

AMERISAFE INC  
Form 10-Q  
May 02, 2014  
Table of Contents

**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, 2014**

**Commission file number: 001-12251**

**AMERISAFE, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

**Texas**  
**(State of Incorporation)**

**75-2069407**  
**(I.R.S. Employer**

**Identification Number)**

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

**70634**  
**(Zip Code)**

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

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

Indicate by check mark whether the registrant 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, 2014, there were 18,674,459 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<b>PART I FINANCIAL INFORMATION</b>	
<u>Forward-Looking Statements</u>	3
Item 1 <u>Financial Statements</u>	4
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4 <u>Controls and Procedures</u>	23
<b>PART II OTHER INFORMATION</b>	
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
Item 6 <u>Exhibits</u>	24

Table of Contents

**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the insurance industry in general. Statements that include the words expect, intend, plan, believe, project, forecast, estimate, may, should, similar statements of a future or forward-looking nature identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

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

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 business activity generally, and in particular in the industries we target;

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

the cyclical nature of the workers' compensation insurance industry;

general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;

decreased demand for our insurance;

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;

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

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

changes in the availability, cost or quality of reinsurance and the failure of our reinsurers to pay claims in a timely manner or at all;

changes in rating agency policies or practices;

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 the Company's 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, and under the caption "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. 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, 2014 (unaudited)</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value \$575,175 and \$561,179 in 2014 and 2013, respectively)	\$ 548,612	\$ 536,583
Fixed maturity securities available-for-sale, at fair value (cost \$270,135 and \$244,409 in 2014 and 2013, respectively)	268,189	237,877
Equity securities available-for-sale, at fair value (cost \$3,447 and \$9,482 in 2014 and 2013, respectively)	3,682	9,302
Short-term investments	85,031	84,422
Other investments	10,820	10,591
Total investments	916,334	878,775
Cash and cash equivalents	106,860	123,077
Amounts recoverable from reinsurers	78,275	75,326
Premiums receivable, net of allowance	192,964	171,579
Deferred income taxes	32,806	33,645
Accrued interest receivable	11,345	11,242
Property and equipment, net	7,425	7,549
Deferred policy acquisition costs	21,091	19,171
Other assets	9,650	8,637
	\$ 1,376,750	\$ 1,329,001
<b>Liabilities and shareholders equity</b>		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 636,191	\$ 614,557
Unearned premiums	177,428	164,296
Reinsurance premiums payable	1,727	607
Amounts held for others	36,617	35,739
Policyholder deposits	45,811	44,620
Insurance-related assessments	28,113	25,428
Accounts payable and other liabilities	29,650	26,940

Edgar Filing: AMERISAFE INC - Form 10-Q

Payable for investments purchased	635	
	956,172	912,187
Shareholders' equity:		
Common stock:		
Voting \$0.01 par value authorized shares 50,000,000 in 2014 and 2013; 19,917,709 and 19,855,430 shares issued and 18,659,459 and 18,597,180 shares outstanding in 2014 and 2013, respectively	198	198
Additional paid-in capital	194,076	192,537
Treasury stock at cost (1,258,250 shares in 2014 and 2013)	(22,370)	(22,370)
Accumulated earnings	249,729	250,744
Accumulated other comprehensive loss, net	(1,055)	(4,295)
	420,578	416,814
	\$ 1,376,750	\$ 1,329,001

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 March 31,	
	2014	2013
<b>Revenues</b>		
Gross premiums written	\$ 105,703	\$ 99,123
Ceded premiums written	(3,339)	(4,481)
Net premiums written	\$ 102,364	\$ 94,642
Net premiums earned	\$ 89,233	\$ 79,709
Net investment income	6,708	6,670
Net realized gains on investments	101	24
Fee and other income	131	109
Total revenues	96,173	86,512
<b>Expenses</b>		
Loss and loss adjustment expenses incurred	61,285	56,001
Underwriting and certain other operating costs	7,963	7,068
Commissions	6,687	6,164
Salaries and benefits	6,721	5,645
Policyholder dividends	113	554
Total expenses	82,769	75,432
Income before income taxes	13,404	11,080
Income tax expense	2,855	2,229
Net income	10,549	8,851
Net income available to common shareholders	\$ 10,549	\$ 8,836
<b>Earnings per share</b>		
Basic	\$ 0.57	\$ 0.48
Diluted	\$ 0.56	\$ 0.47
<b>Shares used in computing earnings per share</b>		
Basic	18,531,926	18,281,353



Diluted	18,859,682	18,689,842
Extraordinary cash dividends declared per common share	\$ 0.50	\$
Cash dividends declared per common share	\$ 0.12	\$ 0.08

See accompanying notes.

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

(in thousands)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Net income	\$ 10,549	\$ 8,851
Other comprehensive income:		
Unrealized gain/(loss) on securities, net of tax	3,240	(545)
Comprehensive income	\$ 13,789	\$ 8,306

**AMERISAFE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

(in thousands, except share data)

(unaudited)

	<b>Common Stock</b>		<b>Treasury Stock</b>		<b>Additional Paid-In Capital</b>	<b>Accumulated Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amounts</b>				
Balance at December 31, 2013	19,855,430	\$ 198	(1,258,250)	\$ (22,370)	\$ 192,537	\$ 250,744	\$ (4,295)	\$ 416,814
Comprehensive income						10,549	3,240	13,789
Options exercised	61,167				600			600
Tax benefit from share-based payments					625			625
Restricted common stock issued	1,112							
Share-based compensation					314			314
Dividends to stockholders						(11,564)		(11,564)

Edgar Filing: AMERISAFE INC - Form 10-Q

Balance at									
March 31, 2014	19,917,709	\$ 198	(1,258,250)	\$ (22,370)	\$ 194,076	\$ 249,729	\$ (1,055)	\$ 420,578	

See accompanying notes.

Table of Contents

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

(in thousands)

(unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Net income	\$ 10,549	\$ 8,851
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	332	322
Net amortization of investments	3,765	2,928
Deferred income taxes	(906)	(885)
Net realized (gains) on investments	(101)	(24)
Share-based compensation	558	290
Changes in operating assets and liabilities:		
Premiums receivable, net	(21,385)	(25,197)
Accrued interest receivable	(103)	87
Deferred policy acquisition costs	(1,920)	(1,619)
Other assets	(1,241)	(860)
Reserves for loss and loss adjustment expenses	21,634	7,538
Unearned premiums	13,132	14,932
Reinsurance balances	(1,829)	2,675
Amounts held for others and policyholder deposits	2,069	3,124
Accounts payable and other liabilities	5,732	9,615
Net cash provided by operating activities	30,286	21,777
<b>Investing Activities</b>		
Purchases of investments held-to-maturity	(38,698)	(26,454)
Purchases of investments available-for-sale	(35,248)	(43,263)
Purchases of short-term investments	(44,920)	(47,603)
Proceeds from maturities of investments held-to-maturity	24,930	34,411
Proceeds from sales and maturities of investments available-for-sale	14,557	2,528
Proceeds from sales and maturities of short-term investments	43,369	41,338
Purchases of property and equipment	(208)	(144)
Net cash used in investing activities	(36,218)	(39,187)
<b>Financing Activities</b>		
Proceeds from stock option exercises	600	855
Tax benefit from share-based payments	625	642
Dividends to stockholders	(11,510)	(1,469)

Edgar Filing: AMERISAFE INC - Form 10-Q

Net cash (used in)/provided by financing activities	(10,285)	28
Change in cash and cash equivalents	(16,217)	(17,382)
Cash and cash equivalents at beginning of period	123,077	92,676
Cash and cash equivalents at end of period	\$ 106,860	\$ 75,294

See accompanying notes.

---

**Table of Contents**

**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 Nebraska. AIICTX is a property and casualty insurance company organized under the laws of the state of Texas. In 2013, AIIC and SOCI were re-domesticated to Nebraska from Louisiana. 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, as the context requires.

The Company provides workers' compensation insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking, manufacturing, oil and gas, and agriculture. Assets and revenues of AIIC represent at least 95% of comparable consolidated amounts of the Company for each of 2014 and 2013.

In the opinion of management of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, the results of operations and cash flows for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934 and therefore do not include all information and footnotes to be in conformity with accounting principles generally accepted in the United States (GAAP). The results for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited condensed consolidated financial statements contained herein should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013.

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**

The Company has three equity incentive plans: the AMERISAFE 2005 Equity Incentive Plan (the 2005 Incentive Plan), the AMERISAFE 2010 Non-Employee Director Restricted Stock Plan (the 2010 Restricted Stock Plan) and the AMERISAFE 2012 Equity and Incentive Compensation Plan (the 2012 Incentive Plan). See Note 13 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013.

for additional information regarding the Company's incentive plans.

In March 2013, the Company granted 4,312 shares of restricted common stock to four executive officers. The awards were made pursuant to the Company's 2012 Incentive Plan.

During the three months ended March 31, 2014, options to purchase 61,167 shares of common stock were exercised. During the three months ended March 31, 2013, options to purchase 95,000 shares of common stock were exercised. In connection with these exercises, the Company received \$0.6 million of stock option proceeds in the first three months of 2014 and \$0.9 million of stock option proceeds in the same period in 2013.

The Company recognized share-based compensation expense of \$0.6 million and \$0.3 million in the three months ended March 31, 2014 and 2013, respectively.

**Table of Contents****Note 3. Earnings Per Share**

The Company computes earnings per share (EPS) in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 260, *Earnings Per Share*. Additionally, during 2013, the Company applied the two-class method in computing basic and diluted earnings per share as a result of the participating unvested common shares which contained nonforfeitable rights to dividends during this period. As of January 1, 2014, the Company no longer has participating unvested common shares which contain nonforfeitable rights to dividends and now applies the treasury stock method in computing basic and diluted earnings per share.

Under the two-class method, net income available to common and participating common shareholders is reduced by the amount of dividends declared in the current period and by the contractual amount of dividends that must be paid for the current period related to the Company's common and participating common shares. Participating common shares include unvested share-based payment awards that contain nonforfeitable rights to dividends, whether paid or unpaid. Any remaining undistributed earnings are allocated to the common and participating common shareholders to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. The amount of earnings allocable to each security is divided by the number of outstanding shares of the security to which the earnings are allocated to determine the EPS for the security. In a period of loss, no losses are allocated to the participating common shareholders. Instead, all such losses are allocated to the common shareholders.

Basic EPS is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. The diluted EPS calculation includes potential common shares assumed issued under the treasury stock method, which reflects the potential dilution that would occur if any outstanding options or warrants were exercised or restricted stock becomes vested, and includes the if converted method for participating securities if the effect is dilutive. We determine diluted EPS as the more dilutive result of either the treasury method or the two-class method.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(in thousands, except share</b>	
	<b>and</b>	
	<b>per share amounts)</b>	
<b><u>Basic EPS:</u></b>		
Net income, as reported	\$ 10,549	\$ 8,851
Less allocated income to unvested shares		15
Net income available to common shareholders basic	\$ 10,549	\$ 8,836
Basic weighted average common shares	18,531,926	18,281,353
Basic earnings per common share	\$ 0.57	\$ 0.48
<b><u>Diluted EPS:</u></b>		
Net income available to common shareholders diluted	\$ 10,549	\$ 8,836
<b>Diluted weighted average common shares:</b>		



Edgar Filing: AMERISAFE INC - Form 10-Q

Weighted average common shares	18,531,926	18,281,353
Stock options and performance shares	327,756	408,489
Diluted weighted average common shares	18,859,682	18,689,842
Diluted earnings per common share	\$ 0.56	\$ 0.47

**Note 4. Investments**

The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as held-to-maturity at March 31, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
States and political subdivisions	\$ 368,697	\$ 19,970	\$ (303)	\$ 388,364
Corporate bonds	94,099	945	(74)	94,970
Commercial mortgage-backed securities	49,884	3,079		52,963
U.S. agency-based mortgage-backed securities	20,418	1,794		22,212
U.S. Treasury securities and obligations of U.S. government agencies	12,265	1,077	(6)	13,336
Asset-backed securities	3,249	214	(133)	3,330
Totals	\$ 548,612	\$ 27,079	\$ (516)	\$ 575,175

**Table of Contents**

The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, those investments classified as available-for-sale at March 31, 2014 are summarized as follows:

	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
<b>Fixed maturity:</b>				
States and political subdivisions	\$ 153,335	\$ 3,530	\$ (2,790)	\$ 154,075
Corporate bonds	106,789	503	(198)	107,094
U.S. agency-based mortgage-backed securities	10,011		(2,991)	7,020
<b>Total fixed maturity</b>	<b>270,135</b>	<b>4,033</b>	<b>(5,979)</b>	<b>268,189</b>
Other investments	10,000	820		10,820
Equity securities	3,447	261	(26)	3,682
<b>Totals</b>	<b>\$ 283,582</b>	<b>\$ 5,114</b>	<b>\$ (6,005)</b>	<b>\$ 282,691</b>

The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as held-to-maturity at December 31, 2013 are summarized as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
States and political subdivisions	\$ 381,674	\$ 18,634	\$ (1,153)	\$ 399,155
Corporate bonds	67,423	861	(41)	68,243
Commercial mortgage-backed securities	50,813	3,431		54,244
U.S. agency-based mortgage-backed securities	21,775	1,790		23,565
U.S. Treasury securities and obligations of U.S. Government agencies	11,514	1,002		12,516
Asset-backed securities	3,384	216	(144)	3,456
<b>Totals</b>	<b>\$ 536,583</b>	<b>\$ 25,934</b>	<b>\$ (1,338)</b>	<b>\$ 561,179</b>

The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, those investments classified as available-for-sale at December 31, 2013 are summarized as follows:

<b>Cost or Amortized Cost</b>	<b>Gross Unrealized</b>	<b>Gross Unrealized</b>	<b>Fair Value</b>
-----------------------------------	-----------------------------	-----------------------------	-------------------

		<b>Gains</b>	<b>Losses</b>	
		<b>(in thousands)</b>		
<b>Fixed maturity:</b>				
States and political subdivisions	\$ 154,024	\$ 1,491	\$ (5,140)	\$ 150,375
Corporate bonds	80,344	445	(361)	80,428
U.S. agency-based mortgage-backed securities	10,041		(2,967)	7,074
<b>Total fixed maturity</b>	<b>244,409</b>	<b>1,936</b>	<b>(8,468)</b>	<b>237,877</b>
Other investments	10,000	591		10,591
Equity securities	9,482	387	(567)	9,302
<b>Totals</b>	<b>\$ 263,891</b>	<b>\$ 2,914</b>	<b>\$ (9,035)</b>	<b>\$ 257,770</b>

**Table of Contents**

A summary of the cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at March 31, 2014, by contractual maturity, is as follows:

<b>Remaining Time to Maturity</b>	<b>Amortized</b>	
	<b>Cost Basis</b>	<b>Fair Value</b>
	<b>(in thousands)</b>	
Less than one year	\$ 55,114	\$ 55,575
One to five years	171,828	179,609
Five to ten years	127,493	136,840
More than ten years	120,626	124,646
U.S. agency-based mortgage-backed securities	20,418	22,212
Commercial mortgage-backed securities	49,884	52,963
Asset-backed securities	3,249	3,330
Total	\$ 548,612	\$ 575,175

A summary of cost and fair value of investments in fixed maturity securities, classified as available-for-sale at March 31, 2014, by contractual maturity, is as follows:

<b>Remaining Time to Maturity</b>	<b>Amortized</b>	
	<b>Cost Basis</b>	<b>Fair Value</b>
	<b>(in thousands)</b>	
Less than one year	\$ 41,459	\$ 41,542
One to five years	60,956	61,229
Five to ten years	15,939	16,289
More than ten years	141,770	142,109
U.S. agency-based mortgage-backed securities	10,011	7,020
Total	\$ 270,135	\$ 268,189

The following table summarizes the fair value and gross unrealized losses on securities, aggregated by major investment category and length of time that the individual securities have been in a continuous unrealized loss position:

<b>Less Than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
<b>Fair Value of Investments with Unrealized</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value of Investments with Unrealized</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value of Investments with Unrealized</b>	<b>Gross Unrealized Losses</b>

Edgar Filing: AMERISAFE INC - Form 10-Q

	Losses		Losses (In thousands)		Losses	
<b>March 31, 2014</b>						
<b>Held-to-Maturity</b>						
Fixed maturity securities:						
Corporate bonds	\$ 24,290	\$ 74	\$	\$	\$ 24,290	\$ 74
States and political subdivisions	27,027	262	2,012	41	29,039	303
Asset-backed securities			1,866	133	1,866	133
U.S. Treasury securities and obligations of U.S. government agencies	3,387	6			3,387	6
<b>Total held-to-maturity securities</b>	<b>54,704</b>	<b>342</b>	<b>3,878</b>	<b>174</b>	<b>58,582</b>	<b>516</b>
<b>Available-for Sale</b>						
Fixed maturity securities:						
Corporate bonds	\$ 45,493	\$ 198	\$	\$	\$ 45,493	\$ 198
States and political subdivisions	43,605	1,371	12,247	1,419	55,852	2,790
U.S. agency-based mortgage-backed securities	1,324	423	5,695	2,568	7,019	2,991
Equity securities	461	26			461	26
<b>Total available-for-sale securities</b>	<b>90,883</b>	<b>2,018</b>	<b>17,942</b>	<b>3,987</b>	<b>108,825</b>	<b>6,005</b>
<b>Total</b>	<b>\$ 145,587</b>	<b>\$ 2,360</b>	<b>\$ 21,820</b>	<b>\$ 4,161</b>	<b>\$ 167,407</b>	<b>\$ 6,521</b>

**Table of Contents**

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
<b>December 31, 2013</b>						
<b>Held-to-Maturity</b>						
Fixed maturity securities:						
Corporate bonds	\$ 14,090	\$ 41	\$	\$	\$ 14,090	\$ 41
States and political subdivisions	54,895	1,147	311	6	55,206	1,153
Asset-backed securities			1,916	144	1,916	144
<b>Total held-to-maturity securities</b>	<b>68,985</b>	<b>1,188</b>	<b>2,227</b>	<b>150</b>	<b>71,212</b>	<b>1,338</b>
<b>Available-for Sale</b>						
Fixed maturity securities:						
Corporate bonds	\$ 29,691	\$ 361	\$	\$	\$ 29,691	\$ 361
States and political subdivisions	101,908	4,798	1,753	342	103,661	5,140
U.S. agency-based mortgage-backed securities	1,303	465	5,772	2,502	7,075	2,967
Equity securities	5,205	567			5,205	567
<b>Total available-for-sale securities</b>	<b>138,107</b>	<b>6,191</b>	<b>7,525</b>	<b>2,844</b>	<b>145,632</b>	<b>9,035</b>
<b>Total</b>	<b>\$ 207,092</b>	<b>\$ 7,379</b>	<b>\$ 9,752</b>	<b>\$ 2,994</b>	<b>\$ 216,844</b>	<b>\$ 10,373</b>

At March 31, 2014, the Company held 144 individual fixed maturity securities and one equity security that were in an unrealized loss position, of which 27 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months.

Amerisafe holds investments in a long/short equity fund, accounted for under the equity method. The carrying value of this investment is \$10.8 million at March 31, 2014.

Investment income is recognized as it is earned. The discount or premium on fixed maturity securities is amortized using the constant yield method. Anticipated prepayments, where applicable, are considered when determining the amortization of premiums or discounts. Realized investment gains and losses are determined using the specific identification method.

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 not to sell the security for a sufficient time period for it to recover its value;

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. The Company expects to hold investments in equity securities for a reasonable period of time sufficient for a recovery of fair value. We determined that the unrealized losses in the fixed maturity securities portfolio 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, and the transfer of the investments from the available-for-sale classification to the held-to-maturity classification in January 2004. We expect to recover the carrying value of these securities as 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.

**Table of Contents**

Net realized gains on investments in the three months ended March 31, 2014 totaled \$0.1 million resulting from gains on called fixed maturity securities and the sale of equity securities. Net realized gains in the three months ended March 31, 2013 were immaterial.

As a result of the review of our investment portfolio, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments in the three months ended March 31, 2014 and 2013.

**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, 2014, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no uncertain tax positions recognized for the periods ended March 31, 2014 and 2013.

Tax years 2009 through 2013 are subject to examination by the federal and state taxing authorities. In April 2012, the Company was notified by the Internal Revenue Service that the examination for tax year 2009 had been completed, but remains subject to state taxing authorities.

**Note 6. Comprehensive Income and Accumulated Other Comprehensive Income**

Comprehensive income was \$13.8 million for the three months ended March 31, 2014, compared to \$8.3 million for the three months ended March 31, 2013. The difference between net income as reported and comprehensive income was due to changes in unrealized gains and losses, net of tax on available-for-sale securities.

Comprehensive income includes net income plus unrealized gains/losses on our available-for-sale investment securities, net of tax. In reporting comprehensive income on a net basis in the statement of income, we used a 35 percent tax rate. The following table illustrates the changes in the balance of each component of accumulated other comprehensive income for each period presented in the interim financial statements.

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	(in thousands)	
Beginning balance	\$ (4,295)	\$ 2,979
Other comprehensive income/(loss) before reclassification	3,134	(556)
Amounts reclassified from accumulated other comprehensive income	106	11
Net current period other comprehensive income/(loss)	3,240	(545)
Ending Balance	\$ (1,055)	\$ 2,434



The sale or other-than-temporary impairment of an available-for-sale security results in amounts being reclassified from accumulated other comprehensive income to current period net income. The effects of reclassifications out of accumulated other comprehensive income by the respective line items of net income are presented in the following table.

Component of Accumulated Other Comprehensive Income	Three Months Ended		Affected line item in the statement of income
	March 31, 2014	2013	
	(in thousands)		
Unrealized losses on available-for-sale securities	\$ (163)	\$ (17)	Net realized gains on investments
	(163)	(17)	Income before income taxes
	57	6	Income tax expense
	\$ (106)	\$ (11)	Net income

#### 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.

## **Table of Contents**

The Company determines the fair values of its financial instruments based on the fair value hierarchy established in ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard defines fair value, describes three levels of inputs that may be used to measure fair value, and expands disclosures about fair value measurements.

Fair value is defined in ASC Topic 820 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is the price to sell an asset or transfer a liability and, therefore, represents an exit price, not an entry price. Fair value is the exit price in the principal market (or, if lacking a principal market, the most advantageous market) in which the reporting entity would transact. Fair value is a market-based measurement, not an entity-specific measurement, and, as such, is determined based on the assumptions that market participants would use in pricing the asset or liability. The exit price objective of a fair value measurement applies regardless of the reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

ASC Topic 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present value amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset, also known as current replacement cost. Valuation techniques used to measure fair value are to be consistently applied.

In ASC Topic 820, inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable:

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

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

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in

active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

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

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

The fair values of the Company's investments are based upon prices provided by an independent pricing service. The Company has reviewed these prices for reasonableness and has not adjusted any prices received from the independent provider. Securities reported at fair value utilizing Level 1 inputs represent assets whose fair value is determined based upon observable unadjusted quoted market prices for identical assets in active markets. Level 2 securities represent assets whose fair value is determined using observable market information such as previous day trade prices, quotes from less active markets or quoted prices of securities with similar characteristics. There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2014.

**Table of Contents**

At March 31, 2014, assets and liabilities measured at fair value on a recurring basis are summarized below:

	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total Fair Value</b>
(in thousands)				
Financial instruments carried at fair value, classified as a part of:				
Other investments	\$	\$	\$ 10,820	\$ 10,820
Securities available for sale equity:				
Domestic common stock	3,682			3,682
Securities available for sale fixed maturity:				
States and political subdivisions		154,075		154,075
Corporate bonds		107,094		107,094
U.S. agency-based mortgage-backed securities		7,020		7,020
<b>Total securities available for sale fixed maturity</b>		<b>268,189</b>		<b>268,189</b>
<b>Total available for sale</b>	<b>\$ 3,682</b>	<b>\$ 268,189</b>	<b>\$ 10,820</b>	<b>\$ 282,691</b>

At March 31, 2014, assets and liabilities measured at amortized cost are summarized below:

	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total Fair Value</b>
(in thousands)				
Securities held-to-maturity fixed maturity				
States and political subdivisions	\$	\$ 388,364	\$	\$ 388,364
Corporate bonds		94,970		94,970
Commercial mortgage-backed securities		52,963		52,963
U.S. agency-based mortgage-backed securities		22,212		22,212
U.S. Treasury securities and obligations of U.S. government agencies	7,343			7,343
Obligations of U.S. government agencies		5,993		5,993
Asset-backed securities		3,330		3,330
<b>Total held-to-maturity</b>	<b>\$ 7,343</b>	<b>\$ 567,832</b>	<b>\$</b>	<b>\$ 575,175</b>

At December 31, 2013, assets and liabilities measured at fair value on a recurring basis are summarized below:

	<b>Level 1</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total Fair Value</b>
--	--------------------	---------------------------	---------------------------	-----------------------------

	<b>Inputs</b>			
	<b>(in thousands)</b>			
Financial instruments carried at fair value, classified as part of:				
Other investments	\$	\$	\$ 10,591	\$ 10,591
Securities available for sale equity				
Domestic common stock		9,302		9,302
Securities available for sale fixed maturity				
States and political subdivisions		150,375		150,375
Corporate bonds		80,428		80,428
U.S. agency-based mortgage-backed securities		7,074		7,074
Total available for sale fixed maturity		\$ 237,877	\$	\$ 237,877
Total available for sale	\$ 9,302	\$ 237,877	\$ 10,591	\$ 257,770

**Table of Contents**

At December 31, 2013, assets and liabilities measured at amortized cost are summarized below:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(in thousands)			
Securities held-to-maturity fixed maturity				
States and political subdivisions	\$	\$ 399,155	\$	\$ 399,155
Corporate bonds		68,243		68,243
Commercial mortgage-backed securities		54,244		54,244
U.S. agency-based mortgage-backed securities		23,565		23,565
U.S. Treasury securities	6,602			6,602
Obligations of U.S. government agencies		5,914		5,914
Asset-backed securities		3,456		3,456
<b>Total held-to-maturity</b>	<b>\$ 6,602</b>	<b>\$ 554,577</b>	<b>\$</b>	<b>\$ 561,179</b>

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.

*Cash and Cash Equivalents* The carrying amounts reported in the accompanying consolidated balance sheets for these financial instruments approximate their fair values, which are characterized as Level 1 assets.

*Investments* The fair values for fixed maturity and equity securities are based on prices obtained from an independent pricing service. Equity and treasury securities are characterized as Level 1 assets, as their fair values are based on quoted prices in active markets. Fixed maturity securities, other than treasury securities, are characterized as Level 2 assets, as their fair values are determined using observable market inputs.

*Short Term Investments* The carrying amounts reported in the accompanying consolidated balance sheets for these financial instruments approximate their fair values. These securities are characterized as Level 2 assets in the fair value hierarchy.

*Other Investments* Other investments consist of limited partnership (LP) interests valued using the net asset value provided by the general partner of the LP, which approximates the fair value of the interest. The LP's objective is to generate absolute returns by investing long and short in publicly-traded global securities. Redemptions are allowed monthly following a sixty day notice with no lock up periods. The Company has no unfunded commitments related to the LP. This investment is characterized as a Level 3 asset in the fair value hierarchy.

**Table of Contents**

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

	As of March 31, 2014		As of December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
<b>Assets:</b>				
Fixed maturity securities held-to-maturity	\$ 548,612	\$ 575,175	\$ 536,583	\$ 561,179
Fixed maturity securities available-for-sale	268,189	268,189	237,877	237,877
Equity securities	3,682	3,682	9,302	9,302
Cash and cash equivalents	106,860	106,860	123,077	123,077
Short-term investments	85,031	85,031	84,422	84,422
Other investments	10,820	10,820	10,591	10,591

The following table presents summary information regarding changes in the fair value of assets measured at fair value using Level 3 input.

	March 31, 2014	December 31, 2013
(in thousands)		
Beginning balance	\$ 10,591	\$
Purchases		10,000
Total gains unrealized (Included in earnings as part of net investment income)	229	591
Ending Balance	\$ 10,820	\$ 10,591

The purchase reported on the Level 3 table above is related to an interest in a limited partnership.

**Note 8. Treasury Stock**

The Company's Board of Directors initiated a share repurchase program in February 2010. In October 2011, October 2012 and October 2013, the Board reauthorized this program with a new limit of \$25.0 million. Unless reauthorized, the program will expire on December 31, 2014. Since the beginning of this plan, the Company has repurchased a total of 1,258,250 shares for \$22.4 million, or an average price of \$17.78, including commissions.

**Note 9. Subsequent Events**

On April 29, 2014, the Company's Board of Directors declared a quarterly cash dividend of \$0.12 per share, payable on June 26, 2014 to shareholders of record as of June 12, 2014. The Board intends to consider the payment of a regular cash dividend each calendar quarter.

**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 Part I 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, 2013.

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, 2014 and 2013. 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



## **Table of Contents**

to small to mid-sized employers engaged in hazardous industries, principally construction, trucking, manufacturing, oil and gas 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 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 30 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 17 states and the U.S. Virgin Islands.

## **Critical Accounting Policies**

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

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, premiums receivable, assessments, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities and share-based compensation. These critical accounting policies are more fully described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2013.

**Table of Contents****Results of Operations**

The following table summarizes our consolidated financial results for the three months ended March 31, 2014 and 2013.

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
	(dollars in thousands,	
	except per share data)	
	(unaudited)	
Gross premiums written	\$ 105,703	\$ 99,123
Net premiums earned	89,233	79,709
Net investment income	6,708	6,670
Total revenues	96,173	86,512
Total expenses	82,769	75,432
Net income	10,549	8,851
Diluted earnings per common share	\$ 0.56	\$ 0.47
<b>Other Key Measures</b>		
Net combined ratio (1)	92.7%	94.7%
Return on average equity (2)	10.1%	9.2%
Book value per share (3)	\$ 22.54	\$ 21.20

- (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 net premiums earned in the current period.
- (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, as of the end of the period.

**Consolidated Results of Operations for Three Months Ended March 31, 2014 Compared to March 31, 2013**

**Gross Premiums Written.** Gross premiums written for the quarter ended March 31, 2014 were \$105.7 million, compared to \$99.1 million for the same period in 2013, an increase of 6.6%. The increase was attributable to a \$8.5 million increase in annual premiums on voluntary policies written during the period and a \$0.7 million increase in assumed premiums from mandatory pooling arrangements. These increases were partially offset by a \$2.7 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters. The effective loss cost multiplier for our voluntary business was 1.86 for the first quarter ended March 31, 2014 compared to 1.72 for the same period in 2013.

**Net Premiums Written.** Net premiums written for the quarter ended March 31, 2014 were \$102.4 million, compared to \$94.6 million for the same period in 2013, an increase of 8.2%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 3.6% for the first quarter of 2014 compared to 5.3% for the first quarter of 2013. The decrease in ceded premiums as a percentage of gross

premiums earned is a result of a change in our 2014 reinsurance treaties. For additional information, see Item 1, *Business Reinsurance* in our Annual Report on Form 10-K for the year ended December 31, 2013. Subsequent to the filing of the Annual Report on Form 10-K for the year ended December 31, 2013, AMSF placed the remaining 25% of its \$3 million excess of \$2 million working layer with a third party reinsurer. As a result, the working layer is 100% placed with reinsurers and Amerisafe is no longer a co-participant.

*Net Premiums Earned.* Net premiums earned for the first quarter of 2014 were \$89.2 million, compared to \$79.7 million for the same period in 2013, an increase of 11.9%. The increase was attributable to the increase in net premiums written in the quarter.

*Net Investment Income.* Net investment income for the quarter ended March 31, 2014 and 2013 was \$6.7 million. Average invested assets, including cash and cash equivalents, were \$1.0 billion in the quarter ended March 31, 2014, compared to an average of \$0.9 billion for the same period in 2013, an increase of 11.9%. The pre-tax investment yield on our investment portfolio was 2.7% and 2.9% per annum during the quarters ended March 31, 2014 and 2013, respectively. The tax-equivalent yield on our investment portfolio was 3.8% per annum for the quarter ended March 31, 2014, compared to 4.2% per annum for the same period in 2013. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

---

**Table of Contents**

*Net Realized Gains on Investments.* Net realized gains on investments for the three months ended March 31, 2014 totaled \$0.1 million compared to an immaterial amount for the same period in 2013. Net realized gains in the first quarter of 2014 were attributable to called fixed maturity securities and the sale of equity securities from the available-for-sale portfolio.

*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$61.3 million for the three months ended March 31, 2014, compared to \$56.0 million for the same period in 2013, an increase of \$5.3 million, or 9.4%. The current accident year losses and LAE incurred were \$63.8 million, or 71.5% of net premiums earned, compared to \$58.4 million, or 73.2% of net premiums earned, for the same period in 2013. We recorded favorable prior accident year development of \$2.5 million in the first quarter of 2014, compared to favorable prior accident year development of \$2.4 million in the same period of 2013, as further discussed below in Prior Year Development. Our net loss ratio was 68.7% in the first quarter of 2014, compared to 70.3% for the same period of 2013.

*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, 2014 were \$21.4 million, compared to \$18.9 million for the same period in 2013, an increase of 13.2%. This increase was primarily driven by a \$1.1 million increase in compensation expense due to annual merit increases as well as increases in bonus and share-based compensation, a \$0.5 million increase in commission expense, and a \$0.2 million increase in mandatory pooling arrangement fees. Offsetting the increases were a \$0.3 million decrease in insurance related assessments and a \$0.5 million decrease in premium tax expense primarily driven by the re-domestication to Nebraska. In addition, due to a change in our 2014 reinsurance treaty, we experienced a \$1.0 million decrease in experience rated commission and a \$0.4 million decrease in ceding commission. For the quarter, our expense ratio was 23.9% in 2014 compared to 23.7% in 2013.

*Income Tax Expense.* Income tax expense for the three months ended March 31, 2014 was \$2.9 million, compared to \$2.2 million for the same period in 2013. The increase was attributable to an increase in the effective tax rate to 21.3% in the first quarter of 2014 from 20.1% in the first quarter of 2013. The increase in the effective tax rate was attributable to improved underwriting margins which lowered the ratio of tax-exempt investment income to pre-tax income in the first quarter of 2014 compared to the first quarter of 2013.

**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 the excess.

Net cash provided by operating activities was \$30.3 million for the three months ended March 31, 2014, which represented a \$8.5 million increase from \$21.8 million in net cash provided by operating activities for the three months ended March 31, 2013. This increase in operating cash flow was attributable to a \$12.4 million increase in premium collections, a \$3.3 million decrease in losses paid and a \$0.7 million increase in investment income. Offsetting these increases were a \$4.0 million decrease in payable for securities sold, a \$3.2 million increase in underwriting expenses paid, a \$0.4 million increase in federal income taxes paid and a \$0.3 million decrease in reinsurance recoveries.

Net cash used in investing activities was \$36.2 million for the three months ended March 31, 2014, compared to net cash used in investment activities of \$39.2 million for the same period in 2013. Cash provided by sales and maturities of investments totaled \$82.9 million for the three months ended March 31, 2014, compared to \$78.3 million for the

same period in 2013. A total of \$118.9 million in cash was used to purchase investments in the three months ended March 31, 2014, compared to \$117.3 million in purchases for the same period in 2013.

Net cash used in financing activities in the three months ended March 31, 2014 was \$10.3 million compared to an immaterial amount for the same period in 2013. In the three months ended March 31, 2014, \$11.5 million of cash was used for dividends paid to shareholders compared to \$1.5 million in the same period of 2013. Offsetting these decreases were proceeds of \$0.6 million from stock option exercises in the three months ended March 31, 2014 compared to \$0.9 million for the same period in 2013. During the three months ended March 31, 2014 and 2013, the tax benefit from share based compensation was \$0.6 million.

The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2011, 2012 and 2013, the Board reauthorized this program. As of March 31, 2014, we had repurchased a total of 1,258,250 shares of our outstanding common stock for \$22.4 million. The Company has \$25.0 million available for future purchases at March 31, 2014 under this program. There were no shares purchased during the three months ended March 31, 2014 and 2013. We intend to purchase shares of our common stock from time to time depending upon market conditions and subject to applicable regulatory considerations. It is anticipated that future purchases will be funded from available capital.

**Table of Contents**

On February 25, 2014, the Company declared an extraordinary cash dividend of \$0.50 per share, or \$9.3 million, payable March 28, 2014 to shareholders of record on March 14, 2014. There were no extraordinary cash dividends declared in 2013.

Also on February 25, 2014, the Company declared a regular quarterly cash dividend of \$0.12 per share, or \$2.2 million, payable on March 28, 2014 to shareholders of record on March 14, 2014. In 2013, the Company paid a quarterly cash dividend of \$0.08 per share.

On April 29, 2014, the Company's Board of Directors declared a quarterly cash dividend of \$0.12 per share, payable on June 26, 2014 to shareholders of record as of June 12, 2014. The Board intends to consider the payment of a regular cash dividend each calendar quarter.

**Investment Portfolio**

As of March 31, 2014, our investment portfolio, including cash and cash equivalents, totaled \$1.0 billion, an increase of 11.4% from \$0.9 billion on March 31, 2013. 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, 2014, is shown in the following table:

	Carrying Value	Percentage of Portfolio
	(in thousands)	
<b>Fixed maturity securities held-to-maturity:</b>		
States and political subdivisions	\$ 368,697	36.0%
U.S. agency-based mortgage-backed securities	20,418	2.0%
Commercial mortgage-backed securities	49,884	4.8%
U.S. Treasury securities and obligations of U.S. government agencies	12,265	1.2%
Corporate bonds	94,099	9.2%
Asset-backed securities	3,249	0.3%
<b>Total fixed maturity securities held-to-maturity</b>	<b>548,612</b>	<b>53.5%</b>
<b>Fixed maturity securities available-for-sale:</b>		
States and political subdivisions	154,075	15.1%
U.S. agency-based mortgage-backed securities	7,020	0.7%
Corporate bonds	107,094	10.5%
<b>Total fixed maturity securities available-for-sale</b>	<b>268,189</b>	<b>26.3%</b>

Edgar Filing: AMERISAFE INC - Form 10-Q

Equity securities	3,682	0.4%
Short-term investments	85,031	8.3%
Cash and cash equivalents	106,860	10.4%
Other investments	10,820	1.1%
 Total investments, including cash and cash equivalents	 \$ 1,023,194	 100.0%

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

During the three months ended March 31, 2014 and 2013, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments.

**Table of Contents****Prior Year Development**

The Company recorded favorable prior accident year development of \$2.5 million in the three months ended March 31, 2014. The table below sets forth the favorable or unfavorable development for the three months ended March 31, 2014 and 2013 for accident years 2009 through 2013 and, collectively, for all accident years prior to 2009.

<b><u>Accident Year</u></b>	<b>Favorable/(Unfavorable) Development</b>	
	<b>Three Months Ended March 31, 2014</b>	<b>Three Months Ended March 31, 2013 (in millions)</b>
2013	\$	\$
2012		0.1
2011		
2010	0.3	0.2
2009	1.0	1.1
Prior to 2009	1.2	1.0
Total net development	\$ 2.5	\$ 2.4

The table below sets forth the number of open claims as of March 31, 2014 and 2013, and the number of claims reported and closed during the three months then ended.

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
Open claims at beginning of period	5,297	4,964
Claims reported	1,320	1,260
Claims closed	(1,283)	(1,145)
Open claims at end of period	5,334	5,079

The number of open claims at March 31, 2014 increased by 255 claims as compared to the number of open claims at March 31, 2013. 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, 2014.

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 Item 1, Business Loss Reserves in our Annual Report on Form 10-K for the year ended December 31, 2013.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk is the risk of potential economic loss principally arising from adverse changes in the fair value of financial instruments. The major components of market risk affecting us are credit risk, interest rate risk and equity price risk. We currently have no exposure to foreign currency risk.

Since December 31, 2013, 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 year ended December 31, 2013.

**Table of Contents**

**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.

Because of its inherent limitations, management does not expect that our disclosure control and our internal control over financial reporting will prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies and procedures may deteriorate. Any control system, no matter how well designed and operated, is based upon certain assumptions and can only provide reasonable, not absolute assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to errors or fraud will not occur or that all control issues and instances of fraud, if any within the Company, have been detected.

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

**PART II OTHER INFORMATION**

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

The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2011, 2012 and 2013, the Board reauthorized this program. As of December 31, 2013, we had repurchased a total of 1,258,250 shares of our outstanding common stock for \$22.4 million. There were no shares purchased during the three months ended March 31, 2014 and 2013. We intend to purchase shares of our common stock from time to time depending upon market conditions and subject to applicable regulatory considerations. It is anticipated that future purchases will be funded from available capital. The dollar value of shares that may yet be purchased under the program is \$25.0 million.

---

**Table of Contents****Item 6. Exhibits.****Exhibit**

<b>No.</b>	<b>Description</b>
10.32	Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2014, issued to the Company by the reinsurers named therein
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Michael Grasher filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and Michael Grasher filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Table of Contents

**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 2, 2014

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

May 2, 2014

/s/ Michael Grasher  
**Michael Grasher**  
**Executive Vice President and Chief Financial**  
**Officer**  
**(Principal Financial and Accounting Officer)**

---

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit</b>	
<b>No.</b>	<b>Description</b>
10.32	Casualty Catastrophe Excess of Loss Reinsurance Contract, effective as of January 1, 2014, issued to the Company by the reinsurers named therein
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Michael Grasher filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of C. Allen Bradley, Jr. and Michael Grasher filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document