AMERISAFE INC
Form 10-Q
July 29, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016

Commission file number:

001-12251

AMERISAFE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas	**75-2069407**
(State of	**(I.R.S. Employer**

Incorporation) **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 July 27, 2016, there were 19,201,040 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:

- 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.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Investments:		
Fixed maturity securities held-to-maturity, at amortized cost (fair value $643,324 and $662,276 in 2016 and 2015, respectively)	$ 620,165	$ 645,164
Fixed maturity securities available-for-sale, at fair value (cost $447,988 and $376,109 in 2016 and 2015, respectively)	460,697	380,022
Equity securities available-for-sale, at fair value (cost $0 in 2016 and 2015)	32	31
Short-term investments	17,165	7,718
Other investments	10,850	12,217
Total investments	1,108,909	1,045,152
Cash and cash equivalents	70,155	69,481
Amounts recoverable from reinsurers	94,256	91,077
Premiums receivable, net of allowance	208,235	185,364
Deferred income taxes	26,531	29,905
Accrued interest receivable	11,648	11,685
Property and equipment, net	6,436	6,181
Deferred policy acquisition costs	20,675	20,412
Other assets	47,924	42,788
Total assets	$ 1,594,769	$ 1,502,045
Liabilities and shareholders equity		
Liabilities:		
Reserves for loss and loss adjustment expenses	$ 725,549	$ 718,033
Unearned premiums	179,800	167,983
Reinsurance premiums payable	63	154
Amounts held for others	54,095	49,790
Policyholder deposits	48,775	48,380
Insurance-related assessments	36,478	32,329
Federal income tax payable	3,828	911
Accounts payable and other liabilities	31,439	30,484

Payable for investments purchased	18,795	
Total liabilities	1,098,822	1,048,064
Shareholders equity:		
Common stock:		
Voting $0.01 par value authorized shares 50,000,000 in 2016 and 2015; 20,459,290 and 20,388,396 shares issued and 19,201,040 and 19,130,146 shares outstanding in 2016 and 2015, respectively	204	203
Additional paid-in capital	206,944	204,688
Treasury stock at cost (1,258,250 shares in 2016 and 2015)	(22,370)	(22,370)
Accumulated earnings	302,860	268,873
Accumulated other comprehensive income, net	8,309	2,587
Total shareholders equity	495,947	453,981
Total liabilities and shareholders equity	$ 1,594,769	$ 1,502,045

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 June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Revenues				
Gross premiums written	$ 103,224	$ 106,022	$ 203,606	$ 206,811
Ceded premiums written	(2,550)	(2,549)	(5,101)	(5,085)
Net premiums written	$ 100,674	$ 103,473	$ 198,505	$ 201,726
Net premiums earned	$ 90,728	$ 95,569	$ 186,689	$ 190,356
Net investment income	6,201	6,890	12,245	13,723
Net realized gains (losses) on investments	545	(2,617)	793	(2,558)
Fee and other income	89	94	171	203
Total revenues	97,563	99,936	199,898	201,724
Expenses				
Loss and loss adjustment expenses incurred	49,171	57,304	95,887	117,310
Underwriting and certain other operating costs	9,749	9,278	17,221	16,750
Commissions	6,491	6,905	13,369	13,910
Salaries and benefits	6,321	5,899	12,105	11,792
Policyholder dividends	1,216	438	2,306	653
Total expenses	72,948	79,824	140,888	160,415
Income before income taxes	24,615	20,112	59,010	41,309
Income tax expense	7,976	5,793	18,114	11,860
Net income	16,639	14,319	40,896	29,449
Net income available to common shareholders	$ 16,639	$ 14,319	$ 40,896	$ 29,449
Earnings per share				
Basic	$ 0.87	$ 0.76	$ 2.14	$ 1.56
Diluted	$ 0.87	$ 0.75	$ 2.13	$ 1.54
Shares used in computing earnings per share				

Basic	19,096,718	18,917,229	19,077,328	18,882,693
Diluted	19,184,984	19,080,065	19,178,893	19,069,949
Cash dividends declared per common share	$ 0.18	$ 0.15	$ 0.36	$ 0.30

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$ 16,639	$ 14,319	$ 40,896	$ 29,449
Other comprehensive income:				
Unrealized gain (loss) on securities, net of tax	2,929	(1,576)	5,722	(758)
Comprehensive income	$ 19,568	$ 12,743	$ 46,618	$ 28,691

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

	Common Stock		Treasury Stock					
	Shares	Amount	Shares	Amounts	Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	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						40,896	5,722	46,618
Common stock issued upon exercise of options	38,879	1			500			501
Tax benefit from share-based payments					546			546
Restricted common stock	32,015				602			602

issued								
Share-based compensation					608			608
Dividends to shareholders						(6,909)		(6,909)
Balance at June 30, 2016	20,459,290	$ 204	(1,258,250)	$ (22,370)	$ 206,944	$ 302,860	$ 8,309	$ 495,947

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2016	**2015**
Operating activities		
Net income	$ 40,896	$ 29,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	594	687
Net amortization of investments	8,163	8,246
Deferred income taxes	291	(662)
Net realized (gains) losses on investments	(793)	2,558
Net realized losses on disposal of assets	1	1
Share-based compensation	744	380
Changes in operating assets and liabilities:		
Premiums receivable, net	(22,871)	(24,184)
Accrued interest receivable	37	15
Deferred policy acquisition costs	(263)	(1,741)
Amounts held by others	1,016	(27,848)
Other assets	(756)	(1,818)
Reserves for loss and loss adjustment expenses	7,516	27,543
Unearned premiums	11,817	11,369
Reinsurance balances	(3,270)	(4,901)
Amounts held for others and policyholder deposits	4,700	2,295
Accounts payable and other liabilities	8,539	4,712
Net cash provided by operating activities	56,361	26,101
Investing activities		
Purchases of investments held-to-maturity	(76,920)	(117,104)
Purchases of investments available-for-sale	(132,699)	(59,707)
Purchases of short-term investments	(12,132)	(4,440)
Proceeds from maturities of investments held-to-maturity	103,565	59,268
Proceeds from sales and maturities of investments available-for-sale	66,755	39,821
Proceeds from sales and maturities of short-term investments	2,507	31,055
Purchases of property and equipment	(850)	(553)
Net cash used in investing activities	(49,774)	(51,660)
Financing activities		
Proceeds from stock option exercises	501	834
Tax benefit from share-based payments	546	1,071

Dividends to shareholders	(6,960)	(5,713)
Net cash used in financing activities	(5,913)	(3,808)
Change in cash and cash equivalents	674	(29,367)
Cash and cash equivalents at beginning of period	69,481	90,956
Cash and cash equivalents at end of period	$ 70,155	$ 61,589

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 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 subsidiari 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 June 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 six months ended June 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 six months ended June 30, 2015, the Company granted 25,461 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 $1.4 million.

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During the six months ended June 30, 2016, options to purchase 38,879 shares of common stock were exercised. During the six months ended June 30, 2015, options to purchase 97,850 shares of common stock were exercised. In connection with these exercises, the Company received $0.5 million and $0.8 million of stock option proceeds, respectively.

The Company recognized share-based compensation expense of $0.5 million in the quarter ended June 30, 2016 compared to an immaterial amount for the same period of 2015. The Company recognized share-based compensation expense of $0.7 million in the six months ended June 30, 2016 and $0.4 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands, except share and per share amounts)			
Basic EPS:				
Net income available to common shareholders - basic	$ 16,639	$ 14,319	$ 40,896	$ 29,449
Basic weighted average common shares	19,096,718	18,917,229	19,077,328	18,882,693
Basic earnings per common share	$ 0.87	$ 0.76	$ 2.14	$ 1.56
Diluted EPS:				
Net income available to common shareholders - diluted	$ 16,639	$ 14,319	$ 40,896	$ 29,449
Diluted weighted average common shares:				
Weighted average common shares	19,096,718	18,917,229	19,077,328	18,882,693
Stock options and performance shares	88,266	162,836	101,565	187,256
Diluted weighted average common shares	19,184,984	19,080,065	19,178,893	19,069,949

Diluted earnings per common share	$ 0.87	$ 0.75	$ 2.13	$ 1.54

Note 4. Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
States and political subdivisions	$ 423,631	$ 19,066	$ (3)	$ 442,694
Corporate bonds	163,648	1,739	(117)	165,270
Commercial mortgage-backed securities	6,681	37	(6)	6,712
U.S. agency-based mortgage-backed securities	11,849	1,280	(1)	13,128
U.S. Treasury securities and obligations of U.S. government agencies	12,261	1,057		13,318
Asset-backed securities	2,095	183	(76)	2,202
Totals	$ 620,165	$ 23,362	$ (203)	$ 643,324

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The gross unrealized gains and losses on, and the cost or amortized cost and fair value of, those investments classified as available-for-sale at June 30, 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	$ 171,931	$ 9,788	$ (70)	$ 181,649
Corporate bonds	201,031	2,590	(288)	203,333
U.S. agency-based mortgage-backed securities	12,672	46	(703)	12,015
U.S. Treasury securities and obligations of U.S. government agencies	62,354	1,346		63,700
Total fixed maturity	447,988	13,770	(1,061)	460,697
Other investments	10,000	850		10,850
Equity securities		32		32
Totals	$ 457,988	$ 14,652	$ (1,061)	$ 471,579

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:

Fair Value

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
		(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

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

Maturity	Amortized Cost	Fair Value
	(in thousands)	
Within one year	$ 101,082	$ 102,092
After one year through five years	294,889	304,442
After five years through ten years	117,736	123,845
After ten years	85,833	90,903
U.S. agency-based mortgage-backed securities	11,849	13,128
Commercial mortgage-backed securities	6,681	6,712
Asset-backed securities	2,095	2,202
Totals	$ 620,165	$ 643,324

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

Maturity	Amortized Cost	Fair Value
	(in thousands)	
Within one year	$ 59,564	$ 59,891
After one year through five years	214,075	217,789
After five years through ten years	52,827	54,534
After ten years	108,850	116,468
U.S. agency-based mortgage-backed securities	12,672	12,015
Totals	$ 447,988	$ 460,697

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)			

June 30, 2016						
Held-to-Maturity						
Fixed maturity securities:						
Corporate bonds	$ 14,753	$ 71	$ 5,498	$ 46	$ 20,251	$ 117
States and political subdivisions	4,780	3			4,780	3
U.S. agency-based mortgage-backed securities			25	1	25	1
Commercial mortgage-backed securities	1,720	6			1,720	6
Asset-backed securities			1,269	76	1,269	76
Total held-to-maturity securities	21,253	80	6,792	123	28,045	203
Available-for Sale						
Fixed maturity securities:						
Corporate bonds	$ 10,008	$ 103	$ 3,078	$ 185	$ 13,086	$ 288
States and political subdivisions	1,807	1	4,722	69	6,529	70
U.S. agency-based mortgage-backed securities			7,792	703	7,792	703
Total available-for-sale securities	11,815	104	15,592	957	27,407	1,061
Total	$ 33,068	$ 184	$ 22,384	$ 1,080	$ 55,452	$ 1,264

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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, 2015						
Held-to-Maturity						
Fixed maturity securities:						
Corporate bonds	$ 128,436	$ 687	$ 18,139	$ 123	$ 146,575	$ 810
States and political subdivisions	24,068	45			24,068	45
U.S. Treasury securities and obligations of U.S. government agencies	2,980	4			2,980	4
U.S. agency-based mortgage-backed securities	18		28	1	46	1
Commercial mortgage-backed securities	9,784	15			9,784	15
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:						
Corporate bonds	$ 141,857	$ 1,475	$ 4,216	$ 11	$ 146,073	$ 1,486
States and political subdivisions	6,560	9	4,439	198	10,999	207
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 June 30, 2016, the Company held 51 individual fixed maturity securities that were in an unrealized loss position, of which 24 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 $10.8 million at June 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

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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.

During the six months ended June 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 six months ended June 30, 2016 were $0.8 million resulting from the sale of fixed maturity securities classified as available-for-sale. Net realized losses in the six months ended June 30, 2015 were $2.6 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 $0.1 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 June 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 June 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 $19.6 million for the three months ended June 30, 2016, compared to $12.7 million for the three months ended June 30, 2015. Comprehensive income was $46.6 million for the six months ended June 30, 2016, compared to $28.7 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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Beginning balance	$ 5,380	$ 3,628	$ 2,587	$ 2,810
Other comprehensive income (loss) before reclassification	3,286	(2,130)	5,986	(1,628)
Amounts reclassified from accumulated other comprehensive income	(357)	554	(264)	870

Net current period other comprehensive income (loss)	2,929	(1,576)	5,722	(758)
Ending balance	$ 8,309	$ 2,052	$ 8,309	$ 2,052

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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 June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Affected line item in the statement of income
	(in thousands)				
Unrealized gains on available-for-sale securities	$ 549	$ 1,273	$ 406	$ 261	Net realized gains (losses) on investments
Other-than-temporary impairment		(2,126)		(1,600)	Net realized gains (losses) on investments
	549	(853)	406	(1,339)	Income before income taxes
	(192)	299	(142)	469	Income tax expense
	$ 357	$ (554)	$ 264	$ (870)	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.

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

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

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

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

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

	June 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		181,649		181,649
Corporate bonds		203,333		203,333
U.S. agency-based mortgage-backed securities		12,015		12,015
U.S. Treasury securities	63,700			63,700
Total securities available for sale fixed maturity	63,700	396,997		460,697
Total available for sale	$ 63,732	$ 396,997	$	$ 460,729

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

	June 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	$	$ 442,694	$	$ 442,694
Corporate bonds		165,270		165,270
Commercial mortgage-backed securities		6,712		6,712
U.S. agency-based mortgage-backed securities		13,128		13,128
U.S. Treasury securities	7,437			7,437
Obligations of U.S. government agencies		5,881		5,881
Asset-backed securities		2,202		2,202
Total held-to-maturity	$ 7,437	$ 635,887	$	$ 643,324

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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
U.S. agency-based mortgage-backed securities		7,299		7,299
Corporate bonds		201,304		201,304
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 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair 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.

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

	As of June 30, 2016		As of December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Assets:				
Fixed maturity securities held-to-maturity	$ 620,165	$ 643,324	$ 645,164	$ 662,276
Fixed maturity securities available-for-sale	460,697	460,697	380,022	380,022
Equity securities	32	32	31	31
Cash and cash equivalents	70,155	70,155	69,481	69,481
Short-term investments	17,165	17,165	7,718	7,718
Other investments	10,850	10,850	12,217	12,217

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. There were no shares repurchased under this program in the six months ended June 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 June 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 July 26, 2016, the Company s Board of Directors declared a quarterly cash dividend of $0.18 per share payable on September 23, 2016 to shareholders of record as of September 9, 2016. The Board intends to consider the payment of a regular cash dividend each calendar quarter.

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

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

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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 six months ended June 30, 2016 and 2015.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(dollars in thousands, except per share data) (unaudited)			
Gross premiums written	$ 103,224	$ 106,022	$ 203,606	$ 206,811
Net premiums earned	90,728	95,569	186,689	190,356
Net investment income	6,201	6,890	12,245	13,723
Total revenues	97,563	99,936	199,898	201,724
Total expenses	72,948	79,824	140,888	160,415
Net income	16,639	14,319	40,896	29,449
Diluted earnings per common share	$ 0.87	$ 0.75	$ 2.13	$ 1.54

Other Key Measures				
Net combined ratio (1)	80.4%	83.6%	75.5%	84.2%
Return on average equity (2)	13.7%	12.3%	17.2%	12.8%
Book value per share (3)	$ 25.83	$ 24.87	$ 25.83	$ 24.87

(1) The net combined ratio is calculated by dividing the sum of loss and loss adjustment expenses incurred, underwriting and certain other operating costs, commissions, salaries and benefits, and policyholder dividends by net premiums earned in the current period.

(2) Return on average equity is calculated by dividing the annualized net income by the average shareholders equity for the applicable period.

(3) Book value per share is calculated by dividing shareholders equity by total outstanding shares, as of the end of the period.

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

Gross Premiums Written. Gross premiums written for the quarter ended June 30, 2016 were $103.2 million, compared to $106.0 million for the same period in 2015, a decrease of 2.6%. The decrease was attributable to a $3.0 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $0.9 million decrease in assumed premium from mandatory pooling arrangements. These decreases were partially offset by a $1.0 million increase in annual premiums on voluntary policies written during the period. The effective loss cost multiplier, or LCM, for our voluntary business was 1.73 for the second quarter ended June 30, 2016 compared to 1.81 for the same period in 2015.

Net Premiums Written. Net premiums written for the quarter ended June 30, 2016 were $100.7 million, compared to $103.5 million for the same period in 2015, a decrease of 2.7%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 2.7% for the second quarter of 2016 compared to 2.6% for the second quarter of 2015. The increase in ceded premiums as a percentage of gross premiums earned reflects an increase of $0.1 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, 2015.

Net Premiums Earned. Net premiums earned for the second quarter of 2016 were $90.7 million, compared to $95.6 million for the same period in 2015, a decrease of 5.1%. The decrease was attributable to a $3.0 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $0.9 million decrease in assumed premium from mandatory pooling arrangements.

Net Investment Income. Net investment income for the quarter ended June 30, 2016 was $6.2 million, compared to $6.9 million for the same period in 2015. The decrease of $0.7 million was largely due to the decline 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 June 30, 2016, compared to an average of $1.1 billion for the same period in 2015, an increase of 1.6%. The pre-tax investment yield on our investment portfolio was 2.1% and 2.4% per annum during the quarters ended June 30, 2016 and 2015, respectively. The tax-equivalent yield on our investment portfolio was 3.3% per annum for the quarter ended June 30, 2016, compared to 3.6% per annum for the same period in 2015. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized gains on investments for the three months ended June 30, 2016 totaled $0.5 million compared to net realized losses of $2.6 million for the same period in 2015. Net realized gains in the second quarter of 2016 were attributable to the sale of fixed maturity securities classified as available-for-sale. Net realized losses in the second quarter of 2015 were attributable to other-than-temporary impairments of four fixed maturity securities of $2.7 million partially offset by realized gains on the call of fixed maturity securities.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (LAE) incurred totaled $49.2 million for the three months ended June 30, 2016, compared to $57.3 million for the same period in 2015, a decrease of $8.1 million, or 14.2%. The current accident year losses and LAE incurred were $61.6 million, or 67.9% of net premiums earned, compared to $66.7 million, or 69.8% of net premiums earned, for the same period in 2015. We recorded favorable prior accident year development of $12.4 million in the second quarter of 2016, compared to favorable prior accident year development of $9.4 million in the same period of 2015, as further discussed below in Prior Year Development. Our net loss ratio was 54.2% in the second quarter of 2016, compared to 60.0% 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 June 30, 2016 were $22.6 million, compared to $22.1 million for the same period in 2015, an increase of 2.2%. This increase was primarily due to a $1.0 million increase in accounts receivable write-offs due to a change in estimate recorded in prior year and a $0.4 million increase in compensation expense. Offsetting these increases were a $0.4 million decrease in commission expense, a $0.3 million decrease in premium taxes and a $0.3 million decrease in mandatory pooling arrangement fees. Our expense ratio was 24.9% in the second quarter of 2016 compared to 23.1% in the second quarter of 2015.

Income Tax Expense. Income tax expense for the three months ended June 30, 2016 was $8.0 million, compared to $5.8 million for the same period in 2015. The increase was attributable to an increase in the pre-tax income to $24.6 million in the quarter ended June 30, 2016 from $20.1 million in the same period in 2015. Also, the effective tax rate increased to 32.4% in the quarter ended June 30, 2016 from 28.8% 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 second quarter of 2015.

Consolidated Results of Operations for Six Months Ended June 30, 2016 Compared to June 30, 2015

Gross Premiums Written. Gross premiums written for the first six months of 2016 were $203.6 million, compared to $206.8 million for the same period in 2015, a decrease of 1.5%. The decrease was attributable to a $2.0 million decrease in annual premiums on voluntary policies written during the period, a $0.8 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 1.74 for the six months ended June 30, 2016 compared to 1.81 for the same period in 2015.

Net Premiums Written. Net premiums written for the six months ended June 30, 2016 were $198.5 million, compared to $201.7 million for the same period in 2015, a decrease of 1.6%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 2.7% and 2.6% for the first six months of 2016 and 2015, respectively. The increase in ceded premiums as a percentage of gross premiums earned reflects an increase of $0.1 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, 2015.

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Net Premiums Earned. Net premiums earned for the first six months of 2016 were $186.7 million, compared to $190.4 million for the same period in 2015, a decrease of 1.9%. The decrease was attributable to the decrease in net premiums written during the period.

Net Investment Income. Net investment income for the first six months of 2016 was $12.2 million, compared to $13.7 million for the same period in 2015, a decrease of 10.8%. The decrease was attributable to the decline 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 increased 1.0% to $1.1 billion in the six months ended June 30, 2016. The pre-tax investment yield on our investment portfolio was 2.1% per annum during the six months ended June 30, 2016, compared to 2.5% per annum during the same period in 2015. The tax-equivalent yield on our investment portfolio was 3.3% per annum for the first six months of 2016 compared to 3.6% for the same period in 2015. The tax-equivalent yield is calculated using the effective interest rate and a 35% marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized gains on investments for the six months ended June 30, 2016 totaled $0.8 million, compared to net realized losses of $2.6 million for the same period in 2015. Net realized gains in the first half of 2016 were attributable to the sale of fixed maturity securities classified as available-for-sale. Net realized losses in the first half 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 $95.9 million for the six months ended June 30, 2016, compared to $117.3 million for the same period in 2015, a decrease of $21.4 million, or 18.3%. The current accident year losses and LAE incurred were $126.8 million, or 67.9% of net premiums earned, compared to $132.9 million, or 69.8% of net premiums earned, for the same period in 2015. We recorded favorable prior accident year development of $30.9 million in the first six months of 2016, compared to favorable prior accident year development of $15.6 million in the same period of 2015, as further discussed below in Prior Year Development. Our net loss ratio was 51.4% in the first six months of 2016, compared to 61.6% 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 six months ended June 30, 2016 were $42.7 million, compared to $42.5 million for the same period in 2015, an increase of 0.6%. This increase was primarily due to a $1.3 million increase in accounts receivable write-offs due to a change in estimate recorded in prior year, a $0.3 million increase in compensation expense and a $0.2 million increase in auditor fees. Offsetting these increases were a $0.8 million decrease in premium taxes, a $0.5 million decrease in commission expense and a $0.3 million decrease in mandatory pooling arrangement fees. Our expense ratio was 22.9% in the first six months of 2016 compared to 22.3% in the same period of 2015.

Income Tax Expense. Income tax expense for the six months ended June 30, 2016 was $18.1 million, compared to $11.9 million for the same period in 2015. The increase was attributable to an increase in pre-tax income to $59.0 million in the first six months of 2016 from $41.3 million in the first six months of 2015. The effective tax rate increased to 30.7% for the six months ended June 30, 2016 from 28.7% for the six months ended June 30, 2015. The increase in the tax rate resulted from a higher proportion of underwriting income to tax-exempt income for the six months ended June 30, 2016 compared with the six months ended June 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 $56.4 million for the six months ended June 30, 2016, which represented a $30.3 million increase from $26.1 million in net cash provided by operating activities for the six months ended June 30, 2015. This increase in operating cash flow was attributable to a $28.9 million decrease in amounts held by others, a $7.0 million decrease in underwriting expenses paid, a $2.8 million decrease in losses paid and a $0.3 million increase in paid losses payable. Offsetting these increases were a $4.5 million increase in federal taxes paid, a $2.3 million decrease in premium collections and a $1.5 million decrease in investment income.

Net cash used in investing activities was $49.8 million for the six months ended June 30, 2016, compared to net cash used in investment activities of $51.7 million for the same period in 2015. Cash provided by sales and maturities of investments totaled $172.8 million for the six months ended June 30, 2016, compared to $130.1 million for the same period in 2015. A total of $221.8 million in cash was used to purchase investments in the six months ended June 30, 2016, compared to $181.3 million in purchases for the same period in 2015.

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Net cash used in financing activities in the six months ended June 30, 2016 was $5.9 million compared to net cash used in financing activities of $3.8 million for the same period in 2015. In the six months ended June 30, 2016, $7.0 million of cash was used for dividends paid to shareholders compared to $5.7 million in the same period of 2015. Offsetting this increase were proceeds of $0.5 million and $0.8 million from stock option exercises in the six months ended June 30, 2016 and 2015, respectively. During the six months ended June 30, 2016, the tax benefit from share based compensation was $0.5 million compared to $1.1 million for the same period in 2015.

Investment Portfolio

Our investment portfolio, including cash and cash equivalents, totaled $1.2 billion on June 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 June 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	$ 423,631	35.9%
U.S. agency-based mortgage-backed securities	11,849	1.0%
Commercial mortgage-backed securities	6,681	0.6%
U.S. Treasury securities and obligations of U.S. government agencies	12,261	1.0%
Corporate bonds	163,648	13.9%
Asset-backed securities	2,095	0.2%
Total fixed maturity securities held-to-maturity	620,165	52.6%
Fixed maturity securities available-for-sale:		
States and political subdivisions	181,649	15.4%
U.S. agency-based mortgage-backed securities	12,015	1.0%
U.S. Treasury securities and obligations of U.S. government agencies	63,700	5.4%
Corporate bonds	203,333	17.2%
Total fixed maturity securities available-for-sale	460,697	39.0%
Equity securities	32	0.0%
Short-term investments	17,165	1.5%
Cash and cash equivalents	70,155	6.0%
Other investments	10,850	0.9%

Total investments, including cash and cash equivalents	$ 1,179,064	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 six months ended June 30, 2016, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments.

During the three and six months ended June 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 three and six months ended June 30, 2015.

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Prior Year Development

The Company recorded favorable prior accident year development of $12.4 million in the three months ended June 30, 2016. The table below sets forth the favorable development for the three and six months ended June 30, 2016 and 2015 for accident years 2011 through 2015 and, collectively, for all accident years prior to 2011.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
	(in millions)			
Accident Year				
2015	$	$	$	$
2014	3.8		7.7	
2013	4.2	1.0	9.4	1.0
2012	1.7	3.5	7.5	8.2
2011	0.1		1.4	1.1
Prior to 2011	2.6	4.9	4.9	5.3
Total net development	$ 12.4	$ 9.4	$ 30.9	$ 15.6

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Open claims at beginning of period	5,151	5,337	5,300	5,515
Claims reported	1,339	1,352	2,610	2,603
Claims closed	(1,349)	(1,453)	(2,769)	(2,882)
Open claims at end of period	5,141	5,236	5,141	5,236

The number of open claims at June 30, 2016 decreased by 95 claims as compared to the number of open claims at June 30, 2015. At June 30, 2016, our incurred amounts for certain accident years, particularly 2012, 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. We believe the favorable loss development in accident years 2012, 2013 and 2014 resulted primarily from an intensive claims management focus with the company actively seeking to settle claims, leading to favorable development.

The assumptions we used in establishing our reserves for these accident years were based on our historical claims data. However, as of June 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.

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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 2015, the Board reauthorized this program. As of June 30, 2016, we had repurchased a total of 1,258,250 shares of our outstanding common stock for $22.4 million. There were no shares purchased during the six months ended June 30, 2016 and 2015. 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 June 30, 2016, 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
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.

July 29, 2016

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

July 29, 2016

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

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