

AMERISAFE INC  
Form 10-Q  
August 01, 2014  
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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, 2014**

**Commission file number: 001-12251**

**AMERISAFE, INC.**

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

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

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

**Identification Number)**

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of July 31, 2014, there were 18,741,325 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, should, similar statements of a future or forward-looking nature identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

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;

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;

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

the cyclical nature of the workers compensation insurance industry;

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

decreased level of business activity of our policyholders caused by decreased business activity generally, and in particular in the industries we target;

adverse developments in economic, competitive or regulatory conditions within the workers compensation insurance industry;

decreased demand for our insurance;

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

changes in rating agency policies, practices or ratings;

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 legal theories of liability under our insurance policies;

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

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

other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission (SEC).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report, and under the caption "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

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

|   | <b>June 30,<br/>2014<br/>(unaudited)</b> | <b>December 31,<br/>2013</b> |
|---|--|------------------------------|
| <b>Assets</b>   |  |                              |
| Investments:  |  |                              |
| Fixed maturity securities held-to-maturity, at amortized cost (fair value \$607,512 and \$561,179 in 2014 and 2013, respectively) | \$ 579,145                               | \$ 536,583                   |
| Fixed maturity securities available-for-sale, at fair value (cost \$282,240 and \$244,409 in 2014 and 2013, respectively)         | 284,613                                  | 237,877                      |
| Equity securities available-for-sale, at fair value (cost \$3,446 and \$9,482 in 2014 and 2013, respectively)                     | 3,980                                    | 9,302                        |
| Short-term investments  | 85,806                                   | 84,422                       |
| Other investments   | 11,092                                   | 10,591                       |
| <br>  |  |                              |
| Total investments   | 964,636                                  | 878,775                      |
| Cash and cash equivalents   | 98,818                                   | 123,077                      |
| Amounts recoverable from reinsurers   | 85,512                                   | 75,326                       |
| Premiums receivable, net of allowance   | 205,113                                  | 171,579                      |
| Deferred income taxes   | 33,542                                   | 33,645                       |
| Accrued interest receivable   | 11,234                                   | 11,242                       |
| Property and equipment, net   | 7,589                                    | 7,549                        |
| Deferred policy acquisition costs   | 21,809                                   | 19,171                       |
| Other assets  | 11,464                                   | 8,637                        |
|   | <br>                                     |                              |
|   | \$ 1,439,717                             | \$ 1,329,001                 |
| <br>  |  |                              |
| <b>Liabilities and shareholders equity</b>  |  |                              |
| Liabilities:  |  |                              |
| Reserves for loss and loss adjustment expenses  | \$ 657,276                               | \$ 614,557                   |
| Unearned premiums   | 184,238                                  | 164,296                      |
| Reinsurance premiums payable  | 1,000                                    | 607                          |
| Amounts held for others   | 39,084                                   | 35,739                       |
| Policyholder deposits   | 47,450                                   | 44,620                       |
| Insurance-related assessments   | 32,137                                   | 25,428                       |
| Accounts payable and other liabilities  | 32,651                                   | 26,940                       |

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|  |              |              |
|--|--------------|--------------|
| Payable for investments purchased  | 10,397       |              |
|  | 1,004,233    | 912,187      |
| Shareholders' equity:  |              |              |
| Common stock:  |              |              |
| Voting \$0.01 par value authorized shares 50,000,000 in 2014 and 2013; 19,984,575 and 19,855,430 shares issued and 18,726,325 and 18,597,180 shares outstanding in 2014 and 2013, respectively | 199          | 198          |
| Additional paid-in capital   | 195,436      | 192,537      |
| Treasury stock at cost (1,258,250 shares in 2014 and 2013)   | (22,370)     | (22,370)     |
| Accumulated earnings   | 260,258      | 250,744      |
| Accumulated other comprehensive income/(loss), net   | 1,961        | (4,295)      |
|  | 435,484      | 416,814      |
|  | \$ 1,439,717 | \$ 1,329,001 |

See accompanying notes.

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

(in thousands, except share and per share data)

(unaudited)

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|--|--------------------------------|-----------|------------------------------|------------|
|  | 2014                           | 2013      | 2014                         | 2013       |
| <b>Revenues</b>                                |                                |           |                              |            |
| Gross premiums written                         | \$ 103,820                     | \$ 95,815 | \$ 209,523                   | \$ 194,938 |
| Ceded premiums written                         | (3,493)                        | (4,576)   | (6,832)                      | (9,057)    |
| Net premiums written                           | \$ 100,327                     | \$ 91,239 | \$ 202,691                   | \$ 185,881 |
| Net premiums earned                            | \$ 93,516                      | \$ 81,983 | \$ 182,749                   | \$ 161,692 |
| Net investment income                          | 6,845                          | 6,649     | 13,553                       | 13,319     |
| Net realized gains/(losses) on investments     | 232                            | (1,291)   | 333                          | (1,267)    |
| Fee and other income                           | 31                             | 170       | 162                          | 279        |
| Total revenues                                 | 100,624                        | 87,511    | 196,797                      | 174,023    |
| <b>Expenses</b>                                |                                |           |                              |            |
| Loss and loss adjustment expenses incurred     | 62,463                         | 56,813    | 123,748                      | 112,814    |
| Underwriting and certain other operating costs | 8,839                          | 7,770     | 16,802                       | 14,838     |
| Commissions                                    | 6,987                          | 6,229     | 13,674                       | 12,393     |
| Salaries and benefits                          | 5,186                          | 5,664     | 11,907                       | 11,309     |
| Policyholder dividends                         | 88                             | 388       | 201                          | 942        |
| Total expenses                                 | 83,563                         | 76,864    | 166,332                      | 152,296    |
| Income before income taxes                     | 17,061                         | 10,647    | 30,465                       | 21,727     |
| Income tax expense                             | 4,288                          | 3,003     | 7,143                        | 5,232      |
| Net income                                     | 12,773                         | 7,644     | 23,322                       | 16,495     |
| Net income available to common shareholders    | \$ 12,773                      | \$ 7,618  | \$ 23,322                    | \$ 16,454  |
| <b>Earnings per share</b>                      |                                |           |                              |            |
| Basic  | \$ 0.69                        | \$ 0.42   | \$ 1.26                      | \$ 0.90    |
| Diluted  | \$ 0.68                        | \$ 0.41   | \$ 1.23                      | \$ 0.88    |

**Shares used in computing earnings per share**



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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Basic  | 18,600,186 | 18,353,174 | 18,566,235 | 18,317,452 |
| Diluted  | 18,894,885 | 18,712,299 | 18,885,384 | 18,713,776 |
| Extraordinary cash dividends declared per common share | \$         | \$         | \$ 0.50    | \$         |
| Cash dividends declared per common share               | \$ 0.12    | \$ 0.08    | \$ 0.24    | \$ 0.16    |

See accompanying notes.

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## AMERISAFE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

|  | Three Months<br>Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|--|-----------------------------------|----------|------------------------------|-----------|
|  | 2014                              | 2013     | 2014                         | 2013      |
| Net income                                       | \$ 12,773                         | \$ 7,644 | \$ 23,322                    | \$ 16,495 |
| Other comprehensive income:                      |                                   |          |                              |           |
| Unrealized gain/(loss) on securities, net of tax | 3,016                             | (4,060)  | 6,256                        | (4,605)   |
| Comprehensive income                             | \$ 15,789                         | \$ 3,584 | \$ 29,578                    | \$ 11,890 |

## AMERISAFE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

(unaudited)

|   | Common Stock |        | Treasury Stock |             | Additional<br>Paid-In<br>Capital | Accumulated<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Total      |
|---|--------------|--------|----------------|-------------|----------------------------------|-------------------------|---|------------|
|   | Shares       | Amount | Shares         | Amounts     |                                  |                         |   |            |
| Balance at<br>December 31,<br>2013          | 19,855,430   | \$ 198 | (1,258,250)    | \$ (22,370) | \$ 192,537                       | \$ 250,744              | \$ (4,295)                                    | \$ 416,814 |
| Comprehensive<br>income                     |              |        |                |             |                                  | 23,322                  | 6,256   | 29,578     |
| Options<br>exercised                        | 123,167      | 1      |                |             | 1,126                            |                         |   | 1,127      |
| Tax benefit from<br>share-based<br>payments |              |        |                |             | 1,227                            |                         |   | 1,227      |
| Restricted<br>common stock<br>issued        | 5,978        |        |                |             |                                  |                         |   |            |
|   |              |        |                |             | 546                              |                         |   | 546        |

Share-based  
compensation  
Dividends to  
stockholders

(13,808) (13,808)

Balance at

June 30, 2014 19,984,575 \$ 199 (1,258,250) \$(22,370) \$ 195,436 \$ 260,258 \$ 1,961 \$ 435,484

See accompanying notes.

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## AMERISAFE, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2014                         | 2013      |
| <b>Operating Activities</b>   |                              |           |
| Net income  | \$ 23,322                    | \$ 16,495 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |           |
| Depreciation  | 627                          | 644       |
| Net amortization of investments   | 7,389                        | 6,183     |
| Deferred income taxes   | (3,266)                      | (1,772)   |
| Net realized (gains)/losses on investments  | (333)                        | 1,267     |
| Loss on sale of asset   |                              | 2         |
| Share-based compensation  | 423                          | 669       |
| Changes in operating assets and liabilities:                                      |                              |           |
| Premiums receivable, net  | (33,534)                     | (38,295)  |
| Accrued interest receivable   | 8                            | (488)     |
| Deferred policy acquisition costs   | (2,638)                      | (2,540)   |
| Other assets  | (3,328)                      | (2,121)   |
| Reserves for loss and loss adjustment expenses                                    | 42,719                       | 23,020    |
| Unearned premiums   | 19,942                       | 24,188    |
| Reinsurance balances  | (9,793)                      | (1,855)   |
| Amounts held for others and policyholder deposits                                 | 6,175                        | 7,756     |
| Accounts payable and other liabilities  | 22,885                       | 26,293    |
| Net cash provided by operating activities   | 70,598                       | 59,446    |
| <b>Investing Activities</b>   |                              |           |
| Purchases of investments held-to-maturity   | (92,419)                     | (48,321)  |
| Purchases of investments available-for-sale                                       | (67,029)                     | (77,720)  |
| Purchases of short-term investments   | (69,139)                     | (72,680)  |
| Proceeds from maturities of investments held-to-maturity                          | 46,614                       | 62,403    |
| Proceeds from sales and maturities of investments available-for-sale              | 33,120                       | 11,179    |
| Proceeds from sales and maturities of short-term investments                      | 66,061                       | 58,039    |
| Purchases of property and equipment   | (667)                        | (662)     |
| Net cash used in investing activities   | (83,459)                     | (67,762)  |
| <b>Financing Activities</b>   |                              |           |
| Proceeds from stock option exercises  | 1,127                        | 1,125     |
| Tax benefit from share-based payments   | 1,227                        | 883       |
| Dividends to stockholders   | (13,752)                     | (2,944)   |

|  |           |           |
|--|-----------|-----------|
| Net cash used in financing activities            | (11,398)  | (936)     |
| Change in cash and cash equivalents              | (24,259)  | (9,252)   |
| Cash and cash equivalents at beginning of period | 123,077   | 92,676    |
| Cash and cash equivalents at end of period       | \$ 98,818 | \$ 83,424 |

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 Nebraska. AIICTX is a property and casualty insurance company organized under the laws of the state of Texas. In 2013, AIIC and SOCI were re-domesticated to Nebraska from Louisiana. RISK, a wholly owned subsidiary of the Company, is a claims and safety services company, currently servicing only affiliated insurance companies. AGAI, a wholly owned subsidiary of the Company, is a general agent for the Company. AGAI sells insurance, which is underwritten by AIIC, SOCI and AIICTX, as well as by nonaffiliated insurance carriers. The assets and operations of AGAI are not significant to that of the Company and its consolidated subsidiaries. The terms AMERISAFE, the Company, we, us or our refer to AMERISAFE, Inc. and its consolidated subsidiaries, as the context requires.

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

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

In June 2014, the Company granted 4,866 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, 2014, options to purchase 123,167 shares of common stock were exercised. During the six months ended June 30, 2013, options to purchase 125,000 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 each of 2014 and 2013.

The Company recognized share-based compensation expense of \$0.4 million and \$0.7 million in the six months ended June 30, 2014 and 2013, respectively.

### **Note 3. Earnings Per Share**

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

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

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

|   | <b>Three Months Ended<br/>June 30,</b>                    |             | <b>Six Months Ended<br/>June 30,</b> |             |
|---|---|-------------|--------------------------------------|-------------|
|   | <b>2014</b>   | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
|   | <b>(in thousands, except share and per share amounts)</b> |             |                                      |             |
| <b><u>Basic EPS:</u></b>                              |   |             |                                      |             |
| Net income, as reported                               | \$ 12,773   | \$ 7,644    | \$ 23,322                            | \$ 16,495   |
| Less allocated income to unvested shares              |   | 26          |                                      | 41          |
| Net income available to common shareholders - basic   | \$ 12,773   | \$ 7,618    | \$ 23,322                            | \$ 16,454   |
| Basic weighted average common shares                  | 18,600,186  | 18,353,174  | 18,566,235                           | 18,317,452  |
| Basic earnings per common share                       | \$ 0.69   | \$ 0.42     | \$ 1.26                              | \$ 0.90     |
| <b><u>Diluted EPS:</u></b>                            |   |             |                                      |             |
| Net income available to common shareholders - diluted | \$ 12,773   | \$ 7,619    | \$ 23,322                            | \$ 16,455   |
| Diluted weighted average common shares:               |   |             |                                      |             |
| Weighted average common shares                        | 18,600,186  | 18,353,174  | 18,566,235                           | 18,317,452  |
| Stock options and performance shares                  | 294,699   | 359,125     | 319,149                              | 396,324     |
| Diluted weighted average common shares                | 18,894,885  | 18,712,299  | 18,885,384                           | 18,713,776  |
|   | \$ 0.68   | \$ 0.41     | \$ 1.23                              | \$ 0.88     |



Diluted earnings per common  
share

#### Note 4. Investments

The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as held-to-maturity at June 30, 2014 are summarized as follows:

|   | Amortized Cost    | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value        |
|---|-------------------|------------------------------|-------------------------------|-------------------|
|   | (in thousands)    |                              |                               |                   |
| States and political subdivisions                                       | \$ 392,381        | \$ 21,821                    | \$ (66)                       | \$ 414,136        |
| Corporate bonds   | 102,925           | 756                          | (57)                          | 103,624           |
| Commercial mortgage-backed securities                                   | 49,327            | 2,767                        |                               | 52,094            |
| U.S. agency-based mortgage-backed securities                            | 19,170            | 1,892                        |                               | 21,062            |
| U.S. Treasury securities and obligations of<br>U.S. government agencies | 12,259            | 1,132                        | (1)                           | 13,390            |
| Asset-backed securities   | 3,083             | 243                          | (120)                         | 3,206             |
| <b>Totals</b>   | <b>\$ 579,145</b> | <b>\$ 28,611</b>             | <b>\$ (244)</b>               | <b>\$ 607,512</b> |

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The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, those investments classified as available-for-sale at June 30, 2014 are summarized as follows:

|  | <b>Cost or<br/>Amortized Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Fair Value</b> |
|--|-----------------------------------|---------------------------------------|--|-------------------|
|  | <b>(in thousands)</b>             |                                       |  |                   |
| <b>Fixed maturity:</b>                       |                                   |                                       |  |                   |
| States and political subdivisions            | \$ 151,140                        | \$ 5,711                              | \$ (1,759)                             | \$ 155,092        |
| Corporate bonds                              | 121,088                           | 708                                   | (33)                                   | 121,763           |
| U.S. agency-based mortgage-backed securities | 10,012                            | 1                                     | (2,255)                                | 7,758             |
| <b>Total fixed maturity</b>                  | <b>282,240</b>                    | <b>6,420</b>                          | <b>(4,047)</b>                         | <b>284,613</b>    |
| Other investments                            | 10,000                            | 1,092                                 |  | 11,092            |
| Equity securities                            | 3,446                             | 540                                   | (6)                                    | 3,980             |
| <b>Totals</b>                                | <b>\$ 295,686</b>                 | <b>\$ 8,052</b>                       | <b>\$ (4,053)</b>                      | <b>\$ 299,685</b> |

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

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

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

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

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

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A summary of the cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at June 30, 2014, by contractual maturity, is as follows:

| <b>Remaining Time to Maturity</b>            | <b>Amortized</b>      |                   |
|--|-----------------------|-------------------|
|  | <b>Cost Basis</b>     | <b>Fair Value</b> |
|  | <b>(in thousands)</b> |                   |
| Less than one year                           | \$ 55,153             | \$ 55,726         |
| One to five years                            | 186,929               | 194,771           |
| Five to ten years                            | 140,954               | 150,762           |
| More than ten years                          | 124,529               | 129,891           |
| U.S. agency-based mortgage-backed securities | 19,170                | 21,062            |
| Commercial mortgage-backed securities        | 49,327                | 52,094            |
| Asset-backed securities                      | 3,083                 | 3,206             |
| Total  | \$ 579,145            | \$ 607,512        |

A summary of cost and fair value of investments in fixed maturity securities, classified as available-for-sale at June 30, 2014, by contractual maturity, is as follows:

| <b>Remaining Time to Maturity</b>            | <b>Amortized</b>      |                   |
|--|-----------------------|-------------------|
|  | <b>Cost Basis</b>     | <b>Fair Value</b> |
|  | <b>(in thousands)</b> |                   |
| Less than one year                           | \$ 34,052             | \$ 34,120         |
| One to five years                            | 84,799                | 85,482            |
| Five to ten years                            | 14,305                | 14,661            |
| More than ten years                          | 139,072               | 142,592           |
| U.S. agency-based mortgage-backed securities | 10,012                | 7,758             |
| Total  | \$ 282,240            | \$ 284,613        |

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

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

(In thousands)

| <b>June 30, 2014</b>   |                  |               |                  |                 |                  |                 |
|--|------------------|---------------|------------------|-----------------|------------------|-----------------|
| <b>Held-to-Maturity</b>  |                  |               |                  |                 |                  |                 |
| Fixed maturity securities:   |                  |               |                  |                 |                  |                 |
| Corporate bonds  | \$ 19,268        | \$ 57         | \$               | \$              | \$ 19,268        | \$ 57           |
| States and political subdivisions                                    | 14,872           | 64            | 1,423            | 2               | 16,295           | 66              |
| Asset-backed securities  |                  |               | 1,799            | 120             | 1,799            | 120             |
| U.S. Treasury securities and obligations of U.S. government agencies | 2,852            | 1             |                  |                 | 2,852            | 1               |
| <b>Total held-to-maturity securities</b>                             | <b>36,992</b>    | <b>122</b>    | <b>3,222</b>     | <b>122</b>      | <b>40,214</b>    | <b>244</b>      |
| <b>Available-for Sale</b>  |                  |               |                  |                 |                  |                 |
| Fixed maturity securities:   |                  |               |                  |                 |                  |                 |
| Corporate bonds  | \$ 20,127        | \$ 30         | \$ 986           | \$ 3            | \$ 21,113        | \$ 33           |
| States and political subdivisions                                    | 14,689           | 82            | 12,700           | 1,677           | 27,389           | 1,759           |
| U.S. agency-based mortgage-backed securities                         | 605              | 79            | 7,031            | 2,176           | 7,636            | 2,255           |
| Equity securities  | 480              | 6             |                  |                 | 480              | 6               |
| <b>Total available-for-sale securities</b>                           | <b>35,901</b>    | <b>197</b>    | <b>20,717</b>    | <b>3,856</b>    | <b>56,618</b>    | <b>4,053</b>    |
| <b>Total</b>   | <b>\$ 72,893</b> | <b>\$ 319</b> | <b>\$ 23,939</b> | <b>\$ 3,978</b> | <b>\$ 96,832</b> | <b>\$ 4,297</b> |

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

At June 30, 2014, the Company held 88 individual fixed maturity securities and one equity security that were in an unrealized loss position, of which 26 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months.

The Company holds investments in a long/short equity fund, accounted for under the equity method. The carrying value of this investment is \$11.1 million at June 30, 2014.

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

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

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

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

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

any downgrades of the security by a rating agency;

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

the likelihood of being forced to sell the security before the recovery of its value; and

an evaluation as to whether there are any credit losses on debt securities.

We reviewed all securities with unrealized losses in accordance with the impairment policy described above. The Company expects to hold investments in equity securities for a reasonable period of time sufficient for a recovery of fair value. We determined that the unrealized losses in the fixed maturity securities portfolio related primarily to changes in market interest rates since the date of purchase, current conditions in the capital markets and the impact of those conditions on market liquidity and prices generally, and the transfer of the investments from the available-for-sale classification to the held-to-maturity classification in January 2004. We expect to recover the carrying value of these securities as it is not more likely than not that we will be required to sell the security before the recovery of its amortized cost basis. In addition, none of the unrealized losses on debt securities are considered credit losses.

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Net realized gains on investments in the six months ended June 30, 2014 totaled \$0.3 million resulting from gains on called fixed maturity securities and the sale of equity securities. Net realized losses in the six months ended June 30, 2013 were \$1.3 million from the impairment losses recognized for other-than-temporary declines in the fair value of certain equity securities of \$1.9 million offset by realized gains of \$0.6 from the sale of equity and fixed maturity securities classified as available-for-sale.

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

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no uncertain tax positions recognized for the periods ended June 30, 2014 and 2013.

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

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

Comprehensive income was \$15.8 million for the three months ended June 30, 2014, compared to \$3.6 million for the three months ended June 30, 2013. The difference between net income as reported and comprehensive income was due to changes in unrealized gains and losses, net of tax on available-for-sale securities.

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

|  | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--------------------------------------|-------------|
|  | <b>2014</b>                                | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
|  | (in thousands)                             |             |                                      |             |
| Beginning balance  | \$ (1,055)                                 | \$ 2,434    | \$ (4,295)                           | \$ 2,979    |
| Other comprehensive income/(loss) before reclassification        | 3,143                                      | (4,442)     | 6,120                                | (4,857)     |
| Amounts reclassified from accumulated other comprehensive income | (127)                                      | 382         | 136                                  | 252         |
| Net current period other comprehensive income/(loss)             | 3,016                                      | (4,060)     | 6,256                                | (4,605)     |
| Ending balance   | \$ 1,961                                   | \$ (1,626)  | \$ 1,961                             | \$ (1,626)  |





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

**Component of Accumulated Other**

| Comprehensive Income                                       | Three Months Ended |                  | Six Months Ended |                  | Affected line item in the statement of income |
|--|--------------------|------------------|------------------|------------------|---|
|  | June 30,<br>2014   | June 30,<br>2013 | June 30,<br>2014 | June 30,<br>2013 |   |
|  | (in thousands)     |                  |                  |                  |   |
| Unrealized gains/(losses) on available-for-sale securities | \$ 195             | \$ 209           | \$ (209)         | \$ 92            | Net realized gains on investments             |
| Other-than-temporary impairment                            |                    | (797)            |                  | (479)            | Net realized gains on investments             |
|  | 195                | (588)            | (209)            | (387)            | Income before income taxes                    |
|  | (68)               | 206              | 73               | 135              | Income tax expense                            |
|  | \$ 127             | \$ (382)         | \$ (136)         | \$ (252)         | Net income                                    |

**Note 7. Fair Value Measurements**

We carry available-for-sale securities at fair value in our consolidated financial statements and determine fair value measurements and disclosure in accordance with FASB ASC Topic 820, Fair Value Measurements and Disclosures.

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

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

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

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

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

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

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

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

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.

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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, 2014.

At June 30, 2014, assets and liabilities measured at fair value on a recurring basis are summarized below:

|   | <b>Level<br/>1<br/>Inputs</b> | <b>Level 2<br/>Inputs<br/>(in thousands)</b> | <b>Level 3<br/>Inputs</b> | <b>Total Fair<br/>Value</b> |
|---|-------------------------------|--|---------------------------|-----------------------------|
| Financial instruments carried at fair value, classified as a part of: |                               |  |                           |                             |
| Other investments   | \$                            | \$   | \$ 11,092                 | \$ 11,092                   |
| Securities available for sale - equity:                               |                               |  |                           |                             |
| Domestic common stock   | 3,980                         |  |                           | 3,980                       |
| Securities available for sale - fixed maturity:                       |                               |  |                           |                             |
| States and political subdivisions                                     |                               | 155,092                                      |                           | 155,092                     |
| Corporate bonds   |                               | 121,763                                      |                           | 121,763                     |
| U.S. agency-based mortgage-backed securities                          |                               | 7,758  |                           | 7,758                       |
| <b>Total securities available for sale - fixed maturity</b>           |                               | <b>284,613</b>                               |                           | <b>284,613</b>              |
| <b>Total available for sale</b>                                       | <b>\$ 3,980</b>               | <b>\$ 284,613</b>                            | <b>\$ 11,092</b>          | <b>\$ 299,685</b>           |

At June 30, 2014, assets and liabilities measured at amortized cost are summarized below:

|  | <b>Level<br/>1<br/>Inputs</b> | <b>Level 2<br/>Inputs<br/>(in thousands)</b> | <b>Level 3<br/>Inputs</b> | <b>Total Fair<br/>Value</b> |
|--|-------------------------------|--|---------------------------|-----------------------------|
| Securities held-to-maturity - fixed maturity |                               |  |                           |                             |
| States and political subdivisions            | \$                            | \$ 414,136                                   | \$                        | \$ 414,136                  |
| Corporate bonds                              |                               | 103,624                                      |                           | 103,624                     |

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|  |                 |                   |           |                   |
|--|-----------------|-------------------|-----------|-------------------|
| Commercial mortgage-backed securities        | 52,094          |                   |           | 52,094            |
| U.S. agency-based mortgage-backed securities | 21,062          |                   |           | 21,062            |
| U.S. Treasury securities                     | 7,339           |                   |           | 7,339             |
| Obligations of U.S. government agencies      | 6,051           |                   |           | 6,051             |
| Asset-backed securities                      | 3,206           |                   |           | 3,206             |
| <b>Total held-to-maturity</b>                | <b>\$ 7,339</b> | <b>\$ 600,173</b> | <b>\$</b> | <b>\$ 607,512</b> |

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

|   | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs | Total Fair<br>Value |
|---|-------------------|-------------------|-------------------|---------------------|
|   | (in thousands)    |                   |                   |                     |
| Financial instruments carried at fair value, classified as part of: |                   |                   |                   |                     |
| Other investments   | \$                | \$                | \$ 10,591         | \$ 10,591           |
| Securities available for sale equity                                |                   |                   |                   |                     |
| Domestic common stock   | 9,302             |                   |                   | 9,302               |
| Securities available for sale fixed maturity                        |                   |                   |                   |                     |
| States and political subdivisions                                   |                   | 150,375           |                   | 150,375             |
| Corporate bonds   |                   | 80,428            |                   | 80,428              |
| U.S. agency-based mortgage-backed securities                        |                   | 7,074             |                   | 7,074               |
| Total available for sale fixed maturity                             |                   | \$ 237,877        | \$                | \$ 237,877          |
| Total available for sale  | \$ 9,302          | \$ 237,877        | \$ 10,591         | \$ 257,770          |

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

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

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

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

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

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

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

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

|  | As of June 30, 2014 |            | As of December 31, 2013 |            |
|--|---------------------|------------|-------------------------|------------|
|  | Carrying Amount     | Fair Value | Carrying Amount         | Fair Value |
| (in thousands)                               |                     |            |                         |            |
| <b>Assets:</b>                               |                     |            |                         |            |
| Fixed maturity securities held-to-maturity   | \$ 579,145          | \$ 607,512 | \$ 536,583              | \$ 561,179 |
| Fixed maturity securities available-for-sale | 284,613             | 284,613    | 237,877                 | 237,877    |
| Equity securities                            | 3,980               | 3,980      | 9,302                   | 9,302      |
| Cash and cash equivalents                    | 98,818              | 98,818     | 123,077                 | 123,077    |
| Short-term investments                       | 85,806              | 85,806     | 84,422                  | 84,422     |
| Other investments                            | 11,092              | 11,092     | 10,591                  | 10,591     |

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

|  | June 30, 2014 | December 31, 2013 |
|--|---------------|-------------------|
| (in thousands)   |               |                   |
| Beginning balance  | \$ 10,591     | \$                |
| Purchases  |               | 10,000            |
| Total gains unrealized (Included in earnings as part of net investment income) | 501           | 591               |
| Ending Balance   | \$ 11,092     | \$ 10,591         |

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

**Note 8. Treasury Stock**

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

**Note 9. Subsequent Events**

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

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



The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q, together with Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2013.

We begin our discussion with an overview of our Company to give you an understanding of our business and the markets we serve. We then discuss our critical accounting policies. This is followed with a discussion of our results of operations for the three and six months ended June 30, 2014 and 2013. This discussion includes an analysis of certain significant period-to-period variances in our consolidated statements of operations. Our cash flows and financial condition are discussed under the caption Liquidity and Capital Resources.

## **Table of Contents**

### **Business Overview**

AMERISAFE is a holding company that markets and underwrites workers' compensation insurance through its insurance subsidiaries. Workers' compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our business strategy is focused on providing this coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking, manufacturing, oil and gas and agriculture. Employers engaged in hazardous industries pay substantially higher than average rates for workers' compensation insurance compared to employers in other industries, as measured per payroll dollar. The higher premium rates are due to the nature of the work performed and the inherent workplace danger of our target employers. Hazardous industry employers also tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. We provide proactive safety reviews of employers' workplaces. These safety reviews are a vital component of our underwriting process and also promote safer workplaces. We utilize intensive claims management practices that we believe permit us to reduce the overall cost of our claims. In addition, our audit services ensure that our policyholders pay the appropriate premiums required under the terms of their policies and enable us to monitor payroll patterns that cause underwriting, safety or fraud concerns. We believe that the higher premiums typically paid by our policyholders, together with our disciplined underwriting and safety, claims and audit services, provide us with the opportunity to earn attractive returns for our shareholders.

We actively market our insurance in 30 states and the District of Columbia through independent agencies, as well as through our wholly owned insurance agency subsidiary. We are also licensed in an additional 17 states and the U.S. Virgin Islands.

### **Critical Accounting Policies**

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

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

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

The following table summarizes our consolidated financial results for the three months and six months ended June 30, 2014 and 2013.

|                                   | <b>Three Months Ended<br/>June 30,</b>               |             | <b>Six Months Ended<br/>June 30,</b> |             |
|-----------------------------------|--|-------------|--------------------------------------|-------------|
|                                   | <b>2014</b>  | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
|                                   | <b>(dollars in thousands, except per share data)</b> |             |                                      |             |
|                                   | <b>(unaudited)</b>                                   |             |                                      |             |
| Gross premiums written            | \$ 103,820   | \$ 95,815   | \$ 209,523                           | \$ 194,938  |
| Net premiums earned               | 93,516   | 81,983      | 182,749                              | 161,692     |
| Net investment income             | 6,845  | 6,649       | 13,553                               | 13,319      |
| Total revenues                    | 100,624  | 87,511      | 196,797                              | 174,023     |
| Total expenses                    | 83,563   | 76,864      | 166,332                              | 152,296     |
| Net income                        | 12,773   | 7,644       | 23,322                               | 16,495      |
| Diluted earnings per common share | \$ 0.68  | \$ 0.41     | \$ 1.23                              | \$ 0.88     |
| <b>Other Key Measures</b>         |  |             |                                      |             |
| Net combined ratio (1)            | 89.4%  | 93.8%       | 91.0%                                | 94.2%       |
| Return on average equity (2)      | 11.9%  | 7.8%        | 10.9%                                | 8.5%        |
| Book value per share (3)          | \$ 23.26   | \$ 21.29    | \$ 23.26                             | \$ 21.29    |

- (1) The net combined ratio is calculated by dividing the sum of loss and loss adjustment expenses incurred, underwriting and certain other operating costs, commissions, salaries and benefits, and policyholder dividends by net premiums earned in the current period.
- (2) Return on average equity is calculated by dividing the annualized net income by the average shareholders' equity for the applicable period.
- (3) Book value per share is calculated by dividing shareholders' equity by total outstanding shares, as of the end of the period.

**Consolidated Results of Operations for Three Months Ended June 30, 2014 Compared to June 30, 2013**

**Gross Premiums Written.** Gross premiums written for the quarter ended June 30, 2014 were \$103.8 million, compared to \$95.8 million for the same period in 2013, an increase of 8.4%. The increase was attributable to a \$7.2 million increase in annual premiums on voluntary policies written during the period and a \$0.6 million increase in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters. The effective loss cost multiplier, or LCM, for our voluntary business was 1.86 for the second quarter ended June 30, 2014 compared to 1.76 for the same period in 2013.

**Net Premiums Written.** Net premiums written for the quarter ended June 30, 2014 were \$100.3 million, compared to \$91.2 million for the same period in 2013, an increase of 10.0%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 3.6% for the second quarter of 2014 compared to 5.3% for the second quarter of 2013. The decrease in ceded premiums as a percentage of gross premiums earned is a result of a change in our 2014 reinsurance program. For additional information, see Item 1, **Business Reinsurance** in our Annual Report on Form 10-K for the year ended December 31, 2013.

*Net Premiums Earned.* Net premiums earned for the second quarter of 2014 were \$93.5 million, compared to \$82.0 million for the same period in 2013, an increase of 14.1%. The increase was attributable to the increase in net premiums written in the quarter and a decrease in the change in unearned premiums.

*Net Investment Income.* Net investment income for the quarter ended June 30, 2014 was \$6.8 million, compared to \$6.6 million for the same period in 2013. Average invested assets, including cash and cash equivalents, were \$1.0 billion in the quarter ended June 30, 2014, compared to an average of \$0.9 billion for the same period in 2013, an increase of 12.8%. The pre-tax investment yield on our investment portfolio was 2.6% and 2.9% per annum during the quarters ended June 30, 2014 and 2013, respectively. The tax-equivalent yield on our investment portfolio was 3.7% per annum for the quarter ended June 30, 2014, compared to 4.1% per annum for the same period in 2013. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

*Net Realized Gains/(Losses) on Investments.* Net realized gains on investments for the three months ended June 30, 2014 totaled \$0.2 million compared to net realized losses of \$1.3 million for the same period in 2013. Net realized gains in the second quarter of 2014 were attributable to realized gains from the redemption of corporate bonds. 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 securities and fixed maturity 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 \$62.5 million for the three months ended June 30, 2014, compared to \$56.8 million for the same period in 2013, an increase of \$5.7 million, or 9.9%. The current accident year losses and LAE incurred were \$66.9 million, or 71.5% of net premiums earned, compared to \$60.0 million, or 73.2% of net premiums earned, for the same period in 2013. We recorded favorable prior accident year development of \$4.4 million in the second quarter of 2014, compared to favorable prior accident year development of \$3.2 million in the same period of 2013, as further discussed below in Prior Year Development. Our net loss ratio was 66.8% in the second quarter of 2014, compared to 69.3% for the same period of 2013.

*Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits.* Underwriting and certain other operating costs, commissions and salaries and benefits for the quarter ended June 30, 2014 were \$21.0 million, compared to \$19.7 million for the same period in 2013, an increase of 6.9%. This increase was primarily due to a \$0.8 million increase in commission expense, a \$0.8 million decrease in experience-rated commission resulting from high severity losses, a \$0.5 million increase in insurance related assessments and a \$0.4 million decrease in ceding commission related to our 2014 reinsurance program. Offsetting these increases were a \$0.6 million decrease in premium taxes and a \$0.5 million decrease in compensation expense. Our expense ratio was 22.5% in the second quarter of 2014 compared to 24.0% in the second quarter of 2013.

*Income Tax Expense.* Income tax expense for the three months ended June 30, 2014 was \$4.3 million, compared to \$3.0 million for the same period in 2013. The increase was attributable to an increase in the pre-tax income to \$17.1 million in the quarter ended June 30, 2014 from \$10.6 million in the same period in 2013. The effective tax rate decreased to 25.1% in the quarter ended June 30, 2014 from 28.2% in the same period in 2013.

***Consolidated Results of Operations for Six Months Ended June 30, 2014 Compared to June 30, 2013***

*Gross Premiums Written.* Gross premiums written for the first half of 2014 were \$209.5 million, compared to \$194.9 million for the same period in 2013, an increase of 7.5%. The increase was attributable to a \$15.7 million increase in annual premiums on voluntary policies written during the period and a \$0.7 million increase in assumed premium from mandatory pooling arrangements. These increases were partially offset by a \$2.0 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, 2014 were \$202.7 million, compared to \$185.9 million for the same period in 2013, an increase of 9.0%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 3.6% and 5.3% for the first half of 2014 and 2013, respectively. The decrease in ceded premiums as a percentage of gross premiums earned is a result of a change in our 2014 reinsurance program. For additional information, see Item 1, Business Reinsurance in our Annual Report on Form 10-K for the year ended December 31, 2013.

*Net Premiums Earned.* Net premiums earned for the first half of 2014 were \$182.7 million, compared to \$161.7 million for the same period in 2013, an increase of 13.0%. The increase was attributable to the increase in net premiums written and a decrease in the change in unearned premiums.

*Net Investment Income.* Net investment income for the first six months of 2014 was \$13.6 million, compared to \$13.3 million for the same period in 2013. Average invested assets, including cash and cash equivalents, were \$1.0 billion in the six months ended June 30, 2014, compared to \$0.9 billion for the same period in 2013, an increase of 12.5%. The pre-tax investment yield on our investment portfolio was 2.6% per annum during the six months ended June 30, 2014, compared to 2.9% per annum during the same period in 2013. The tax-equivalent yield on our investment portfolio was 3.7% per annum for the first half of 2014 compared to 4.1% for the same period in 2013. The tax-equivalent yield

is calculated using the effective interest rate and a 35% marginal tax rate.

*Net Realized Gains/(Losses) on Investments.* Net realized gains on investments for the six months ended June 30, 2014 totaled \$0.3 million, compared to net realized losses of \$1.3 million for the same period in 2013. Net realized gains in the first half of 2014 were attributable to realized gains from the redemption of corporate bonds. 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.

*Loss and Loss Adjustment Expenses Incurred.* Loss and LAE incurred totaled \$123.7 million for the six months ended June 30, 2014, compared to \$112.8 million for the same period in 2013, an increase of \$10.9 million, or 9.7%. The current accident year losses and LAE incurred were \$130.7 million, or 71.5% of net premiums earned, compared to \$118.4 million, or 73.2% of net premiums earned, for the same period in 2013. We recorded favorable prior accident year development of \$6.9 million in the first half of 2014, compared to favorable prior accident year development of \$5.6 million in the same period of 2013, as further discussed below in Prior Year Development. Our net loss ratio was 67.7% in the first half of 2014, compared to 69.8% for the same period of 2013.

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*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, 2014 were \$42.4 million, compared to \$38.5 million for the same period in 2013, an increase of 10.0%. This increase was primarily due to a \$1.8 million decrease in experience-rated commission, a \$1.3 million increase in commission expense, a \$0.8 million decrease in ceding commission related to our 2014 reinsurance program, a \$0.6 million increase in compensation expense and a \$0.2 million increase in insurance related assessments. Offsetting these increases was a \$1.1 million decrease in premium taxes. Our expense ratio was 23.2% in the first half of 2014 compared to 23.8% in the same period of 2013.

*Income Tax Expense.* Income tax expense for the six months ended June 30, 2014 was \$7.1 million, compared to \$5.2 million for the same period in 2013. The increase was attributable to an increase in pre-tax income to \$30.5 million in the first half of 2014 from \$21.7 million in the first half of 2013. The effective tax rate decreased to 23.4% for the six months ended June 30, 2014 from 24.1% for the six months ended June 30, 2013.

**Liquidity and Capital Resources**

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

Net cash provided by operating activities was \$70.6 million for the six months ended June 30, 2014, which represented a \$11.2 million increase from \$59.4 million in net cash provided by operating activities for the six months ended June 30, 2013. This increase in operating cash flow was attributable to a \$22.4 million increase in premium collections, a \$1.9 million increase in investment income and a \$0.4 million increase in paid losses payable. Offsetting these increases were a \$5.8 million decrease in payable for securities sold, a \$4.4 million increase in underwriting expenses paid, a \$1.3 million increase in federal income taxes paid, a \$0.6 million decrease in reinsurance recoveries and a \$0.5 million increase in losses paid.

Net cash used in investing activities was \$83.5 million for the six months ended June 30, 2014, compared to net cash used in investment activities of \$67.8 million for the same period in 2013. Cash provided by sales and maturities of investments totaled \$145.8 million for the six months ended June 30, 2014, compared to \$131.6 million for the same period in 2013. A total of \$228.6 million in cash was used to purchase investments in the six months ended June 30, 2014, compared to \$198.7 million in purchases for the same period in 2013.

Net cash used in financing activities in the six months ended June 30, 2014 was \$11.4 million compared to net cash used in financing activities of \$0.9 million for the same period in 2013. In the six months ended June 30, 2014, \$13.8 million of cash was used for dividends paid to shareholders compared to \$2.9 million in the same period of 2013. Offsetting this increases were proceeds of \$1.1 million from stock option exercises in the six months ended June 30, 2014 and 2013. During the six months ended June 30, 2014, the tax benefit from share based compensation was \$1.2 million compared to \$0.9 million for the same period in 2013.

The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2011, 2012 and 2013, the Board reauthorized this program. As of June 30, 2014, we had repurchased a total of 1,258,250 shares of our outstanding common stock for \$22.4 million. The Company has \$25.0 million available for future purchases at June 30, 2014 under this program. There were no shares purchased during the six months ended June 30, 2014 and 2013. We intend to purchase shares of our common stock from time to time depending upon market conditions and subject to applicable regulatory considerations. It is anticipated that future purchases will be funded from available capital.

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

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

On April 29, 2014, the Company's Board of Directors declared a quarterly cash dividend of \$0.12 per share, or \$2.2 million, payable on June 26, 2014 to shareholders of record as of June 12, 2014.

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



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

As of June 30, 2014, our investment portfolio, including cash and cash equivalents, totaled \$1.1 billion, an increase of 12.7% from \$0.9 billion on June 30, 2013. Effective April 1, 2010, purchases of fixed maturity securities are classified as available-for-sale or held-to-maturity based on the individual security. Such classification is made at the time of purchase. The reported value of our fixed maturity securities classified as held-to-maturity, as defined by FASB ASC Topic 320, Investments-Debt and Equity Securities, was equal to their amortized cost, and thus was not impacted by changing interest rates. Our equity securities and fixed maturity securities classified as available-for-sale were reported at fair value.

The composition of our investment portfolio, including cash and cash equivalents, as of June 30, 2014, is shown in the following table:

|  | Carrying<br>Value<br>(in thousands) | Percentage of<br>Portfolio |
|--|-------------------------------------|----------------------------|
| <b>Fixed maturity securities held-to-maturity:</b>                   |                                     |                            |
| States and political subdivisions                                    | \$ 392,381                          | 36.9%                      |
| U.S. agency-based mortgage-backed securities                         | 19,170                              | 1.8%                       |
| Commercial mortgage-backed securities                                | 49,327                              | 4.6%                       |
| U.S. Treasury securities and obligations of U.S. government agencies | 12,259                              | 1.2%                       |
| Corporate bonds  | 102,925                             | 9.7%                       |
| Asset-backed securities  | 3,083                               | 0.3%                       |
| <b>Total fixed maturity securities held-to-maturity</b>              | <b>579,145</b>                      | <b>54.5%</b>               |
| <b>Fixed maturity securities available-for-sale:</b>                 |                                     |                            |
| States and political subdivisions                                    | 155,092                             | 14.6%                      |
| U.S. agency-based mortgage-backed securities                         | 7,758                               | 0.7%                       |
| Corporate bonds  | 121,763                             | 11.4%                      |
| <b>Total fixed maturity securities available-for-sale</b>            | <b>284,613</b>                      | <b>26.7%</b>               |
| Equity securities  | 3,980                               | 0.4%                       |
| Short-term investments   | 85,806                              | 8.1%                       |
| Cash and cash equivalents  | 98,818                              | 9.3%                       |
| Other investments  | 11,092                              | 1.0%                       |
| <b>Total investments, including cash and cash equivalents</b>        | <b>\$ 1,063,454</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.

During the three and six months ended June 30, 2014, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments.

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 totaled \$1.9 million for the three and six months ended June 30, 2013.

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

The Company recorded favorable prior accident year development of \$4.4 million in the three months ended June 30, 2014. The table below sets forth the favorable or unfavorable development for the three and six months ended June 30, 2014 and 2013 for accident years 2009 through 2013 and, collectively, for all accident years prior to 2009.

| <b>Accident Year</b>  | <b>Favorable/(Unfavorable) Development</b>      |   |   |   |
|-----------------------|---|---|---|---|
|                       | <b>Three Months Ended<br/>June 30,<br/>2014</b> | <b>Three Months Ended<br/>June 30,<br/>2013</b> | <b>Six Months Ended<br/>June 30,<br/>2014</b> | <b>Six Months Ended<br/>June 30,<br/>2013</b> |
|                       | (in millions)                                   |   |   |   |
| 2013                  | \$  | \$  | \$  | \$  |
| 2012                  | 0.5   | 0.3   | 0.5   | 0.4   |
| 2011                  |   | 0.3   |   | 0.3   |
| 2010                  | 1.5   | 0.1   | 1.8   | 0.3   |
| 2009                  | 1.0   |   | 2.0   | 1.0   |
| Prior to 2009         | 1.4   | 2.5   | 2.6   | 3.6   |
| Total net development | \$ 4.4  | \$ 3.2  | \$ 6.9  | \$ 5.6  |

The table below sets forth the number of open claims as of June 30, 2014 and 2013, and the number of claims reported and closed during the three and six months then ended.

|                                    | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|------------------------------------|--|-------------|--------------------------------------|-------------|
|                                    | <b>2014</b>                            | <b>2013</b> | <b>2014</b>                          | <b>2013</b> |
| Open claims at beginning of period | 5,334                                  | 5,079       | 5,297                                | 4,964       |
| Claims reported                    | 1,399                                  | 1,378       | 2,719                                | 2,638       |
| Claims closed                      | (1,391)                                | (1,212)     | (2,674)                              | (2,357)     |
| Open claims at end of period       | 5,342                                  | 5,245       | 5,342                                | 5,245       |

The number of open claims at June 30, 2014 increased by 97 claims as compared to the number of open claims at June 30, 2013. Efforts continue to close prior year claims, especially in those circumstances where the claim could be settled for less than the corresponding case reserve amount (which amount represents the estimated ultimate cost to settle the claim, undiscounted). Management believes that these efforts have contributed, in part, to the favorable prior accident year development recorded for the six months ended June 30, 2014.

Our reserves for loss and loss adjustment expenses are inherently uncertain and our focus on providing workers compensation insurance to employers engaged in hazardous industries results in our receiving relatively fewer but more severe claims than many other workers compensation insurance companies. As a result of this focus on higher severity, lower frequency business, our reserve for loss and loss adjustment expenses may have greater volatility than other workers compensation insurance companies. For additional information, see Item 1, Business Loss Reserves in

our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

Since December 31, 2013, there have been no material changes in the quantitative or qualitative aspect of our market risk profile. For additional information regarding the Company's exposure to certain market risks, see Item 7A,

Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2013.

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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.

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

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

**PART II OTHER INFORMATION**

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

The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2011, 2012 and 2013, the Board reauthorized this program. As of December 31, 2013, we had repurchased a total of 1,258,250 shares of our outstanding common stock for \$22.4 million. There were no shares purchased during the six months ended June 30, 2014 and 2013. We intend to purchase shares of our common stock from time to time depending upon market conditions and subject to applicable regulatory considerations. It is anticipated that future purchases will be funded from available capital. The dollar value of shares that may yet be purchased under the program is \$25.0 million.

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

| <b>Exhibit</b> |   |
|----------------|---|
| <b>No.</b>     | <b>Description</b>  |
| 10.1           | Consulting Agreement dated June 5, 2014, between AMERISAFE, Inc. and Craig P. Leach   |
| 31.1           | Certification of C. Allen Bradley, Jr. filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 31.2           | Certification of Michael Grasher filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  |
| 32.1           | Certification of C. Allen Bradley, Jr. and Michael Grasher filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS        | XBRL Instance Document  |
| 101.SCH        | XBRL Taxonomy Extension Schema Document   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document  |

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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 1, 2014

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

August 1, 2014

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

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

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| 101.INS        | XBRL Instance Document  |
| 101.SCH        | XBRL Taxonomy Extension Schema Document   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document  |