AMERISAFE INC
Form 10-Q
November 01, 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 SEPTEMBER 30, 2006
Commission file number: 000-51520
AMERISAFE, INC.
(Exact Name of Registrant as Specified in Its Charter)

Texas	**75-2069407**
(State of Incorporation)	(I.R.S. Employer Identification Number)
2301 Highway 190 West, DeRidder, Louisiana	**70634**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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 o Accelerated filer o Non-accelerated filer þ

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

As of October 31, 2006, there were 17,446,110 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, shoul 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.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERISAFE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	September 30, 2006	December 31, 2005
	(unaudited)	
Assets		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost	$ 524,086	$ 465,648
Fixed maturity securities available-for-sale, at fair value	633	1,695
Equity securities available-for-sale, at fair value	53,056	66,275
Total investments	577,775	533,618
Cash and cash equivalents	61,778	49,286
Amounts recoverable from reinsurers	122,792	122,562
Premiums receivable, net	145,621	123,934
Deferred income taxes	26,689	22,413
Accrued interest receivable	6,200	4,597
Property and equipment, net	6,022	6,321
Deferred policy acquisition costs	19,785	16,973
Deferred charges	4,003	3,182
Other assets	14,369	9,434
	$ 985,034	$ 892,320
Liabilities, redeemable preferred stock and shareholders equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	$ 520,843	$ 484,485
Unearned premiums	151,403	124,524
Reinsurance premiums payable		694
Amounts held for others	1,706	1,484
Policyholder deposits	38,189	38,033
Insurance-related assessments	39,647	35,135
Federal income tax payable		1,677
Accounts payable and other liabilities	25,490	22,852
Subordinated debt securities	36,090	36,090
Total liabilities	813,368	744,974
Redeemable preferred stock	50,000	50,000
Shareholders equity:		
Common stock:		
	174	174

Voting $0.01 par value; issued and outstanding shares 17,446,110 in 2006 and 17,424,054 in 2005		
Additional paid-in capital	145,860	145,206
Accumulated deficit	(31,027)	(54,346)
Accumulated other comprehensive income	6,659	6,312
	121,666	97,346
	$ 985,034	$ 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 September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(unaudited)			
Revenues				
Gross premiums written	$ 82,951	$ 70,658	$ 255,920	$ 231,182
Ceded premiums written	(4,894)	(5,233)	(14,069)	(14,930)
Net premiums written	$ 78,057	$ 65,425	$ 241,851	$ 216,252
Net premiums earned	$ 74,991	$ 64,338	$ 214,972	$ 189,370
Net investment income	6,316	4,335	18,132	11,985
Net realized gains on investments	346	563	2,581	1,337
Fee and other income	195	120	550	426
Total revenues	81,848	69,356	236,235	203,118
Expenses				
Loss and loss adjustment expenses incurred	51,743	45,189	149,989	155,625
Underwriting and certain other operating costs	9,089	8,881	26,524	23,578
Commissions	4,925	4,047	13,811	11,869
Salaries and benefits	4,195	3,920	12,404	10,968
Interest expense	923	735	2,579	2,061
Policyholder dividends	216	65	563	451
Total expenses	71,091	62,837	205,870	204,552
Income (loss) before income taxes	10,757	6,519	30,365	(1,434)
Income tax expense (benefit)	2,492	1,709	7,046	(1,960)
Net income	8,265	4,810	23,319	526
Preferred stock dividends		(2,422)		(7,142)
Net income (loss) available to common shareholders	$ 8,265	$ 2,388	$ 23,319	$ (6,616)
Earnings per share				
Basic	$ 0.42	$ 6.05	$ 1.17	$ (22.07)

Diluted	$ 0.42	$ 6.05	$ 1.17	$ (22.07)
Shares used in computing earnings per share				
Basic	17,424,054	299,774	17,422,413	299,774
Diluted	17,432,597	299,774	17,431,263	299,774

See accompanying notes.

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(unaudited)			
Operating Activities				
Net income	$ 8,265	$ 4,810	$ 23,319	$ 526
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	514	551	1,443	1,705
Net amortization of investments	600	542	1,910	1,541
Deferred income taxes	(1,547)	(43)	(4,463)	(7,470)
Net realized gains on investments	(346)	(563)	(2,581)	(1,337)
Gain on sale of asset	(39)		(82)	
Share-based compensation	193		651	
Changes in operating assets and liabilities:				
Premiums receivable	(1,782)	4,892	(21,687)	(25,920)
Accrued interest receivable	(768)	(1,264)	(1,603)	(1,568)
Deferred policy acquisition costs and deferred charges	(57)	600	(3,633)	(6,692)
Other assets	1,574	(42)	(4,935)	(1,398)
Reserves for loss and loss adjustment expenses	15,783	12,067	36,358	37,014
Unearned premiums	3,066	1,087	26,879	26,882
Reinsurance balances	(3,199)	52,643	(230)	76,203
Amounts held for others and policyholder deposits	(63)	(278)	378	2,333
Accounts payable and other liabilities	253	943	4,779	9,622
Net cash provided by operating activities	22,447	75,945	56,503	111,441
Investing Activities				
Purchases of investments held-to-maturity	(15,320)	(94,577)	(113,312)	(133,799)
Purchases of investments available-for-sale	(1,782)	(9,306)	(20,905)	(34,353)
Proceeds from maturities of investments held-to-maturity	6,008	24,275	51,717	43,477
Proceeds from sales and maturities of investments available-for-sale	19,706	7,288	39,547	19,624
Purchases of property and equipment	(509)	(250)	(1,147)	(977)
Proceeds from sales of property and equipment	41		86	3
Net cash provided by (used in) investing activities	8,144	(72,570)	(44,014)	(106,025)
Financing Activities				
Initial public offering costs incurred		(1,994)		(1,994)
Tax benefit from share-based payments			3	
Net cash provided by (used in) financing activities		(1,994)	3	(1,994)

Change in cash and cash equivalents	30,591	1,381	12,492	3,422
Cash and cash equivalents at beginning of period	31,187	27,462	49,286	25,421
Cash and cash equivalents at end of period	$ 61,778	$ 28,843	$ 61,778	$ 28,843

See accompanying notes.

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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 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 service company servicing only affiliate insurance companies. AGAI, a wholly owned subsidiary of the Company, is a general agent for the Company. AGAI sells insurance, which is underwritten by AIIC, SOCI and AIICTX, as well as by nonaffiliated insurance carriers. The assets and operations of AGAI are not significant to that of the Company and its consolidated subsidiaries. The terms AMERISAFE, the Company, we, us, or our refer to AMERISAFE, Inc. and its consolida 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 more than 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.

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

Note 2. Stock Options and Restricted Stock

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

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.

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In accordance with the terms of the Company s 2005 Restricted Stock Plan, the 3,332 shares of restricted common stock issued to non-employee directors on November 17, 2005 vested on May 15, 2006, the date of the first annual shareholders meeting after the issuance of the restricted common stock. On May 15, 2006, the Company issued an additional 6,110 shares of restricted common stock to non-employee directors pursuant to the 2005 Restricted Stock Plan. These shares will vest on the date of the annual shareholders meeting to be held in 2007. The fair value of the restricted stock issued on May 15, 2006 was $75,000.

In September 2006, the Company granted options to purchase an aggregate of 100,000 shares of the Company s common stock at a per-share exercise price equal to the fair market value of the Company s common stock on the date of grant in connection with the employment of two new executive officers.

For the three and nine months ended September 30, 2006, we recognized stock-based compensation expense of $193,000 and $651,000 related to options granted under the 2005 Incentive Plan and restricted stock issued under the 2005 Restricted Stock Plan. No stock-based compensation expense was recorded in the comparable prior year periods.

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.

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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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(in thousands, except share and per share data) (unaudited)			
Basic EPS:				
Net income (loss) available to common shareholders	$ 8,265	$ 2,388	$ 23,319	$ (6,616)
Portion allocable to common shareholders	87.8%	75.8%	87.8%	100.0%
Net income (loss) allocable to common shareholders	$ 7,257	$ 1,812	$ 20,474	$ (6,616)
Basic weighted average common shares	17,424,054	299,774	17,422,413	299,774
Basic earnings per common share	$ 0.42	$ 6.05	$ 1.17	$ (22.07)
Diluted EPS:				
Net income (loss) allocable to common shareholders	$ 7,257	$ 1,812	$ 20,474	$ (6,616)
Diluted weighted average common shares:				
Weighted average common shares	17,424,054	299,774	17,422,413	299,774
Stock options				
Restricted stock	8,543		8,850	
Diluted weighted average common shares	17,432,597	299,774	17,431,263	299,774
Diluted earnings per common share	$ 0.42	$ 6.05	$ 1.17	$ (22.07)

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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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(unaudited)			
Numerator:				
Basic weighted average common shares	17,424,054	299,774	17,422,413	299,774
Add: Other common shares eligible for common dividends:				
Weighted average restricted shares (including tax benefit component)	8,543		8,850	
Weighted average participating common shares	17,432,597	299,774	17,431,263	299,774
Denominator:				
Weighted average participating common shares	17,432,597	299,774	17,431,263	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	1,457,724	57,524	1,457,724	(1)
Weighted average common shares issuable upon conversion of Series D preferred shares	971,817	38,350	971,817	(1)
Weighted average participating shares	19,862,138	395,648	19,860,804	299,774

(1) Not applicable as impact is antidilutive.

Portion allocable to common shareholders for the third quarter of 2006 was 87.8%, or 17,432,597 divided by 19,862,138. Portion allocable to common shareholders for the third quarter of 2005 was 75.8%, or 299,774 divided by 395,648. Portion allocable to common shareholders for the nine months ended September 30, 2006 was 87.8%, or 17,431,263 divided by 19,860,804. Portion allocable to common shareholders for the nine months ended September 30, 2005 was 100.0%.

Note 4. Registered Public Offering

On September 26, 2006, we filed a registration statement with the Securities and Exchange Commission to permit certain shareholders to sell shares of common stock in an underwritten public offering. We will not sell any shares in, and will not receive any of the proceeds from, the proposed offering.

Note 5. Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued statement No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS No. 155). SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole, eliminating the need to separate the derivative from its host, if the holder elects to account for the whole instrument on a fair value basis. This new standard is effective for fiscal years beginning after September 15, 2006. The Company has not yet determined the impact this standard will have on its consolidated financial condition or results of operations.

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In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), which provides guidance to reduce the diversity in practice associated with recognition, measurement, presentation and disclosure of uncertain tax positions. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company expects that FIN 48 will not have a material effect on its consolidated financial condition or results of operations.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not yet determined the impact this standard will have on its consolidated financial condition or results of operations.

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

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of this Quarterly Report on Form 10-Q, together with Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 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 with a discussion of our results of operations for the three and nine months ended September 30, 2006 and 2005. 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 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 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 market our insurance in 26 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 19 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.

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Results of Operations

The following table summarizes our consolidated financial results for the three months and nine months ended September 30, 2006 and 2005.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	$82,951	$70,658	$255,920	$231,182
Net premiums earned	74,991	64,338	214,972	189,370
Net investment income	6,316	4,335	18,132	11,985
Total revenues	81,848	69,356	236,235	203,118
Total expenses	71,091	62,837	205,870	204,552
Net income	8,265	4,810	23,319	526
Diluted earnings per common share	0.42	6.05	1.17	(22.07)
Other Key Measures				
Net combined ratio (1)	93.6%	96.5%	94.6%	106.9%
Return on average equity (2)	19.8%	22.2%	19.5%	0.8%

(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,
for the
applicable
period.

Consolidated Results of Operations for Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

Gross Premiums Written. Gross premiums written for the three months ended September 30, 2006 were $83.0 million, compared to $70.7 million for the same period in 2005, an increase of 17.4%. The increase was attributable to a $6.5 million increase in annual premiums on voluntary policies written during the period and a $7.1 million increase in premiums resulting from payroll audits and related premium adjustments. These increases were offset by an $826,000 decrease in direct assigned risk premiums and a $535,000 decrease in assumed premiums from mandatory pooling arrangements.

Net Premiums Written. Net premiums written for the three months ended September 30, 2006 were $78.1 million, compared to $65.4 million for the same period in 2005, an increase of 19.3%. The increase was attributable to the growth in gross premiums written and a $339,000 decrease in premiums ceded to reinsurers for the third quarter of 2006, as compared to the prior-year period. As a percentage of gross premiums written, ceded premiums were 5.9% for the third quarter of 2006, compared to 7.4% for the third quarter of 2005.

Net Premiums Earned. Net premiums earned for the three months ended September 30, 2006 were $75.0 million, compared to $64.3 million for the same period in 2005, an increase of 16.6%. The increase was attributable primarily to growth in net premiums written in the previous four quarters.

Net Investment Income. Net investment income for the third quarter of 2006 was $6.3 million, compared to $4.3 million for the same period in 2005, an increase of 45.7%. The change was attributable to a 36.2% increase in our investment portfolio, including cash and cash equivalents, from an average of $461.2 million in the third quarter of 2005 to an average of $628.2 million for the same period of 2006. Also contributing to this growth was an increase in the pre-tax investment yield on our investment portfolio from 3.8% per annum for the three months ended September 30, 2005, to 4.0% per annum for the three months ended September 30, 2006.

Net Realized Gains on Investments. Net realized gains on investments for the three months ended September 30, 2006 totaled $346,000, compared to $563,000 for the same period in 2005. The decrease was attributable to the recognition of $1.3 million of unrealized losses on equity securities in our investment portfolio pursuant to a strategic assessment of our investment guidelines as discussed below under Investment Portfolio.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $51.7 million for the three months ended September 30, 2006, compared to $45.2 million for the same period in 2005, an increase of $6.6 million, or 14.5%. The increase resulted from increased net premiums earned in the third quarter of 2006 as compared to the same period in 2005. We experienced no adverse prior accident year development in either third quarter of 2006 or third quarter of 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 third quarter of 2006 were $18.2 million, compared to $16.8 million for the same period in 2005, an increase of 8.1%. This increase was partially due to an $883,000 increase in premium-based assessments; an $878,000 increase in commissions attributable to the increase in gross premiums written; and a $275,000 increase in salary and benefits resulting partially from a $193,000 increase in salary expense attributable to share-based compensation. Offsetting these increases was a decrease of $1.4 million in loss-based assessments. This decrease was related to assessments accrued in the third quarter of 2005 for the State of South Carolina.

Interest Expense. Interest expense for the third quarter of 2006 was $923,000, compared to $735,000 for the comparable period of 2005. Our weighted average borrowings for both periods were $36.1 million. The weighted average interest rate increased to 9.4% per annum for the third quarter of 2006 from 7.6% per annum for the third quarter of 2005.

Income Tax Expense. Income tax expense for the three months ended September 30, 2006 was $2.5 million, compared to $1.7 million for the same period in 2005. The increase in tax expense was attributable primarily to the increase in pre-tax income, from $6.5 million in the third quarter of 2005, to $10.8 million in the third quarter of 2006.

Consolidated Results of Operations for Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Gross Premiums Written. Gross premiums written for the nine months ended September 30, 2006 were $255.9 million, compared to $231.2 million for the same period in 2005, an increase of 10.7%. The increase was attributable primarily to a $20.2 million increase in annual premiums on voluntary policies written during the period and an $8.9 million increase in premiums resulting from payroll audits and related premium adjustments. These increases were offset by a $2.2 million decrease in assumed premiums from mandatory pooling arrangements and a $2.1 million decrease in direct assigned risk premiums.

Net Premiums Written. Net premiums written for the nine months ended September 30, 2006 were $241.9 million, compared to $216.3 million for the same period in 2005, an increase of 11.8%. The increase was attributable to the growth in gross premiums written and an $861,000 decrease in premiums ceded to reinsurers for the nine months ended September 30, 2006 compared to the same prior-year period. As a percentage of gross premiums written, ceded premiums were 5.5% for the nine months ended September 30, 2006 compared to 6.5% for same period in 2005.

Net Premiums Earned. Net premiums earned for the nine months ended September 30, 2006 were $215.0 million, compared to $189.4 million for the same period in 2005, an increase of 13.5%. The increase was attributable to growth in net premiums written over the previous four quarters.

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Net Investment Income. Net investment income for the nine months ended September 30, 2006 was $18.1million, compared to $12.0 million for the same period in 2005, an increase of 51.3%. The change was attributable to a 37.6% increase in our investment portfolio, including cash and cash equivalents, from an average of $444.2 million in the nine months ended September 30, 2005 to an average of $611.2 million for the same period of 2006. Also contributing to this growth was an increase in the pre-tax investment yield on our investment portfolio, from 3.6% per annum for the nine months ended September 30, 2005, to 4.0% per annum for the nine months ended September 30, 2006.

Net Realized Gains on Investments. Net realized gains on investments for the nine months ended September 30, 2006 totaled $2.6 million, compared to $1.3 million for the same period in 2005. The increase was attributable to the timing of the sale of equity securities offset by the recognition of $1.3 million of unrealized losses on equity securities in our investment portfolio pursuant to a strategic assessment of our investment guidelines as discussed below under Investment Portfolio.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $150.0 million for the nine months ended September 30, 2006, compared to $155.6 million for the same period in 2005, a decrease of $5.6 million, or 3.6%. The decrease was the result of $21.9 million in additional prior accident year reserves recorded in the second quarter of 2005, which amount included $13.2 million related to the commutation of certain reinsurance contracts. We experienced no adverse prior accident year development in the nine months ended September 30, 2006. The decrease in loss and LAE incurred resulting from additional prior accident year reserves recorded in 2005 was partially offset by an increase in loss and LAE incurred resulting from increased net premiums earned in the nine months ended September 30, 2006 as compared to 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 nine months ended September 30, 2006 were $52.7 million, compared to $46.4 million for the same period in 2005, an increase of 13.6%. This increase was partially due to a $1.9 million increase in commissions; a $1.4 million increase in salaries and benefits, which included a $651,000 increase in salary expense attributable to share-based compensation; a $1.4 million increase in premium-based assessments, which resulted from growth in our gross premiums earned in 2006; a $1.1 million increase in deferred policy acquisition costs; and a $969,000 increase in professional fees attributable to Sarbanes Oxley compliance and expenses associated with effecting a registered offering of our common stock on behalf of certain of our shareholders. Offsetting these increases was a $1.4 million increase in ceding commissions from reinsurers, which acts to reduce underwriting expenses.

Interest Expense. Interest expense for the nine months ended September 30, 2006 was $2.6 million, compared to $2.1 million for the comparable period of 2005. Our weighted average borrowings for both periods were $36.1 million. The weighted average interest rate increased to 8.7% per annum for the nine months ended September 30, 2006 from 7.0% per annum for the same period of 2005.

Income Tax Expense (Benefit). Income tax expense for the nine months ended September 30, 2006 was $7.0 million, compared to a tax benefit $2.0 million for the same period in 2005. The increase in tax expense was attributable to $30.4 million of pre-tax income for the nine months ended September 30, 2006, compared to a $1.4 million pre-tax loss for the same period in 2005. This increase was offset by a $571,000 decrease in a tax accrual related to the resolution of prior year taxes.

Liquidity and Capital Resources

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

Net cash provided by operating activities was $56.5 million for the nine months ended September 30, 2006, which represented a $54.9 million decrease in cash provided by operating activities from the $111.4 million in net cash provided by operating activities for the nine months ended September 30, 2005. Premiums collected for the

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nine months ended September 30, 2006 increased $31.1 million compared to the same period in 2005 and claim payments decreased by $1.8 million. This increase was offset by an $11.9 million reduction in recoveries from reinsurers, a $13.0 million increase in federal income taxes paid, and a $3.7 million increase in expense disbursements. In addition, we received $61.3 million for the commutation of certain reinsurance contracts in the third quarter of 2005.

As discussed in Note 4 to our unaudited condensed consolidated financial statements included in this report, on September 26, 2006, we filed a registration statement with the Securities and Exchange Commission to permit certain shareholders to sell shares of common stock in an underwritten public offering pursuant to a registration rights agreement with the selling shareholders. Under the terms of the registration rights agreement, we are obligated to pay the expenses associated with this offering, other than underwriting discounts and commissions. We presently expect to incur pre-tax expenses of approximately $1.1 million in connection with this offering, of which $303,000 was expensed in the third quarter of 2006.

Net cash used in investing activities was $44.0 million for the nine months ended September 30, 2006, compared to $106.0 million for the same period in 2005. The decrease was attributable to the $61.3 million received in the third quarter of 2005 related to the commutation of certain reinsurance contracts.

Net cash provided by financing activities was minimal for the nine months ended September 30, 2006, compared to $2.0 million used in financing activities for the same period in 2005. For the nine months ended September 30, 2005, the Company incurred $2.0 million of costs associated with its initial public offering.

Investment Portfolio

As of September 30, 2006, our investment portfolio, including cash and cash equivalents, totaled $639.6 million, an increase of 28.4% from September 30, 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, including cash and cash equivalents, as of September 30, 2006 is shown in the following table.

	Carrying Value	Percentage of Portfolio
	(in thousands)	
Fixed maturity securities:		
State and political subdivisions	$ 299,278	46.8%
Mortgage-backed securities	117,062	18.3%
U.S. Treasury securities and obligations of U.S. Government agencies	79,162	12.4%
Corporate bonds	22,700	3.5%
Asset-backed securities	5,884	0.9%
Redeemable preferred stocks	633	0.1%
Total fixed maturity securities	524,719	82.0%
Equity securities:		
Common stocks	49,377	7.7%
Nonredeemable preferred stocks	3,679	0.6%
Total equity securities	53,056	8.3%

Cash and cash equivalents	61,778	9.7%
Total investments, including cash and cash equivalents	$ 639,553	100.0%

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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 September 30, 2006, there were no other-than-temporary declines in the fair values of the securities held in our investment portfolio. The tax-equivalent investment yield on our investment portfolio was 5.4% per annum as of September 30, 2006.

In 2006, we began a strategic review of our investment management and related policies. As a result of this review, we have revised our investment guidelines. Under our revised guidelines, the market value of the equity securities in our investment portfolio will range from 20% and 30% of shareholders equity, plus redeemable preferred stock, at the end of the most recently completed fiscal year. Under our prior investment guidelines, the portion of our investment portfolio invested in equity securities was limited to 12% of the carrying value and 15% of the market value of the total portfolio. As a result of the changes in our investment guidelines, we expect to hold a smaller percentage of our investment portfolio in equity securities. In anticipation of the change in our investment guidelines, we sold all equity securities in our investment portfolio. These sales began in the third quarter and were completed in the fourth quarter of 2006. As a result of our intention to sell all of our equity securities, we recognized $1.3 million of unrealized losses on equity securities held as of September 30, 2006. We will record a net realized gain in the fourth quarter of 2006 resulting from this sale of the remaining equity securities.

In connection with the review of our investment guidelines, we have retained Prudential Investment Management, Inc., a registered investment advisory firm and a wholly owned subsidiary of Prudential Financial Inc. to manage our portfolio of fixed maturity securities effective November 1, 2006.

As described above, we presently intend to reposition the equity portion of our investment portfolio to consist of a combination of exchange-traded index funds and an externally managed portfolio of individual equity securities. To achieve this repositioning, we have purchased approximately $21.0 million of value-oriented, equity index funds. Until such time as a new equity portfolio manager is appointed, we may purchase additional equity index funds to bring the percentage of our total portfolio invested in equity securities within our current investment guidelines.

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.

As described above in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Investment Portfolio, in the third quarter of 2006, we revised our investment guidelines related to equity securities. Under our revised guidelines, the market value of the equity securities in our investment portfolio will range from 20% and 30% of shareholders equity, plus redeemable preferred stock, at the end of the most recently completed fiscal year. As a result of the changes in our investment guidelines, we expect to hold a smaller percentage of our investment portfolio in equity securities. In anticipation of the change in our investment guidelines, we sold all equity securities in our investment portfolio. These sales began in the third quarter and were completed in the fourth quarter of 2006. We will appoint a new equity portfolio manager in the fourth quarter of 2006.

As described above, we have invested approximately $21.0 million in value-oriented, exchange-traded index funds. Until a new equity portfolio manager is appointed, we may invest additional funds in value-oriented, equity index funds to bring the portion of our total investment portfolio invested in equity securities within our current investment guidelines.

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, 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.

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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.

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
10.1	Employment Agreement, dated September 1, 2006, by and between the Registrant and David O. Narigon (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, filed September 6, 2006)
10.2	Employment Agreement, effective September 25, 2006, by and between the Registrant and Todd Walker (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K, filed September 6, 2006)
31.1	Certification of C. Allen Bradley, Jr. 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, Jr. 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.
October 31, 2006	/s/ C. Allen Bradley, Jr.
	C. Allen Bradley, Jr. Chairman, President and Chief Executive Officer (Principal Executive Officer)
October 31, 2006	/s/ Geoffrey R. Banta
	Geoffrey R. Banta Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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