AMERISAFE INC
Form 10-Q
October 30, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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 x 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 x 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 x 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 x

As of October 28, 2015, there were 19,093,792 shares of the Registrant s common stock, par value $.01 per share, outstanding.

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FORWARD-LOOKING STATEMENTS

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

- increased competition on the basis of types of insurance offered, premium rates, coverage availability, payment terms, claims management, safety services, policy terms, overall financial strength, financial ratings and reputation;
- 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;
- 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 or regulatory conditions within the workers compensation insurance industry;
- decreased demand for our insurance;
- 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, 2014. 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.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	September 30, 2015 (unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value $679,893 and $664,371 in 2015 and 2014, respectively)	$ 660,250	$ 639,631
Fixed maturity securities available-for-sale, at fair value (cost $364,748 and $327,004 in 2015 and 2014, respectively)	369,833	331,242
Equity securities available-for-sale, at fair value (cost $0 in 2015 and 2014)	31	28
Short-term investments	7,057	33,684
Other investments	11,759	11,748
Total investments	1,048,930	1,016,333
Cash and cash equivalents	99,899	90,956
Amounts recoverable from reinsurers	91,092	85,888
Premiums receivable, net of allowance	194,086	178,917
Deferred income taxes	31,688	31,231
Accrued interest receivable	12,208	11,637
Property and equipment, net	6,945	7,240
Deferred policy acquisition costs	21,089	19,649
Federal income tax recoverable		1,082
Other assets	46,603	14,287
Total assets	$ 1,552,540	$ 1,457,220
Liabilities and shareholders equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	$ 720,710	$ 687,602
Unearned premiums	176,270	168,576
Reinsurance premiums payable	274	843
Amounts held for others	49,287	42,827
Policyholder deposits	47,944	48,722
Insurance-related assessments	33,531	29,315
Federal income tax payable	979	

Accounts payable and other liabilities	30,000	30,110
Payable for investments purchased	2,969	2,257
Total liabilities	1,061,964	1,010,252
Shareholders equity:		
Common stock:		
Voting $0.01 par value authorized shares 50,000,000 in 2015 and 2014; 20,352,042 and 20,155,936 shares issued and 19,093,792 and 18,897,686 shares outstanding in 2015 and 2014, respectively	203	201
Additional paid-in capital	203,322	199,138
Treasury stock at cost (1,258,250 shares in 2015 and 2014)	(22,370)	(22,370)
Accumulated earnings	306,061	267,189
Accumulated other comprehensive income, net	3,360	2,810
Total shareholders equity	490,576	446,968
Total liabilities and shareholders equity	$ 1,552,540	$ 1,457,220

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues				
Gross premiums written	$ 91,061	$ 93,962	$ 297,872	$ 303,485
Ceded premiums written	(4,232)	(3,823)	(9,317)	(10,655)
Net premiums written	$ 86,829	$ 90,139	$ 288,555	$ 292,830
Net premiums earned	$ 90,504	$ 95,928	$ 280,860	$ 278,677
Net investment income	6,923	6,495	20,646	20,048
Net realized gains/(losses) on investments	40	(152)	(2,518)	181
Fee and other income	3	65	206	227
Total revenues	97,470	102,336	299,194	299,133
Expenses				
Loss and loss adjustment expenses incurred	48,942	61,822	166,252	185,570
Underwriting and certain other operating costs	9,293	7,822	26,043	24,624
Commissions	6,696	7,022	20,606	20,696
Salaries and benefits	6,278	6,183	18,070	18,090
Policyholder dividends	371	139	1,024	340
Total expenses	71,580	82,988	231,995	249,320
Income before income taxes	25,890	19,348	67,199	49,813
Income tax expense	7,950	5,869	19,810	13,012
Net income	17,940	13,479	47,389	36,801
Net income available to common shareholders	$ 17,940	$ 13,479	$ 47,389	$ 36,801
Earnings per share				
Basic	$ 0.95	$ 0.72	$ 2.51	$ 1.98
Diluted	$ 0.94	$ 0.71	$ 2.48	$ 1.95

Shares used in computing earnings per share				
Basic	18,968,718	18,676,033	18,911,675	18,603,227
Diluted	19,096,259	18,929,777	19,088,140	18,905,880
Extraordinary cash dividends declared per common share	$	$	$	$ 0.50
Cash dividends declared per common share	$ 0.15	$ 0.12	$ 0.45	$ 0.36

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 17,940	$ 13,479	$ 47,389	$ 36,801
Other comprehensive income:				
Unrealized gain on securities, net of tax	1,308	117	550	6,373
Comprehensive income	$ 19,248	$ 13,596	$ 47,939	$ 43,174

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

	Common Stock		Treasury Stock				Accumulated Other	
	Shares	Amount	Shares	Amounts	Additional Paid-In Capital	Accumulated Earnings	Comprehensive Loss	Total
Balance at December 31, 2014	20,155,936	$ 201	(1,258,250)	$ (22,370)	$ 199,138	$ 267,189	$ 2,810	$ 446,968
Comprehensive income						47,389	550	47,939
Options exercised	156,850	2			1,275			1,277
Tax benefit from share-based payments					1,795			1,795
Restricted common stock issued	39,256				502			502
Share-based compensation					612			612

Dividends to stockholders						(8,517)		(8,517)
Balance at September 30, 2015	20,352,042	$ 203	(1,258,250)	$ (22,370)	$ 203,322	$ 306,061	$ 3,360	$ 490,576

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2015	**2014**
Operating Activities		
Net income	$ 47,389	$ 36,801
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,030	958
Net amortization of investments	12,295	11,336
Deferred income taxes	(752)	(3,616)
Net realized (gains)/losses on investments	2,518	(181)
Net realized losses on sale of fixed assets	24	
Share-based compensation	691	988
Changes in operating assets and liabilities:		
Premiums receivable, net	(15,169)	(22,036)
Accrued interest receivable	(571)	(26)
Deferred policy acquisition costs	(1,440)	(1,845)
Amounts held by others	(27,847)	(1,081)
Other assets	(1,712)	(2,669)
Reserves for loss and loss adjustment expenses	33,108	62,052
Unearned premiums	7,694	14,153
Reinsurance balances	(5,773)	(13,817)
Amounts held for others and policyholder deposits	5,682	9,423
Accounts payable and other liabilities	5,555	12,354
Net cash provided by operating activities	62,722	102,794
Investing Activities		
Purchases of investments held-to-maturity	(145,771)	(151,608)
Purchases of investments available-for-sale	(114,406)	(104,172)
Purchases of short-term investments	(7,000)	(72,900)
Proceeds from maturities of investments held-to-maturity	115,656	79,042
Proceeds from sales and maturities of investments available-for-sale	70,652	42,633
Proceeds from sales and maturities of short-term investments	33,341	112,652
Purchases of property and equipment	(759)	(771)
Net cash used in investing activities	(48,287)	(95,124)
Financing Activities		
Proceeds from stock option exercises	1,277	1,820

Tax benefit from share-based payments	1,795	1,975
Dividends to stockholders	(8,564)	(15,998)
Net cash used in financing activities	(5,492)	(12,203)
Change in cash and cash equivalents	8,943	(4,533)
Cash and cash equivalents at beginning of period	90,956	123,077
Cash and cash equivalents at end of period	$ 99,899	$ 118,544

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Basis of Presentation

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

The Company provides workers compensation insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking, manufacturing, oil and gas, and agriculture. Assets and revenues of AIIC represent at least 95% of comparable consolidated amounts of the Company for each of 2015 and 2014.

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, 2014.

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

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

Note 2. Stock Options and Restricted Stock

As of September 30, 2015, 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, 2014 for additional information regarding the Company s incentive plans.

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, 2014, the Company granted 4,312 and 4,866 shares of restricted common stock to executive officers and non-employee directors, respectively. The market value of the restricted shares granted totaled $0.4 million.

During the nine months ended September 30, 2015, options to purchase 156,850 shares of common stock were exercised. During the nine months ended September 30, 2014, options to purchase 204,667 shares of common stock were exercised. In connection with these exercises, the Company received $1.3 million and $1.8 million of stock option proceeds, respectively.

The Company recognized share-based compensation expense of $0.7 million in the nine months ended September 30, 2015 and $1.0 million for the same period of 2014.

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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,	
	2015	2014	2015	2014
	(in thousands, except share and per share amounts)			
Basic EPS:				
Net income available to common shareholders - basic	$ 17,940	$ 13,479	$ 47,389	$ 36,801
Basic weighted average common shares	18,968,718	18,676,033	18,911,675	18,603,227
Basic earnings per common share	$ 0.95	$ 0.72	$ 2.51	$ 1.98
Diluted EPS:				
Net income available to common shareholders - diluted	$ 17,940	$ 13,479	$ 47,389	$ 36,801
Diluted weighted average common shares:				
Weighted average common shares	18,968,718	18,676,033	18,911,675	18,603,227
Stock options and performance shares	127,541	253,744	176,465	302,653
Diluted weighted average common shares	19,096,259	18,929,777	19,088,140	18,905,880
Diluted earnings per common share	$ 0.94	$ 0.71	$ 2.48	$ 1.95

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, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			

States and political subdivisions	$ 417,804	$ 16,307	$ (195)	$ 433,916
Corporate bonds	170,176	555	(241)	170,490
Commercial mortgage-backed securities	43,396	586		43,982
U.S. agency-based mortgage-backed securities	14,094	1,393	(1)	15,486
U.S. Treasury securities and obligations of U.S. Government agencies	12,365	1,074		13,439
Asset-backed securities	2,415	224	(59)	2,580
Totals	$ 660,250	$ 20,139	$ (496)	$ 679,893

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The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, those investments classified as available-for-sale at September 30, 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	$ 166,520	$ 6,685	$ (447)	$ 172,758
Corporate bonds	189,169	762	(451)	189,480
U.S. agency-based mortgage-backed securities	9,059	7	(1,471)	7,595
Total fixed maturity	364,748	7,454	(2,369)	369,833
Other investments	10,000	1,759		11,759
Equity securities		31		31
Totals	$ 374,748	$ 9,244	$ (2,369)	$ 381,623

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, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
States and political subdivisions	$ 385,623	$ 20,100	$ (58)	$ 405,665
Corporate bonds	176,880	374	(520)	176,734
Commercial mortgage-backed securities	46,662	1,867		48,529
U.S. agency-based mortgage-backed securities	16,972	1,702	(2)	18,672
U.S. Treasury securities and obligations of U.S. Government agencies	10,697	1,097	(2)	11,792
Asset-backed securities	2,797	264	(82)	2,979
Totals	$ 639,631	$ 25,404	$ (664)	$ 664,371

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, 2014 are summarized as follows:

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

		(in thousands)		
Fixed maturity:				
States and political subdivisions	$ 151,744	$ 7,302	$ (1,672)	$ 157,374
Corporate bonds	165,412	428	(470)	165,370
U.S. agency-based mortgage-backed securities	9,848	2	(1,352)	8,498
Total fixed maturity	327,004	7,732	(3,494)	331,242
Other investments	10,000	1,748		11,748
Equity securities		28		28
Totals	$ 337,004	$ 9,508	$ (3,494)	$ 343,018

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A summary of the cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at September 30, 2015, by contractual maturity, is as follows:

Remaining Time to Maturity	Amortized Cost Basis	Fair Value
	(in thousands)	
Within one year	$ 125,030	$ 125,807
After one year through five years	281,139	289,630
After five years through ten years	123,928	129,689
After ten years	70,248	72,719
U.S. agency-based mortgage-backed securities	14,094	15,486
Commercial mortgage-backed securities	43,396	43,982
Asset-backed securities	2,415	2,580
Total	$ 660,250	$ 679,893

A summary of cost and fair value of investments in fixed maturity securities, classified as available-for-sale at September 30, 2015, by contractual maturity, is as follows:

Remaining Time to Maturity	Amortized Cost Basis	Fair Value
	(in thousands)	
Within one year	$ 31,131	$ 31,258
After one year through five years	183,756	185,173
After five years through ten years	25,294	25,470
After ten years	115,508	120,337
U.S. agency-based mortgage-backed securities	9,059	7,595
Total	$ 364,748	$ 369,833

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	Gross Unrealized Losses	Fair Value of Investments with Unrealized	Gross Unrealized Losses	Fair Value of Investments with Unrealized	Gross Unrealized Losses

	Losses		Losses		Losses	
			(in thousands)			
September 30, 2015						
Held-to-Maturity						
Fixed maturity securities:						
Corporate bonds	$ 52,041	$ 192	$ 20,270	$ 49	$ 72,311	$ 241
States and political subdivisions	36,630	195			36,630	195
U.S. agency-based mortgage-backed securities	53	1	5		58	1
Asset-backed securities			1,480	59	1,480	59
Total held-to-maturity securities	88,724	388	21,755	108	110,479	496
Available-for Sale						
Fixed maturity securities:						
Corporate bonds	$ 46,388	$ 440	$ 4,241	$ 11	$ 50,629	$ 451
States and political subdivisions	11,419	61	4,263	386	15,682	447
U.S. agency-based mortgage-backed securities	486	26	7,023	1,445	7,509	1,471
Total available-for-sale securities	58,293	527	15,527	1,842	73,820	2,369
Total	$ 147,017	$ 915	$ 37,282	$ 1,950	$ 184,299	$ 2,865

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	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses	Fair Value of Investments with Unrealized Losses	Gross Unrealized Losses
	(in thousands)					
December 31, 2014						
Held-to-Maturity						
Fixed maturity securities:						
Corporate bonds	$ 129,788	$ 520	$	$	$ 129,788	$ 520
States and political subdivisions	16,896	58			16,896	58
U.S. Treasury securities and obligations of U.S. Government agencies	3,385	2			3,385	2
U.S. agency-based mortgage-backed securities	78	2			78	2
Asset-backed securities			1,662	82	1,662	82
Total held-to-maturity securities	150,147	582	1,662	82	151,809	664
Available-for Sale						
Fixed maturity securities:						
Corporate bonds	$ 106,185	$ 470	$	$	$ 106,185	$ 470
States and political subdivisions	3,810	6	10,347	1,666	14,157	1,672
U.S. agency-based mortgage-backed securities	627	11	7,757	1,341	8,384	1,352
Total available-for-sale securities	110,622	487	18,104	3,007	128,726	3,494
Total	$ 260,769	$ 1,069	$ 19,766	$ 3,089	$ 280,535	$ 4,158

At September 30, 2015, the Company held 121 individual fixed maturity securities that were in an unrealized loss position, of which 28 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months.

The Company holds investments in a long/short equity fund, accounted for under the equity method. The carrying value of this investment is $11.8 million at September 30, 2015.

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. With the exception of four securities deemed to be other-than-temporarily impaired, 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, and the transfer of the investments from the available-for-sale classification to the held-to-maturity classification in January 2004. We expect to recover the carrying value of these securities as it is not more likely than not that we will be required to sell the securities before the recovery of the amortized cost basis.

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During the nine months ended September 30, 2015, the Company impaired four fixed maturity securities in the amount of $2.7 million. The impairment charge is included in Net realized gains/(losses) on investments for 2015. We impaired the securities due to recent downgrades of the securities and the amount of the accumulated unrealized loss. After reviewing the change in relevant benchmark yields, the Company determined the loss was credit related.

During the nine months ended September 30, 2014, the Company impaired a fixed maturity security in the amount of $0.2 million. The impairment charge is included in Net realized gains (losses) on investments for 2014. We impaired the security due to a downgrade of the security and the amount of the accumulated unrealized loss.

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 declines in the fair value of four fixed maturity securities. Net realized gains in the nine months ended September 30, 2014 were $0.2 million resulting from $0.4 million in gains on called fixed maturity securities offset by an impairment loss of $0.2 million recognized for the other-than-temporary decline in the fair value of a fixed maturity security.

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, 2015, 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, 2015 and 2014.

Tax years 2011 through 2014 are subject to examination by the federal and state taxing authorities.

Note 6. Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income was $19.2 million for the three months ended September 30, 2015, compared to $13.6 million for the three months ended September 30, 2014. Comprehensive income was $47.9 million for the nine months ended September 30, 2015, compared to $43.2 million for the same period in 2014. 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,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Beginning balance	$ 2,052	$ 1,961	$ 2,810	$ (4,295)

Other comprehensive income/(loss) before reclassification	1,400	121	(188)	6,192
Amounts reclassified from accumulated other comprehensive income	(92)	(4)	738	181
Net current period other comprehensive income/(loss)	1,308	117	550	6,373
Ending balance	$ 3,360	$ 2,078	$ 3,360	$ 2,078

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

Component of Accumulated Other Comprehensive Income	Three Months Ended September 30,		Nine Months Ended September 30,		Affected line item in the statement of income
	2015	2014	2015	2014	
	(in thousands)				
Unrealized gains/(losses) on available-for-sale securities	$ 142	$ 1	$ 464	$ (270)	Net realized gains/(losses) on investments
Other-than-temporary impairment		5	(1,600)	(8)	Net realized gains/(losses) on investments
	142	6	(1,136)	(278)	Income before income taxes
	(50)	(2)	398	97	Income tax expense
	$ 92	$ 4	$ (738)	$ (181)	Net income

Note 7. Fair Value Measurements

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

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

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

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

applied.

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

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

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

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

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

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

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.

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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, 2015.

At September 30, 2015, assets and liabilities measured at fair value on a recurring basis are summarized below:

	September 30, 2015			
	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:				
Other investments	$	$	$ 11,759	$ 11,759
Securities available for sale equity:				
Domestic common stock	31			31
Securities available for sale fixed maturity:				
States and political subdivisions		172,758		172,758
Corporate bonds		189,480		189,480
U.S. agency-based mortgage-backed securities		7,595		7,595
Total securities available for sale fixed maturity		369,833		369,833
Total available for sale	$ 31	$ 369,833	$ 11,759	$ 381,623

At September 30, 2015, assets and liabilities measured at amortized cost are summarized below:

	September 30, 2015			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(in thousands)		
Securities held-to-maturity fixed maturity				
States and political subdivisions	$	$ 433,916	$	$ 433,916
Corporate bonds		170,490		170,490
Commercial mortgage-backed securities		43,982		43,982
U.S. agency-based mortgage-backed securities		15,486		15,486
U.S. Treasury securities	13,439			13,439

Asset-backed securities		2,580		2,580
Total held-to-maturity	$ 13,439	$ 666,454	$	$ 679,893

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At December 31, 2014, assets and liabilities measured at fair value on a recurring basis are summarized below:

	December 31, 2014			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(in thousands)		
Financial instruments carried at fair value, classified as part of:				
Other investments	$	$	$ 11,748	$ 11,748
Securities available for sale equity:				
Domestic common stock	28			28
Securities available for sale fixed maturity:				
States and political subdivisions		157,374		157,374
U.S. agency-based mortgage-backed securities		8,498		8,498
Corporate bonds		165,370		165,370
Total available for sale fixed maturity	$	$ 331,242	$	$ 331,242
Total available for sale	$ 28	$ 331,242	$ 11,748	$ 343,018

At December 31, 2014, assets and liabilities measured at amortized cost are summarized below:

	December 31, 2014			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
		(in thousands)		
Securities held-to-maturity fixed maturity:				
States and political subdivisions	$	$ 405,665	$	$ 405,665
Corporate bonds		176,734		176,734
Commercial mortgage-backed securities		48,529		48,529
U.S. agency-based mortgage-backed securities		18,672		18,672
U.S. Treasury securities	11,792			11,792
Asset-backed securities		2,979		2,979
Total held-to-maturity	$ 11,792	$ 652,579	$	$ 664,371

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

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

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

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

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

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

	As of September 30, 2015		As of December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Assets:				
Fixed maturity securities held-to-maturity	$ 660,250	$ 679,893	$ 639,631	$ 664,371
Fixed maturity securities available-for-sale	369,833	369,833	331,242	331,242
Equity securities	31	31	28	28
Cash and cash equivalents	99,899	99,899	90,956	90,956
Short-term investments	7,057	7,057	33,684	33,684
Other investments	11,759	11,759	11,748	11,748

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

	Nine Months Ended September 30, 2015	Twelve Months Ended December 31, 2014
	(in thousands)	
Beginning balance	$ 11,748	$ 10,591
Total unrealized gains	11	1,157
Ending balance	$ 11,759	$ 11,748

Note 8. Treasury Stock

The Company s Board of Directors initiated a share repurchase program in February 2010. In October 2015, the Board reauthorized this program with a limit of $25.0 million. Unless reauthorized, the program will expire on December 31, 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. As of September 30, 2015, the Company s total reserve for the claim was $2.6 million. The Company presently believes that this reserve amount, together with its reinsurance coverage, is adequate to satisfy this claim.

Note 10. Subsequent Events

On October 27, 2015, the Company s Board of Directors declared a quarterly cash dividend of $0.15 per share payable on December 28, 2015 to shareholders of record as of December 14, 2015. The Board intends to consider the payment of a regular cash dividend each calendar quarter.

On October 27, 2015, the Company s Board of Directors declared an extraordinary cash dividend of $3.00 per share payable on December 28, 2015 to shareholders of record on December 14, 2015.

On October 27, 2015, the Company s Board of Directors reauthorized the share repurchase program with a limit of $25.0 million. Unless reauthorized, the program will expire on December 31, 2016.

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 1of 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, 2014.

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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, 2015 and 2014. 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, oil and gas and agriculture. Employers engaged in hazardous industries pay substantially higher than average rates for workers compensation insurance compared to employers in other industries, as measured per payroll dollar. The higher premium rates are due to the nature of the work performed and the inherent workplace danger of our target employers. Hazardous industry employers also tend to have less frequent but more severe claims as compared to employers in other industries due to the nature of their businesses. We provide proactive safety reviews of employers workplaces. These safety reviews are a vital component of our underwriting process and also promote safer workplaces. We utilize intensive claims management practices that we believe permit us to reduce the overall cost of our claims. In addition, our audit services ensure that our policyholders pay the appropriate premiums required under the terms of their policies and enable us to monitor payroll patterns that cause underwriting, safety or fraud concerns. We believe that the higher premiums typically paid by our policyholders, together with our disciplined underwriting and safety, claims and audit services, provide us with the opportunity to earn attractive returns for our shareholders.

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

Critical Accounting Policies

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

Management believes that the most critical accounting policies relate to the reporting of reserves for loss and loss adjustment expenses, including losses that have occurred but have not been reported prior to the reporting date, amounts recoverable from reinsurers, premiums receivable, assessments, deferred policy acquisition costs, deferred income taxes, the impairment of investment securities and share-based compensation. These critical accounting policies are more fully described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2014.

Results of Operations

The following table summarizes our consolidated financial results for the three months and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	$ 91,061	$ 93,962	$ 297,872	$ 303,485
Net premiums earned	90,504	95,928	280,860	278,677
Net investment income	6,923	6,495	20,646	20,048
Total revenues	97,470	102,336	299,194	299,133
Total expenses	71,580	82,988	231,995	249,320
Net income	17,940	13,479	47,389	36,801
Diluted earnings per common share	$ 0.94	$ 0.71	$ 2.48	$ 1.95
Other Key Measures				
Net combined ratio (1)	79.1%	86.4%	82.6%	89.5%
Return on average equity (2)	14.9%	12.2%	13.5%	11.3%
Book value per share (3)	$ 25.69	$ 23.85	$ 25.69	$ 23.85

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(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, 2015 Compared to September 30, 2014

Gross Premiums Written. Gross premiums written for the quarter ended September 30, 2015 were $91.1 million, compared to $94.0 million for the same period in 2014, a decrease of 3.1%. The decrease was attributable to a $4.6 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters. These decreases were partially offset by a $2.0 million increase in annual premiums on voluntary policies written during the period and a $0.1 million increase in assumed premium from mandatory pooling arrangements. The effective loss cost multiplier, or LCM, for our voluntary business was 1.77 for the quarter ended September 30, 2015 compared to 1.80 for the same period in 2014.

Net Premiums Written. Net premiums written for the quarter ended September 30, 2015 were $86.8 million, compared to $90.1 million for the same period in 2014, a decrease of 3.7%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 4.5% for the third quarter of 2015 compared to 3.8% for the third quarter of 2014. The increase in ceded premiums as a percentage of gross premiums earned reflects additional ceded premium of $1.8 million resulting from ceded losses offset by improved pricing for our 2015 reinsurance program. For additional information, see Item 1, Business Reinsurance in our Annual Report on Form 10-K for the year ended December 31, 2014.

Net Premiums Earned. Net premiums earned for the third quarter of 2015 were $90.5 million, compared to $95.9 million for the same period in 2014, a decrease of 5.7%. The decrease was attributable to the decrease in net premiums written in the quarter and a decrease in the change in unearned premiums.

Net Investment Income. Net investment income for the quarter ended September 30, 2015 was $6.9 million, compared to $6.5 million for the same period in 2014, an increase of 6.6%. Average invested assets, including cash and cash equivalents increased 5.5% to $1.1 billion in the quarter ended September 30, 2015. The pre-tax investment yield on our investment portfolio was 2.4% per annum during the quarters ended September 30, 2015 and 2014. The tax-equivalent yield on our investment portfolio was 3.5% per annum for the quarters ended September 30, 2015 and 2014. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

Net Realized Gains/(Losses) on Investments. Net realized gains on investments for the three months ended September 30, 2015 were immaterial compared to net realized losses of $0.2 million for the same period in 2014. Net realized losses in the third quarter of 2014 were attributable to an other-than-temporary impairment of a fixed maturity security.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $48.9 million for the three months ended September 30, 2015, compared to $61.8 million for the same period in 2014, a decrease of $12.9 million, or 20.8%. The current accident year losses and LAE incurred were $63.2 million, or 69.8% of net premiums earned, compared to $68.6 million, or 71.5% of net premiums earned, for the same period in 2014. We recorded favorable prior accident year development of $14.2 million in the third quarter of 2015, compared

to favorable prior accident year development of $6.8 million in the same period of 2014, as further discussed below in Prior Year Development. Our net loss ratio was 54.1% in the third quarter of 2015, compared to 64.4% for the same period of 2014.

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, 2015 were $22.3 million, compared to $21.0 million for the same period in 2014, an increase of 5.9%. This increase was primarily due to a $1.1 million decrease in reinsurance contingent profit commission and a $0.5 million increase in insurance related assessments. Offsetting these increases was a $0.3 million decrease in commission expense. Our expense ratio was 24.6% in the third quarter of 2015 compared to 21.9% in the third quarter of 2014.

Income Tax Expense. Income tax expense for the three months ended September 30, 2015 was $8.0 million, compared to $5.9 million for the same period in 2014. The increase was attributable to an increase in the pre-tax income to $25.9 million in the quarter ended September 30, 2015 from $19.3 million in the same period in 2014. The effective tax rate increased to 30.7% in the quarter ended September 30, 2015 from 30.3% in the same period in 2014.

Consolidated Results of Operations for Nine Months Ended September 30, 2015 Compared to September 30, 2014

Gross Premiums Written. Gross premiums written for the first nine months of 2015 were $297.9 million, compared to $303.5 million for the same period in 2014, a decrease of 1.8%. The decrease was attributable to a $3.4 million decrease in premiums

resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $2.0 million decrease in annual premiums on voluntary policies written during the period. These decreases were partially offset by a $0.3 million increase in assumed premium from mandatory pooling arrangements. The effective LCM for our voluntary business was 1.80 for the nine months ended September 30, 2015 compared to 1.84 for the same period in 2014.

Net Premiums Written. Net premiums written for the nine months ended September 30, 2015 were $288.6 million, compared to $292.8 million for the same period in 2014, a decrease of 1.5%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 3.2% and 3.7% for the first nine months of 2015 and 2014, respectively. The decrease in ceded premiums as a percentage of gross premiums earned reflects improved pricing for our 2015 reinsurance program offset by an increase of $1.8 million of additional ceded premium as a result of ceded losses during the period. For additional information, see Item 1, Business Reinsurance in our Annual Report on Form 10-K for the year ended December 31, 2014.

Net Premiums Earned. Net premiums earned for the first nine months of 2015 were $280.9 million, compared to $278.7 million for the same period in 2014, an increase of 0.8%. The increase was attributable to premium written during 2014.

Net Investment Income. Net investment income for the first nine months of 2015 was $20.6 million, compared to $20.0 million for the same period in 2014, an increase of 3.0%. Average invested assets, including cash and cash equivalents, were $1.1 billion in the nine months ended September 30, 2015, compared to $1.0 billion for the same period in 2014, an increase of 8.5%. The pre-tax investment yield on our investment portfolio was 2.4% per annum during the nine months ended September 30, 2015, compared to 2.6% per annum during the same period in 2014. The tax-equivalent yield on our investment portfolio was 3.5% per annum for the first nine months of 2015 and 2014. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

Net Realized Gains/(Losses) on Investments. Net realized losses on investments for the nine months ended September 30, 2015 totaled $2.5 million, compared to net realized gains of $0.2 million for the same period in 2014. Net realized losses in the first nine months of 2015 were attributable to other-than-temporary impairments of four fixed maturity securities of $2.7 million. Net realized gains in the first nine months of 2014 were attributable to realized gains from the redemption of corporate bonds of $0.4 million offset by an other-than-temporary impairment of a fixed maturity security of $0.2 million.

Loss and Loss Adjustment Expenses Incurred. Loss and LAE incurred totaled $166.3 million for the nine months ended September 30, 2015, compared to $185.6 million for the same period in 2014, a decrease of $19.3 million, or 10.4%. The current accident year losses and LAE incurred were $196.0 million, or 69.8% of net premiums earned, compared to $199.3 million, or 71.5% of net premiums earned, for the same period in 2014. We recorded favorable prior accident year development of $29.8 million in the first nine months of 2015, compared to favorable prior accident year development of $13.7 million in the same period of 2014, as further discussed below in Prior Year Development. Our net loss ratio was 59.2% in the first nine months of 2015, compared to 66.6% for the same period of 2014.

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, 2015 were $64.7 million, compared to $63.4 million for the same period in 2014, an increase of 2.1%. This increase was primarily due to a $3.1 million decrease in reinsurance contingent profit commission offset by a $1.4 million decrease in insurance related assessments and a $0.7 million decrease in accounts receivable write-offs. Our expense ratio was 23.0% in the first nine months of 2015 compared to 22.8% in the same period of 2014.

Income Tax Expense. Income tax expense for the nine months ended September 30, 2015 was $19.8 million, compared to $13.0 million for the same period in 2014. The increase was attributable to an increase in pre-tax income to $67.2 million in the first nine months of 2015 from $49.8 million in the first nine months of 2014. The effective tax rate increased to 29.5% for the nine months ended September 30, 2015 from 26.1% for the nine months ended September 30, 2014.

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 $62.7 million for the nine months ended September 30, 2015, which represented a $40.1 million decrease from $102.8 million in net cash provided by operating activities for the nine months ended September 30, 2014. This decrease in operating cash flow was attributable to a $26.8 million increase in amounts held by others, an $8.1 million increase in underwriting expenses paid, a $4.4 million increase in federal income taxes paid and a $3.2 million increase in loss and loss adjustment expenses paid. Offsetting these decreases were a $2.0 million increase in premium collections, a $1.0 million increase in investment income, a $0.6 million increase in paid losses payable and a $0.5 million decrease in dividends paid.

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Net cash used in investing activities was $48.3 million for the nine months ended September 30, 2015, compared to net cash used in investment activities of $95.1 million for the same period in 2014. Cash provided by sales and maturities of investments totaled $219.6 million for the nine months ended September 30, 2015, compared to $234.3 million for the same period in 2014. A total of $267.2 million in cash was used to purchase investments in the nine months ended September 30, 2015, compared to $328.7 million in purchases for the same period in 2014.

Net cash used in financing activities in the nine months ended September 30, 2015 was $5.5 million compared to net cash used in financing activities of $12.2 million for the same period in 2014. In the nine months ended September 30, 2015, $8.6 million of cash was used for dividends paid to shareholders compared to $16.0 million in the same period of 2014. Offsetting the payment of dividends were proceeds of $1.3 million and $1.8 million from stock option exercises in the nine months ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2015, the tax benefit from share based compensation was $1.8 million compared to $2.0 million for the same period in 2014.

Investment Portfolio

Our investment portfolio, including cash and cash equivalents, totaled $1.1 billion on September 30, 2014 and December 31, 2014. 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, 2015, is shown in the following table:

	Carrying Value	Percentage of Portfolio
	(in thousands)	
Fixed maturity securities held-to-maturity:		
States and political subdivisions	$ 417,804	36.5%
U.S. agency-based mortgage-backed securities	14,094	1.2%
Commercial mortgage-backed securities	43,396	3.8%
U.S. Treasury securities and obligations of U.S. Government agencies	12,365	1.1%
Corporate bonds	170,176	14.9%
Asset-backed securities	2,415	0.2%
Total fixed maturity securities held-to-maturity	660,250	57.7%
Fixed maturity securities available-for-sale:		
States and political subdivisions	172,758	15.1%
U.S. agency-based mortgage-backed securities	7,595	0.7%
Corporate bonds	189,480	16.5%

Total fixed maturity securities available-for-sale	369,833	32.3%
Equity securities	31	0.0%
Short-term investments	7,057	0.5%
Cash and cash equivalents	99,899	8.6%
Other investments	11,759	0.9%
Total investments, including cash and cash equivalents	$ 1,148,829	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.

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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.

During the three and nine months ended September 30, 2014, the Company recorded charges for a fixed maturity security whose fair value was determined to be other-than-temporarily impaired. These charges are included in Net realized gains/(losses) on investments , and totaled $0.2 million for the three and nine months ended September 30, 2014.

Prior Year Development

The Company recorded favorable prior accident year development of $14.2 million in the three months ended September 30, 2015. The table below sets forth the favorable development for the three and nine months ended September 30, 2015 and 2014 for accident years 2010 through 2014 and, collectively, for all accident years prior to 2010.

	Favorable Development			
	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(in millions)			
Accident Year				
2014	$	$	$	$
2013	3.3		4.3	
2012	6.1	3.5	14.3	4.0
2011			1.1	
2010	2.6	1.9	3.6	3.7
Prior to 2010	2.2	1.4	6.5	6.0
Total net development	$ 14.2	$ 6.8	$ 29.8	$ 13.7

The table below sets forth the number of open claims as of September 30, 2015 and 2014, 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,	
	2015	2014	2015	2014
Open claims at beginning of period	5,236	5,342	5,515	5,297
Claims reported	1,593	1,668	4,196	4,387
Claims closed	(1,386)	(1,438)	(4,268)	(4,112)
Open claims at end of period	5,443	5,572	5,443	5,572

The number of open claims at September 30, 2015 decreased by 129 claims as compared to the number of open claims at September 30, 2014. Efforts continue to close prior year claims, especially in those circumstances where the claim could be settled for less than the corresponding case reserve amount (which amount represents the estimated ultimate cost to settle the claim, undiscounted). Management believes that these efforts have contributed, in part, to the favorable prior accident year development recorded for the three months ended September 30, 2015.

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, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

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Since December 31, 2014, 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, 2014.

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 2015, the Board reauthorized this program. As of September 30, 2015, we had repurchased a total of 1,258,250 shares of our outstanding common stock for $22.4 million. There were no shares purchased during the nine months ended September 30, 2015 and 2014. 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, 2015, the dollar value of shares that may yet be purchased under the program is $25.0 million.

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Item 6. Exhibits.

Exhibit No.	Description
10.1	Employment Agreement effective as of September 15, 2015 by and between the Company and Neal A. Fuller incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed August 31, 2015
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

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SIGNATURES

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

AMERISAFE, INC.

October 30, 2015

/s/ G. Janelle Frost
G. Janelle Frost
President and Chief Executive Officer
(Principal Executive Officer)

October 30, 2015

/s/ Neal A. Fuller
Neal A. Fuller

Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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