

AMERISAFE INC  
Form 10-Q  
May 03, 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 MARCH 31, 2011**

Commission file number:

001-12251

**AMERISAFE, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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Texas  
(State of Incorporation)

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

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

70634  
(Zip Code)

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of April 30, 2011, there were 18,395,729 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;

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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.

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

|   | <b>March 31,<br/>2011<br/>(unaudited)</b> | <b>December 31,<br/>2010</b> |
|---|---|------------------------------|
| <b>Assets</b>   |   |                              |
| Investments:  |   |                              |
| Fixed maturity securities held-to-maturity, at amortized cost (fair value \$677,573 and \$683,463 in 2011 and 2010, respectively) | \$ 658,015                                | \$ 663,345                   |
| Fixed maturity securities available-for-sale, at fair value (cost \$42,949 and \$21,865 in 2011 and 2010, respectively)           | 42,801                                    | 21,649                       |
| Equity securities available-for-sale, at fair value (cost \$1,090 and \$1,687 in 2011 and 2010, respectively)                     | 1,090                                     | 1,773                        |
| Short-term investments  | 70,153                                    | 78,770                       |
| Total investments   | 772,059                                   | 765,537                      |
| Cash and cash equivalents   | 52,202                                    | 60,966                       |
| Amounts recoverable from reinsurers   | 95,453                                    | 95,133                       |
| Premiums receivable, net  | 133,300                                   | 122,618                      |
| Deferred income taxes   | 32,790                                    | 31,512                       |
| Accrued interest receivable   | 8,788                                     | 7,704                        |
| Property and equipment, net   | 7,329                                     | 7,547                        |
| Deferred policy acquisition costs   | 18,299                                    | 17,400                       |
| Deferred charges  | 3,050                                     | 2,936                        |
| Federal income tax recoverable  | 610                                       | 2,293                        |
| Other assets  | 15,278                                    | 14,488                       |
|   | \$ 1,139,158                              | \$ 1,128,134                 |
| <b>Liabilities and shareholders equity</b>  |   |                              |
| Liabilities:  |   |                              |
| Reserves for loss and loss adjustment expenses  | \$ 532,142                                | \$ 532,204                   |
| Unearned premiums   | 119,182                                   | 111,494                      |
| Reinsurance premiums payable  | 633                                       | 7                            |
| Amounts held for others   | 23,806                                    | 22,667                       |
| Policyholder deposits   | 37,898                                    | 39,187                       |
| Insurance-related assessments   | 34,891                                    | 33,898                       |
| Securities payable  | 3,895                                     | 6,718                        |
| Accounts payable and other liabilities  | 20,054                                    | 20,646                       |
| Subordinated debt securities  | 36,090                                    | 36,090                       |
|   | 808,591                                   | 802,911                      |
| Shareholders equity:  |   |                              |
| Common stock:   |   |                              |
|   | 192                                       | 191                          |

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|  |              |              |
|--|--------------|--------------|
| Voting \$0.01 par value authorized shares 50,000,000 in 2011 and 2010; 19,185,449 and 19,060,649 shares issued and 18,317,779 and 18,352,041 shares outstanding in 2011 and 2010, respectively |              |              |
| Additional paid-in capital   | 182,551      | 180,884      |
| Treasury stock at cost (867,670 and 708,608 shares in 2011 and 2010, respectively)   | (14,961)     | (12,102)     |
| Accumulated earnings   | 162,612      | 155,985      |
| Accumulated other comprehensive income, net  | 173          | 265          |
|  | 330,567      | 325,223      |
|  | \$ 1,139,158 | \$ 1,128,134 |

See accompanying notes.

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

(in thousands, except share and per share data)

(unaudited)

|  | Three Months Ended<br>March 31, |               |
|--|---------------------------------|---------------|
|  | 2011                            | 2010          |
| <b>Revenues</b>                                    |                                 |               |
| Gross premiums written                             | \$ 71,359                       | \$ 61,091     |
| Ceded premiums written                             | (3,582)                         | (4,639)       |
| Net premiums written                               | \$ 67,777                       | \$ 56,452     |
| Net premiums earned                                | \$ 60,089                       | \$ 55,058     |
| Net investment income                              | 6,546                           | 6,540         |
| Net realized gains on investments                  | 103                             | 2,552         |
| Fee and other income                               | 221                             | 232           |
| <b>Total revenues</b>                              | <b>66,959</b>                   | <b>64,382</b> |
| <b>Expenses</b>                                    |                                 |               |
| Loss and loss adjustment expenses incurred         | 44,176                          | 37,627        |
| Underwriting and certain other operating costs     | 5,171                           | 3,283         |
| Commissions  | 4,286                           | 3,999         |
| Salaries and benefits                              | 5,106                           | 5,215         |
| Interest expense                                   | 379                             | 375           |
| Policyholder dividends                             | 355                             | 264           |
| <b>Total expenses</b>                              | <b>59,473</b>                   | <b>50,763</b> |
| Income before income taxes                         | 7,486                           | 13,619        |
| Income tax expense                                 | 859                             | 2,342         |
| Net income   | 6,627                           | 11,277        |
| Net income available to common shareholders        | \$ 6,627                        | \$ 11,277     |
| <b>Earnings per share</b>                          |                                 |               |
| Basic  | \$ 0.36                         | \$ 0.60       |
| Diluted  | \$ 0.35                         | \$ 0.58       |
| <b>Shares used in computing earnings per share</b> |                                 |               |
| Basic  | 18,232,600                      | 18,888,356    |
| Diluted  | 18,709,166                      | 19,320,655    |

See accompanying notes.





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

(in thousands)

(unaudited)

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                             | <b>2010</b> |
| <b>Operating Activities</b>   |   |             |
| Net income  | \$ 6,627                                | \$ 11,277   |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |             |
| Depreciation  | 266                                     | 257         |
| Net amortization of investments   | 1,332                                   | 1,131       |
| Deferred income taxes   | (1,274)                                 | (1,066)     |
| Net realized gains on investments   | (103)                                   | (2,552)     |
| Share-based compensation  | 131                                     | 222         |
| Changes in operating assets and liabilities:                                      |   |             |
| Premiums receivable   | (10,682)                                | (5,681)     |
| Accrued interest receivable   | (1,084)                                 | (846)       |
| Deferred policy acquisition costs and deferred charges                            | (1,012)                                 | (317)       |
| Other assets and federal income tax recoverable                                   | 893                                     | 3,456       |
| Reserves for loss and loss adjustment expenses                                    | (62)                                    | 989         |
| Unearned premiums   | 7,688                                   | 1,393       |
| Reinsurance balances  | 306                                     | (3,157)     |
| Amounts held for others and policyholder deposits                                 | (150)                                   | (707)       |
| Accounts payable and other liabilities  | (2,422)                                 | (2,793)     |
| Net cash provided by operating activities   | 454                                     | 1,606       |
| <b>Investing Activities</b>   |   |             |
| Purchases of investments held-to-maturity   | (25,660)                                | (17,505)    |
| Purchases of investments available-for-sale                                       | (21,390)                                |             |
| Purchases of short-term investments   | (24,500)                                | (20,850)    |
| Proceeds from maturities of investments held-to-maturity                          | 29,588                                  | 10,966      |
| Proceeds from sales and maturities of investments available-for-sale              | 1,023                                   | 13,849      |
| Proceeds from sales and maturities of short-term investments                      | 33,091                                  | 14,532      |
| Purchases of property and equipment   | (48)                                    | (555)       |
| Net cash (used in)/provided by investing activities                               | (7,896)                                 | 437         |
| <b>Financing Activities</b>   |   |             |
| Proceeds from stock option exercises  | 1,156                                   | 139         |
| Tax benefit from share-based payments   | 381                                     | 26          |
| Treasury shares purchased   | (2,859)                                 | (1,135)     |
| Net cash used in financing activities   | (1,322)                                 | (970)       |
| Change in cash and cash equivalents   | (8,764)                                 | 1,073       |
| Cash and cash equivalents at beginning of period                                  | 60,966                                  | 63,188      |
| Cash and cash equivalents at end of period  | \$ 52,202                               | \$ 64,261   |

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 in the context requires.

The Company provides workers compensation and general liability insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking 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 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, 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.

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

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

In connection with the initial public offering of shares of the Company's common stock in November 2005, the Company's shareholders approved the AMERISAFE 2005 Equity Incentive Plan (the 2005 Incentive Plan) and the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2005 Restricted Stock Plan). In June 2010, the Company's shareholders approved an amendment to the AMERISAFE 2005 Non-Employee Director Restricted Stock Plan (the 2010 Restated Restricted Stock Plan). 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.

During the three months ended March 31, 2011, there were 124,800 stock options exercised. Related to these exercises, the Company received \$1.2 million of stock option proceeds. During the three months ended March 31, 2010, there were 15,480 stock options exercised. Related to these exercises, the Company received \$0.1 million of stock option proceeds.

The Company recognized share-based compensation expense of \$0.1 million in the quarter ended March 31, 2011, compared to \$0.2 million for the same period in 2010.

**Note 3. Earnings Per Share**

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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

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method for participating securities if the effect is dilutive. The two-class method of calculating diluted earnings per share is used whether the converted result is dilutive or anti-dilutive.

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2011                            | 2010       |
| (in thousands, except per share amounts)       |                                 |            |
| <b>Basic EPS:</b>                              |                                 |            |
| Net income                                     | \$ 6,627                        | \$ 11,277  |
| Basic weighted average common shares           | 18,232,600                      | 18,888,356 |
| Basic earnings per common share                | \$ 0.36                         | \$ 0.60    |
| <b>Diluted EPS:</b>                            |                                 |            |
| Net income                                     | \$ 6,627                        | \$ 11,277  |
| <b>Diluted weighted average common shares:</b> |                                 |            |
| Weighted average common shares                 | 18,232,600                      | 18,888,356 |
| Stock options                                  | 468,679                         | 428,177    |
| Restricted stock                               | 7,887                           | 4,122      |
| Diluted weighted average common shares         | 18,709,166                      | 19,320,655 |
| Diluted earnings per common share              | \$ 0.35                         | \$ 0.58    |

**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 March 31, 2011 are summarized as follows:

|  | Cost or<br>Amortized Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|--|---------------------------|------------------------------|-------------------------------|------------|
| (in thousands)   |                           |                              |                               |            |
| States and political subdivisions                                    | \$ 460,564                | \$ 13,590                    | \$ (1,720)                    | \$ 472,434 |
| U.S. agency-based mortgage-backed securities                         | 56,884                    | 3,630                        | (79)                          | 60,435     |
| Commercial mortgage-backed securities                                | 51,566                    | 2,941                        |                               | 54,507     |
| U.S. Treasury securities and obligations of U.S. Government agencies | 14,809                    | 843                          |                               | 15,652     |
| Corporate bonds  | 67,989                    | 1,327                        | (139)                         | 69,177     |
| Asset-backed securities  | 6,203                     | 18                           | (853)                         | 5,368      |
| Totals   | \$ 658,015                | \$ 22,349                    | \$ (2,791)                    | \$ 677,573 |

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as available-for-sale at March 31, 2011 are summarized as follows:

|  | Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|--|-----------|------------------------------|-------------------------------|------------|
| (in thousands)   |           |                              |                               |            |
| States and political subdivisions                                    | \$ 16,341 | \$ 270                       | \$ (12)                       | \$ 16,599  |
| U.S. Treasury securities and obligations of U.S. Government agencies | 5,924     |                              | (166)                         | 5,758      |

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|                   |           |        |          |           |
|-------------------|-----------|--------|----------|-----------|
| Corporate bonds   | 20,684    | 11     | (251)    | 20,444    |
| Equity securities | 1,090     |        |          | 1,090     |
| Totals            | \$ 44,039 | \$ 281 | \$ (429) | \$ 43,891 |

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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<br>Amortized Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>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<br>Unrealized<br>Gains | Gross<br>Unrealized<br>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 March 31, 2011, by contractual maturity, is as follows:

| Remaining Time to Maturity                   | Carrying Value | Fair Value |
|--|----------------|------------|
|  | (In thousands) |            |
| Less than one year                           | \$ 85,961      | \$ 86,942  |
| One to five years                            | 200,808        | 207,064    |
| Five to ten years                            | 130,401        | 136,292    |
| More than ten years                          | 126,192        | 126,965    |
| U.S. agency-based mortgage-backed securities | 56,884         | 60,435     |
| Commercial mortgage-backed securities        | 51,566         | 54,507     |
| Asset-backed securities                      | 6,203          | 5,368      |
| Total  | \$ 658,015     | \$ 677,573 |

A summary of the cost or amortized cost and fair value of investments in fixed maturity securities, classified as available-for-sale at March 31, 2011, by contractual maturity, is as follows:



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| <b>Remaining Time to Maturity</b> | <b>Carrying Value</b> | <b>Fair Value</b> |
|-----------------------------------|-----------------------|-------------------|
|                                   | <b>(In thousands)</b> |                   |
| Less than one year                | \$                    | \$                |
| One to five years                 | 13,310                | 13,251            |
| Five to ten years                 | 11,089                | 11,028            |
| More than ten years               | 18,550                | 18,522            |
| <b>Total</b>                      | <b>\$ 42,949</b>      | <b>\$ 42,801</b>  |

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The following table summarizes, as of March 31, 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:

|   | Less Than 12 Months  |                               | As of March 31, 2011<br>12 Months or Greater                 |                               | Total  |                               |
|---|--|-------------------------------|--|-------------------------------|--|-------------------------------|
|   | Fair Value of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses | Fair Value of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses | Fair Value of<br>Investments<br>with<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses |
|   | (in thousands)   |                               |  |                               |  |                               |
| <b>Held-to-Maturity</b>   |  |                               |  |                               |  |                               |
| Fixed maturity securities:  |  |                               |  |                               |  |                               |
| States and political subdivisions                                       | \$ 62,258  | \$ 1,120                      | \$ 4,128   | \$ 600                        | \$ 66,386  | \$ 1,720                      |
| U.S. agency-based mortgage-backed securities                            | 842  | 5                             | 2,168  | 74                            | 3,010  | 79                            |
| Corporate bonds   | 18,693   | 139                           |  |                               | 18,693   | 139                           |
| Asset-backed securities   | 712  | 35                            | 4,600  | 818                           | 5,312  | 853                           |
| <b>Total held-to-maturity securities</b>                                | <b>82,505</b>  | <b>1,299</b>                  | <b>10,896</b>  | <b>1,492</b>                  | <b>93,401</b>  | <b>2,791</b>                  |
| <b>Available-for Sale</b>   |  |                               |  |                               |  |                               |
| Fixed maturity securities:  |  |                               |  |                               |  |                               |
| States and political subdivisions                                       | \$ 2,610   | \$ 13                         | \$   | \$                            | \$ 2,610   | \$ 13                         |
| U.S. Treasury securities and obligations of U.S.<br>Government agencies | 5,758  | 165                           |  |                               | 5,758  | 165                           |
| Corporate bonds   | 14,186   | 251                           |  |                               | 14,186   | 251                           |
| <b>Total available-for-sale securities</b>                              | <b>22,554</b>  | <b>429</b>                    |  |                               | <b>22,554</b>  | <b>429</b>                    |
| <b>Total</b>  | <b>\$ 105,059</b>  | <b>\$ 1,728</b>               | <b>\$ 10,896</b>   | <b>\$ 1,492</b>               | <b>\$ 115,955</b>  | <b>\$ 3,220</b>               |

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

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

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

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

any downgrades of the security by a rating agency;

our intent whether or not to sell the security;

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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 changes in market interest rates since the date of purchase, current conditions in the capital markets and the impact of those conditions on market liquidity and prices generally. We expect to recover the carrying value of these securities since management does not intend to sell the securities and it is not more likely than not that we will be required to sell the security before the recovery of its amortized cost basis. In addition, none of the unrealized losses on debt securities are considered credit losses.

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### **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 March 31, 2011, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The current quarter effective tax rate decreased significantly due to a higher percentage of tax-exempt interest relative to pre-tax earnings in the quarter ended March 31, 2011.

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 March 31, 2011 and 2010.

Tax years 2007 through 2010 are subject to examination by the federal and state taxing authorities. There are no income tax examinations currently in process.

### **Note 6. Comprehensive Income**

Comprehensive income was \$6.5 million for the three months ended March 31, 2011, as compared to \$8.9 million for the three months ended March 31, 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 \$30 thousand and \$0.8 million in 2011 and 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.

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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.

At March 31, 2011, assets and liabilities measured at fair value on a recurring basis are summarized below:

|  | Level 1<br>Inputs | Level 2<br>Inputs<br>(in thousands) | Level 3<br>Inputs | Total Fair<br>Value |
|--|-------------------|-------------------------------------|-------------------|---------------------|
| Securities available for sale - fixed maturity                       |                   |                                     |                   |                     |
| U.S. Treasury securities and obligations of U.S. Government agencies | \$ 5,758          | \$                                  | \$                | \$ 5,758            |
| Corporate Bonds  | 16,541            | 3,903                               | \$                | 20,444              |
| States and Political Subdivisions                                    | 2,460             | 14,139                              |                   | 16,599              |
| Total available for sale - fixed maturity                            | \$ 24,759         | \$ 18,042                           | \$                | \$ 42,801           |

At December 31, 2010, assets and liabilities measured at fair value on a recurring basis are summarized below:

|  | Level 1<br>Inputs | Level 2<br>Inputs<br>(in thousands) | Level 3<br>Inputs | Total Fair<br>Value |
|--|-------------------|-------------------------------------|-------------------|---------------------|
| 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           |

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|                          |           |          |    |           |
|--------------------------|-----------|----------|----|-----------|
| Total available for sale | \$ 15,124 | \$ 7,208 | \$ | \$ 22,332 |
|--------------------------|-----------|----------|----|-----------|

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

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

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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 a third-party investment manager.

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

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

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

|  | As of March 31, 2011 |            | As of December 31, 2010 |            |
|--|----------------------|------------|-------------------------|------------|
|  | Carrying Amount      | Fair Value | Carrying Amount         | Fair Value |
| (In thousands)                               |                      |            |                         |            |
| <b>Assets:</b>                               |                      |            |                         |            |
| Fixed maturity securities held-to-maturity   | \$ 658,015           | \$ 677,573 | \$ 663,345              | \$ 683,463 |
| Fixed maturity securities available-for-sale | 42,801               | 42,801     | 21,649                  | 21,649     |
| Equity securities                            | 1,090                | 1,090      | 1,773                   | 1,773      |
| Cash and cash equivalents                    | 52,202               | 52,202     | 60,966                  | 60,966     |
| Short-term Investments                       | 70,153               | 70,153     | 78,770                  | 78,770     |
| <b>Liabilities:</b>                          |                      |            |                         |            |
| Subordinated debt securities:                |                      |            |                         |            |
| ACT I  | 10,310               | 10,310     | 10,310                  | 10,310     |
| ACT II                                       | 25,780               | 25,780     | 25,780                  | 25,780     |

**Note 8. Treasury Stock**

In March 2010, the Company announced that its Board of Directors had approved a share repurchase program of its common stock. On November 4, 2010, the Company announced that its Board of Directors voted to renew the previously authorized share repurchase program by one year, to December 31, 2011. In addition, the Board authorized a new limit of up to \$25 million effective October 1, 2010. During the three months ended March 31, 2011, 159,062 shares were purchased for \$2.9 million, or an average price (including commissions) of \$17.98 per share.

**Note 9. Variable Interest Entities**

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

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

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

**Note 10. Recently Issued Accounting Pronouncements**



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In January 2010, the FASB issued Accounting Standards Update 2010-06 Improving Disclosures about Fair Value Measurements . This guidance requires new disclosures related to fair value measurements and clarifies existing disclosure requirements about the level of disaggregation, inputs and valuation techniques. Specifically, reporting entities now must disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and

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describe the reasons for the transfers. In addition, in the reconciliation for Level 3 fair value measurements, a reporting entity should present separately information about purchases, sales, issuances and settlements. The guidance clarifies that a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities for disclosure of fair value measurement, considering the level of disaggregated information required by other applicable U.S. GAAP guidance and should also provide disclosures about the valuation techniques and inputs used to measure fair value for each class of assets and liabilities. This guidance was effective January 1, 2010, except for the disclosures about purchases, sales, issuances and settlements in the reconciliation for Level 3 fair value measurements, which was effective January 1, 2011. This guidance did not have a material impact on our consolidated financial statements.

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

**Note 11. Subsequent Events**

In April 2011, the Company's Board of Directors voted to redeem \$10.3 million in outstanding subordinated debt securities due 2034. Interest on the subordinated debt securities accrues at a floating rate equal to the three-month LIBOR rate plus a marginal rate, and was equal to 4.4% at March 31, 2011. The securities are expected to be redeemed in July 2011, with the redemption to be funded from available capital.

**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 months ended March 31, 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.

**Critical Accounting Policies**

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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

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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 months ended March 31, 2011 and 2010.

|                                   | <b>Three Months Ended<br/>March 31,</b>                  |             |
|-----------------------------------|--|-------------|
|                                   | <b>2011</b>  | <b>2010</b> |
|                                   | <b>(dollars in thousands, except per<br/>share data)</b> |             |
|                                   | <b>(unaudited)</b>                                       |             |
| Gross premiums written            | \$ 71,359  | \$ 61,091   |
| Net premiums earned               | 60,089   | 55,058      |
| Net investment income             | 6,546  | 6,540       |
| Total revenues                    | 66,959   | 64,382      |
| Total expenses                    | 59,473   | 50,763      |
| Net income                        | 6,627  | 11,277      |
| Diluted earnings per common share | \$ 0.35  | \$ 0.58     |
| <b>Other Key Measures</b>         |  |             |
| Net combined ratio (1)            | 98.3%  | 91.5%       |
| Return on average equity (2)      | 8.1%   | 14.7%       |
| Book value per share (3)          | \$ 18.05   | \$ 16.49    |

- (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 March 31, 2011 Compared to March 31, 2010**

**Gross Premiums Written.** Gross premiums written for the quarter ended March 31, 2011 were \$71.4 million, compared to \$61.1 million for the same period in 2010, an increase of 16.8%. The increase was attributable to a \$1.7 million increase in annual premiums on voluntary policies written during the period and an \$8.8 million increase in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters. This increase was partially offset by a \$0.2 million decrease in assumed premium from mandatory pooling arrangements. In addition, the renewal rights and assumption agreement with Cooperative Mutual was completed in the first quarter of 2011, which accounted for \$4.0 million of gross premiums written.

**Net Premiums Written.** Net premiums written for the quarter ended March 31, 2011 were \$67.8 million, compared to \$56.5 million for the same period in 2010, an increase of 20.1%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 5.6% for the first quarter of 2011, compared to 7.8% for the first quarter of 2010.

**Net Premiums Earned.** Net premiums earned for the first quarter of 2011 were \$60.1 million, compared to \$55.1 million for the same period in 2010, an increase of 9.1%. The increase was attributable to the increase in net premiums written in the quarter, offset by an increase in unearned premiums.



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*Net Investment Income.* Net investment income was \$6.5 million for the first quarter of 2011 and 2010. Average invested assets, including cash and cash equivalents, were \$825.2 million in the quarter ended March 31, 2011, compared to an average of \$803.1 million for the same period in 2010, an increase of 2.8%. The pre-tax investment yield on our investment portfolio was 3.2% per annum during the quarter ended March 31, 2011, compared to 3.3% per annum for the first quarter of 2010. The tax-equivalent yield on our investment portfolio was 4.6% per annum for the quarter ended March 31, 2011, compared to 4.7% per annum 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 March 31, 2011 totaled \$0.1 million, compared to \$2.6 million for the same period in 2010. Net realized gains in the first quarter of 2011 resulted from the sale of equity securities and fixed maturity securities from the available-for-sale portfolio. Net realized gains in the first quarter of 2010 primarily resulted from \$2.5 million in gains from the sale of certain equity securities.

*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$44.2 million for the three months ended March 31, 2011, compared to \$37.6 million for the same period in 2010, an increase of \$6.5 million, or 17.4%. The current accident year losses and LAE incurred were \$46.3 million, or 77.0% of net premiums earned, compared to \$39.9 million, or 72.5% of net premiums earned, for the same period in 2010. The increase in the current accident year loss ratio was mainly driven by frequency and severity. We recorded favorable prior accident year development of \$2.1 million in the first quarter of 2011, compared to \$2.3 million in the same period of 2010, as further discussed below in Prior Year Development. Our net loss ratio was 73.5% in the first quarter of 2011, compared to 68.3% in 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 March 31, 2011 were \$14.6 million, compared to \$12.5 million for the same period in 2010, an increase of 16.5%. This increase was primarily due to a \$1.1 million decrease in experience-rated commissions related to our 2011 reinsurance agreement, a \$0.7 million increase in assessments and premium taxes and a \$0.3 million increase in commission expense. Our expense ratio was 24.2% in the first quarter of 2011 compared to 22.7% in the first quarter of 2010.

*Interest expense.* Interest expense for the first quarter of 2011 was \$0.4 million, compared to \$0.4 million for the same period in 2010. Weighted average borrowings for both periods were \$36.1 million. The weighted average interest rate increased to 4.2% per annum for the first quarter of 2011 from 4.1% per annum for the first quarter of 2010.

*Income tax expense.* Income tax expense for the three months ended March 31, 2011 was \$0.9 million, compared to \$2.3 million for the same period in 2010. The decrease was primarily attributable to a decline in pre-tax income to \$7.5 million in the first quarter of 2011 from \$13.6 million in the first quarter of 2010. The effective tax rate also decreased to 11.5% in the first quarter of 2011 from 17.2% in the first quarter of 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 \$0.5 million for the three months ended March 31, 2011, which represented a \$1.1 million decrease from \$1.6 million in net cash provided by operating activities for the three months ended March 31, 2010. This decrease in operating cash was attributable to a \$2.6 million increase in losses paid, a \$1.1 million increase in expense disbursements and a \$1.9 million decrease in reinsurance recoveries. Offsetting these decreases in operating cash flow were a \$5.6 million increase in premiums collected, a \$1.0 million decrease in federal income taxes paid and a \$0.3 million decrease in policyholder dividends paid.

Net cash used in investing activities was \$7.9 million for the three months ended March 31, 2011, compared to net cash provided by operating activities of \$0.4 million for the same period in 2010. Cash provided by sales and maturities of investments totaled \$63.7 million for the three months ended March 31, 2011, compared to \$39.3 million for the same period in 2010. A total of \$71.6 million in cash was used to purchase investments in the three months ended March 31, 2011, compared to \$38.4 million in purchases for the same period in 2010.

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Net cash used in financing activities in the three months ended March 31, 2011 was \$1.3 million, compared to \$1.0 million for the same period in 2010. In the three months ended March, 31, 2011, repurchases of outstanding shares of our common stock totaled \$2.9 million, compared to \$1.1 million for the same period in 2010. Proceeds from stock option exercises totaled \$1.2 million for the three months ended March 31, 2011, compared to \$0.1 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 November 4, 2010, the Company announced that its Board of Directors voted to renew the previously authorized share repurchase program by one year, to December 31, 2011. In addition, the Board authorized a new limit of up to \$25 million effective October 1, 2010. As of March 31, 2011, the Company had repurchased a total of 867,670 shares of its outstanding common stock for \$15.0 million under the program.

**Investment Portfolio**

As of March 31, 2011, our investment portfolio, including cash and cash equivalents, totaled \$824.3 million, an increase of 3.1% from March 31, 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 March 31, 2011, is shown in the following table:

|  | Carrying<br>Value<br>(in thousands) | Percentage of<br>Portfolio |
|--|-------------------------------------|----------------------------|
| <b>Fixed maturity securities held-to-maturity:</b>                   |                                     |                            |
| States and political subdivisions                                    | \$ 460,564                          | 55.9%                      |
| U.S. agency-based mortgage-backed securities                         | 56,884                              | 6.9%                       |
| Commercial mortgage-backed securities                                | 51,566                              | 6.3%                       |
| U.S. Treasury securities and obligations of U.S. Government agencies | 14,809                              | 1.8%                       |
| Corporate bonds  | 67,989                              | 8.2%                       |
| Asset-backed securities  | 6,203                               | 0.8%                       |
| <b>Total fixed maturity securities held-to-maturity</b>              | <b>658,015</b>                      | <b>79.9%</b>               |
| <b>Fixed maturity securities available-for-sale:</b>                 |                                     |                            |
| States and political subdivisions                                    | 16,599                              | 2.0%                       |
| U.S. Treasury securities and obligations of U.S. Government agencies | 5,758                               | 0.7%                       |
| Corporate bonds  | 20,444                              | 2.5%                       |
| <b>Total fixed maturity securities available-for-sale</b>            | <b>42,801</b>                       | <b>5.2%</b>                |
| Equity securities  | 1,090                               | 0.1%                       |
| Cash and cash equivalents  | 52,202                              | 6.3%                       |
| Short-term investments   | 70,153                              | 8.5%                       |
| <b>Total investments, including cash and cash equivalents</b>        | <b>\$ 824,261</b>                   | <b>100.0%</b>              |

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

In the three months ended March 31, 2011, we sold equity and fixed maturity securities classified as available-for-sale. The carrying value of these securities at disposal was \$0.9 million. Realized gains on the sale of these securities totaled \$0.1 million. An other-than-temporary

impairment had previously been recognized on one of the equity securities.



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The Company recorded favorable prior accident year development of \$2.1 million in the three months ended March 31, 2011. The table below sets forth the favorable or unfavorable development for the three months ended March 31, 2011 and 2010 for accident years 2006 through 2010 and, collectively, for all accident years prior to 2006.

| <b>Accident Year</b>         | <b>Favorable/(Unfavorable) Development</b>       |  |
|------------------------------|--|--|
|                              | <b>Three Months Ended<br/>March 31,<br/>2011</b> | <b>Three Months Ended<br/>March 31, 2010</b> |
|                              | (in millions)                                    |  |
| 2010                         | \$ (13.7)  | \$   |
| 2009                         | 0.0  | (0.4)  |
| 2008                         | 2.2  | (0.1)  |
| 2007                         | 6.1  | 0.6  |
| 2006                         | 3.1  | 0.7  |
| Prior to 2006                | 4.4  | 1.5  |
| <b>Total net development</b> | <b>\$ 2.1</b>                                    | <b>\$ 2.3</b>                                |

The table below sets forth the number of open claims as of March 31, 2011 and 2010, and the number of claims reported and closed during the three months then ended.

|                                     | <b>Three Months Ended<br/>March 31,</b> |              |
|-------------------------------------|---|--------------|
|                                     | <b>2011</b>                             | <b>2010</b>  |
| Open claims at beginning of period  | 5,129                                   | 4,511        |
| Claims reported                     | 1,335                                   | 1,214        |
| Claims closed                       | (1,363)                                 | (1,280)      |
| <b>Open claims at end of period</b> | <b>5,101</b>                            | <b>4,445</b> |

The number of open claims at March 31, 2011 increased by 656 claims, or 14.8%, as compared to the number of open claims at March 31, 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 months ended March 31, 2011.

At March 31, 2011, our case 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 March 31, 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 better 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.

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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.

**Item 4. Controls and Procedures.**

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

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

**PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

None.

**Item 1A. Risk Factors.**

None.

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

The following table summarizes the Company's purchases of its common stock, par value \$0.01 per share, during the three months ended March 31, 2011:

| Period                                | Total<br>Number of<br>Shares<br>Purchased | Average Price<br>Paid per Share | Total Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Program (1) | Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>Under the<br>Program<br>(in thousands) |
|---------------------------------------|---|---------------------------------|--|---|
| January 1, 2011 to January 31, 2011   | 159,062                                   | \$ 17.98                        | 159,062  | \$ 20,412   |
| February 1, 2011 to February 28, 2011 |   |                                 |  | \$ 20,412   |
| March 1, 2011 to March 31, 2011       |   |                                 |  | \$ 20,412   |
| Total                                 | 159,062                                   |                                 | 159,062  |   |

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

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Reserved.**

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 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 |

**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 3, 2011

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

May 3, 2011

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

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