

AMERISAFE INC
Form 10-Q
November 04, 2013
[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 September 30, 2013

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 October 31, 2013, there were 18,504,180 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

Table of Contents

TABLE OF CONTENTS

	Page No.
PART I FINANCIAL INFORMATION	
<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>	18
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	23
Item 4 <u>Controls and Procedures</u>	24
PART II OTHER INFORMATION	
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
Item 6 <u>Exhibits</u>	25

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, 2012. 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)**

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value \$576,989 and \$627,349 in 2013 and 2012, respectively)	\$ 550,153	\$ 583,287
Fixed maturity securities available-for-sale, at fair value (cost \$207,197 and \$144,514 in 2013 and 2012, respectively)	202,701	149,139
Equity securities available-for-sale, at fair value (cost \$11,987 and \$7,000 in 2013 and 2012, respectively)	12,260	6,766
Short-term investments	86,131	68,924
Other investments	10,271	
Total investments	861,516	808,116
Cash and cash equivalents	116,778	92,676
Amounts recoverable from reinsurers	77,835	101,352
Premiums receivable, net of allowance	172,002	141,950
Deferred income taxes	34,672	29,521
Accrued interest receivable	10,888	10,392
Property and equipment, net	7,505	7,711
Deferred policy acquisition costs	21,085	18,419
Federal income tax recoverable	1,148	
Other assets	9,130	10,809
	\$ 1,312,559	\$ 1,220,946
Liabilities and shareholders equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	\$ 609,042	\$ 570,450
Unearned premiums	164,739	140,528
Reinsurance premiums payable	781	456
Amounts held for others	31,950	41,033
Policyholder deposits	42,029	39,088
Insurance-related assessments	28,887	22,244

Edgar Filing: AMERISAFE INC - Form 10-Q

Accounts payable and other liabilities	29,019	25,649
Payable for investments purchased	5,400	276
	911,847	839,724
Shareholders' equity:		
Common stock:		
Voting \$0.01 par value authorized shares 50,000,000 in 2013 and 2012; 19,747,430 and 19,513,476 shares issued and 18,489,180 and 18,255,226 shares outstanding in 2013 and 2012, respectively	197	195
Additional paid-in capital	190,767	187,401
Treasury stock at cost (1,258,250 shares in 2013 and 2012)	(22,370)	(22,370)
Accumulated earnings	234,789	213,017
Accumulated other comprehensive income, net	(2,671)	2,979
	400,712	381,222
	\$ 1,312,559	\$ 1,220,946

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Gross premiums written	\$ 86,137	\$ 77,283	\$ 281,075	\$ 247,683
Ceded premiums written	(4,519)	(4,032)	(13,576)	(11,907)
Net premiums written	\$ 81,618	\$ 73,251	\$ 267,499	\$ 235,776
Net premiums earned	\$ 81,596	\$ 72,425	\$ 243,288	\$ 211,948
Net investment income	6,947	6,801	20,266	20,320
Net realized gains/(losses) on investments	(654)	985	(1,921)	2,913
Fee and other income	114	163	393	484
Total revenues	88,003	80,374	262,026	235,665
Expenses				
Loss and loss adjustment expenses incurred	57,046	53,851	169,860	162,414
Underwriting and certain other operating costs	6,634	6,128	21,472	15,338
Commissions	6,176	5,405	18,569	16,099
Salaries and benefits	5,662	4,962	16,971	15,120
Interest expense		80		566
Policyholder dividends	38	945	980	1,659
Total expenses	75,556	71,371	227,852	211,196
Income before income taxes	12,447	9,003	34,174	24,469
Income tax expense	2,748	1,882	7,980	4,342
Net income	9,699	7,121	26,194	20,127
Net income available to common shareholders	\$ 9,673	\$ 7,116	\$ 26,122	\$ 20,116
Earnings per share				
Basic	\$ 0.53	\$ 0.39	\$ 1.42	\$ 1.11
Diluted	\$ 0.52	\$ 0.38	\$ 1.39	\$ 1.08

Shares used in computing earnings per share

Basic	18,395,971	18,173,062	18,343,901	18,154,768
Diluted	18,758,346	18,580,083	18,730,729	18,583,079
Cash dividends declared per common share	\$ 0.08	\$	\$ 0.24	\$

See accompanying notes.

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

(in thousands)

(unaudited)

	Three Months Ended		Nine Months	
	September 30,		Ended	
	2013	2012	2013	2012
Net income	\$ 9,699	\$ 7,121	\$ 26,194	\$ 20,127
Other comprehensive income:				
Unrealized gain/(loss) on securities, net of tax	(1,045)	1,449	(5,650)	1,899
Comprehensive income	\$ 8,654	\$ 8,570	\$ 20,544	\$ 22,026

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

(in thousands, except share data)

(unaudited)

	Common Stock		Treasury Stock		Additional	Accumulated	Other	Comprehensive	Total
	Shares	Amount	Shares	Amounts	Paid-In	Earnings	Income		
					Capital				
Balance at December 31, 2012	19,513,476	\$ 195	(1,258,250)	\$(22,370)	\$ 187,401	\$ 213,017	\$ 2,979	\$ 381,222	
Comprehensive income						26,194	(5,650)	20,544	
Options exercised	173,300	2			1,595			1,597	
Tax benefit from share-based payments					1,222			1,222	
Restricted common stock issued	60,654				380			380	
Share-based compensation					169			169	
Dividends to stockholders						(4,422)		(4,422)	

Edgar Filing: AMERISAFE INC - Form 10-Q

Balance at									
September 30, 2013	19,747,430	\$ 197	(1,258,250)	\$ (22,370)	\$ 190,767	\$ 234,789	\$ (2,671)	\$ 400,712	

See accompanying notes.

Table of Contents

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2013	2012
Operating Activities		
Net income	\$ 26,194	\$ 20,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	968	799
Net amortization of investments	9,552	7,504
Deferred income taxes	(2,109)	(2,392)
Net realized (gains)/losses on investments	1,921	(2,913)
Loss on sale of asset	2	1
Share-based compensation	1,020	431
Changes in operating assets and liabilities:		
Premiums receivable, net	(30,052)	(21,979)
Accrued interest receivable	(496)	(326)
Deferred policy acquisition costs	(2,666)	(2,252)
Other assets and federal income tax recoverable	260	131
Reserves for loss and loss adjustment expenses	38,592	26,029
Unearned premiums	24,211	23,828
Reinsurance balances	23,842	(2,895)
Amounts held for others and policyholder deposits	(6,142)	8,698
Accounts payable and other liabilities	14,667	4,263
Net cash provided by operating activities	99,764	59,054
Investing Activities		
Purchases of investments held-to-maturity	(55,547)	(72,441)
Purchases of investments available-for-sale	(92,366)	(84,680)
Purchases of short-term investments	(112,624)	(61,002)
Purchases of other invested assets	(10,000)	
Proceeds from maturities of investments held-to-maturity	83,715	105,590
Proceeds from sales and maturities of investments available-for-sale	20,606	48,208
Proceeds from sales and maturities of short-term investments	92,921	55,360
Purchases of property and equipment	(764)	(837)
Net cash used in investing activities	(74,059)	(9,802)
Financing Activities		
Proceeds from stock option exercises	1,597	205
Tax benefit from share-based payments	1,222	132

Edgar Filing: AMERISAFE INC - Form 10-Q

Redemption of subordinated debt security		(25,780)
Dividends to stockholders	(4,422)	
Net cash used in financing activities	(1,603)	(25,443)
Change in cash and cash equivalents	24,102	23,809
Cash and cash equivalents at beginning of period	92,676	45,536
Cash and cash equivalents at end of period	\$ 116,778	\$ 69,345

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. (SOCO), American Interstate Insurance Company of Texas (AIICTX), Amerisafe Risk Services, Inc. (RISK) and Amerisafe General Agency, Inc. (AGAI). AIIC and SOCO 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. As previously announced, the Company intends to redomesticate AIIC and SOCO from Louisiana to Nebraska. 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, SOCO 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 and agriculture. Assets and revenues of AIIC and other subsidiaries represent more than 95% of comparable consolidated amounts of the Company for each of 2013 and 2012.

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, 2012.

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, 2012 for additional information regarding the Company s incentive plans.

During the nine months ended September 30, 2013, options to purchase 173,300 shares of common stock were exercised. During the nine months ended September 30, 2012, options to purchase 22,800 shares of common stock were exercised. In connection with these exercises, the Company received \$1.6 million of stock option proceeds in the first nine months of 2013 and \$0.2 million of stock option proceeds in the same period in 2012.

The Company recognized share-based compensation expense of \$0.4 million and \$0.2 million in the three months ended September 30, 2013 and 2012, respectively. The Company recognized share-based compensation expense of \$1.0 million in the nine months ended September 30, 2013, compared to \$0.4 million for the same period in 2012.

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, for periods after December 31, 2012, the Company applied the two-class method in computing basic and diluted earnings per share. ASC Topic 260 clarifies that unvested share-based payment awards with a right to receive nonforfeitable dividends are participating securities.

Table of Contents

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

Diluted EPS include 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. The two-class method of calculating diluted EPS is used in the event the if converted method is anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands, except share and per share amounts)			
Basic EPS:				
Net income, as reported	\$ 9,699	\$ 7,121	\$ 26,194	\$ 20,127
Less allocated income to unvested shares	27	6	74	12
Net income available to common shareholders basic	\$ 9,672	\$ 7,115	\$ 26,120	\$ 20,115
Basic weighted average common shares	18,395,971	18,173,062	18,343,901	18,154,768
Basic earnings per common share	\$ 0.53	\$ 0.39	\$ 1.42	\$ 1.11
Diluted EPS:				
Net income available to common shareholders diluted	\$ 9,673	\$ 7,116	\$ 26,122	\$ 20,116
Diluted weighted average common shares:				
Weighted average common shares	18,395,971	18,173,062	18,343,901	18,154,768
Stock options and performance shares	362,375	407,021	386,828	428,311
Diluted weighted average common shares	18,758,346	18,580,083	18,730,729	18,583,079
Diluted earnings per common share	\$ 0.52	\$ 0.38	\$ 1.39	\$ 1.08

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 September 30, 2013 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
States and political subdivisions	\$ 388,694	\$ 20,250	\$ (1,362)	\$ 407,582
Corporate bonds	71,126	965	(19)	72,072
Commercial mortgage-backed securities	51,414	3,861		55,275
U.S. agency-based mortgage-backed securities	23,876	1,966		25,842
U.S. Treasury securities and obligations of U.S. government agencies	11,522	1,130		12,652
Asset-backed securities	3,521	216	(171)	3,566
Totals	\$ 550,153	\$ 28,388	\$ (1,552)	\$ 576,989

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 September 30, 2013 are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Fixed maturity:				
States and political subdivisions	\$ 133,239	\$ 1,694	\$ (4,375)	\$ 130,558
Corporate bonds	63,876	471	(245)	64,102
U.S. agency-based mortgage-backed securities	10,082		(2,041)	8,041
Total fixed maturity	207,197	2,165	(6,661)	202,701
Other investments	10,000	271		10,271
Equity securities	11,987	600	(327)	12,260
Totals	\$ 229,184	\$ 3,036	\$ (6,988)	\$ 225,232

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, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
States and political subdivisions	\$ 400,687	\$ 31,387	\$ (106)	\$ 431,968
Corporate bonds	82,824	1,565	(12)	84,377
Commercial mortgage-backed securities	51,529	6,433		57,962
U.S. agency-based mortgage-backed securities	32,984	3,063	(5)	36,042
U.S. Treasury securities and obligations of U.S. Government agencies	11,034	1,721		12,755
Asset-backed securities	4,229	192	(176)	4,245
Totals	\$ 583,287	\$ 44,361	\$ (299)	\$ 627,349

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, 2012 are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
--	-----------------------------------	---------------------------------------	--	-------------------

(in thousands)

Fixed maturity:				
States and political subdivisions	\$ 93,362	\$ 5,022	\$ (142)	\$ 98,242
Corporate bonds	39,211	623	(24)	39,810
U.S. agency-based mortgage-backed securities	11,941	5	(859)	11,087
Total fixed maturity	144,514	5,650	(1,025)	149,139
Equity securities	7,000	451	(685)	6,766
Totals	\$ 151,514	\$ 6,101	\$ (1,710)	\$ 155,905

Table of Contents

A summary of the cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at September 30, 2013, by contractual maturity, is as follows:

Remaining Time to Maturity	Amortized	
	Cost Basis	Fair Value
	(in thousands)	
Less than one year	\$ 63,140	\$ 63,427
One to five years	145,838	153,601
Five to ten years	130,159	140,059
More than ten years	132,205	135,219
U.S. agency-based mortgage-backed securities	23,876	25,842
Commercial mortgage-backed securities	51,414	55,275
Asset-backed securities	3,521	3,566
Total	\$ 550,153	\$ 576,989

A summary of cost and fair value of investments in fixed maturity securities, classified as available-for-sale at September 30, 2013, by contractual maturity, is as follows:

Remaining Time to Maturity	Amortized	
	Cost Basis	Fair Value
	(in thousands)	
Less than one year	\$ 28,681	\$ 28,802
One to five years	28,734	28,993
Five to ten years	18,162	18,357
More than ten years	121,538	118,508
U.S. agency-based mortgage-backed securities	10,082	8,041
Total	\$ 207,197	\$ 202,701

The following table summarizes, as of September 30, 2013, gross unrealized losses on a total of 158 securities that were at a loss for either less than twelve months or twelve months or greater:

As of September 30, 2013					
Less Than 12 Months		Greater		Total	
Fair Value of Investments with Unrealized	Gross Unrealized Losses	Fair Value of Investments with Unrealized	Gross Unrealized Losses	Fair Value of Investments with Unrealized	Gross Unrealized Losses

Edgar Filing: AMERISAFE INC - Form 10-Q

	Losses		Losses (in thousands)		Losses	
Held-to-Maturity						
Fixed maturity securities:						
Corporate bonds	\$ 16,397	\$ 17	\$ 2,271	\$ 2	\$ 18,668	\$ 19
States and political subdivisions	39,698	1,125	5,028	237	44,726	1,362
Asset-backed securities			1,962	171	1,962	171
Total held-to-maturity securities	56,095	1,142	9,261	410	65,356	1,552
Available-for-Sale						
Fixed maturity securities:						
Corporate bonds	\$ 18,101	\$ 245	\$	\$	\$ 18,101	\$ 245
States and political subdivisions	85,605	4,375			85,605	4,375
U.S. agency-based mortgage-backed securities	2,938	700	5,102	1,341	8,040	2,041
Equity securities	5,883	327			5,883	327
Total available-for-sale securities	112,527	5,647	5,102	1,341	117,629	6,988
Total	\$ 168,622	\$ 6,789	\$ 14,363	\$ 1,751	\$ 182,985	\$ 8,540

Table of Contents

Amerisafe holds investments in a long/short equity fund, accounted for under the equity method. The carrying value of this investment is \$10.3 million at September 30, 2013.

The following table summarizes, as of December 31, 2012, gross unrealized losses on a total of 49 securities that were at a loss for either less than twelve months or twelve months or greater:

	Less Than 12 Months		As of December 31, 2012 12 Months or Greater		Total	
	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
	(in thousands)					
Held-to-Maturity						
Fixed maturity securities:						
Corporate bonds	\$ 10,734	\$ 12	\$	\$	\$ 10,734	\$ 12
State and political subdivisions	11,913	106			11,913	106
U.S. agency-based mortgage-backed securities	117		68	5	185	5
Asset-backed securities			2,277	176	2,277	176
Total held-to-maturity securities	22,764	118	2,345	181	25,109	299
Available-for-Sale						
Fixed maturity securities:						
Corporate bonds	\$ 6,411	\$ 24	\$	\$	\$ 6,411	\$ 24
States and political subdivisions	6,281	142			6,281	142
U.S. agency-based mortgage-backed securities	10,919	859			10,919	859
Equity securities	4,186	685			4,186	685
Total available-for-sale securities	27,797	1,710			27,797	1,710
Total	\$ 50,561	\$ 1,828	\$ 2,345	\$ 181	\$ 52,906	\$ 2,009

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

In the three months ended September 30, 2013, we sold equity securities classified as available-for-sale. The cost basis of these securities at disposal was \$1.7 million with realized losses on the sale of these securities of \$0.5 million. In the three months ended September 30, 2012, we sold equity and fixed maturity securities classified as available-for-sale. The cost basis of these securities at disposal was \$11.1 million with realized gains on the sale of these securities of \$0.9 million.

Table of Contents

In the nine months ended September 30, 2013, we sold equity and fixed maturity securities classified as available-for-sale. The cost basis of these securities at disposal was \$6.7 million with realized gains on the sale of these securities of \$0.2 million. In the nine months ended September 30, 2012, we sold equity and fixed maturity securities classified as available-for-sale. The cost basis of these securities at disposal was \$31.2 million with realized gains on the sale of these securities of \$2.7 million

As a result of the review of our investment portfolio, there were impairment losses recognized for other-than-temporary declines in the fair value of three of our investments in equity securities in the nine months ended September 30, 2013. These charges are included in Net realized gains/(losses) on investments and total \$2.2 million. No such impairment charges were taken for the nine months ended September 30, 2012.

Note 5. Income Taxes

In accordance with FASB ASC Topic 740, Income Taxes, we provide for the recognition and measurement of deferred income tax benefits based on the likelihood of their realization in future years. As of September 30, 2013, 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 September 30, 2013 and 2012.

Tax years 2009 through 2012 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 remain subject to state taxing authorities.

Note 6. Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income was \$8.7 million for the three months ended September 30, 2013, compared to \$8.6 million for the three months ended September 30, 2012. Comprehensive income was \$20.5 million for the nine months ended September 30, 2013, as compared to \$22.0 million for the same period in 2012. 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.

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2013	2012	2013	2012
	(in thousands)		(in thousands)	
Beginning balance	\$ (1,626)	\$ 2,665	\$ 2,979	\$ 2,215
Other comprehensive income/(loss) before reclassification	(1,483)	1,797	(5,809)	2,794
Amounts reclassified from accumulated other comprehensive income	438	(348)	159	(895)

Edgar Filing: AMERISAFE INC - Form 10-Q

Net current period other comprehensive income	(1,045)	1,449	(5,650)	1,899
Balance at September 30, 2013	\$ (2,671)	\$ 4,114	\$ (2,671)	\$ 4,114

Table of Contents

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		Nine Months Ended		Affected line item in the statement of income
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012	
	(in thousands)		(in thousands)		
Unrealized gains/(losses) on available-for-sale securities	\$ (484)	\$ 535	\$ 362	\$ 1,377	Net realized gains/(losses) on investments
Other-than-temporary impairment	(190)		(607)		Net realized gains/(losses) on investments
	(674)	535	(245)	1,377	Income before income taxes
	236	(187)	86	(482)	Income tax expense
	\$ (438)	\$ 348	\$ (159)	\$ 895	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.

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.

Table of Contents

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 nine months ended September 30, 2013.

At September 30, 2013, assets and liabilities measured at fair value on a recurring basis are summarized below:

	Level 1 Inputs	Level 2 Inputs (in thousands)	Level 3 Inputs	Total Fair Value
Financial instruments carried at fair value, classified as a part of:				
Other investments	\$	\$	\$ 10,271	\$ 10,271
Securities available for sale - equity:				
Domestic common stock	12,260			12,260
Securities available for sale - fixed maturity:				
States and political subdivisions		130,558		130,558
Corporate bonds		64,102		64,102
U.S. agency-based mortgage-backed securities		8,041		8,041
Total securities available for sale - fixed maturity		202,701		202,701
Total available for sale	\$ 12,260	\$ 202,701	\$ 10,271	\$ 225,232

At September 30, 2013, assets and liabilities measured at amortized cost are summarized below:

Edgar Filing: AMERISAFE INC - Form 10-Q

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(in thousands)			
Securities held-to-maturity fixed maturity				
States and political subdivisions	\$	\$ 407,582	\$	\$ 407,582
Corporate bonds		72,072		72,072
Commercial mortgage-backed securities		55,275		55,275
U.S. agency-based mortgage-backed securities		25,842		25,842
U.S. Treasury securities and obligations of U.S. Government agencies	6,640	6,012		12,652
Asset-backed securities		3,566		3,566
Total held-to-maturity	\$ 6,640	\$ 570,349	\$	\$ 576,989

Table of Contents

At December 31, 2012, assets and liabilities measured at fair value on a recurring basis are summarized below:

	Level 1 Inputs	Level 2 Inputs (in thousands)	Level 3 Inputs	Total Fair Value
Securities available for sale equity				
Domestic common stock	\$ 6,766	\$	\$	\$ 6,766
Securities available for sale fixed maturity				
States and political subdivisions		98,242		98,242
Corporate bonds		39,810		39,810
U.S. agency-based mortgage-backed securities		11,087		11,087
Total available for sale fixed maturity		\$ 149,139	\$	\$ 149,139
Total available for sale	\$ 6,766	\$ 149,139	\$	\$ 155,905

At December 31, 2012, assets and liabilities measured at amortized cost are summarized below:

	Level 1 Inputs	Level 2 Inputs (in thousands)	Level 3 Inputs	Total Fair Value
Securities held-to-maturity fixed maturity				
States and political subdivisions	\$	\$ 431,968	\$	\$ 431,968
Corporate bonds		84,377		84,377
Commercial mortgage-backed securities		57,962		57,962
U.S. agency-based mortgage-backed securities		36,042		36,042
U.S. Treasury securities and obligations of U.S. Government agencies	6,174	6,581		12,755
Asset-backed securities		4,245		4,245
Total held-to-maturity	\$ 6,174	\$ 621,175	\$	\$ 627,349

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 value 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 September 30, 2013		As of December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
Assets:				
Fixed maturity securities held-to-maturity	\$ 550,153	\$ 576,989	\$ 583,287	\$ 627,349
Fixed maturity securities available-for-sale	202,701	202,701	149,139	149,139
Equity securities	12,260	12,260	6,766	6,766
Cash and cash equivalents	116,778	116,778	92,676	92,676
Short-term Investments	86,131	86,131	68,924	68,924
Other Investments	10,271	10,271		

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

	September 30, 2013 (in thousands)	
Balance at January 1, 2013	\$	
Purchases		10,000
Total gains unrealized (Included in earnings as part of net investment income)		271
Balance at September 30, 2013	\$	10,271

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

Note 8. Treasury Stock

The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2011, the Board reauthorized this program with a new limit of \$25.0 million. In October 2012, the Board extended the share repurchase program through December 31, 2013. There were no shares purchased during the three or nine months ended September 30, 2013 and 2012.

Note 9. Variable Interest Entities

In 2004, the Company formed Amerisafe Capital Trust II (ACT II) for the sole purpose of issuing \$25.0 million in trust preferred securities. ACT II used the proceeds from the sale of these securities and the Company's initial capital contribution to purchase \$25.8 million of subordinated debt securities from the Company. In May 2012, the Company redeemed \$12.9 million of the \$25.8 million aggregate principal amount of subordinated debt securities. In May 2012, the Company's Board of Directors authorized the redemption of the remaining \$12.9 million principal amount of subordinated debt securities. The Company redeemed the remaining shares from ACT II in August 2012 and the trust was canceled.

Note 10. Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued updated guidance to improve the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement of income or in the notes, separately for each component of comprehensive income, the current period reclassifications out of accumulated other comprehensive income by the respective line items of net income affected by the reclassification.

The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the updated guidance effective January 1, 2013. This adoption did not have any effect on the Company's results of operations, financial position or liquidity.

Note 11. Subsequent Events

On October 28, 2013, the Company's Board of Directors declared a quarterly cash dividend of \$0.08 per share, payable on December 27, 2013 to shareholders of record as of December 13, 2013. The Board intends to consider the payment of a regular cash dividend each calendar quarter.

Table of Contents

On October 28, 2013, the Company's Board of Directors voted to extend the current authorization of the Company's share repurchase program from December 31, 2013 to December 31, 2014 and increase the authorization from \$24.4 million to \$25.0 million.

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, 2012.

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, 2013 and 2012. This discussion includes an analysis of certain significant period-to-period variances in our consolidated statements of operations. Our cash flows and financial condition are discussed under the caption Liquidity and Capital Resources.

Business Overview

AMERISAFE is a holding company that markets and underwrites workers' compensation insurance through its insurance subsidiaries. Workers' compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our business strategy is focused on providing this coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking, manufacturing 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 employ a proactive, disciplined approach to underwriting employers and providing comprehensive services intended to lessen the overall incidence and cost of workplace injuries. We provide safety services at employers' workplaces as a vital component of our underwriting process and also to 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, 2012.

Table of Contents**Results of Operations**

The following table summarizes our consolidated financial results for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(dollars in thousands, except per share data)			
	(unaudited)			
Gross premiums written	\$ 86,137	\$ 77,283	\$ 281,075	\$ 247,683
Net premiums earned	81,596	72,425	243,288	211,948
Net investment income	6,947	6,801	20,266	20,320
Total revenues	88,003	80,374	262,026	235,665
Total expenses	75,556	71,371	227,852	211,196
Net income	9,699	7,121	26,194	20,127
Diluted earnings per common share	\$ 0.52	\$ 0.38	\$ 1.39	\$ 1.08
Other Key Measures				
Net combined ratio (1)	92.5%	98.5%	93.6%	99.4%
Return on average equity (2)	9.8%	7.7%	8.9%	7.4%
Book value per share (3)	\$ 21.67	\$ 20.46	\$ 21.67	\$ 20.46

- (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 September 30, 2013 Compared to September 30, 2012

Gross Premiums Written. Gross premiums written for the quarter ended September 30, 2013 were \$86.1 million, compared to \$77.3 million for the same period in 2012, an increase of 11.5%. The increase was attributable to a \$10.3 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 \$2.4 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters. The effective LCM for our voluntary business was 1.79 for the third quarter ended September 30, 2013 compared to 1.66 for the same period in 2012.

Net Premiums Written. Net premiums written for the quarter ended September 30, 2013 were \$81.6 million, compared to \$73.3 million for the same period in 2012, an increase of 11.4%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 5.2% for the third quarter of 2013 compared to 5.3% for the third quarter of 2012. For additional information, see Item 1, Business Reinsurance in our Annual Report on Form 10-K for the year ended December 31, 2012.

Net Premiums Earned. Net premiums earned for the third quarter of 2013 were \$81.6 million, compared to \$72.4 million for the same period in 2012, an increase of 12.7%. The increase was attributable to the increase in net premiums written in the quarter.

Net Investment Income. Net investment income for the quarter ended September 30, 2013 was \$6.9 million compared to \$6.8 million for the same period in 2012. Average invested assets, including cash and cash equivalents, were \$951.3 million in the quarter ended September 30, 2013, compared to an average of \$880.8 million for the same period in 2012, an increase of 8.0%. The pre-tax investment yield on our investment portfolio was 2.9% and 3.1% per annum during the quarters ended September 30, 2013 and 2012, respectively. The tax-equivalent yield on our investment portfolio was 3.9% per annum for the quarter ended September 30, 2013, compared to 4.5% per annum for the same period in 2012. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

Net Realized Gains/(Losses) on Investments. Net realized losses on investments for the three months ended September 30, 2013 totaled \$0.7 million compared to net realized gains of \$1.0 million for the same period in 2012. Net realized losses in the third quarter of 2013 were attributable to \$0.2 million in other-than-temporary impairments of one equity security and a realized loss of \$0.5 million from the sale of equity securities from the available-for-sale portfolio. Net realized gains in the third quarter of 2012 were attributable to called fixed maturity securities and the sale of equity securities and fixed maturity securities from the available-for-sale portfolio.

Table of Contents

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled \$57.0 million for the three months ended September 30, 2013, compared to \$53.9 million for the same period in 2012, an increase of \$3.2 million, or 5.9%. The current accident year losses and LAE incurred were \$59.7 million, or 73.2% of net premiums earned, compared to \$55.4 million, or 76.5% of net premiums earned, for the same period in 2012. We recorded favorable prior accident year development of \$2.7 million in the third quarter of 2013, compared to favorable prior accident year development of \$1.6 million in the same period of 2012, as further discussed below in Prior Year Development. Our net loss ratio was 69.9% in the third quarter of 2013, compared to 74.4% for the same period of 2012.

Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits. Underwriting and certain other operating costs, commissions and salaries and benefits for the quarter ended September 30, 2013 were \$18.5 million, compared to \$16.5 million for the same period in 2012, an increase of 12.0%. This increase was primarily due to a \$0.8 million increase in commission expense, a \$0.4 million increase in compensation expense due to annual merit increases, a \$0.4 million decrease in experience-rated commission, a \$0.2 million increase in premium tax expense and a \$0.2 million increase in mandatory pooling arrangement fees. Our expense ratio was 22.6% in the third quarter of 2013 compared to 22.8% in the third quarter of 2012.

Interest Expense. There was no interest expense for the third quarter of 2013 compared to \$0.1 million for the same period in 2012. There were no weighted average borrowings for the quarter ended September 30, 2013 compared to \$6.4 million for the same period in 2012. The weighted average interest rate was 4.3% per annum for the third quarter of 2012.

Income Tax Expense. Income tax expense for the three months ended September 30, 2013 was \$2.7 million, compared to \$1.9 million for the same period in 2012. The increase was attributable to an increase in the effective tax rate to 22.1% in the third quarter of 2013 from 20.9% in the third quarter of 2012. 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 third quarter of 2013 compared to the third quarter of 2012.

Consolidated Results of Operations for Nine Months Ended September 30, 2013 Compared to September 30, 2012

Gross Premiums Written. Gross premiums written for the first nine months of 2013 were \$281.1 million, compared to \$247.7 million for the same period in 2012, an increase of 13.5%. The increase was attributable to a \$33.0 million increase in annual premiums on voluntary policies written during the period and a \$2.2 million increase in assumed premium from mandatory pooling arrangements. These increases were partially offset by a \$2.6 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters.

Net Premiums Written. Net premiums written for the nine months ended September 30, 2013 were \$267.5 million, compared to \$235.8 million for the same period in 2012, an increase of 13.5%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 5.3% for the first nine months of 2013 and 2012.

Net Premiums Earned. Net premiums earned for the first nine months of 2013 were \$243.3 million, compared to \$211.9 million for the same period in 2012, an increase of 14.8%. The increase was attributable to the increase in net premiums written, offset by an increase in unearned premiums.

Net Investment Income. Net investment income for the first nine months of 2013 and 2012 was \$20.3 million. Average invested assets, including cash and cash equivalents, were \$929.7 million in the nine months ended September 30, 2013, compared to \$872.3 million for the same period in 2012, an increase of 6.6%. The pre-tax investment yield on

our investment portfolio was 2.9% per annum during the nine months ended September 30, 2013, compared to 3.1% per annum during the same period in 2012. The tax-equivalent yield on our investment portfolio was 3.9% per annum for the first nine months of 2013 compared to 4.5% for the same period in 2012. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

Net Realized Gains/(Losses) on Investments. Net realized losses on investments for the nine months ended September 30, 2013 totaled \$1.9 million, compared to net realized gains of \$2.9 million for the same period in 2012. Net realized losses in the nine months ended September 30, 2013 were attributable to \$2.2 million in other-than-temporary impairments of certain equity securities offset by \$0.2 million in realized gains from the sale of equity securities and fixed maturity securities from the available-for-sale portfolio and \$0.1 million attributable to called fixed maturity securities. Net realized gains in the nine months ended September 30, 2012 were attributable to called fixed maturity securities and from the sale of equity and fixed maturity securities from the available-for-sale portfolio.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled \$169.9 million for the nine months ended September 30, 2013, compared to \$162.4 million for the same period in 2012, an increase of \$7.4 million, or 4.6%. The current accident year losses and LAE incurred were \$178.1 million, or 73.2% of net premiums earned, compared to \$162.2

Table of Contents

million, or 76.5% of net premiums earned, for the same period in 2012. We recorded favorable prior accident year development of \$8.3 million in the first nine months of 2013, compared to unfavorable prior accident year development of \$0.2 million in the same period of 2012, as further discussed below in Prior Year Development. Our net loss ratio was 69.8% in the first nine months of 2013, compared to 76.6% for the same period of 2012.

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, 2013 were \$57.0 million, compared to \$46.6 million for the same period in 2012, an increase of 22.5%. This increase was primarily due to a \$3.6 million increase in insurance related assessments, a \$2.5 million increase in commission expense, a \$1.9 million increase in compensation expense, a \$1.6 million decrease in experience-rated commission, a \$1.1 million increase in premium taxes, a \$0.6 million increase in mandatory pooling arrangement fees. Offsetting these increases was a \$0.4 million increase in ceding commission related to our 2013 reinsurance agreement and a \$0.3 million decrease in accounts receivable write-offs. Our expense ratio was 23.4% in the first nine months of 2013 compared to 22.0% in the same period of 2012.

Interest Expense. There was no interest expense for the nine months ended September 30, 2013 compared to \$0.6 million for the same period in 2012. There were no weighted average borrowings for the nine months ended September 30, 2013 compared to \$17.1 million for the same period in 2012. The weighted average interest rate was 4.3% per annum for the first nine months of 2012.

Income Tax Expense. Income tax expense for the nine months ended September 30, 2013 was \$8.0 million, compared to \$4.3 million for the same period in 2012. The increase was attributable to an increase in pre-tax income to \$34.2 million in the first nine months of 2013 from \$24.5 million in the first nine months of 2012. The effective tax rate also increased to 23.4% for the nine months ended September 30, 2013 from 17.7% for the nine months ended September 30, 2012. This increase is due to improved underwriting margins which lowered the ratio of tax-exempt investment income relative to our pre-tax income.

Liquidity and Capital Resources

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

Net cash provided by operating activities was \$99.8 million for the nine months ended September 30, 2013, which represented a \$40.7 million increase from \$59.1 million in net cash provided by operating activities for the nine months ended September 30, 2012. This increase in operating cash flow was attributable to a \$24.4 million increase in premium collections, a \$10.0 million decrease in underwriting expenses paid, a \$5.5 million decrease in losses paid, a \$2.1 million increase in payable for securities sold and a \$1.8 increase in investment income. Offsetting these increases were a \$5.0 million decrease in reinsurance recoveries and a \$4.1 million increase in federal income taxes paid.

Net cash used in investing activities was \$74.1 million for the nine months ended September 30, 2013, compared to net cash used in investment activities of \$9.8 million for the same period in 2012. Cash provided by sales and maturities of investments totaled \$197.2 million for the nine months ended September 30, 2013, compared to \$209.2 million for the same period in 2012. A total of \$270.5 million in cash was used to purchase investments in the nine months ended September 30, 2013, compared to \$218.1 million in purchases for the same period in 2012.

Net cash used in financing activities in the nine months ended September 30, 2013 was \$1.6 million compared to \$25.4 million for the same period in 2012. In the nine months ended September 30, 2012, \$25.8 million of cash was used to redeem subordinated debt securities. There were proceeds of \$1.6 million from stock option exercises in the nine months ended September 30, 2013 compared to \$0.2 million for the same period in 2012. During the nine months ended September 30, 2013, the tax benefit from share based compensation was \$1.2 million compared to a \$0.1 million in the same period of 2012. Offsetting these increases were dividends to stockholders of \$4.4 million in the nine months ended September 30, 2013 compared to none in the same period of 2012.

The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2011 and 2012, the Board reauthorized this program. As of December 31, 2012, we had repurchased a total of 1,258,250 shares of our outstanding common stock for \$22.4 million. The Company had \$24.4 million available for future purchases at September 30, 2013 under this program. There were no shares purchased during the nine months ended September 30, 2013 and 2012. 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.

On October 28, 2013, the Company's Board of Directors declared a quarterly cash dividend of \$0.08 per share, payable on December 27, 2013 to shareholders of record as of December 13, 2013. The Board intends to consider the payment of a regular cash dividend each calendar quarter.

Table of Contents

On September 15, 2013, we commuted certain reinsurance agreements with Hannover Re (Ireland) Plc (Hannover Re) and Aspen Insurance Limited (Aspen) covering portions of the 2008 through 2009 accident years. Hannover Re and Aspen remain obligated to subsidiaries of the Company under other reinsurance agreements. We received cash of \$14.9 million and an additional \$17.6 million payment effectuated solely through offset against the balance of the funds withheld account under the reinsurance agreement in exchange for releasing Hannover Re and Aspen from their reinsurance obligations under the commuted agreements. As a result of the commutation, there was no effect on the Company's net income in the three or nine months ended September 30, 2013.

Investment Portfolio

As of September 30, 2013, our investment portfolio, including cash and cash equivalents, totaled \$978.3 million, an increase of 10.8% from \$882.6 million on September 30, 2012. Effective April 1, 2010, purchases of fixed maturity securities are classified as available-for-sale or held-to-maturity based on the individual security. Such classification is made at the time of purchase. The reported value of our fixed maturity securities classified as held-to-maturity, as defined by FASB ASC Topic 320, Investments-Debt and Equity Securities, was equal to their amortized cost, and thus was not impacted by changing interest rates. Our equity securities and fixed maturity securities classified as available-for-sale were reported at fair value.

The composition of our investment portfolio, including cash and cash equivalents, as of September 30, 2013, is shown in the following table:

	Carrying Value	Percentage of Portfolio
	(in thousands)	
Fixed maturity securities held-to-maturity:		
States and political subdivisions	\$ 388,694	39.7%
U.S. agency-based mortgage-backed securities	23,876	2.4%
Commercial mortgage-backed securities	51,414	5.3%
U.S. Treasury securities and obligations of U.S. government agencies	11,522	1.2%
Corporate bonds	71,126	7.3%
Asset-backed securities	3,521	0.4%
Total fixed maturity securities held-to-maturity	550,153	56.3%
Fixed maturity securities available-for-sale:		
States and political subdivisions	130,558	13.3%
U.S. agency-based mortgage-backed securities	8,041	0.8%
Corporate bonds	64,102	6.6%
Total fixed maturity securities available-for-sale	202,701	20.7%
Equity securities	12,260	1.3%
Short-term investments	86,131	8.8%
Cash and cash equivalents	116,778	11.9%
Other Investments	10,271	1.0%

Total investments, including cash and cash equivalents	\$ 978,294	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 2013, the Company recorded charges for certain equity securities whose fair values were determined to be other-than-temporarily impaired. These charges are included in Net realized gains/(losses) on investments, and total \$0.2 million and \$2.2 million for the three and nine months ended September 30, 2013, respectively. No such impairment charges were taken in the three or nine months ended September 30, 2012.

Table of Contents**Prior Year Development**

The Company recorded favorable prior accident year development of \$2.7 million in the three months ended September 30, 2013. The table below sets forth the favorable or unfavorable development for the three and nine months ended September 30, 2013 and 2012 for accident years 2008 through 2012 and, collectively, for all accident years prior to 2008.

<u>Accident Year</u>	Favorable/(Unfavorable) Development			
	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
			(in millions)	
2012	\$	\$	\$ 0.5	\$
2011			0.4	(3.2)
2010			0.3	(5.6)
2009	1.4	0.1	2.4	0.4
2008	0.8	0.5	2.5	1.0
Prior to 2008	0.5	1.0	2.2	7.2
Total net development	\$ 2.7	\$ 1.6	\$ 8.3	\$ (0.2)

The table below sets forth the number of open claims as of September 30, 2013 and 2012, and the number of claims reported and closed during the three and nine months then ended.

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Open claims at beginning of period	5,245	5,059	4,964	5,184
Claims reported	1,590	1,574	4,228	4,468
Claims closed	(1,448)	(1,413)	(3,805)	(4,432)
Open claims at end of period	5,387	5,220	5,387	5,220

The number of open claims at September 30, 2013 increased by 167 claims as compared to the number of open claims at September 30, 2012. 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 nine months ended September 30, 2013.

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, 2012.

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, 2012, 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, 2012.

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.

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 and 2012, the Board reauthorized this program. As of December 31, 2012, 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 nine months ended September 30, 2013 and 2012. 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 \$24.4 million.

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

No.	Description
31.1	Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of 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.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.

November 4, 2013

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

November 4, 2013

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

Table of Contents

EXHIBIT INDEX

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