AMERISAFE INC
Form 10-Q
October 28, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

Commission file number:

001-12251

AMERISAFE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas	75-2069407
(State of Incorporation)	(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

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

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

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

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

As of October 26, 2016, there were 19,230,135 shares of the Registrant’s common stock, par value $.01 per share, outstanding.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and the insurance industry in general. Statements that include the words "expect," "intend," "plan," "believe," "project," "forecast," "estimate," "may," "should," "ar 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;
- general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;
- decreased demand for our insurance;
- increased competition on the basis of types of insurance offered, premium rates, coverage availability, payment terms, claims management, safety services, policy terms, overall financial strength, financial ratings and reputation;
- 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;
- technology breaches or failures, including those resulting from a malicious cyber attack on the Company or its policyholders and medical providers;
- adverse developments in economic, competitive, judicial or regulatory conditions within the workers' compensation insurance industry;
- changes in regulations, laws, rates, or rating factors applicable to the Company, its policyholders or the agencies that sell its insurance;
- loss of the services of any of our senior management or other key employees;
- 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;
- decreased level of business activity of our policyholders caused by decreased business activity generally, and in particular in the industries we target;
- 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, 2015. 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.

3

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturity securities—held-to-maturity, at amortized cost (fair value $620,781 and $662,276 in 2016 and 2015, respectively)	$ 601,314	$ 645,164
Fixed maturity securities—available-for-sale, at fair value (cost $460,497 and $376,109 in 2016 and 2015, respectively)	470,620	380,022
Equity securities—available-for-sale, at fair value (cost $0, in 2016 and 2015)	32	31
Short-term investments	11,494	7,718
Other investments	12,174	12,217
Total investments	1,095,634	1,045,152
Cash and cash equivalents	86,612	69,481
Amounts recoverable from reinsurers	102,815	91,077
Premiums receivable, net of allowance	200,987	185,364
Deferred income taxes	28,278	29,905
Accrued interest receivable	11,948	11,685
Property and equipment, net	6,387	6,181
Deferred policy acquisition costs	20,363	20,412
Other assets	47,154	42,788
Total assets	$ 1,600,178	$ 1,502,045
Liabilities and shareholders' equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	$ 736,276	$ 718,033
Unearned premiums	175,773	167,983
Reinsurance premiums payable	—	154
Amounts held for others	55,946	49,790
Policyholder deposits	48,781	48,380
Insurance-related assessments	35,875	32,329
Federal income tax payable	2,810	911
Accounts payable and other liabilities	32,905	30,484
Payable for investments purchased	2,069	—
Total liabilities	1,090,435	1,048,064
Shareholders' equity:		

Common stock:		
Voting—$0.01 par value authorized shares—50,000,000 in 2016 and 2015;		
20,488,385 and 20,388,396 shares issued and 19,230,135 and 19,130,146		
shares outstanding in 2016 and 2015, respectively	204	203
Additional paid-in capital	208,009	204,688
Treasury stock at cost (1,258,250 shares in 2016 and 2015)	(22,370)	(22,370)
Accumulated earnings	317,304	268,873
Accumulated other comprehensive income, net	6,596	2,587
Total shareholders' equity	509,743	453,981
Total liabilities and shareholders' equity	$ 1,600,178	$ 1,502,045

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Gross premiums written	$88,837	$91,061	$292,443	$297,872
Ceded premiums written	(2,945)	(4,232)	(8,046)	(9,317)
Net premiums written	$85,892	$86,829	$284,397	$288,555
Net premiums earned	$89,918	$90,504	$276,607	$280,860
Net investment income	8,006	6,923	20,251	20,646
Net realized gains (losses) on investments	181	40	974	(2,518)
Fee and other income	101	3	272	206
Total revenues	98,206	97,470	298,104	299,194
Expenses				
Loss and loss adjustment expenses incurred	50,526	48,942	146,413	166,252
Underwriting and certain other operating costs	8,104	9,293	25,325	26,043
Commissions	6,362	6,696	19,731	20,606
Salaries and benefits	6,298	6,278	18,403	18,070
Policyholder dividends	889	371	3,195	1,024
Total expenses	72,179	71,580	213,067	231,995
Income before income taxes	26,027	25,890	85,037	67,199
Income tax expense	8,131	7,950	26,245	19,810
Net income	17,896	17,940	58,792	47,389
Net income available to common shareholders	$17,896	$17,940	$58,792	$47,389
Earnings per share				
Basic	$0.94	$0.95	$3.08	$2.51
Diluted	$0.93	$0.94	$3.06	$2.48
Shares used in computing earnings per share				
Basic	19,121,947	18,968,718	19,092,298	18,911,675
Diluted	19,190,191	19,096,259	19,186,398	19,088,140
Cash dividends declared per common share	$0.18	$0.15	$0.54	$0.45

See accompanying notes.

5

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$17,896	$17,940	$58,792	$47,389
Other comprehensive income:				
Unrealized gain (loss) on securities, net of tax	(1,713)	1,308	4,009	550
Comprehensive income	$16,183	$19,248	$62,801	$47,939

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

(unaudited)

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amounts	Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2015	20,388,396	$ 203	(1,258,250)	$ (22,370)	$ 204,688	$ 268,873	$ 2,587	$ 453,981
Comprehensive income	—	—	—	—	—	58,792	4,009	62,801
Common stock issued upon exercise of options	68,879	1	—	—	836	—	—	837
Tax benefit from share-based payments	—	—	—	—	976	—	—	976
Restricted common stock issued	31,110	—	—	—	603	—	—	603
Share-based compensation	—	—	—	—	906	—	—	906
Dividends to shareholders	—	—	—	—	—	(10,361)	—	(10,361)
Balance at September 30, 2016	20,488,385	$ 204	(1,258,250)	$ (22,370)	$ 208,009	$ 317,304	$ 6,596	$ 509,743

See accompanying notes.

7

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2016	2015
Operating activities		
Net income	$58,792	$47,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	884	1,030
Net amortization of investments	12,306	12,295
Deferred income taxes	(532)	(752)
Net realized (gains) losses on investments	(959)	2,518
Net realized losses on disposal of assets	1	24
Share-based compensation	1,143	691
Changes in operating assets and liabilities:		
Premiums receivable, net	(15,623)	(15,169)
Accrued interest receivable	(263)	(571)
Deferred policy acquisition costs	49	(1,440)
Amounts held by others	1,016	(27,847)
Other assets	(2,929)	(1,712)
Reserves for loss and loss adjustment expenses	18,243	33,108
Unearned premiums	7,790	7,694
Reinsurance balances	(11,892)	(5,773)
Amounts held for others and policyholder deposits	6,557	5,682
Accounts payable and other liabilities	8,285	5,555
Net cash provided by operating activities	82,868	62,722
Investing activities		
Purchases of investments held-to-maturity	(102,830)	(145,771)
Purchases of investments available-for-sale	(161,482)	(114,406)
Purchases of short-term investments	(12,132)	(7,000)
Proceeds from maturities of investments held-to-maturity	136,896	115,656
Proceeds from sales and maturities of investments available-for-sale	75,470	70,652
Proceeds from sales and maturities of short-term investments	8,033	33,341
Purchases of property and equipment	(1,091)	(759)
Net cash used in investing activities	(57,136)	(48,287)
Financing activities		
Proceeds from stock option exercises	837	1,277
Tax benefit from share-based payments	976	1,795
Dividends to shareholders	(10,414)	(8,564)
Net cash used in financing activities	(8,601)	(5,492)
Change in cash and cash equivalents	17,131	8,943

Cash and cash equivalents at beginning of period	69,481	90,956
Cash and cash equivalents at end of period	$86,612	$99,899

See accompanying notes.

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 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, a the context requires.

The Company provides workers' compensation insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking, manufacturing, agriculture and oil and gas. Assets and revenues of AIIC represent at least 95% of comparable consolidated amounts of the Company for each of 2016 and 2015.

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, 2015.

The preparation of financial statements in accordance 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.

In May 2015, the FASB issued Accounting Standards Update No. 2015-07, Fair Value Measurements (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this update change the disclosure requirements for investments in certain entities that calculate net asset value (NAV) per share. Under current accounting standards entities are permitted to estimate the fair value of certain investments using the investment's NAV as a practical expedient. The current disclosure guidance also permits entities to disclose the investment at NAV in the fair value hierarchy table as either Level 2 or Level 3, based upon certain criteria. The measurement basis utilizing NAV is different than the measurement criteria of all other investments which utilize inputs to calculate fair value. Due to this inconsistency, the FASB issued this ASU which requires entities to remove investments measured at NAV from the fair value hierarchy table. Other than the change in presentation, the adoption of this new guidance will not have an impact on our consolidated financial statements.

Certain prior year amounts have been reclassified to conform with the current year presentation.

Note 2. Stock Options and Restricted Stock

As of September 30, 2016, 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"). The 2005 Incentive Plan expired on October 27, 2015. No grants will be made under the 2005 Incentive Plan after October 27, 2015 but all grants made on or prior to such date will continue in effect thereafter 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, 2015 for additional information regarding the Company's incentive plans.

During the nine months ended September 30, 2016, the Company granted 27,077 and 5,952 shares of restricted common stock to executive officers and non-employee directors, respectively. The market value of the restricted shares granted totaled $1.9 million. During the nine months ended September 30, 2015, the Company granted 50,461 and 7,112 shares of restricted common stock to executive officers and non-employee directors, respectively. The market value of the restricted shares granted totaled $2.6 million.

During the nine months ended September 30, 2016, options to purchase 68,879 shares of common stock were exercised. During the nine months ended September 30, 2015, options to purchase 156,850 shares of common stock were exercised. In connection with these exercises, the Company received $0.8 million and $1.3 million of stock option proceeds, respectively.

The Company recognized share-based compensation expense of $0.4 million in the quarter ended September 30, 2016 compared to $0.3 for the same period of 2015. The Company recognized share-based compensation expense of $1.1 million in the nine months ended September 30, 2016 and $0.7 million for the same period of 2015.

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. 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 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except share and per share amounts)			
Basic EPS:				
Net income available to common shareholders - basic	$17,896	$17,940	$58,792	$47,389
Basic weighted average common shares	19,121,947	18,968,718	19,092,298	18,911,675
Basic earnings per common share	$0.94	$0.95	$3.08	$2.51
Diluted EPS:				
Net income available to common shareholders - diluted	$17,896	$17,940	$58,792	$47,389
Diluted weighted average common shares:				
Weighted average common shares	19,121,947	18,968,718	19,092,298	18,911,675
Stock options and performance shares	68,244	127,541	94,100	176,465
Diluted weighted average common shares	19,190,191	19,096,259	19,186,398	19,088,140

Diluted earnings per common share	$0.93	$0.94	$3.06	$2.48

10

Note 4. Investments

The gross unrealized gains and losses on, and the amortized cost and fair value of, those investments classified as held-to-maturity at September 30, 2016 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
States and political subdivisions	$418,155	$ 15,675	$ (96)	$433,734
Corporate bonds	158,042	1,698	(81)	159,659
Commercial mortgage-backed securities	290	—	—	290
U.S. agency-based mortgage-backed securities	10,943	1,193	—	12,136
U.S. Treasury securities and obligations of U.S. government agencies	11,863	986	(1)	12,848
Asset-backed securities	2,021	158	(65)	2,114
Totals	$601,314	$ 19,710	$ (243)	$620,781

The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, those investments classified as available-for-sale at September 30, 2016 are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Fixed maturity:				
States and political subdivisions	$188,689	$ 8,450	$ (359)	$196,780
Corporate bonds	197,167	2,259	(214)	199,212
U.S. agency-based mortgage-backed securities	12,026	51	(797)	11,280
U.S. Treasury securities and obligations of U.S. government agencies	62,615	821	(88)	63,348
Total fixed maturity	460,497	11,581	(1,458)	470,620
Other investments	10,000	2,174	—	12,174
Equity securities	—	32	—	32
Totals	$470,497	$ 13,787	$ (1,458)	$482,826

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, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
States and political subdivisions	$408,447	$ 15,352	$ (45)	$423,754
Corporate bonds	171,224	159	(810)	170,573
Commercial mortgage-backed securities	37,494	204	(15)	37,683
U.S. agency-based mortgage-backed securities	13,223	1,249	(1)	14,471
U.S. Treasury securities and obligations of U.S. government agencies	12,487	897	(4)	13,380
Asset-backed securities	2,289	202	(76)	2,415
Totals	$645,164	$ 18,063	$ (951)	$662,276

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, 2015 are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Fixed maturity:				
States and political subdivisions	$164,684	$ 6,942	$ (207)	$171,419
Corporate bonds	202,537	253	(1,486)	201,304
U.S. agency-based mortgage-backed securities	8,888	4	(1,593)	7,299
Total fixed maturity	376,109	7,199	(3,286)	380,022
Other investments	10,000	2,217	—	12,217
Equity securities	—	31	—	31
Totals	$386,109	$ 9,447	$ (3,286)	$392,270

A summary of the amortized cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at September 30, 2016, by contractual maturity, is as follows:

Maturity	Amortized Cost	Fair Value
	(in thousands)	
Within one year	$95,695	$96,339
After one year through five years	302,699	311,060
After five years through ten years	107,854	113,247
After ten years	81,812	85,595
U.S. agency-based mortgage-backed securities	290	290
Commercial mortgage-backed securities	10,943	12,136
Asset-backed securities	2,021	2,114
Totals	$601,314	$620,781

A summary of the amortized cost and fair value of investments in fixed maturity securities, classified as available-for-sale at September 30, 2016, by contractual maturity, is as follows:

Maturity	Amortized Cost	Fair Value
	(in thousands)	

Within one year	$68,399	$68,884
After one year through five years	213,596	216,619
After five years through ten years	38,679	39,845
After ten years	127,797	133,992
U.S. agency-based mortgage-backed securities	12,026	11,280
Totals	$460,497	$470,620

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 Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
	(in thousands)					
September 30, 2016						
Held-to-Maturity						
Fixed maturity securities:						
States and political subdivisions	$23,075	$ 96	$—	$ —	$23,075	$ 96
Corporate bonds	9,696	55	3,173	26	12,869	81
U.S. Treasury securities and obligations of U.S. government agencies	637	1	—	—	637	1
Asset-backed securities	—	—	1,221	65	1,221	65
Total held-to-maturity securities	33,408	152	4,394	91	37,802	243
Available-for Sale						
Fixed maturity securities:						
States and political subdivisions	$22,147	$ 328	$4,746	$ 31	$26,893	$ 359
Corporate bonds	7,673	9	7,900	205	15,573	214
U.S. agency-based mortgage-backed securities	—	—	6,930	797	6,930	797
U.S. Treasury securities and obligations of U.S. government agencies	3,266	88	—	—	3,266	88
Total available-for-sale securities	33,086	425	19,576	1,033	52,662	1,458
Total	$66,494	$ 577	$23,970	$ 1,124	$90,464	$ 1,701

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

	Losses (in thousands)		Losses		Losses	
December 31, 2015						
Held-to-Maturity						
Fixed maturity securities:						
States and political subdivisions	$24,068	$ 45	$—	$ —	$24,068	$ 45
Corporate bonds	128,436	687	18,139	123	146,575	810
Commercial mortgage-backed securities	9,784	15	—	—	9,784	15
U.S. agency-based mortgage-backed securities	18	—	28	1	46	1
U.S. Treasury securities and obligations of U.S. government agencies	2,980	4	—	—	2,980	4
Asset-backed securities	—	—	1,389	76	1,389	76
Total held-to-maturity securities	165,286	751	19,556	200	184,842	951
Available-for Sale						
Fixed maturity securities:						
States and political subdivisions	$6,560	$ 9	$4,439	$ 198	$10,999	$ 207
Corporate bonds	141,857	1,475	4,216	11	146,073	1,486
U.S. agency-based mortgage-backed securities	434	37	6,794	1,556	7,228	1,593
Total available-for-sale securities	148,851	1,521	15,449	1,765	164,300	3,286
Total	$314,137	$ 2,272	$35,005	$ 1,965	$349,142	$ 4,237

At September 30, 2016, the Company held 73 individual fixed maturity securities that were in an unrealized loss position, of which 19 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months.

The Company holds investments in a limited partnership hedge fund accounted for under the equity method. The carrying value of this investment is $12.2 million at September 30, 2016.

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 specific 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 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 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 the amortized cost basis.

During the nine months ended September 30, 2016, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments compared to $2.7 million for the same period in 2015.

Net realized gains in the nine months ended September 30, 2016 were $1.0 million resulting from the sale of fixed maturity securities classified as available-for-sale. Net realized losses in the nine months ended September 30, 2015 were $2.5 million resulting from an impairment loss of $2.7 million recognized for the other-than-temporary decline in the fair value of four fixed maturity securities offset by $0.2 million in gains on called fixed maturity securities.

Note 5. Income Taxes

In accordance with FASB ASC Topic 740, "Income Taxes," we provide for the recognition and measurement of deferred income tax benefits based on the likelihood of their realization in future years. As of September 30, 2016, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. There were no uncertain tax positions recognized for the periods ended September 30, 2016 and 2015.

Tax years 2012 through 2015 are subject to examination by the federal and state taxing authorities.

Note 6. Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income was $16.2 million for the three months ended September 30, 2016, compared to $19.2 million for the three months ended September 30, 2015. Comprehensive income was $62.8 million for the nine months ended September 30, 2016, compared to $47.9 million for the same period in 2015. The difference between net income as reported and comprehensive income was due to changes in unrealized gains and losses, net of tax on available-for-sale securities.

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

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(in thousands)			
Beginning balance	$8,309	$2,052	$2,587	$2,810
Other comprehensive income (loss) before reclassification	(1,589)	1,400	4,286	(188)
Amounts reclassified from accumulated other comprehensive income	(124)	(92)	(277)	738
Net current period other comprehensive income (loss)	(1,713)	1,308	4,009	550
Ending balance	$6,596	$3,360	$6,596	$3,360

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 September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Affected line item in the statement of income
	(in thousands)				
Unrealized gains on available-for-sale securities	$191	$142	$426	$464	Net realized gains (losses) on investments
Other-than-temporary impairment	—	—	—	(1,600)	Net realized gains (losses) on investments
	191	142	426	(1,136)	Income before income taxes
	(67)	(50)	(149)	398	Income tax expense
	$124	$92	$277	$(738)	Net income

Note 7. Fair Value Measurements

The Company carries available-for-sale securities at fair value in our consolidated financial statements and determines 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.
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are to be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

The fair values of the Company's investments are based upon prices provided by an independent pricing service. The Company has reviewed these prices for reasonableness and has not adjusted any prices received from the independent provider. Securities reported at fair value utilizing Level 1 inputs represent assets whose fair value is determined based upon observable unadjusted quoted market prices for identical assets in active markets. Level 2 securities represent assets whose fair value is determined using observable market information such as previous day trade prices, quotes from less active markets or quoted prices of securities with similar characteristics. There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2016.

At September 30, 2016, assets and liabilities measured at fair value on a recurring basis are summarized below:

	September 30, 2016			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(in thousands)			
Financial instruments carried at fair value, classified as a part of:				
Securities available for sale—equity:				
Domestic common stock	$32	$—	$ —	$32

Securities available for sale—fixed maturity:				
States and political subdivisions	—	196,780	—	196,780
Corporate bonds	—	199,212	—	199,212
U.S. agency-based mortgage-backed securities	—	11,280	—	11,280
U.S. Treasury securities	63,348	—	—	63,348
Total securities available for sale—fixed maturity	63,348	407,272	—	470,620
Total available for sale	$63,380	$407,272	$ —	$470,652

At September 30, 2016, assets and liabilities measured at amortized cost are summarized below:

	September 30, 2016			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(in thousands)			
Securities held-to-maturity—fixed maturity				
States and political subdivisions	$—	$433,734	$ —	$433,734
Corporate bonds	—	159,659	—	159,659
Commercial mortgage-backed securities	—	290	—	290
U.S. agency-based mortgage-backed securities	—	12,136	—	12,136
U.S. Treasury securities	7,029	—	—	7,029
Obligations of U.S. government agencies	—	5,819	—	5,819
Asset-backed securities	—	2,114	—	2,114
Total held-to-maturity	$7,029	$613,752	$ —	$620,781

At December 31, 2015, assets and liabilities measured at fair value on a recurring basis are summarized below:

	December 31, 2015			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(in thousands)			
Financial instruments carried at fair value, classified as part of:				
Securities available for sale—equity:				
Domestic common stock	$31	$—	$ —	$31
Securities available for sale—fixed maturity:				
States and political subdivisions	—	171,419	—	171,419
Corporate bonds	—	201,304	—	201,304
U.S. agency-based mortgage-backed securities	—	7,299	—	7,299
Total available for sale—fixed maturity	$—	$380,022	$ —	$380,022
Total available for sale	$31	$380,022	$ —	$380,053

At December 31, 2015, assets and liabilities measured at amortized cost are summarized below:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total Fair

	Inputs	Inputs	Inputs	Value
	(in thousands)			
Securities held-to-maturity—fixed maturity:				
States and political subdivisions	$—	$423,754	$ —	$423,754
Corporate bonds	—	170,573	—	170,573
Commercial mortgage-backed securities	—	37,683	—	37,683
U.S. agency-based mortgage-backed securities	—	14,471	—	14,471
U.S. Treasury securities	7,599	—	—	7,599
Obligations of U.S. government agencies	—	5,781	—	5,781
Asset-backed securities	—	2,415	—	2,415
Total held-to-maturity	$7,599	$654,677	$ —	$662,276

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 a limited partnership ("LP") interest that is accounted for under the equity method 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 60-day notice with no lock up periods. The Company has no unfunded commitments related to the LP.

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

	As of September 30, 2016		As of December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Assets:				
Fixed maturity securities—held-to-maturity	$601,314	$620,781	$645,164	$662,276
Fixed maturity securities—available-for-sale	470,620	470,620	380,022	380,022
Equity securities	32	32	31	31
Cash and cash equivalents	86,612	86,612	69,481	69,481
Short-term investments	11,494	11,494	7,718	7,718
Other investments	12,174	12,174	12,217	12,217

Note 8. Treasury Stock

The Company's Board of Directors initiated a share repurchase program in February 2010. In October 2016, the Board reauthorized this program with a limit of $25.0 million. Unless reauthorized, the program will expire on December 31, 2017. There were no shares repurchased under this program in the nine months ended September 30, 2016. 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. Commitments and Contingencies

In February 2015, the Company was notified of an adverse verdict against its subsidiary, American Interstate Insurance Company, related to a 2009 workers' compensation claim in the State of Iowa. The verdict was for $25.3 million, of which $0.3 million was for actual damages and $25.0 million was awarded for punitive damages. American Interstate is appealing both the verdict and the damage awards. The Company has posted an appeal bond in the amount of $27.8 million, as required by law. The Company maintains reinsurance against catastrophic losses, including court ordered judgments. As of September 30, 2016, the Company's total reserve for the claim was $2.5 million. The $2.5 million reserve does not include payments that the Company has previously paid in this case. The payments, plus the $2.5 million reserve, total $5.4 million. The Company's retention is $5.0 million before its reinsurance providers are obligated to reimburse the Company for additional costs. The Company presently believes that the reserve amount, together with its reinsurance coverage, is adequate to satisfy this claim.

Note 10. Subsequent Events

On October 25, 2016, the Company's Board of Directors declared a quarterly cash dividend of $0.18 per share payable on December 29, 2016 to shareholders of record as of December 15, 2016. The Board considers the payment of a regular cash dividend each calendar quarter.

On October 25, 2016, the Company's Board of Directors declared an extraordinary cash dividend of $3.25 per share payable on December 29, 2016 to shareholders of record on December 15, 2016.

On October 25, 2016, the Company's Board of Directors reauthorized the share repurchase program with a limit of $25.0 million.

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

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q, together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2015.

We begin our discussion with an overview of our Company to give you an understanding of our business and the markets we serve. We then discuss our critical accounting policies. This is followed with a discussion of our results of operations for the three and nine months ended September 30, 2016 and 2015. This discussion includes an analysis of certain significant period-to-period variances in our consolidated statements of operations. Our cash flows and financial condition are discussed under the caption "Liquidity and Capital Resources."

Business Overview

AMERISAFE is a holding company that markets and underwrites workers' compensation insurance through its insurance subsidiaries. Workers' compensation insurance covers statutorily prescribed benefits that employers are obligated to provide to their employees who are injured in the course and scope of their employment. Our business strategy is focused on providing this coverage to small to mid-sized employers engaged in hazardous industries, principally construction, trucking, manufacturing, agriculture and oil and gas. 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 27 states through independent agencies, as well as through our wholly owned insurance agency subsidiary. We are also licensed in an additional 20 states, the District of Columbia 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, 2015.

Results of Operations

The following table summarizes our consolidated financial results for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	$88,837	$91,061	$292,443	$297,872
Net premiums earned	89,918	90,504	276,607	280,860
Net investment income	8,006	6,923	20,251	20,646
Total revenues	98,206	97,470	298,104	299,194
Total expenses	72,179	71,580	213,067	231,995
Net income	17,896	17,940	58,792	47,389
Diluted earnings per common share	$0.93	$0.94	$3.06	$2.48
Other Key Measures				
Net combined ratio (1)	80.3 %	79.1 %	77.0 %	82.6 %
Return on average equity (2)	14.2 %	14.9 %	16.3 %	13.5 %
Book value per share (3)	$26.51	$25.69	$26.51	$25.69

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

Consolidated Results of Operations for Three Months Ended September 30, 2016 Compared to September 30, 2015

Gross Premiums Written. Gross premiums written for the quarter ended September 30, 2016 were $88.8 million, compared to $91.1 million for the same period in 2015, a decrease of 2.4%. The decrease was attributable to a $1.2 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $0.8 million decrease in annual premiums on voluntary policies written during the period. The effective loss cost multiplier, or LCM, for our voluntary business was 1.71 for the third quarter ended September 30, 2016 compared to 1.77 for the same period in 2015.

Net Premiums Written. Net premiums written for the quarter ended September 30, 2016 were $85.9 million, compared to $86.8 million for the same period in 2015, a decrease of 1.1%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 3.2% for the third quarter of 2016 compared to 4.5% for the third quarter of 2015. The decrease in ceded premiums as a percentage of gross premiums earned reflects a decrease of $1.3 million of additional ceded premium as a result of ceded losses during the period compared to prior year. For additional information, see Item 1, "Business—Reinsurance" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Net Premiums Earned. Net premiums earned for the third quarter of 2016 were $89.9 million, compared to $90.5 million for the same period in 2015, a decrease of 0.6%. The decrease was attributable to a $1.2 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters.

Net Investment Income. Net investment income for the quarter ended September 30, 2016 was $8.0 million, compared to $6.9 million for the same period in 2015. The increase of $1.1 million was largely due to the increase in value of a hedge fund investment where the change in value is recorded in investment income each quarter. Average invested assets, including cash and cash equivalents, were $1.2 billion in the quarter ended September 30, 2016, compared to an average of $1.1 billion for the same period in 2015, an increase of 4.5%. The pre-tax investment yield on our investment portfolio was 2.7% and 2.4% per annum during the quarters ended September 30, 2016 and 2015, respectively. The tax-equivalent yield on our investment portfolio was 3.2% per annum for the quarter ended September 30, 2016, compared to 3.3% per annum for the same period in 2015. The tax-equivalent yield is calculated using the effective interest rate and the appropriate marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized gains on investments for the three months ended September 30, 2016 totaled $0.2 million compared to immaterial net realized gains for the same period in 2015. Net realized gains in the third quarter of 2016 were attributable to the sale of fixed maturity securities classified as available-for-sale.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses ("LAE") incurred totaled $50.5 million for the three months ended September 30, 2016, compared to $48.9 million for the same period in 2015, an increase of $1.6 million, or 3.2%. The current accident year losses and LAE incurred were $61.1 million, or 67.9% of net premiums earned, compared to $63.2 million, or 69.8% of net premiums earned, for the same period in 2016. We recorded favorable prior accident year development of $10.5 million in the third quarter of 2016, compared to favorable prior accident year development of $14.2 million in the same period of 2015, as further discussed below in "Prior Year Development." Our net loss ratio was 56.2% in the third quarter of 2016, compared to 54.1% for the same period of 2015.

Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits. Underwriting and certain other operating costs, commissions and salaries and benefits for the quarter ended September 30, 2016 were $20.8 million, compared to $22.3 million for the same period in 2015, a decrease of 6.7%. This decrease was primarily due to a $0.5 million decrease in insurance related assessments, a $0.3 million decrease in commission expense, a $0.2 million decrease in premium taxes and a $0.2 million decrease in accounts receivable write-offs. Our expense ratio was 23.1% in the third quarter of 2016 compared to 24.6% in the third quarter of 2015.

Income Tax Expense. Income tax expense for the three months ended September 30, 2016 was $8.1 million, compared to $8.0 million for the same period in 2015. The increase was attributable to an increase in the pre-tax income to $26.0 million in the quarter ended September 30, 2016 from $25.9 million in the same period in 2015. Also, the effective tax rate increased to 31.2% in the quarter ended September 30, 2016 from 30.7% in the same period in 2015. The increase in the tax rate resulted from a higher proportion of underwriting income to tax-exempt income in the quarter relative to the third quarter of 2015.

Consolidated Results of Operations for Nine Months Ended September 30, 2016 Compared to September 30, 2015

Gross Premiums Written. Gross premiums written for the first nine months of 2016 were $292.4 million, compared to $297.9 million for the same period in 2015, a decrease of 1.8%. The decrease was attributable to a $2.8 million decrease in annual premiums on voluntary policies written during the period, a $2.1 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $0.7 million decrease in assumed premium from mandatory pooling arrangements. The effective LCM for our voluntary business was 1.73 for the nine months ended September 30, 2016 compared to 1.80 for the same period in 2015.

Net Premiums Written. Net premiums written for the nine months ended September 30, 2016 were $284.4 million, compared to $288.6 million for the same period in 2015, a decrease of 1.4%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 2.8% and 3.2% for the first nine months of 2016 and 2015, respectively. The decrease in ceded premiums as a percentage of gross premiums earned reflects a decrease of $1.1 million of additional ceded premium as a result of ceded losses during the period compared to prior year. For additional information, see Item 1, "Business—Reinsurance" in our Annual Report on Form 10-K for the year ended December 31, 2015.

Net Premiums Earned. Net premiums earned for the first nine months of 2016 were $276.6 million, compared to $280.9 million for the same period in 2015, a decrease of 1.5%. The decrease was attributable to the decrease in net premiums written during the period.

Net Investment Income. Net investment income for the first nine months of 2016 was $20.3 million, compared to $20.6 million for the same period in 2015, a decrease of 1.9%. Average invested assets, including cash and cash equivalents increased 2.0% to $1.2 billion in the nine months ended September 30, 2016. The pre-tax investment yield on our investment portfolio was 2.4% per annum during the nine months ended September 30, 2016 and 2015. The tax-equivalent yield on our investment portfolio was 3.2% per annum for the first nine months of 2016 compared to 3.3% for the same period in 2015. The tax-equivalent yield is calculated using the effective interest rate and the appropriate marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized gains on investments for the nine months ended September 30, 2016 totaled $1.0 million, compared to net realized losses of $2.5 million for the same period in 2015. Net realized gains in the first nine months of 2016 were attributable to the sale of fixed maturity securities classified as available-for-sale. Net realized losses in the nine months of 2015 were attributable to other-than-temporary impairments of four fixed maturity securities of $2.7 million.

Loss and Loss Adjustment Expenses Incurred. Loss and LAE incurred totaled $146.4 million for the nine months ended September 30, 2016, compared to $166.3 million for the same period in 2015, a decrease of $19.8 million, or 11.9%. The current accident year losses and LAE incurred were $187.8 million, or 67.9% of net premiums earned, compared to $196.0 million, or 69.8% of net premiums earned, for the same period in 2015. We recorded favorable prior accident year development of $41.4 million in the first nine months of 2016, compared to favorable prior accident year development of $29.8 million in the same period of 2015, as further discussed below in "Prior Year Development." Our net loss ratio was 52.9% in the first nine months of 2016, compared to 59.2% for the same period of 2015.

Underwriting and Certain Other Operating Costs, Commissions and Salaries and Benefits. Underwriting and certain other operating costs, commissions and salaries and benefits for the nine months ended September 30, 2016 were $63.5 million, compared to $64.7 million for the same period in 2015, a decrease of 1.9%. This decrease was primarily due to a $1.0 million decrease in premium taxes, a $0.9 million decrease in commission expense, a $0.4 million decrease in insurance related assessments and a $0.3 million increase in reinsurance contingent profit commission. Offsetting these decreases were an increase to accounts receivable write-offs of $1.1 million and a $0.3 million increase in compensation expense. Our expense ratio was 22.9% in the first nine months of 2016 compared to 23.0% in the same period of 2015.

Income Tax Expense. Income tax expense for the nine months ended September 30, 2016 was $26.2 million, compared to $19.8 million for the same period in 2015. The increase was attributable to an increase in pre-tax income to $85.0 million in the first nine months of 2016 from $67.2 million in the first nine months of 2015. The effective tax rate increased to 30.9% for the nine months ended September 30, 2016 from 29.5% for the nine months ended September 30, 2015. The increase in the tax rate resulted from a higher proportion of underwriting income to tax-exempt income for the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015.

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 $82.9 million for the nine months ended September 30, 2016, which represented a $20.1 million increase from $62.7 million in net cash provided by operating activities for the nine months ended September 30, 2015. This increase in operating cash flow was attributable to a $28.9 million decrease in amounts held by others, a $4.1 million decrease in underwriting expenses paid and a $0.5 million increase in paid losses payable. Offsetting these increases were a $6.2 million increase in federal taxes paid, a $5.2 million decrease in premium collections and a $0.9 million decrease in reinsurance recoveries.

Net cash used in investing activities was $57.1 million for the nine months ended September 30, 2016, compared to net cash used in investment activities of $48.3 million for the same period in 2015. Cash provided by sales and maturities of investments totaled $220.4 million for the nine months ended September 30, 2016, compared to $219.6 million for the same period in 2015. A total of $276.4 million in cash was used to purchase investments in the nine months ended September 30, 2016, compared to $267.2 million in purchases for the same period in 2015.

Net cash used in financing activities in the nine months ended September 30, 2016 was $8.6 million compared to net cash used in financing activities of $5.5 million for the same period in 2015. In the nine months ended September 30, 2016, $10.4 million of cash was used for dividends paid to shareholders compared to $8.6 million in the same period of 2015. Offsetting this increase were proceeds of $0.8 million and $1.3 million from stock option exercises in the nine months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2016, the tax benefit from share based compensation was $1.0 million compared to $1.8 million for the same period in 2015.

Investment Portfolio

Our investment portfolio, including cash and cash equivalents, totaled $1.2 billion on September 30, 2016 compared to $1.1 billion at December 31, 2015. Effective April 1, 2010, purchases of fixed maturity securities are classified as available-for-sale or held-to-maturity based on the individual security. Such classification is made at the time of purchase. The reported value of our fixed maturity securities classified as held-to-maturity, as defined by FASB ASC Topic 320, Investments-Debt and Equity Securities, was equal to their amortized cost, and thus was not impacted by changing interest rates. Our equity securities and fixed maturity securities classified as available-for-sale were reported at fair value.

The composition of our investment portfolio, including cash and cash equivalents, as of September 30, 2016, is shown in the following table:

	Carrying Value	Percentage of Portfolio	
	(in thousands)		
Fixed maturity securities—held-to-maturity:			
States and political subdivisions	$418,155	35.3	%
Corporate bonds	158,042	13.4	%
Commercial mortgage-backed securities	290	—	
U.S. agency-based mortgage-backed securities	10,943	0.9	%
U.S. Treasury securities and obligations of U.S. government agencies	11,863	1.0	%
Asset-backed securities	2,021	0.2	%
Total fixed maturity securities—held-to-maturity	601,314	50.8	%
Fixed maturity securities—available-for-sale:			
States and political subdivisions	196,780	16.6	%
Corporate bonds	199,212	16.9	%
U.S. agency-based mortgage-backed securities	11,280	1.0	%
U.S. Treasury securities and obligations of U.S. government agencies	63,348	5.4	%
Total fixed maturity securities—available-for-sale	470,620	39.9	%
Equity securities	32	—	
Short-term investments	11,494	1.0	%
Cash and cash equivalents	86,612	7.3	%
Other investments	12,174	1.0	%
Total investments, including cash and cash equivalents	$1,182,246	100.0	%

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

During the three and nine months ended September 30, 2016, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments.

During the nine months ended September 30, 2015, the Company recorded charges for four fixed maturity 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 $2.7 million for the nine months ended September 30, 2015.

Prior Year Development

The Company recorded favorable prior accident year development of $10.5 million in the three months ended September 30, 2016. The table below sets forth the favorable development for the three and nine months ended September 30, 2016 and 2015 for accident years 2011 through 2015 and, collectively, for all accident years prior to

2011.

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(in millions)			
Accident Year				
2015	$—	$ —	$ —	$ —
2014	5.1	—	12.8	—
2013	1.9	3.3	11.4	4.3
2012	0.9	6.1	8.3	14.3
2011	0.5	—	1.9	1.1
Prior to 2011	2.1	4.8	7.0	10.1
Total net development	$10.5	$ 14.2	$ 41.4	$ 29.8

The table below sets forth the number of open claims as of September 30, 2016 and 2015, and the number of claims reported and closed during the three and nine months then ended.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Open claims at beginning of period	5,141	5,236	5,300	5,515
Claims reported	1,535	1,593	4,145	4,196
Claims closed	(1,456)	(1,386)	(4,225)	(4,268)
Open claims at end of period	5,220	5,443	5,220	5,443

The number of open claims at September 30, 2016 decreased by 223 claims as compared to the number of open claims at September 30, 2015. At September 30, 2016, our incurred amounts for certain accident years, particularly 2008, 2013 and 2014, developed more favorably than management previously expected. Multiple factors can cause loss development both unfavorable and favorable. The favorable loss development we experienced across accident years was largely due to favorable case reserve development from closed claims and claims where the worker had reached maximum medical improvement.

The assumptions we used in establishing our reserves for these accident years were based on our historical claims data. However, as of September 30, 2016, actual results for these accident years have been better than our assumptions would have predicted. We do not presently intend to modify our assumptions for establishing reserves in light of recent results. However, if actual results for current and future accident years are consistent with, or different than, our results in these recent accident years, our historical claims data will reflect this change and, over time, will impact the reserves we establish for future claims.

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, 2015.

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, 2015, 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, 2015.

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 controls and procedures and our internal controls 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 2016, the Board reauthorized this program. There were no shares purchased during the nine months ended September 30, 2016 and 2015. Since inception, the Company has repurchased a total of 1,258,250 shares of our outstanding common stock for $22.4 million. 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. At September 30, 2016, the dollar value of shares that may yet be purchased under the program is $25.0 million.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of G. Janelle Frost filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Neal A. Fuller filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of G. Janelle Frost and Neal A. Fuller filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

25

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.

October 28, 2016 /s/ G. Janelle Frost
G. Janelle Frost
President and Chief Executive Officer
(Principal Executive Officer)

October 28, 2016 /s/ Neal A. Fuller
Neal A. Fuller
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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