

AMERISAFE INC  
Form 10-Q  
May 03, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

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 70634  
(Address of Principal Executive Offices) (Zip Code)

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

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

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Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

Trading

Title of each class	Symbol(s)	Name of each exchange on which registered
Common	AMSF	NASDAQ

As of April 30, 2019, there were 19,274,980 shares of the Registrant's common stock, par value \$0.01 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,” “an” and similar statements of a future or forward-looking nature identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- the cyclical nature of the workers’ compensation insurance industry;
- 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;
- general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;
- changes in relationships with independent agencies;
- developments in capital markets that adversely affect the performance of our investments;
- technology breaches or failures, including those resulting from a malicious cyber attack on the Company or its policyholders and medical providers;
- decreased level of business activity of our policyholders caused by decreased business activity generally, and in particular in the industries we target;
- greater frequency or severity of claims and loss activity than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- adverse developments in economic, competitive, judicial or regulatory conditions within the workers’ compensation insurance industry;
- loss of the services of any of our senior management or other key employees;
- changes in regulations, laws, rates, rating factors, or taxes applicable to the Company, its policyholders or the agencies that sell its insurance;
- changes in current accounting standards or new accounting standards;
- changes in legal theories of liability under our insurance policies;
- 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;
- 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 in this report, including under the caption “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018. 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.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

## AMERISAFE, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2019 (unaudited)	December 31, 2018
<b>Assets</b>		
<b>Investments:</b>		
Fixed maturity securities—held-to-maturity, at amortized cost (fair value \$615,217 and \$616,772 in 2019 and 2018, respectively)	\$604,056	\$ 613,878
Fixed maturity securities—available-for-sale, at fair value (cost \$464,740 and \$479,772 in 2019 and 2018, respectively)	471,254	478,730
Equity securities, at fair value (cost \$20,769 and \$19,962 in 2019 and 2018, respectively)	21,615	18,651
Short-term investments	64,708	14,231
<b>Total investments</b>	<b>1,161,633</b>	<b>1,125,490</b>
Cash and cash equivalents	34,895	40,344
Amounts recoverable from reinsurers	111,182	112,006
Premiums receivable, net of allowance	174,310	162,478
Deferred income taxes	20,057	21,852
Accrued interest receivable	10,917	10,197
Property and equipment, net	6,041	6,258
Deferred policy acquisition costs	20,433	19,734
Other assets	19,514	17,572
<b>Total assets</b>	<b>\$ 1,558,982</b>	<b>\$ 1,515,931</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities:</b>		
Reserves for loss and loss adjustment expenses	\$800,580	\$ 798,409
Unearned premiums	155,026	149,296
Amounts held for others	42,468	41,388
Policyholder deposits	46,586	46,795
Insurance-related assessments	28,802	28,258
Federal income tax payable	7,660	3,412
Accounts payable and other liabilities	39,249	38,611
Payable for investments purchased	8,206	—
<b>Total liabilities</b>	<b>1,128,577</b>	<b>1,106,169</b>
<b>Shareholders' equity:</b>		
Common stock: voting—\$0.01 par value authorized shares—50,000,000	205	205

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in 2019 and 2018; 20,533,230 and 20,528,230 shares issued and 19,274,980		
and 19,269,980 shares outstanding in 2019 and 2018, respectively		
Additional paid-in capital	211,700	211,431
Treasury stock, at cost (1,258,250 shares in 2019 and 2018)	(22,370 )	(22,370 )
Accumulated earnings	235,908	221,328
Accumulated other comprehensive income (loss), net	4,962	(832 )
Total shareholders' equity	430,405	409,762
Total liabilities and shareholders' equity	\$1,558,982	\$ 1,515,931

See accompanying notes.

## AMERISAFE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended March 31,	
	2019	2018
<b>Revenues</b>		
Gross premiums written	\$93,107	\$97,342
Ceded premiums written	(2,430 )	(2,330 )
Net premiums written	\$90,677	\$95,012
Net premiums earned	\$84,948	\$87,310
Net investment income	8,015	7,209
Net realized gains (losses) on investments	59	(31 )
Net unrealized gains (losses) on equity securities	2,158	(390 )
Fee and other income	10	77
Total revenues	95,190	94,175
<b>Expenses</b>		
Loss and loss adjustment expenses incurred	49,614	53,162
Underwriting and certain other operating costs	7,552	7,846
Commissions	6,368	6,494
Salaries and benefits	6,747	5,926
Policyholder dividends	1,100	1,333
Total expenses	71,381	74,761
Income before income taxes	23,809	19,414
Income tax expense	4,409	3,245
Net income	\$19,400	\$16,169
<b>Earnings per share</b>		
Basic	\$1.01	\$0.84
Diluted	\$1.01	\$0.84
<b>Shares used in computing earnings per share</b>		
Basic	19,229,134	19,187,136
Diluted	19,298,036	19,262,237
Cash dividends declared per common share	\$0.25	\$0.22

See accompanying notes.

## AMERISAFE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	\$19,400	\$16,169
Other comprehensive income:		
Unrealized gain (loss) on debt securities, net of tax	5,992	(5,848 )
Change in deferred tax valuation allowance	(198 )	—
Comprehensive income	\$25,194	\$10,321

See accompanying notes.



## AMERISAFE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

(unaudited)

	Common Stock		Additional Paid-In		Treasury Stock		Accumulated Other Comprehensive Income	
	Shares	Amounts	Capital	Shares	Amounts	Earnings	(Loss)	Total
	Balance at December 31, 2018	20,528,230	\$ 205	\$ 211,431	(1,258,250)	\$(22,370)	\$ 221,328	\$ (832)
Comprehensive income:								
Impact of adoption of								
ASU 2016-02	—	—	—	—	—	(1)	—	(1)
Net income	—	—	—	—	—	19,400	—	19,400
Other comprehensive income:								
Change in unrealized								
losses, net of tax	—	—	—	—	—	—	5,992	5,992
Change in deferred tax								
valuation allowance	—	—	—	—	—	—	(198)	(198)
Comprehensive income:								25,194
Common stock issued upon								
exercise of options	5,000	—	20	—	—	—	—	20
Share-based compensation	—	—	249	—	—	—	—	249
Dividends to shareholders	—	—	—	—	—	(4,819)	—	(4,819)
Balance at March 31, 2019	20,533,230	\$ 205	\$ 211,700	(1,258,250)	\$(22,370)	\$ 235,908	\$ 4,962	\$ 430,405

See accompanying notes.

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## AMERISAFE, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2019	2018
<b>Operating activities</b>		
Net income	\$19,400	\$16,169
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	241	222
Net amortization of investments	2,347	3,151
Deferred income taxes	5	264
Net realized (gains) losses on investments	(59 )	31
Net unrealized (gains) losses on equity securities	(2,158 )	390
Share-based compensation	565	18
Changes in operating assets and liabilities:		
Premiums receivable, net	(11,832)	(12,564)
Accrued interest receivable	(720 )	(697 )
Deferred policy acquisition costs	(699 )	(1,036 )
Amounts held by others	—	(7,855 )
Other assets	(998 )	2,438
Reserves for loss and loss adjustment expenses	2,171	5,453
Unearned premiums	5,730	7,702
Reinsurance balances	824	(4,040 )
Amounts held for others and policyholder deposits	871	402
Accounts payable and other liabilities	4,588	2,618
Net cash provided by operating activities	20,276	12,666
<b>Investing activities</b>		
Purchases of investments held-to-maturity	(26,174)	(17,925)
Purchases of investments available-for-sale	(10,394)	(28,510)
Purchases of equity securities	(807 )	—
Purchases of short-term investments	(64,320)	(28,688)
Proceeds from maturities of investments held-to-maturity	40,578	19,127
Proceeds from sales and maturities of investments available-for-sale	26,365	25,004
Proceeds from sales and maturities of short-term investments	13,959	4,000
Purchases of property and equipment	(22 )	(868 )
Net cash used in investing activities	(20,815)	(27,860)
<b>Financing activities</b>		
Proceeds from stock option exercises	20	68
Finance lease purchases	(12 )	—
Dividends to shareholders	(4,918 )	(4,361 )
Net cash used in financing activities	(4,910 )	(4,293 )
Change in cash and cash equivalents	(5,449 )	(19,487)
Cash and cash equivalents at beginning of period	40,344	55,559

Cash and cash equivalents at end of period	\$34,895	\$36,072
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See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED 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 consolidated financial statements include the accounts of AMERISAFE and its subsidiaries: American Interstate Insurance Company (“AIIC”) and its insurance subsidiaries, Silver Oak Casualty, Inc. (“SOCI”) and 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. RISK, a wholly owned subsidiary of the Company, is a claims and safety service 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, the context requires.

The Company provides workers’ compensation insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking, logging and lumber, manufacturing, agriculture, maritime, and oil and gas. Assets and revenues of AIIC and its subsidiaries represent at least 95% of comparable consolidated amounts of the Company for each of the three months ended March 31, 2019 and 2018.

In the opinion of management of the Company, the accompanying unaudited 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 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 consolidated financial statements contained herein should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that 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.

Adopted Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new guidance requires a lessee to recognize a lease liability and a right of use asset for all leases extending beyond twelve months. This standard was effective for us beginning in the first quarter of 2019. We elected the new transition method under the transition guidance within the new standard. Therefore, prior comparative periods are not adjusted. We also elected the package of practical expedients, which among other things, allows us to carryforward the historical lease classification. We made an accounting policy election not to recognize lease assets and lease liabilities for short-term operating leases. Adoption of the new guidance resulted in the Company recognizing right-of-use assets of \$0.4 million and lease liabilities of \$0.3 million. The cumulative effect adjustment to the opening balance of retained earnings was minimal. Adoption of this new guidance did not have a material effect on the Company's consolidated financial statements as the Company does not have any significant leases.

#### Prospective Accounting Guidance

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses. The new guidance replaces the methodology of credit loss impairment, which currently, delays the recognition of credit losses until a probable loss has been incurred. The new guidance requires credit losses for securities measured at amortized cost to be determined using current expected credit loss estimates. These estimates are to be derived from historical, current and reasonable supporting forecasts, including prepayments and estimates, and will be recorded through a valuation account. The same method will be used for available-for-sale securities, but the valuation account will be limited to the amount by which the fair value is below amortized cost. The standard is effective for us in the first quarter of 2020. Implementation of the new guidance requires a modified retrospective approach without restatement, which means the first cumulative adjustment required will be a charge to retained earnings, with subsequent changes in the valuation account reported in the income statement. The financial statement impact will be determined by the nature of the portfolio held and the economic conditions at the time of implementation.

The Company has formed an internal working group to evaluate the new standard and develop an implementation strategy. The group has researched data, developed models and methodologies and is working toward implementation. The Company will continue to monitor and evaluate the financial impact as the implementation date approaches.

All other issued but not yet effective accounting and reporting standards as of March 31, 2019 are either not applicable to the Company or are not expected to have a material impact on the Company.

#### Note 2. Stock Options and Restricted Stock

As of March 31, 2019, the Company has three equity incentive plans: the AMERISAFE 2005 Equity Incentive Plan (the “2005 Incentive Plan”), the AMERISAFE Non-Employee Director Restricted Stock Plan (the “Restricted Stock Plan”) and the AMERISAFE 2012 Equity and Incentive Compensation Plan (the “2012 Incentive Plan”). In connection with the approval of the 2012 Incentive Plan by the Company’s shareholders, no further grants will be made under the 2005 Incentive Plan. All grants made under the 2005 Incentive plan will continue in effect, subject to the terms and conditions of the 2005 Incentive Plan. See Note 12 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 for additional information regarding the Company’s incentive plans.

During the three months ended March 31, 2019 and 2018, options to purchase 5,000 and 15,000 shares of common stock were exercised, respectively. In connection with these exercises, the Company received minimal stock option proceeds in the current year and \$0.1 million of stock option proceeds in the same period of 2018.

The Company recognized share-based compensation expense of \$0.6 million in the quarter ended March 31, 2019 and \$17.8 thousand in the quarter ended March 31, 2018.

#### Note 3. Earnings Per Share

The Company computes earnings per share (“EPS”) in accordance with FASB Accounting Standards Codification (“ASC”) Topic 260, Earnings Per Share. The Company has no participating unvested common shares which contain nonforfeitable rights to dividends and applies the treasury stock method in computing basic and diluted earnings per share.

Basic EPS is calculated by dividing net income 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 were exercised or restricted stock becomes vested.

Three Months Ended

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	March 31, 2019	2018
(in thousands, except share and per share amounts)		
<b>Basic EPS:</b>		
Net income	\$ 19,400	\$ 16,169
Basic weighted average common shares	19,229,134	19,187,136
Basic earnings per common share	\$ 1.01	\$ 0.84
<b>Diluted EPS:</b>		
Net income	\$ 19,400	\$ 16,169
<b>Diluted weighted average common shares:</b>		
Weighted average common shares	19,229,134	19,187,136
Stock options and restricted stock	68,902	75,101
Diluted weighted average common shares	19,298,036	19,262,237
Diluted earnings per common share	\$ 1.01	\$ 0.84



Note 4. Investments

The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as held-to-maturity at March 31, 2019 are summarized as follows:

	Gross		Gross	Fair
	Amortized Cost	Unrealized Gains	Unrealized Losses	Value
	(in thousands)			
States and political subdivisions	\$431,247	\$ 10,468	\$ (242 )	\$441,473
Corporate bonds	102,774	520	(155 )	103,139
U.S. agency-based mortgage-backed securities	9,824	396	(56 )	10,164
U.S. Treasury securities and obligations of U.S. government agencies	59,210	352	(140 )	59,422
Asset-backed securities	1,001	24	(6 )	1,019
Totals	\$604,056	\$ 11,760	\$ (599 )	\$615,217

The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as available-for-sale at March 31, 2019 are summarized as follows:

	Gross		Gross	Fair
	Amortized Cost	Unrealized Gains	Unrealized Losses	Value
	(in thousands)			
States and political subdivisions	\$220,749	\$ 6,710	\$ (395 )	\$227,064
Corporate bonds	170,375	1,465	(217 )	171,623
U.S. agency-based mortgage-backed securities	12,462	—	(180 )	12,282
U.S. Treasury securities and obligations of U.S. government agencies	61,154	40	(909 )	60,285
Totals	\$464,740	\$ 8,215	\$ (1,701 )	\$471,254

The gross unrealized gains and losses on, and the cost of equity securities at March 31, 2019 are summarized as follows:

Cost	Gross	Gross	Fair
	Unrealized	Unrealized	Value

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	Gains		Losses	
	(in thousands)			
Equity securities:				
Domestic common stock	\$20,769	\$ 846	\$ —	\$21,615
Total equity securities	\$20,769	\$ 846	\$ —	\$21,615

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, 2018 are summarized as follows:

	Gross		Gross	
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in thousands)			
States and political subdivisions	\$445,922	\$ 5,109	\$ (2,084 )	\$448,947
Corporate bonds	91,762	62	(455 )	91,369
U.S. agency-based mortgage-backed securities	8,102	327	(80 )	8,349
U.S. Treasury securities and obligations				
of U.S. government agencies	67,042	340	(339 )	67,043
Asset-backed securities	1,050	22	(8 )	1,064
Totals	\$613,878	\$ 5,860	\$ (2,966 )	\$616,772

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The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as available-for-sale at December 31, 2018 are summarized as follows:

	Gross		Gross	Fair
	Amortized Cost	Unrealized Gains	Unrealized Losses	Value
	(in thousands)			
States and political subdivisions	\$231,848	\$ 3,515	\$ (2,118 )	\$233,245
Corporate bonds	173,904	243	(933 )	173,214
U.S. agency-based mortgage-backed securities	12,835	—	(320 )	12,515
U.S. Treasury securities and obligations				
of U.S. government agencies	61,185	—	(1,429 )	59,756
Totals	\$479,772	\$ 3,758	\$ (4,800 )	\$478,730

The gross unrealized gains and losses on, and the cost of equity securities at December 31, 2018 are summarized as follows:

	Gross		Gross	Fair
	Cost	Gains	Losses	Value
	(in thousands)			
Equity securities:				
Domestic common stock	\$19,962	\$ 30	\$(1,341)	\$18,651
Total equity securities	\$19,962	\$ 30	\$(1,341)	\$18,651

A summary of the amortized cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at March 31, 2019, by contractual maturity, is as follows:

	Amortized Fair	
	Cost	Value
	(in thousands)	
Maturity:		
Within one year	\$67,547	\$67,672
After one year through five years	248,804	251,430
After five years through ten years	86,353	88,108
After ten years	190,527	196,824
U.S. agency-based mortgage-backed securities	9,824	10,164
Asset-backed securities	1,001	1,019
Totals	\$604,056	\$615,217

A summary of the amortized cost and fair value of investments in fixed maturity securities, classified as available-for-sale at March 31, 2019, by contractual maturity, is as follows:

	Amortized Fair	
	Cost	Value
	(in thousands)	
Maturity:		
Within one year	\$68,592	\$68,518
After one year through five years	159,000	159,135
After five years through ten years	47,350	48,152
After ten years	177,336	183,167
U.S. agency-based mortgage-backed securities	12,462	12,282
Totals	\$464,740	\$471,254

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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:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value of		Fair Value of		Fair Value of	
	Investments		Investments		Investments	
	with	Gross	with	Gross	with	Gross
	Unrealized	Unrealized	Unrealized	Unrealized	Unrealized	Unrealized
	Losses	Losses	Losses	Losses	Losses	Losses
	(in thousands)					
<b>March 31, 2019</b>						
<b>Held-to-Maturity</b>						
<b>Fixed maturity securities:</b>						
States and political subdivisions	\$—	\$ —	\$78,248	\$ 242	\$78,248	\$ 242
Corporate bonds	3,728	5	37,828	150	41,556	155
U.S. agency-based mortgage-backed securities	—	—	2,248	56	2,248	56
<b>U.S. Treasury securities and obligations</b>						
of U.S. government agencies	—	—	40,587	140	40,587	140
Asset-backed securities	—	—	510	6	510	6
<b>Total held-to-maturity securities</b>	<b>3,728</b>	<b>5</b>	<b>159,421</b>	<b>594</b>	<b>163,149</b>	<b>599</b>
<b>Available-for-Sale</b>						
<b>Fixed maturity securities:</b>						
States and political subdivisions	\$1,957	\$ 1	\$27,768	\$ 394	\$29,725	\$ 395
Corporate bonds	5,734	7	75,651	210	81,385	217
U.S. agency-based mortgage-backed securities	—	—	12,281	180	12,281	180
<b>U.S. Treasury securities and obligations</b>						
of U.S. government agencies	—	—	56,466	909	56,466	909
<b>Total available-for-sale securities</b>	<b>7,691</b>	<b>8</b>	<b>172,166</b>	<b>1,693</b>	<b>179,857</b>	<b>1,701</b>
<b>Total</b>	<b>\$11,419</b>	<b>\$ 13</b>	<b>\$331,587</b>	<b>\$ 2,287</b>	<b>\$343,006</b>	<b>\$ 2,300</b>

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value of		Fair Value of		Fair Value of	
	Investments		Investments		Investments	
	with	Gross	with	Gross	with	Gross
	Unrealized	Unrealized	Unrealized	Unrealized	Unrealized	Unrealized
	Losses	Losses	Losses	Losses	Losses	Losses

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(in thousands)

December 31, 2018						
Held-to-Maturity						
Fixed maturity securities:						
States and political subdivisions	\$28,369	\$ 59	\$180,550	\$ 2,025	\$208,919	\$ 2,084
Corporate bonds	17,448	36	48,315	419	65,763	455
U.S. agency-based mortgage-backed securities	—	—	2,287	80	2,287	80
U.S. Treasury securities and obligations						
of U.S. government agencies	2,865	4	46,486	335	49,351	339
Asset-backed securities	—	—	525	8	525	8
Total held-to-maturity securities	48,682	99	278,163	2,867	326,845	2,966
Available-for-Sale						
Fixed maturity securities:						
States and political subdivisions	\$16,109	\$ 81	\$76,255	\$ 2,037	\$92,364	\$ 2,118
Corporate bonds	59,099	279	70,306	654	129,405	933
U.S. agency-based mortgage-backed securities	—	—	12,515	320	12,515	320
U.S. Treasury securities and obligations						
of U.S. government agencies	—	—	59,756	1,429	59,756	1,429
Total available-for-sale securities	75,208	360	218,832	4,440	294,040	4,800
Total	\$123,890	\$ 459	\$496,995	\$ 7,307	\$620,885	\$ 7,766

At March 31, 2019, we held 184 individual fixed maturity securities that were in an unrealized loss position, of which 176 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months.

During the first quarter of 2019, we recognized through income \$2.2 million of net unrealized gains on equity securities held as of March 31, 2019. For the three months ended March 31, 2018, we recognized through income \$0.4 million of net unrealized losses on equity securities held as of March 31, 2018.

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 existence of other-than-temporary declines in the fair value of 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 preferred 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 required to sell the security before the recovery of its value; and
- an evaluation as to whether there are any credit losses on debt securities.

We reviewed all securities with unrealized losses in accordance with the impairment policy described above. We determined that the unrealized losses in the fixed maturity securities 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. 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 securities before the recovery of its amortized cost basis.

During the three months ended March 31, 2019 and 2018, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments.

Net realized gains in the three months ended March 31, 2019 were \$0.1 million resulting from the sale of equity and fixed maturity securities classified as available-for-sale. Net realized gains in the three months ended March 31, 2018 were immaterial.

#### Note 5. Income Taxes

In accordance with FASB ASC Topic 740, “Income Taxes,” we provide for the recognition and measurement of deferred income tax benefits based on the likelihood of their realization in future years. As of March 31, 2019, the Company established a valuation allowance of \$0.2 million against its deferred income tax benefits.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no uncertain tax positions recognized for the periods ended March 31, 2019 and 2018.

Tax years 2015 through 2018 are subject to examination by the federal and state taxing authorities.





## Note 6. Loss Reserves

We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid as of a given point in time. The reserves for loss and loss adjustment expenses are estimated using individual case-basis valuations, statistical analyses and estimates based upon experience for unreported claims and their associated loss and loss adjustment expenses. Such estimates may be more or less than the amounts ultimately paid when the claims are settled. The estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in these estimates, management believes that the reserves for loss and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Any such adjustments are included in income from current operations. See Note 9 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2018 for additional information regarding the Company's loss and loss adjustment expense development.

The following table provides the Company's liability for unpaid loss and loss adjustment expenses, net of related amounts recoverable from reinsurers, for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Balance, beginning of period	\$798,409	\$771,845