,312 |
| | 106,184 | 97,346 |
| | \$ 922,200 | \$ 892,320 |

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2006 | 2005 |
| | (unaudited) | |
| Revenues | | |
| Gross premiums written | \$ 80,819 | \$ 71,575 |
| Ceded premiums written | (4,451) | (4,835) |
| Net premiums written | \$ 76,368 | \$ 66,740 |
| Net premiums earned | \$ 67,874 | \$ 61,917 |
| Net investment income | 5,973 | 3,718 |
| Net realized gains on investments | 1,154 | 227 |
| Fee and other income | 157 | 162 |
| Total revenues | 75,158 | 66,024 |
| Expenses | | |
| Loss and loss adjustment expenses incurred | 47,871 | 45,918 |
| Underwriting and certain other operating costs | 8,132 | 8,344 |
| Commissions | 4,322 | 3,806 |
| Salaries and benefits | 3,976 | 2,800 |
| Interest expense | 813 | 640 |
| Policyholder dividends | 171 | 171 |
| Total expenses | 65,285 | 61,679 |
| Income before income taxes | 9,873 | 4,345 |
| Income tax expense | 2,637 | 1,108 |
| Net income | 7,236 | 3,237 |
| Preferred stock dividends | | (2,339) |
| Net income available to common shareholders | \$ 7,236 | \$ 898 |
| Earnings per share | | |
| Basic | \$ 0.36 | \$ 2.27 |

| | | | | |
|---------|----|------|----|------|
| Diluted | \$ | 0.36 | \$ | 2.27 |
|---------|----|------|----|------|

Shares used in computing earnings per share

| | | | | |
|-------|--|------------|--|---------|
| Basic | | 17,420,722 | | 299,774 |
|-------|--|------------|--|---------|

| | | | | |
|---------|--|------------|--|---------|
| Diluted | | 17,607,277 | | 299,774 |
|---------|--|------------|--|---------|

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2006 | 2005 |
| | (unaudited) | |
| Operating Activities | | |
| Net cash provided by operating activities | \$ 15,221 | \$ 15,991 |
| Investing activities | | |
| Purchases of investments held-to-maturity | (56,684) | (4,847) |
| Purchases of investments available-for-sale | (12,771) | (21,065) |
| Proceeds from maturities of investments held-to-maturity | 36,628 | 5,936 |
| Proceeds from sales and maturities of investments available-for-sale | 13,373 | 5,332 |
| Purchases of property and equipment | (220) | (412) |
| Net cash used in investing activities | (19,674) | (15,056) |
| Change in cash and cash equivalents | (4,453) | 935 |
| Cash and cash equivalents at beginning of period | 49,286 | 25,421 |
| Cash and cash equivalents at end of period | \$ 44,833 | \$ 26,356 |

See accompanying notes.

Table of Contents**AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 1. Basis of Presentation**

AMERISAFE, Inc. (the Company) is an insurance holding company incorporated in the state of Texas. Based on voting shares, the Company is 40.7% owned by Welsh, Carson, Anderson and Stowe VII L.P. and its affiliate WCAS Healthcare Partners, L.P. 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 domiciled in the state of Louisiana. AIICTX is a property and casualty insurance company organized under the laws of the state of Texas. RISK is a claims and safety service company servicing only affiliate insurance companies. AGAI 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 terms AMERISAFE, the Company, we, us, or our refer to AMERISAFE, Inc. and its consolidated subsidiaries, as the context requires.

The Company provides workers' compensation and general liability insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking and logging. Assets and revenues of AIIC represent approximately 99% of comparable consolidated amounts of the Company for each of 2006 and 2005.

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, 2005.

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

Note 2. Stock Options and Restricted Stock

In connection with the initial public offering, 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, 2005 for additional information regarding the Company's incentive plans.

For the three months ended March 31, 2006, we recognized stock-based compensation expense of \$140,000 related to options granted under the 2005 Incentive Plan.

On March 10, 2006, the compensation committee of the board approved incentive compensation awards to each of the Company's executive officers for services rendered in 2005. The awards were composed of cash bonuses and grants of restricted common stock. The restricted stock awards were made pursuant to the Company's 2005 Incentive Plan, and will vest on the first anniversary of the date of grant. The fair value of the restricted stock granted was \$170,000.

Table of Contents**AMERISAFE, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Note 3. Earnings Per Share**

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

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

Diluted earnings per share includes potential common shares assumed issued under the treasury stock method, which reflects the potential dilution that would occur if any outstanding options are exercised. Diluted earnings per share also includes the if converted method for participating securities if the result 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 March 31, | |
|---|--|-------------|
| | 2006 | 2005 |
| | (in thousands, except share and per share data) (unaudited) | |
| Basic EPS: | | |
| Net income available to common shareholders | \$ 7,236 | \$ 898 |
| Portion allocable to common shareholders | 87.8% | 75.9% |
| Net income allocable to common shareholders | \$ 6,351 | \$ 681 |
| Basic weighted average common shares | 17,420,722 | 299,774 |
| Basic earnings per share | \$ 0.36 | \$ 2.27 |
| Diluted EPS: | | |
| Net income allocable to common shareholders | \$ 6,351 | \$ 681 |
| Diluted weighted average common shares: | | |
| Weighted average common shares | 17,420,722 | 299,774 |
| Stock options | 179,492 | |
| Restricted stock | 7,063 | |
| Diluted weighted average common shares | 17,607,277 | 299,774 |
| Diluted earnings per common share | \$ 0.36 | \$ 2.27 |

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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. For the periods presented, the Company, did not have any in-the-money, vested stock options outstanding. As a result, the Company's outstanding stock options are not included in this calculation.

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2006 | 2005 |
| | (unaudited) | |
| Numerator: | | |
| Basic weighted average common shares | 17,420,722 | 299,774 |
| Add: Other common shares eligible for common dividends: | | |
| Weighted average restricted shares (including tax benefit component) | 7,063 | |
| Weighted average participating common shares | 17,427,785 | 299,774 |
| Denominator: | | |
| Weighted average participating common shares | 17,427,785 | 299,774 |
| 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 | 1,457,726 | 56,757 |
| Weighted average common shares issuable upon conversion of Series D preferred shares | 971,817 | 38,350 |
| Weighted average participating shares | 19,857,328 | 394,881 |

Portion allocable to common shareholders for the first quarter of 2006 is 87.8%, or 17,427,785 divided by 19,857,328. Portion allocable to common shareholders for the first quarter of 2005 is 75.9%, or 299,774 divided by 394,881.

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, 2005.

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 by a discussion of our results of operations for the three months ended March 31, 2006 and 2005. This discussion includes an analysis of certain significant period-to-period variances in our condensed consolidated statements of income. 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 subsidiaries. Workers' compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our business strategy is focused on providing this coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking and logging. Employers engaged in hazardous industries pay substantially higher than average rates for workers' compensation insurance compared to employers in other industries, as measured per payroll dollar. The higher premium rates are due to the nature of the work performed and the inherent workplace danger of our target

employers. Hazardous industry employers also tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. We provide proactive safety reviews of employers workplaces. These safety reviews are a vital component of our underwriting process and also promote

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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 on equity.

We actively market our insurance in 27 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 18 states and the U.S. Virgin Islands.

Critical Accounting Policies

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

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, assessments, deferred policy acquisition costs, deferred income taxes and the impairment of investment securities. These critical accounting policies are more fully described in Item 7,

Management's Discussion and Analysis of Financial Condition and Results of Operations of Part II to our Annual Report on Form 10-K for the year ended December 31, 2005.

Results of Operations

The following table summarizes our consolidated financial results for the three months ended March 31, 2006.

| | Three Months Ended March 31, | |
|-----------------------------------|--|-------------|
| | 2006 | 2005 |
| | (in thousands, except share and per share data) (unaudited) | |
| Gross premiums written | \$80,819 | \$71,575 |
| Net premiums earned | 67,874 | 61,917 |
| Net investment income | 5,973 | 3,718 |
| Total revenues | 75,158 | 66,024 |
| Total expenses | 65,285 | 61,679 |
| Net income | 7,236 | 3,237 |
| Diluted earnings per common share | 0.36 | 2.27 |
| Other Key Measures | | |
| Net combined ratio (1) | 95.0% | 98.6% |
| Return on average equity (2) | 19.1% | 14.3% |

(1) The net combined ratio is calculated by dividing the sum of loss and loss adjustment expenses

incurred,
underwriting
and certain
other operating
costs,
commissions,
salaries and
benefits, and
policyholder
dividends by the
current year'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.

Table of Contents***Consolidated Results of Operations for Three Months Ended March 31, 2006 Compared to March 31, 2005***

Gross Premiums Written. Gross premiums written for the three months ended March 31, 2006 were \$80.8 million, compared to \$71.6 million for the same period in 2005, an increase of 12.9%. The increase was attributable primarily to a \$10.8 million increase in annual premiums on policies written during the period, offset by an \$809,000 decrease in premiums resulting from payroll audits and related premium adjustments, a \$412,000 decrease in assigned risk premiums and a \$390,000 decrease in assumed premiums from mandatory pooling arrangements.

Net Premiums Written. Net premiums written for the three months ended March 31, 2006 were \$76.4 million, compared to \$66.7 million for the same period in 2005, an increase of 14.4%. The increase was attributable to growth in gross premiums written and a \$384,000 decrease in premiums ceded to reinsurers for the first three months of 2006 compared to the prior-year period. As a percentage of gross premiums written, ceded premiums were 5.5% for the first quarter of 2006 compared to 6.8% for the first quarter of 2005.

Net Premiums Earned. Net premiums earned for the three months ended March 31, 2006 were \$67.9 million, compared to \$61.9 million for the same period in 2005, an increase of 9.6%. The increase was attributable to the increase in net premiums written.

Net Investment Income. Net investment income for the first quarter of 2006 was \$6.0 million, compared to \$3.7 million for the same period in 2005, an increase of 60.7%. The change was attributable to an increase in our investment portfolio, including cash and cash equivalents, from an average of \$399.0 million in the first quarter of 2005 to an average of \$591.8 million for the same period of 2006, an increase of 48.3%. Also contributing to this growth was an increase in the tax-equivalent yield on our investment portfolio, from 4.6% per annum as of March 31, 2005, to 5.3% per annum as of March 31, 2006.

Net Realized Gains on Investments. Net realized gains on investments for the first three months of 2006 totaled \$1.2 million, compared to \$227,000 for the same period in 2005. The increase was attributable to the timing of the sale of equity securities in accordance with our investment guidelines.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses incurred totaled \$47.9 million for the three months ended March 31, 2006, compared to \$45.9 million for the same period in 2005, an increase of \$2.0 million, or 4.3%. The increase was due to the increase in our net premiums earned combined with an increase in the net loss ratio for the current accident year from 69.8% in the first quarter of 2005 to 70.5% in the first quarter of 2006. These increases were offset by \$2.7 million in prior year development in the first quarter of 2005. There was no prior year development recorded in the first quarter of 2006. Our net loss ratio was 70.5% for the three months ended March 31, 2006, compared to 74.2% for the same period in 2005.

Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits. Underwriting and certain other operating costs, commissions and salaries and benefits for the first three months in 2006 were \$16.4 million, compared to \$15.0 million for the same period in 2005, an increase of 9.9%. This increase was primarily due to a \$1.7 million increase in deferred policy acquisition expenses and a \$1.0 million increase in commissions, offset by a \$534,000 decrease in loss-based assessments and a \$416,000 increase in ceding commissions, which acts to reduce underwriting expenses. The decrease in loss-based assessments was attributable to a \$912,000 reduction by the South Carolina Second Injury Fund of its 2005 assessment, which was re-evaluated by South Carolina in 2006, resulting in a 30% reduction of the original assessment.

Interest expense. Interest expense for the first three months of 2006 was \$813,000, compared to \$640,000 for the comparable period of 2005. Our weighted average borrowings for both periods were \$36.1 million. The weighted average interest rate increased to 8.4% per annum for the first quarter of 2006 from 6.1% per annum for the first quarter of 2005.

Income tax expense. Our income tax expense for the three months ended March 31, 2006 was \$2.6 million, compared to \$1.1 million for the same period in 2005. The increase in tax expense was attributable to higher pre-tax

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income and a 15.6% decrease in tax-exempt interest as a percentage of pre-tax income for the first three months of 2006 compared to the same period in 2005.

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 from operating activities was \$15.2 million for the first three months of 2006, which was a slight decrease in cash from operating activities of \$16.0 million in the first three months of 2005. Premiums collected for the first quarter of 2006 increased \$13.3 million from the same period in 2005. This increase was offset by a \$7.8 million reduction in recoveries from reinsurers, an increase in expense disbursements of \$1.4 million and an increase of \$4.8 million for claim payments. Net cash used in investing activities was \$19.7 million for the three months ended March 31, 2006, compared to \$15.1 million for the same period in 2005.

As of March 31, 2006, our cash and invested assets totaled \$600.8 million, an increase of 47.3% from March 31, 2005. Our fixed maturity securities are primarily classified as held-to-maturity, as defined by SFAS No. 115,

Accounting for Certain Investments in Debt and Equity Securities. As such, the reported value of those securities is equal to their amortized cost, and is not impacted by changing interest rates. Our equity securities, including redeemable preferred stocks, are classified as available-for-sale, as defined by SFAS 115. These securities are reported at fair value.

The composition of our investment portfolio as of March 31, 2006 is shown in the following table.

| | Three Months Ended March 31, 2006 (in thousands) | |
|--|---|------------------------------------|
| | Carrying Value | Percentage of Portfolio |
| Fixed maturity securities: | | |
| State and political subdivisions | \$ 262,123 | 43.6% |
| Mortgage-backed securities | 111,847 | 18.6% |
| U.S. Treasury securities and obligations of U.S. Government agencies | 81,961 | 13.6% |
| Corporate bonds | 22,885 | 3.8% |
| Asset-backed securities | 5,907 | 1.0% |
| Redeemable preferred stocks | 683 | 0.1% |
| Total fixed maturity securities | 485,406 | 80.8% |
| Equity securities: | | |
| Common stocks | 66,923 | 11.1% |
| Nonredeemable preferred stocks | 3,605 | 0.6% |
| Total equity securities | 70,528 | 11.7% |
| Cash and cash equivalents | 44,833 | 7.5% |
| Total investments, including cash and cash equivalents | \$ 600,767 | 100.0% |

We regularly evaluate our investment portfolio to identify other-than-temporary impairments in the fair values of the securities held in our investment portfolio. As of March 31, 2006, there were no other-than-temporary declines in the fair values of the securities held in our investment portfolio.

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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, 2005, there have been no material changes in the quantitative or qualitative aspects of our market risk profile. For information regarding the Company's exposure to certain market risks, see Item 7A

Quantitative and Qualitative Disclosures About Market Risk in the our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the SEC.

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 specified by the SEC. We note that the design of any system of controls is based in part upon certain 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.

In the ordinary course of our business, we are involved in the adjudication of claims resulting from workplace injuries. We are not involved in any legal or administrative claims that we believe are likely to have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors.

There have been no material changes to the information in Item 1A, Risk Factors of Part I to our Annual Report on Form 10-K for the year ended December 31, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

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Item 5. Other Information.

None.

Item 6. Exhibits.

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

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SIGNATURES

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

AMERISAFE, INC.

May 12, 2006

/s/ C. Allen Bradley, Jr.

C. Allen Bradley, Jr.
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

May 12, 2006

/s/ Geoffrey R. Banta

Geoffrey R. Banta
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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