

AMERISAFE INC  
Form 10-Q  
August 05, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**  
**THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE QUARTERLY PERIOD ENDED June 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)**

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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 July 31, 2013, there were 18,451,880 shares of the Registrant's common stock, par value \$.01 per share, outstanding.

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**FORWARD-LOOKING STATEMENTS**

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

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;

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changes in legal theories of liability under our insurance policies;

the effects of U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts; and

other risks and uncertainties described from time to time in 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)

|                                                                                                                                                                                                | June 30,<br>2013<br>(unaudited) | December 31,<br>2012 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                                  |                                 |                      |
| Investments:                                                                                                                                                                                   |                                 |                      |
| Fixed maturity securities held-to-maturity, at amortized cost (fair value \$594,531 and \$627,349 in 2013 and 2012, respectively)                                                              | \$ 565,874                      | \$ 583,287           |
| Fixed maturity securities available-for-sale, at fair value (cost \$201,587 and \$144,514 in 2013 and 2012, respectively)                                                                      | 199,374                         | 149,139              |
| Equity securities available-for-sale, at fair value (cost \$13,881 and \$7,000 in 2013 and 2012, respectively)                                                                                 | 13,498                          | 6,766                |
| Short-term investments                                                                                                                                                                         | 81,935                          | 68,924               |
| <br>Total investments                                                                                                                                                                          | <br>860,681                     | <br>808,116          |
| Cash and cash equivalents                                                                                                                                                                      | 83,424                          | 92,676               |
| Amounts recoverable from reinsurers                                                                                                                                                            | 103,254                         | 101,352              |
| Premiums receivable, net of allowance                                                                                                                                                          | 180,245                         | 141,950              |
| Deferred income taxes                                                                                                                                                                          | 33,773                          | 29,521               |
| Accrued interest receivable                                                                                                                                                                    | 10,880                          | 10,392               |
| Property and equipment, net                                                                                                                                                                    | 7,727                           | 7,711                |
| Deferred policy acquisition costs                                                                                                                                                              | 20,959                          | 18,419               |
| Other assets                                                                                                                                                                                   | 12,930                          | 10,809               |
|                                                                                                                                                                                                | \$ 1,313,873                    | \$ 1,220,946         |
| <b>Liabilities and shareholders' equity</b>                                                                                                                                                    |                                 |                      |
| Liabilities:                                                                                                                                                                                   |                                 |                      |
| Reserves for loss and loss adjustment expenses                                                                                                                                                 | \$ 593,470                      | \$ 570,450           |
| Unearned premiums                                                                                                                                                                              | 164,716                         | 140,528              |
| Reinsurance premiums payable                                                                                                                                                                   | 503                             | 456                  |
| Amounts held for others                                                                                                                                                                        | 47,276                          | 41,033               |
| Policyholder deposits                                                                                                                                                                          | 40,601                          | 39,088               |
| Insurance-related assessments                                                                                                                                                                  | 28,533                          | 22,244               |
| Accounts payable and other liabilities                                                                                                                                                         | 29,688                          | 25,649               |
| Payable for investments purchased                                                                                                                                                              | 16,571                          | 276                  |
|                                                                                                                                                                                                | 921,358                         | 839,724              |
| Shareholders' equity:                                                                                                                                                                          |                                 |                      |
| Common stock:                                                                                                                                                                                  |                                 |                      |
| Voting \$0.01 par value authorized shares 50,000,000 in 2013 and 2012; 19,699,130 and 19,513,476 shares issued and 18,440,880 and 18,255,226 shares outstanding in 2013 and 2012, respectively | 196                             | 195                  |
| Additional paid-in capital                                                                                                                                                                     | 189,747                         | 187,401              |
| Treasury stock at cost (1,258,250 shares in 2013 and 2012)                                                                                                                                     | (22,370)                        | (22,370)             |
| Accumulated earnings                                                                                                                                                                           | 226,568                         | 213,017              |

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|                                             |              |              |
|---------------------------------------------|--------------|--------------|
| Accumulated other comprehensive income, net | (1,626)      | 2,979        |
|                                             | 392,515      | 381,222      |
|                                             | \$ 1,313,873 | \$ 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)

|                                                    | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|----------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                    | <b>2013</b>                            | <b>2012</b> | <b>2013</b>                          | <b>2012</b> |
| <b>Revenues</b>                                    |                                        |             |                                      |             |
| Gross premiums written                             | \$ 95,815                              | \$ 85,476   | \$ 194,938                           | \$ 170,400  |
| Ceded premiums written                             | (4,576)                                | (3,971)     | (9,057)                              | (7,875)     |
| Net premiums written                               | \$ 91,239                              | \$ 81,505   | \$ 185,881                           | \$ 162,525  |
| Net premiums earned                                | \$ 81,983                              | \$ 69,733   | \$ 161,692                           | \$ 139,523  |
| Net investment income                              | 6,649                                  | 6,605       | 13,319                               | 13,519      |
| Net realized gains/(losses) on investments         | (1,291)                                | 137         | (1,267)                              | 1,928       |
| Fee and other income                               | 170                                    | 162         | 279                                  | 321         |
| Total revenues                                     | 87,511                                 | 76,637      | 174,023                              | 155,291     |
| <b>Expenses</b>                                    |                                        |             |                                      |             |
| Loss and loss adjustment expenses incurred         | 56,813                                 | 56,720      | 112,814                              | 108,563     |
| Underwriting and certain other operating costs     | 7,770                                  | 4,923       | 14,838                               | 9,210       |
| Commissions                                        | 6,229                                  | 5,399       | 12,393                               | 10,694      |
| Salaries and benefits                              | 5,664                                  | 5,025       | 11,309                               | 10,158      |
| Interest expense                                   |                                        | 207         |                                      | 486         |
| Policyholder dividends                             | 388                                    | 330         | 942                                  | 714         |
| Total expenses                                     | 76,864                                 | 72,604      | 152,296                              | 139,825     |
| Income before income taxes                         | 10,647                                 | 4,033       | 21,727                               | 15,466      |
| Income tax expense                                 | 3,003                                  | 588         | 5,232                                | 2,460       |
| Net income                                         | 7,644                                  | 3,445       | 16,495                               | 13,006      |
| Net income available to common shareholders        | \$ 7,618                               | \$ 3,443    | \$ 16,454                            | \$ 13,001   |
| <b>Earnings per share</b>                          |                                        |             |                                      |             |
| Basic                                              | \$ 0.42                                | \$ 0.19     | \$ 0.90                              | \$ 0.72     |
| Diluted                                            | \$ 0.41                                | \$ 0.19     | \$ 0.88                              | \$ 0.70     |
| <b>Shares used in computing earnings per share</b> |                                        |             |                                      |             |
| Basic                                              | 18,353,174                             | 18,150,306  | 18,317,452                           | 18,145,525  |
| Diluted                                            | 18,712,299                             | 18,588,495  | 18,713,776                           | 18,586,156  |
| Cash dividends declared per common share           | \$ 0.08                                | \$          | \$ 0.16                              | \$          |

See accompanying notes.





**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in thousands)****(unaudited)**

|                                                  | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                  | <b>2013</b>                            | <b>2012</b> | <b>2013</b>                          | <b>2012</b> |
| Net income                                       | \$ 7,644                               | \$ 3,445    | \$ 16,495                            | \$ 13,006   |
| Other comprehensive income:                      |                                        |             |                                      |             |
| Unrealized gain/(loss) on securities, net of tax | (4,060)                                | 503         | (4,605)                              | 450         |
| Comprehensive income                             | \$ 3,584                               | \$ 3,948    | \$ 11,890                            | \$ 13,456   |

**AMERISAFE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY****(in thousands, except share data)**

|                                       | Accumulated  |        |                |             |            |             |               |            |
|---------------------------------------|--------------|--------|----------------|-------------|------------|-------------|---------------|------------|
|                                       | Additional   |        |                |             |            | Other       |               |            |
|                                       | Common Stock |        | Treasury Stock |             | Paid-In    | Accumulated | Comprehensive | Total      |
|                                       | Shares       | Amount | Shares         | Amounts     | Capital    | Earnings    | Income        |            |
| Balance at December 31, 2012          | 19,513,476   | \$ 195 | (1,258,250)    | \$ (22,370) | \$ 187,401 | \$ 213,017  | \$ 2,979      | \$ 381,222 |
| Comprehensive income                  |              |        |                |             |            | 16,495      | (4,605)       | 11,890     |
| Options exercised                     | 125,000      | 1      |                |             | 1,124      |             |               | 1,125      |
| Tax benefit from share-based payments |              |        |                |             | 883        |             |               | 883        |
| Restricted common stock issued        | 60,654       |        |                |             | 227        |             |               | 227        |
| Share-based compensation              |              |        |                |             | 112        |             |               | 112        |
| Dividends to stockholders             |              |        |                |             |            | (2,944)     |               | (2,944)    |
| Balance at June 30, 2013              | 19,699,130   | \$ 196 | (1,258,250)    | \$ (22,370) | \$ 189,747 | \$ 226,568  | \$ (1,626)    | \$ 392,515 |

See accompanying notes.

**Table of Contents****AMERISAFE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

|                                                                                   | <b>Six Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------------------------|--------------------------------------|-------------|
|                                                                                   | <b>2013</b>                          | <b>2012</b> |
| <b>Operating Activities</b>                                                       |                                      |             |
| Net income                                                                        | \$ 16,495                            | \$ 13,006   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                      |             |
| Depreciation                                                                      | 644                                  | 522         |
| Net amortization of investments                                                   | 6,183                                | 5,119       |
| Deferred income taxes                                                             | (1,772)                              | (687)       |
| Net realized (gains)/losses on investments                                        | 1,267                                | (1,928)     |
| Loss on sale of asset                                                             | 2                                    |             |
| Share-based compensation                                                          | 669                                  | 237         |
| Changes in operating assets and liabilities:                                      |                                      |             |
| Premiums receivable, net                                                          | (38,295)                             | (26,184)    |
| Accrued interest receivable                                                       | (488)                                | (432)       |
| Deferred policy acquisition costs                                                 | (2,540)                              | (2,875)     |
| Other assets and federal income tax recoverable                                   | (2,121)                              | (4,359)     |
| Reserves for loss and loss adjustment expenses                                    | 23,020                               | 20,301      |
| Unearned premiums                                                                 | 24,188                               | 23,002      |
| Reinsurance balances                                                              | (1,855)                              | (3,608)     |
| Amounts held for others and policyholder deposits                                 | 7,756                                | 6,398       |
| Accounts payable and other liabilities                                            | 26,293                               | 13,399      |
| Net cash provided by operating activities                                         | 59,446                               | 41,911      |
| <b>Investing Activities</b>                                                       |                                      |             |
| Purchases of investments held-to-maturity                                         | (48,321)                             | (64,889)    |
| Purchases of investments available-for-sale                                       | (77,720)                             | (50,252)    |
| Purchases of short-term investments                                               | (72,680)                             | (30,731)    |
| Proceeds from maturities of investments held-to-maturity                          | 62,403                               | 86,588      |
| Proceeds from sales and maturities of investments available-for-sale              | 11,179                               | 28,434      |
| Proceeds from sales and maturities of short-term investments                      | 58,039                               | 33,035      |
| Purchases of property and equipment                                               | (662)                                | (231)       |
| Net cash provided by/(used in) investing activities                               | (67,762)                             | 1,954       |
| <b>Financing Activities</b>                                                       |                                      |             |
| Proceeds from stock option exercises                                              | 1,125                                | 205         |
| Tax benefit from share-based payments                                             | 883                                  | 132         |
| Redemption of subordinate debt security                                           |                                      | (12,890)    |
| Dividends to stockholders                                                         | (2,944)                              |             |
| Net cash used in financing activities                                             | (936)                                | (12,553)    |
| Change in cash and cash equivalents                                               | (9,252)                              | 31,312      |
| Cash and cash equivalents at beginning of period                                  | 92,676                               | 45,536      |
| Cash and cash equivalents at end of period                                        | \$ 83,424                            | \$ 76,848   |

See accompanying notes.

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**AMERISAFE, INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**Note 1. Basis of Presentation**

AMERISAFE, Inc. (the Company) is an insurance holding company incorporated in the state of Texas. The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries: American Interstate Insurance Company (AIIC), Silver Oak Casualty, Inc. (SOCI), American Interstate Insurance Company of Texas (AIICTX), Amerisafe Risk Services, Inc. (RISK) and Amerisafe General Agency, Inc. (AGAI). AIIC and SOCI are property and casualty insurance companies organized under the laws of the state of Louisiana. AIICTX is a property and casualty insurance company organized under the laws of the state of Texas. RISK, a wholly owned subsidiary of the Company, is a claims and safety services company, currently servicing only affiliated insurance companies. AGAI, a wholly owned subsidiary of the Company, is a general agent for the Company. AGAI sells insurance, which is underwritten by AIIC, SOCI and AIICTX, as well as by nonaffiliated insurance carriers. The assets and operations of AGAI are not significant to that of the Company and its consolidated subsidiaries. The terms AMERISAFE, the Company, we, us or our refer to AMERISAFE, Inc. and its consolidated subsidiaries in the context requires.

The Company provides workers' compensation 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.

In May 2013, the Company granted 26,137 of restricted common stock in connection with the employment of a new executive officer. The awards were made pursuant to the Company's 2012 Incentive Plan.

In June 2013, the Company granted 5,376 shares of restricted common stock to non-employee directors in accordance with the 2010 Restricted Stock Plan. The market value of the restricted shares granted was \$0.2 million.

During the six months ended June 30, 2013, options to purchase 125,000 shares of common stock were exercised. During the six months ended June 30, 2012, options to purchase 22,800 shares of common stock were exercised. In connection with these exercises, the Company received \$1.1 million of stock option proceeds in the first six months of 2013 and \$0.2 million of stock option proceeds in the same period in 2012.

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The Company recognized share-based compensation expense of \$0.4 million and \$0.1 million in the three months ended June 30, 2013 and 2012, respectively. The Company recognized share-based compensation expense of \$0.7 million in the six months ended June 30, 2013, compared to \$0.2 million for the same period in 2012.

**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, 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.

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<br>June 30,                     |            | Six Months Ended<br>June 30, |            |
|-----------------------------------------------------|----------------------------------------------------|------------|------------------------------|------------|
|                                                     | 2013                                               | 2012       | 2013                         | 2012       |
|                                                     | (in thousands, except share and per share amounts) |            |                              |            |
| <u>Basic EPS:</u>                                   |                                                    |            |                              |            |
| Net income, as reported                             | \$ 7,644                                           | \$ 3,445   | \$ 16,495                    | \$ 13,006  |
| Less allocated income to unvested shares            | 26                                                 | 2          | 41                           | 5          |
| Net income available to common shareholders basic   | \$ 7,618                                           | \$ 3,443   | \$ 16,454                    | \$ 13,001  |
| Basic weighted average common shares                | 18,353,174                                         | 18,150,306 | 18,317,452                   | 18,145,525 |
| Basic earnings per common share                     | \$ 0.42                                            | \$ 0.19    | \$ 0.90                      | \$ 0.72    |
| <u>Diluted EPS:</u>                                 |                                                    |            |                              |            |
| Net income available to common shareholders diluted | \$ 7,619                                           | \$ 3,443   | \$ 16,455                    | \$ 13,002  |
| Diluted weighted average common shares:             |                                                    |            |                              |            |
| Weighted average common shares                      | 18,353,174                                         | 18,150,306 | 18,317,452                   | 18,145,525 |
| Stock options and performance shares                | 359,125                                            | 438,189    | 396,324                      | 440,631    |
| Diluted weighted average common shares              | 18,712,299                                         | 18,588,495 | 18,713,776                   | 18,586,156 |
| Diluted earnings per common share                   | \$ 0.41                                            | \$ 0.19    | \$ 0.88                      | \$ 0.70    |

**Note 4. Investments**

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as held-to-maturity at June 30, 2013 are summarized as follows:

|                                   | Cost or<br>Amortized Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|-----------------------------------|---------------------------|------------------------------|-------------------------------|------------|
|                                   | (in thousands)            |                              |                               |            |
| States and political subdivisions | \$ 395,641                | \$ 21,298                    | \$ (1,262)                    | \$ 415,677 |

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|                                                                      |            |           |            |            |
|----------------------------------------------------------------------|------------|-----------|------------|------------|
| Corporate bonds                                                      | 77,235     | 1,045     | (74)       | 78,206     |
| Commercial mortgage-backed securities                                | 51,502     | 4,230     |            | 55,732     |
| U.S. agency-based mortgage-backed securities                         | 26,732     | 2,179     |            | 28,911     |
| U.S. Treasury securities and obligations of U.S. government agencies | 11,020     | 1,205     |            | 12,225     |
| Asset-backed securities                                              | 3,744      | 216       | (180)      | 3,780      |
| Totals                                                               | \$ 565,874 | \$ 30,173 | \$ (1,516) | \$ 594,531 |



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The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as available-for-sale at June 30, 2013 are summarized as follows:

|                                              | Cost       | Gross<br>Unrealized<br>Gains<br>(in thousands) | Gross<br>Unrealized<br>Losses<br>(in thousands) | Fair Value |
|----------------------------------------------|------------|------------------------------------------------|-------------------------------------------------|------------|
| Fixed maturity:                              |            |                                                |                                                 |            |
| States and political subdivisions            | \$ 132,603 | \$ 2,229                                       | \$ (2,567)                                      | \$ 132,265 |
| Corporate bonds                              | 58,566     | 377                                            | (273)                                           | 58,670     |
| U.S. agency-based mortgage-backed securities | 10,418     | 2                                              | (1,981)                                         | 8,439      |
| Total fixed maturity                         | 201,587    | 2,608                                          | (4,821)                                         | 199,374    |
| Equity securities                            | 13,881     | 345                                            | (728)                                           | 13,498     |
| Totals                                       | \$ 215,468 | \$ 2,953                                       | \$ (5,549)                                      | \$ 212,872 |

The gross unrealized gains and losses on, and the cost and fair value of, those investments classified as held-to-maturity at December 31, 2012 are summarized as follows:

|                                                                      | Cost or<br>Amortized Cost | Gross<br>Unrealized<br>Gains<br>(in thousands) | Gross<br>Unrealized<br>Losses<br>(in thousands) | Fair Value |
|----------------------------------------------------------------------|---------------------------|------------------------------------------------|-------------------------------------------------|------------|
| 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 and fair value of, those investments classified as available-for-sale at December 31, 2012 are summarized as follows:

|                                              | Cost      | Gross<br>Unrealized<br>Gains<br>(in thousands) | Gross<br>Unrealized<br>Losses<br>(in thousands) | Fair Value |
|----------------------------------------------|-----------|------------------------------------------------|-------------------------------------------------|------------|
| 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      |

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|        |            |          |            |            |
|--------|------------|----------|------------|------------|
| Totals | \$ 151,514 | \$ 6,101 | \$ (1,710) | \$ 155,905 |
|--------|------------|----------|------------|------------|

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

| Remaining Time to Maturity                   | Amortized<br>Cost Basis<br>(in thousands) | Fair Value |
|----------------------------------------------|-------------------------------------------|------------|
| Less than one year                           | \$ 66,726                                 | \$ 67,210  |
| One to five years                            | 143,021                                   | 150,147    |
| Five to ten years                            | 132,814                                   | 143,055    |
| More than ten years                          | 141,335                                   | 145,696    |
| U.S. agency-based mortgage-backed securities | 26,732                                    | 28,911     |
| Commercial mortgage-backed securities        | 51,502                                    | 55,732     |
| Asset-backed securities                      | 3,744                                     | 3,780      |
| Total                                        | \$ 565,874                                | \$ 594,531 |

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

| Remaining Time to Maturity                   | Cost Basis<br>(in thousands) | Fair Value |
|----------------------------------------------|------------------------------|------------|
| Less than one year                           | \$ 30,653                    | \$ 30,679  |
| One to five years                            | 21,431                       | 21,653     |
| Five to ten years                            | 18,252                       | 18,370     |
| More than ten years                          | 120,833                      | 120,233    |
| U.S. agency-based mortgage-backed securities | 10,418                       | 8,439      |
| Total                                        | \$ 201,587                   | \$ 199,374 |

The following table summarizes, as of June 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:

|                                              | Less Than 12 Months |            | As of June 30, 2013<br>12 Months or Greater |            | Total       |            |
|----------------------------------------------|---------------------|------------|---------------------------------------------|------------|-------------|------------|
|                                              | Fair Value          |            | Fair Value                                  |            | Fair Value  |            |
|                                              | of                  |            | of                                          |            | of          |            |
|                                              | Investments         |            | Investments                                 |            | Investments |            |
|                                              | with                | Gross      | with                                        | Gross      | with        | Gross      |
|                                              | Unrealized          | Unrealized | Unrealized                                  | Unrealized | Unrealized  | Unrealized |
|                                              | Losses              | Losses     | Losses                                      | Losses     | Losses      | Losses     |
|                                              | (in thousands)      |            |                                             |            |             |            |
| Held-to-Maturity                             |                     |            |                                             |            |             |            |
| Fixed maturity securities:                   |                     |            |                                             |            |             |            |
| Corporate bonds                              | \$ 29,035           | \$ 74      | \$                                          | \$         | \$ 29,035   | \$ 74      |
| States and political subdivisions            | 47,223              | 1,262      |                                             |            | 47,223      | 1,262      |
| U.S. agency-based mortgage-backed securities |                     |            | 9                                           |            | 9           |            |
| Asset-backed securities                      |                     |            | 2,047                                       | 180        | 2,047       | 180        |
| Total held-to-maturity securities            | 76,258              | 1,336      | 2,056                                       | 180        | 78,314      | 1,516      |

**Available-for-Sale**

Fixed maturity securities:

|                                              |           |        |    |    |           |        |
|----------------------------------------------|-----------|--------|----|----|-----------|--------|
| Corporate bonds                              | \$ 26,823 | \$ 273 | \$ | \$ | \$ 26,823 | \$ 273 |
| States and political subdivisions            | 69,199    | 2,567  |    |    | 69,199    | 2,567  |
| U.S. agency-based mortgage-backed securities | 8,309     | 1,981  |    |    | 8,309     | 1,981  |
| Equity securities                            | 3,917     | 728    |    |    | 3,917     | 728    |

|                                     |         |       |  |  |         |       |
|-------------------------------------|---------|-------|--|--|---------|-------|
| Total available-for-sale securities | 108,248 | 5,549 |  |  | 108,248 | 5,549 |
|-------------------------------------|---------|-------|--|--|---------|-------|

|       |            |          |          |        |            |          |
|-------|------------|----------|----------|--------|------------|----------|
| Total | \$ 184,506 | \$ 6,885 | \$ 2,056 | \$ 180 | \$ 186,562 | \$ 7,065 |
|-------|------------|----------|----------|--------|------------|----------|

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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<br>12 Months or Greater |            | Total       |            |
|----------------------------------------------|---------------------|------------|-------------------------------------------------|------------|-------------|------------|
|                                              | Fair Value          |            | Fair Value                                      |            | Fair Value  |            |
|                                              | of                  |            | of                                              |            | of          |            |
|                                              | Investments         |            | Investments                                     |            | Investments |            |
|                                              | with                | Gross      | with                                            | Gross      | with        | Gross      |
|                                              | Unrealized          | Unrealized | Unrealized                                      | Unrealized | Unrealized  | Unrealized |
|                                              | Losses              | Losses     | Losses                                          | Losses     | Losses      | 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 June 30, 2013, we sold equity and fixed maturity securities classified as available-for-sale. The cost basis of these securities at disposal was \$5.0 million with realized gains on the sale of these securities of \$0.6 million. In the three months ended June 30, 2012, we sold equity securities classified as available-for-sale. The cost basis of these securities at disposal was \$0.9 million with realized gains on the sale of these securities of \$0.1 million.

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In the six months ended June 30, 2013 and 2012, we sold equity and fixed maturity securities classified as available-for-sale. The cost basis of these securities at disposal was \$5.0 million with realized gains on the sale of these securities of \$0.6 million for the six months ended June 30, 2013, compared to a cost basis of \$20.0 million and realized gains of \$1.9 million for the same period in 2012.

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 two of our investments in equity securities in the three and six months ended June 30, 2013. These charges are included in Net realized gains/(losses) on investments and total \$1.9 million. No such impairment charges were taken the first two quarters of 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 June 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 June 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.

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

Comprehensive income was \$3.6 million for the three months ended June 30, 2013, compared to \$3.9 million for the three months ended June 30, 2012. Comprehensive income was \$11.9 million for the six months ended June 30, 2013, as compared to \$13.5 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.

The following table presents the changes in the Company's accumulated other comprehensive income (AOCI) for the three months ended June 30, 2013.

|                                                                     | Changes in Net<br>Unrealized Gains on<br>Investment Securities<br>Having<br>No<br>Credit<br>Losses<br>Recognized<br>in<br>the<br>Consolidated<br>Statement<br>of<br>Income | Changes in Net<br>Unrealized Gains on<br>Investment Securities<br>Having Credit<br>Losses<br>Recognized in the<br>Consolidated Statement<br>of Income<br>(in thousands) | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income |
|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| Balance at March 31, 2013                                           | \$ 2,421                                                                                                                                                                   | \$ 13                                                                                                                                                                   | \$ 2,434                                                 |
| Other comprehensive income (loss) before<br>reclassifications       | (4,448)                                                                                                                                                                    |                                                                                                                                                                         | (4,448)                                                  |
| Amounts reclassified from accumulated other<br>comprehensive income | 388                                                                                                                                                                        |                                                                                                                                                                         | 388)                                                     |
| Net current-period other comprehensive income<br>(loss)             | (4,060)                                                                                                                                                                    |                                                                                                                                                                         | (4,060)                                                  |

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|                          |            |    |    |            |
|--------------------------|------------|----|----|------------|
| Balance at June 30, 2013 | \$ (1,639) | \$ | 13 | \$ (1,626) |
|--------------------------|------------|----|----|------------|



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The following table presents the changes in the Company's accumulated other comprehensive income (AOCI) for the six months ended June 30, 2013.

|                                                                  | Changes in Net<br>Unrealized Gains on<br>Investment Securities<br>Having<br>No<br>Credit<br>Losses<br>Recognized<br>in<br>the<br>Consolidated<br>Statement<br>of<br>Income | Changes in Net<br>Unrealized Gains on<br>Investment Securities<br>Having Credit<br>Losses<br>Recognized in the<br>Consolidated Statement<br>of Income<br>(in thousands) | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income |
|------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| Balance at December 31, 2012                                     | \$ 2,966                                                                                                                                                                   | \$ 13                                                                                                                                                                   | \$ 2,979                                                 |
| Other comprehensive income (loss) before reclassifications       | (4,867)                                                                                                                                                                    |                                                                                                                                                                         | (4,867)                                                  |
| Amounts reclassified from accumulated other comprehensive income | 262                                                                                                                                                                        |                                                                                                                                                                         | 262                                                      |
| Net current-period other comprehensive income (loss)             | (4,605)                                                                                                                                                                    |                                                                                                                                                                         | (4,605)                                                  |
| Balance at June 30, 2013                                         | \$ (1,639)                                                                                                                                                                 | \$ 13                                                                                                                                                                   | \$ (1,626)                                               |

The following table presents the pretax and related income tax expense (benefit) components of the amounts reclassified from the Company's accumulated other comprehensive income to the Company's consolidated statement of income for the three and six months ended June 30, 2013 and 2012.

|                                                                                    | Three Months Ended<br>June 30,<br>2013      2012<br>(in thousands) |         | Six Months Ended<br>June 30,<br>2013      2012<br>(in thousands) |            |
|------------------------------------------------------------------------------------|--------------------------------------------------------------------|---------|------------------------------------------------------------------|------------|
| Reclassification adjustments related to unrealized gains on investment securities: |                                                                    |         |                                                                  |            |
| Having no credit losses recognized in the consolidated statement of income (1)     | \$ 597                                                             | \$ (63) | \$ 403                                                           | \$ (1,136) |
| Income tax expense (2)                                                             | 209                                                                | (22)    | 141                                                              | (397)      |
| Net of taxes                                                                       | \$ 388                                                             | \$ (41) | \$ 262                                                           | \$ (739)   |
| Reclassification adjustments related to unrealized gains on investment securities: |                                                                    |         |                                                                  |            |
| Having credit losses recognized in the consolidated statement of income (1)        | \$                                                                 | \$      | \$                                                               | \$ 1       |
| Income tax expense (2)                                                             |                                                                    |         |                                                                  |            |
| Net of taxes                                                                       | \$                                                                 | \$      | \$                                                               | \$ 1       |
| Total reclassifications                                                            | 597                                                                | (63)    | 403                                                              | (1,135)    |
| Total income tax expense                                                           | 209                                                                | (22)    | 141                                                              | (397)      |
| Net of taxes                                                                       | \$ 388                                                             | \$ (41) | \$ 262                                                           | \$ (738)   |

- (1) (Increases) decreases in net realized gains on investments on the consolidated statement of income.
- (2) (Increases) decreases in income tax expense on the consolidated statement of income.

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The following table presents the pretax components of other comprehensive income (loss) and related income tax expense for the three and six months ended June 30, 2013 and 2012.

|                                                                            | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|----------------------------------------------------------------------------|----------------------------------------|-------------|--------------------------------------|-------------|
|                                                                            | <b>2013</b>                            | <b>2012</b> | <b>2013</b>                          | <b>2012</b> |
|                                                                            | (in thousands)                         |             | (in thousands)                       |             |
| <b>Changes in net unrealized gains on investment securities:</b>           |                                        |             |                                      |             |
| Having no credit losses recognized in the consolidated statement of income | \$ (6,248)                             | \$ 774      | \$ (7,085)                           | \$ 691      |
| Income tax expense                                                         | (2,188)                                | 271         | (2,480)                              | 242         |
| <br>Total other comprehensive income (loss), net of taxes                  | <br>\$ (4,060)                         | <br>\$ 503  | <br>\$ (4,605)                       | <br>\$ 449  |
| <b>Changes in net unrealized gains on investment securities:</b>           |                                        |             |                                      |             |
| Having credit losses recognized in the consolidated statement of income    | \$                                     | \$          | \$                                   | \$ 1        |
| Income tax expense                                                         |                                        |             |                                      |             |
| <br>Total other comprehensive income (loss), net of taxes                  | <br>\$                                 | <br>\$      | <br>\$                               | <br>\$ 1    |
| <br>Total other comprehensive income/(loss)                                | <br>(6,248)                            | <br>774     | <br>(7,085)                          | <br>692     |
| Total Income tax expense                                                   | (2,188)                                | 271         | (2,480)                              | 242         |
| <br>Total other comprehensive income (loss), net of taxes                  | <br>\$ (4,060)                         | <br>\$ 503  | <br>\$ (4,605)                       | <br>\$ 450  |

**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:

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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.

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

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

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

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

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

The fair values of the Company's investments are based upon prices provided by an independent pricing service. The Company has reviewed these prices for reasonableness and has not adjusted any prices received from the independent provider. Securities reported at fair value utilizing Level 1 inputs represent assets whose fair value is determined based upon observable unadjusted quoted market prices for identical assets in active markets. Level 2 securities represent assets whose fair value is determined using observable market information such as previous day trade prices, quotes from less active markets or quoted prices of securities with similar characteristics. There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2013.

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

|                                                | Level 1<br>Inputs | Level 2<br>Inputs<br>(in thousands) | Level 3<br>Inputs | Total Fair<br>Value |
|------------------------------------------------|-------------------|-------------------------------------|-------------------|---------------------|
| Securities available for sale – equity         |                   |                                     |                   |                     |
| Domestic common stock                          | \$ 13,498         | \$                                  | \$                | \$ 13,498           |
| Securities available for sale – fixed maturity |                   |                                     |                   |                     |
| States and political subdivisions              |                   | 132,265                             |                   | 132,265             |
| Corporate bonds                                |                   | 58,670                              |                   | 58,670              |
| U.S. agency-based mortgage-backed securities   |                   | 8,439                               |                   | 8,439               |
| Total available for sale – fixed maturity      |                   | \$ 199,374                          |                   | 199,374             |
| Total available for sale                       | \$ 13,498         | \$ 199,374                          | \$                | \$ 212,872          |

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

|                                                                      | Level 1<br>Inputs | Level 2<br>Inputs<br>(in thousands) | Level 3<br>Inputs | Total Fair<br>Value |
|----------------------------------------------------------------------|-------------------|-------------------------------------|-------------------|---------------------|
| Securities held-to-maturity fixed maturity                           |                   |                                     |                   |                     |
| States and political subdivisions                                    | \$                | \$ 415,677                          | \$                | \$ 415,677          |
| Corporate bonds                                                      |                   | 78,206                              |                   | 78,206              |
| Commercial mortgage-backed securities                                |                   | 55,732                              |                   | 55,732              |
| U.S. agency-based mortgage-backed securities                         |                   | 28,911                              |                   | 28,911              |
| U.S. Treasury securities and obligations of U.S. Government agencies | 6,088             | 6,137                               |                   | 12,225              |
| Asset-backed securities                                              |                   | 3,780                               |                   | 3,780               |
| Total held-to-maturity                                               | \$ 6,088          | \$ 588,443                          | \$                | \$ 594,531          |

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

|                                              | Level 1<br>Inputs | Level 2<br>Inputs<br>(in thousands) | Level 3<br>Inputs | Total Fair<br>Value |
|----------------------------------------------|-------------------|-------------------------------------|-------------------|---------------------|
| Securities available for sale equity         |                   |                                     |                   |                     |
| 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<br>Inputs | Level 2<br>Inputs<br>(in thousands) | Level 3<br>Inputs | Total Fair<br>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.

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

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*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.

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

|                                              | As of June 30, 2013 |            | As of December 31, 2012 |            |
|----------------------------------------------|---------------------|------------|-------------------------|------------|
|                                              | Carrying Amount     | Fair Value | Carrying Amount         | Fair Value |
|                                              | (in thousands)      |            |                         |            |
| Assets:                                      |                     |            |                         |            |
| Fixed maturity securities held-to-maturity   | \$ 565,874          | \$ 594,531 | \$ 583,287              | \$ 627,349 |
| Fixed maturity securities available-for-sale | 199,374             | 199,374    | 149,139                 | 149,139    |
| Equity securities                            | 13,498              | 13,498     | 6,766                   | 6,766      |
| Cash and cash equivalents                    | 83,424              | 83,424     | 92,676                  | 92,676     |
| Short-term Investments                       | 81,935              | 81,935     | 68,924                  | 68,924     |

**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 six months ended June 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 July 30, 2013, the Company's Board of Directors declared a quarterly cash dividend of \$0.08 per share, payable on September 27, 2013 to shareholders of record as of September 13, 2013. The Board intends to consider the payment of a regular cash dividend each calendar quarter.



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

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of 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 six months ended June 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, 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.

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### Results of Operations

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

|                                   | Three Months Ended<br>June 30,                               |           | Six Months Ended<br>June 30, |            |
|-----------------------------------|--------------------------------------------------------------|-----------|------------------------------|------------|
|                                   | 2013                                                         | 2012      | 2013                         | 2012       |
|                                   | (dollars in thousands, except per share data)<br>(unaudited) |           |                              |            |
| Gross premiums written            | \$ 95,815                                                    | \$ 85,476 | \$ 194,938                   | \$ 170,400 |
| Net premiums earned               | 81,983                                                       | 69,733    | 161,692                      | 139,523    |
| Net investment income             | 6,649                                                        | 6,605     | 13,319                       | 13,519     |
| Total revenues                    | 87,511                                                       | 76,637    | 174,023                      | 155,291    |
| Total expenses                    | 76,864                                                       | 72,604    | 152,296                      | 139,825    |
| Net income                        | 7,644                                                        | 3,445     | 16,495                       | 13,006     |
| Diluted earnings per common share | \$ 0.41                                                      | \$ 0.19   | \$ 0.88                      | \$ 0.70    |
| <b>Other Key Measures</b>         |                                                              |           |                              |            |
| Net combined ratio (1)            | 93.8%                                                        | 103.8%    | 94.2%                        | 99.8%      |
| Return on average equity (2)      | 7.8%                                                         | 3.8%      | 8.5%                         | 7.3%       |
| Book value per share (3)          | \$ 21.29                                                     | \$ 19.98  | \$ 21.29                     | \$ 19.98   |

- (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.

#### **Consolidated Results of Operations for Three Months Ended June 30, 2013 Compared to June 30, 2012**

**Gross Premiums Written.** Gross premiums written for the quarter ended June 30, 2013 were \$95.8 million, compared to \$85.5 million for the same period in 2012, an increase of 12.1%. The increase was attributable to a \$10.1 million increase in annual premiums on voluntary policies written during the period and a \$0.9 million increase in assumed premium from mandatory pooling arrangements. These increases were partially offset by a \$0.8 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 1.76 for the second quarter ended June 30, 2013 compared to 1.63 for the same period in 2012.

**Net Premiums Written.** Net premiums written for the quarter ended June 30, 2013 were \$91.2 million, compared to \$81.5 million for the same period in 2012, an increase of 11.9%. 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 second quarter of 2013 compared to 5.4% for the second 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 second quarter of 2013 were \$82.0 million, compared to \$69.7 million for the same period in 2012, an increase of 17.6%. The increase was attributable to the increase in net premiums written in the quarter, offset by an increase in unearned premiums.

**Net Investment Income.** Net investment income for the quarter ended June 30, 2013 and 2012 was \$6.6 million. Average invested assets, including cash and cash equivalents, were \$926.4 million in the quarter ended June 30, 2013, compared to an average of \$873.2 million for the same period in 2012, an increase of 6.1%. The pre-tax investment yield on our investment portfolio was 2.9% and 3.0% per annum during the quarters ended June 30, 2013 and 2012, respectively. The tax-equivalent yield on our investment portfolio was 4.1% per annum for the quarter ended June 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 June 30, 2013 totaled \$1.3 million compared to net realized gains of \$0.1 million for the same period in 2012. Net realized losses in the second quarter of 2013 were attributable to \$1.9 million in other-than-temporary impairments of certain equity securities offset by \$0.6 million in realized gains from the sale of equity

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securities and fixed maturity securities from the available-for-sale portfolio. Net realized gains in the second quarter of 2012 were attributable to called fixed maturity securities and the sale of equity securities from the available-for-sale portfolio.

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*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$56.8 million for the three months ended June 30, 2013, compared to \$56.7 million for the same period in 2012, an increase of \$0.1 million, or 0.2%. The current accident year losses and LAE incurred were \$60.0 million, or 73.2% of net premiums earned, compared to \$53.3 million, or 76.5% of net premiums earned, for the same period in 2012. We recorded favorable prior accident year development of \$3.2 million in the second quarter of 2013, compared to unfavorable prior accident year development of \$3.4 million in the same period of 2012, as further discussed below in Prior Year Development. Our net loss ratio was 69.3% in the second quarter of 2013, compared to 81.3% 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 June 30, 2013 were \$19.7 million, compared to \$15.3 million for the same period in 2012, an increase of 28.1%. This increase was primarily due to a \$1.4 million increase in premium taxes as a result of timing differences, a \$1.2 million increase in insurance related assessments, a \$1.0 million decrease in experience-rated commission resulting from high severity loss, a \$0.8 million increase in commission expense and a \$0.6 million increase in compensation expense due to annual merit increases. Our expense ratio was 24.0% in the second quarter of 2013 compared to 22.0% in the second quarter of 2012.

*Interest Expense.* There was no interest expense for the second quarter of 2013 compared to \$0.2 million for the same period in 2012. There were no weighted average borrowings for the quarter ended June 30, 2013 compared to \$19.3 million for the same period in 2012. The weighted average interest rate was 4.3% per annum for the second quarter of 2012.

*Income Tax Expense.* Income tax expense for the three months ended June 30, 2013 was \$3.0 million, compared to \$0.6 million for the same period in 2012. The increase was attributable to an increase in the effective tax rate to 28.2% in the second quarter of 2013 from 14.6% in the second 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 second quarter of 2013 compared to the second quarter of 2012.

### ***Consolidated Results of Operations for Six Months Ended June 30, 2013 Compared to June 30, 2012***

*Gross Premiums Written.* Gross premiums written for the first half of 2013 were \$194.9 million, compared to \$170.4 million for the same period in 2012, an increase of 14.4%. The increase was attributable to a \$22.7 million increase in annual premiums on voluntary policies written during the period and a \$1.5 million increase in assumed premium from mandatory pooling arrangements. These increases were partially offset by a \$0.2 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 six months ended June 30, 2013 were \$185.9 million, compared to \$162.5 million for the same period in 2012, an increase of 14.4%. 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 half of 2013 and 2012.

*Net Premiums Earned.* Net premiums earned for the first half of 2013 were \$161.7 million, compared to \$139.5 million for the same period in 2012, an increase of 15.9%. 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 six months of 2013 was \$13.3 million, compared to \$13.5 million for the same period in 2012. Average invested assets, including cash and cash equivalents, were \$919.5 million in the six months ended June 30, 2013, compared to \$868.3 million for the same period in 2012, an increase of 5.9%. The pre-tax investment yield on our investment portfolio was 2.9% per annum during the six months ended June 30, 2013, compared to 3.1% per annum during the same period in 2012. The tax-equivalent yield on our investment portfolio was 4.1% per annum for the first half 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 six months ended June 30, 2013 totaled \$1.3 million, compared to net realized gains of \$1.9 million for the same period in 2012. Net realized losses in the first half of 2013 were attributable to \$1.9 million in other-than-temporary impairments of certain equity securities offset by \$0.6 million in realized gains from the sale of equity securities and fixed maturity securities from the available-for-sale portfolio. Net realized gains in the first half of 2012 were attributable to called fixed maturity securities and from the sale of equity securities and fixed maturity securities from the available-for-sale portfolio.

*Loss and Loss Adjustment Expenses Incurred.* Loss and loss adjustment expenses (LAE) incurred totaled \$112.8 million for the six months ended June 30, 2013, compared to \$108.6 million for the same period in 2012, an increase of \$4.2 million, or 3.9%. The current accident year losses and LAE incurred were \$118.4 million, or 73.2% of net premiums earned, compared to \$106.8 million, or



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76.5% of net premiums earned, for the same period in 2012. We recorded favorable prior accident year development of \$5.6 million in the first half of 2013, compared to unfavorable prior accident year development of \$1.8 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 half of 2013, compared to 77.8% 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 six months ended June 30, 2013 were \$38.5 million, compared to \$30.1 million for the same period in 2012, an increase of 28.2%. This increase was primarily due to a \$3.6 million increase in insurance related assessments, a \$1.7 million increase in commission expense, a \$1.2 million decrease in experience-rated commission, a \$1.0 million increase in premium taxes, a \$1.2 million increase in compensation expense, a \$0.4 million increase in mandatory pooling arrangement fees. Offsetting these increases was a \$0.3 million increase in ceding commission related to our 2013 reinsurance agreement. Our expense ratio was 23.8% in the first half of 2013 compared to 21.5% in the same period of 2012.

*Interest Expense.* There was no interest expense for the six months ended June 30, 2013 compared to \$0.5 million for the same period in 2012. There were no weighted average borrowings for the six months ended June 30, 2013 compared to \$22.5 million for the same period in 2012. The weighted average interest rate was 4.3% per annum for the first half of 2012.

*Income Tax Expense.* Income tax expense for the six months ended June 30, 2013 was \$5.2 million, compared to \$2.5 million for the same period in 2012. The increase was attributable to an increase in pre-tax income to \$21.7 million in the first half of 2013 from \$15.5 million in the first half of 2012. The effective tax rate also increased to 24.1% for the six months ended June 30, 2013 from 15.9% for the six months ended June 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 \$59.4 million for the six months ended June 30, 2013, which represented a \$17.5 million increase from \$41.9 million in net cash provided by operating activities for the six months ended June 30, 2012. This increase in operating cash flow was attributable to an \$11.9 million increase in premium collections, a \$4.0 million increase in payable for securities sold, a \$1.5 million decrease in losses paid, a \$1.2 million decrease in federal income taxes paid, a \$1.1 million increase in paid losses payable, and a \$0.8 million increase in investment income. Offsetting these increases were a \$3.6 million decrease in reinsurance recoveries and a \$1.2 million increase in underwriting expenses paid.

Net cash used in investing activities was \$67.8 million for the six months ended June 30, 2013, compared to net cash provided by investment activities of \$2.0 million for the same period in 2012. Cash provided by sales and maturities of investments totaled \$131.6 million for the six months ended June 30, 2013, compared to \$148.1 million for the same period in 2012. A total of \$198.7 million in cash was used to purchase investments in the six months ended June 30, 2013, compared to \$145.9 million in purchases for the same period in 2012.

Net cash used in financing activities in the six months ended June 30, 2013 was \$0.9 compared to \$12.6 million for the same period in 2012. In the six months ended June 30, 2012, \$12.9 million of cash was used to redeem subordinated debt securities. There were proceeds of \$1.1 million from stock option exercises in the six months ended June 30, 2013 compared to \$0.2 million for the same period in 2012. During the six months ended June 30, 2013, there was a tax benefit of share based payments in the amount of \$0.9 million compared to a \$0.1 million in the same period of 2012. Offsetting these increases were dividends to stockholders of \$2.9 million in the six months ended June 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 December 31, 2012 under this program. There were no shares purchased during the six months ended June 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 Company's Board of Directors declared a quarterly cash dividend of \$0.08 per share, payable on June 26, 2013 to shareholders of record as of June 12, 2013. The Board intends to consider the payment of a regular cash dividend each calendar quarter.



**Table of Contents****Investment Portfolio**

As of June 30, 2013, our investment portfolio, including cash and cash equivalents, totaled \$944.1 million, an increase of 7.5% from \$878.1 million on June 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 June 30, 2013, is shown in the following table:

|                                                                      | Carrying<br>Value<br>(in thousands) | Percentage<br>of<br>Portfolio |
|----------------------------------------------------------------------|-------------------------------------|-------------------------------|
| <b>Fixed maturity securities held-to-maturity:</b>                   |                                     |                               |
| States and political subdivisions                                    | \$ 395,641                          | 41.9%                         |
| U.S. agency-based mortgage-backed securities                         | 26,732                              | 2.8%                          |
| Commercial mortgage-backed securities                                | 51,502                              | 5.5%                          |
| U.S. Treasury securities and obligations of U.S. government agencies | 11,020                              | 1.2%                          |
| Corporate bonds                                                      | 77,235                              | 8.2%                          |
| Asset-backed securities                                              | 3,744                               | 0.4%                          |
| <b>Total fixed maturity securities held-to-maturity</b>              | <b>565,874</b>                      | <b>60.0%</b>                  |
| <b>Fixed maturity securities available-for-sale:</b>                 |                                     |                               |
| States and political subdivisions                                    | 132,265                             | 14.0%                         |
| U.S. agency-based mortgage-backed securities                         | 8,439                               | 0.9%                          |
| Corporate bonds                                                      | 58,670                              | 6.2%                          |
| <b>Total fixed maturity securities available-for-sale</b>            | <b>199,374</b>                      | <b>21.1%</b>                  |
| Equity securities                                                    | 13,498                              | 1.4%                          |
| Short-term investments                                               | 81,935                              | 8.7%                          |
| Cash and cash equivalents                                            | 83,424                              | 8.8%                          |
| <b>Total investments, including cash and cash equivalents</b>        | <b>\$ 944,105</b>                   | <b>100.0%</b>                 |

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

In June 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 \$1.9 million for the three months ended June 30, 2013. No such impairment charges were taken in the three months ended June 30, 2012.



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

The Company recorded favorable prior accident year development of \$3.2 million in the three months ended June 30, 2013. The table below sets forth the favorable or unfavorable development for the three and six months ended June 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                  |                                  | Six Months Ended | Six Months Ended |
|                       | June 30, 2013                       | Three Months Ended June 30, 2012 | June 30, 2013    | June 30, 2012    |
|                       |                                     |                                  | (in millions)    |                  |
| 2012                  | \$ 0.3                              | \$                               | \$ 0.4           | \$               |
| 2011                  | 0.3                                 | (3.2)                            | 0.3              | (3.2)            |
| 2010                  | 0.1                                 | (2.0)                            | 0.3              | (5.6)            |
| 2009                  |                                     | 0.3                              | 1.0              | 0.3              |
| 2008                  | 0.9                                 |                                  | 1.7              | 0.4              |
| Prior to 2008         | 1.6                                 | 1.5                              | 1.9              | 6.3              |
| Total net development | \$ 3.2                              | \$ (3.4)                         | \$ 5.6           | \$ (1.8)         |

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

|                                    | Three Months Ended |               | Six Months Ended |               |
|------------------------------------|--------------------|---------------|------------------|---------------|
|                                    | June 30, 2013      | June 30, 2012 | June 30, 2013    | June 30, 2012 |
| Open claims at beginning of period | 5,079              | 5,097         | 4,964            | 5,184         |
| Claims reported                    | 1,378              | 1,523         | 2,638            | 2,894         |
| Claims closed                      | (1,212)            | (1,561)       | (2,357)          | (3,019)       |
| Open claims at end of period       | 5,245              | 5,059         | 5,245            | 5,059         |

The number of open claims at June 30, 2013 increased by 186 claims as compared to the number of open claims at June 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 six months ended June 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.

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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.

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### **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 six months ended June 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 approximate dollar value of shares that may yet be purchased under the program is \$24.4 million.

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**Item 6. Exhibits.**

| <b>Exhibit</b> |                                                                                                                                                                           |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>No.</b>     | <b>Description</b>                                                                                                                                                        |
| 31.1           | Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                    |
| 31.2           | Certification of 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                                                                                                                    |

\* XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

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**SIGNATURES**

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

AMERISAFE, INC.

August 5, 2013

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

August 5, 2013

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

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**EXHIBIT INDEX**

| <b>Exhibit</b> |                                                                                                                                                                           |
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