AMERISAFE INC
Form 10-Q
October 26, 2018

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, 2018

Commission file number:

001-12251

AMERISAFE, INC.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| Texas | 75-2069407 |
| (State of Incorporation) | (I.R.S. Employer Identification Number) |
| 2301 Highway 190 West, DeRidder, Louisiana | 70634 |
| (Address of Principal Executive Offices) | (Zip Code) |

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

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

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

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

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

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

As of October 24, 2018, there were 19,269,980 shares of the Registrant's common stock, par value $.01 per share, outstanding.

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FORWARD-LOOKING STATEMENTS

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

- the cyclical nature of the workers’ compensation insurance industry;
- increased competition on the basis of types of insurance offered, premium rates, coverage availability, payment terms, claims management, safety services, policy terms, overall financial strength, financial ratings and reputation;
- general economic conditions, including recession, inflation, performance of financial markets, interest rates, unemployment rates and fluctuating asset values;
- changes in relationships with independent agencies;
- developments in capital markets that adversely affect the performance of our investments;
- technology breaches or failures, including those resulting from a malicious cyber attack on the Company or its policyholders and medical providers;
- decreased level of business activity of our policyholders caused by decreased business activity generally, and in particular in the industries we target;
- greater frequency or severity of claims and loss activity, 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;
- adverse developments in economic, competitive, judicial or regulatory conditions within the workers’ compensation insurance industry;
- loss of the services of any of our senior management or other key employees;
- changes in regulations, laws, rates, rating factors, or taxes applicable to the Company, its policyholders or the agencies that sell its insurance;
- changes in accounting standards or new accounting standards;
- changes in legal theories of liability under our insurance policies;
- changes in rating agency policies, practices or ratings;
- changes in the availability, cost or quality of reinsurance and the failure of our reinsurers to pay claims in a timely manner or at all;
- the effects of U.S. involvement in hostilities with other countries and large-scale acts of terrorism, or the threat of hostilities or terrorist acts; and
- other risks and uncertainties described from time to time in the Company’s filings with the Securities and Exchange Commission (“SEC”).

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements 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, 2017. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

| | September 30, 2018 (unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Investments: | | |
| Fixed maturity securities—held-to-maturity, at amortized cost (fair value $599,885 and $639,309 in 2018 and 2017, respectively) | $ 602,830 | $ 629,668 |
| Fixed maturity securities—available-for-sale, at fair value (cost $473,315 and $461,236 in 2018 and 2017, respectively) | 468,019 | 465,594 |
| Equity securities, at fair value (cost $14,532 and $8,503 in 2018 and 2017, respectively) | 14,791 | 9,282 |
| Short-term investments | 104,896 | 25,770 |
| Total investments | 1,190,536 | 1,130,314 |
| Cash and cash equivalents | 33,324 | 55,559 |
| Amounts recoverable from reinsurers | 109,269 | 90,133 |
| Premiums receivable, net of allowance | 178,625 | 174,234 |
| Deferred income taxes | 19,898 | 19,262 |
| Accrued interest receivable | 10,776 | 10,635 |
| Property and equipment, net | 6,462 | 6,128 |
| Deferred policy acquisition costs | 21,326 | 20,251 |
| Federal income tax recoverable | — | 1,761 |
| Other assets | 16,753 | 9,959 |
| Total assets | $ 1,586,969 | $ 1,518,236 |
| Liabilities and shareholders’ equity | | |
| Liabilities: | | |
| Reserves for loss and loss adjustment expenses | $ 791,129 | $ 771,845 |
| Unearned premiums | 165,167 | 157,270 |
| Amounts held for others | 40,269 | 36,908 |
| Policyholder deposits | 47,624 | 48,364 |
| Insurance-related assessments | 29,814 | 28,246 |
| Federal income tax payable | 1,558 | — |
| Accounts payable and other liabilities | 38,996 | 37,076 |
| Payable for investments purchased | 13,416 | 13,104 |
| Total liabilities | 1,127,973 | 1,092,813 |
| Shareholders’ equity: | | |
| Common stock: voting—$0.01 par value authorized shares—50,000,000 | 205 | 204 |

| | | |
|---|---|---|
| in 2018 and 2017; 20,528,230 and 20,504,165 shares issued and 19,269,980 and 19,245,915 shares outstanding in 2018 and 2017, respectively | | |
| Additional paid-in capital | 211,156 | 210,081 |
| Treasury stock, at cost (1,258,250 shares in 2018 and 2017) | (22,370) | (22,370) |
| Accumulated earnings | 274,206 | 233,896 |
| Accumulated other comprehensive income (loss), net | (4,201) | 3,612 |
| Total shareholders' equity | 458,996 | 425,423 |
| Total liabilities and shareholders' equity | $ 1,586,969 | $ 1,518,236 |

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | | | | |
| Gross premiums written | $85,324 | $87,035 | $276,368 | $269,152 |
| Ceded premiums written | (2,283) | (1,992) | (6,982) | (6,581) |
| Net premiums written | $83,041 | $85,043 | $269,386 | $262,571 |
| Net premiums earned | $85,184 | $85,118 | $261,489 | $258,779 |
| Net investment income | 7,884 | 7,788 | 22,396 | 21,969 |
| Net realized losses on investments | (329) | (192) | (1,471) | (761) |
| Net unrealized gains on equity securities | 573 | — | 259 | — |
| Fee and other income | 217 | 90 | 411 | 284 |
| Total revenues | 93,529 | 92,804 | 283,084 | 280,271 |
| Expenses | | | | |
| Loss and loss adjustment expenses incurred | 47,598 | 48,394 | 152,836 | 151,038 |
| Underwriting and certain other operating costs | 8,011 | 7,218 | 23,842 | 23,363 |
| Commissions | 6,416 | 6,030 | 19,526 | 18,424 |
| Salaries and benefits | 6,179 | 6,033 | 18,786 | 18,899 |
| Policyholder dividends | 865 | 1,573 | 3,290 | 4,107 |
| Total expenses | 69,069 | 69,248 | 218,280 | 215,831 |
| Income before income taxes | 24,460 | 23,556 | 64,804 | 64,440 |
| Income tax expense | 4,759 | 6,979 | 11,978 | 18,858 |
| Net income | $19,701 | $16,577 | $52,826 | $45,582 |
| Earnings per share | | | | |
| Basic | $1.03 | $0.86 | $2.75 | $2.38 |
| Diluted | $1.02 | $0.86 | $2.74 | $2.37 |
| Shares used in computing earnings per share | | | | |
| Basic | 19,216,545 | 19,171,912 | 19,204,196 | 19,161,529 |
| Diluted | 19,272,984 | 19,236,114 | 19,281,036 | 19,235,955 |
| Cash dividends declared per common share | $0.22 | $0.20 | $0.66 | $0.60 |

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | $19,701 | $16,577 | $52,826 | $45,582 |
| Other comprehensive income: | | | | |
| Unrealized gain (loss) on securities, net of tax (1) | (2,118 ) | 617 | (7,813 ) | 3,525 |
| Comprehensive income | $17,583 | $17,194 | $45,013 | $49,107 |

(1) Data presented for 2018 includes debt securities only compared to 2017 which includes both debt and equity securities.

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

(unaudited)

| | Common Stock | | Additional Paid-In | Treasury Stock | | Accumulated | Accumulated Other Comprehensive Income | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amounts | Capital | Shares | Amounts | Earnings | (Loss) | Total |
| Balance at December 31, 2017 | 20,504,165 | $ 204 | $ 210,081 | (1,258,250) | $ (22,370) | $ 233,896 | $ 3,612 | $ 425,423 |
| Comprehensive income | — | — | — | — | — | 52,826 | (7,813) | 45,013 |
| Impact of adoption of ASU 2016-01 | — | — | — | — | — | 614 | — | 614 |
| Impact of adoption of ASU 2018-02 | — | — | — | — | — | (414) | — | (414) |
| Common stock issued upon exercise of options | 15,000 | — | 67 | — | — | — | — | 67 |
| Common stock issued | 9,065 | 1 | 195 | — | — | — | — | 196 |
| Share-based compensation | — | — | 813 | — | — | — | — | 813 |
| Dividends to shareholders | — | — | — | — | — | (12,716) | — | (12,716) |
| Balance at September 30, 2018 | 20,528,230 | $ 205 | $ 211,156 | (1,258,250) | $ (22,370) | $ 274,206 | $ (4,201) | $ 458,996 |

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | Nine Months Ended September 30, 2018 | 2017 |
|---|---|---|
| Operating activities | | |
| Net income | $52,826 | $45,582 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 748 | 760 |
| Net amortization of investments | 8,414 | 10,815 |
| Deferred income taxes | 1,388 | 342 |
| Net realized losses on investments | 1,471 | 761 |
| Net unrealized gains on equity securities | (259) | — |
| Net realized losses on disposal of assets | — | 2 |
| Share-based compensation | 1,074 | 1,283 |
| Changes in operating assets and liabilities: | | |
| Premiums receivable, net | (4,391) | (2,492) |
| Accrued interest receivable | (141) | 125 |
| Deferred policy acquisition costs | (1,075) | (1,606) |
| Amounts held by others | (7,855) | 27,848 |
| Other assets | 2,692 | (5,131) |
| Reserves for loss and loss adjustment expenses | 19,284 | 12,250 |
| Unearned premiums | 7,897 | 3,792 |
| Reinsurance balances | (19,136) | (1,320) |
| Amounts held for others and policyholder deposits | 2,621 | 2,503 |
| Accounts payable and other liabilities | 5,185 | 6,813 |
| Net cash provided by operating activities | 70,743 | 102,327 |
| Investing activities | | |
| Purchases of investments held-to-maturity | (71,872) | (149,981) |
| Purchases of investments available-for-sale | (82,519) | (79,116) |
| Purchases of equity securities | (5,251) | (7,499) |
| Purchases of short-term investments | (133,355) | (53,789) |
| Proceeds from maturities of investments held-to-maturity | 85,322 | 112,715 |
| Proceeds from sales and maturities of investments available-for-sale | 79,539 | 82,270 |
| Proceeds from sales and maturities of short-term investments | 48,965 | 17,610 |
| Proceeds from redemptions of other investments | 130 | 9,000 |
| Purchases of property and equipment | (1,083) | (446) |
| Net cash used in investing activities | (80,124) | (69,236) |
| Financing activities | | |
| Proceeds from stock option exercises | 67 | — |
| Dividends to shareholders | (12,921) | (11,649) |
| Net cash used in financing activities | (12,854) | (11,649) |
| Change in cash and cash equivalents | (22,235) | 21,442 |

| | | |
|---|---|---|
| Cash and cash equivalents at beginning of period | 55,559 | 58,936 |
| Cash and cash equivalents at end of period | $33,324 | $80,378 |

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Basis of Presentation

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

The terms "AMERISAFE," the "Company," "we," "us" or "our" refer to AMERISAFE, Inc. and its consolidated subsidiaries, a the context requires.

The Company provides workers' compensation insurance for small to mid-sized employers engaged in hazardous industries, principally construction, trucking, logging and lumber, manufacturing, and agriculture. Assets and revenues of AIIC represent at least 95% of comparable consolidated amounts of the Company for each of the nine months ended September 30, 2018 and 2017.

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, 2017.

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.

Adopted Accounting Guidance

In January 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance requires fair value measurement for equity investments (not including those that result in consolidation of the investee or use the equity method of accounting) and the recognition of changes in fair value to be presented as a component of net income. The guidance also revises the disclosure requirements related to fair value changes of liabilities presented in comprehensive income, eliminates disclosure related to the methods and assumptions underlying fair value for financial instruments measured at amortized cost, and simplifies impairment assessments for equity investments without readily determinable fair values. The adoption of this new guidance in the first quarter of 2018 resulted in an immaterial decrease in net income of $390 thousand or a $0.02 decrease in our diluted earnings per common share. At December 31, 2017, equity investments were classified as available-for-sale on the Company’s balance sheet. However, upon adoption, the updated guidance eliminated the available-for-sale balance sheet classification for equity investments.

In May 2014, the FASB issued ASU 2014-09 (Topic 606): Revenue from Contracts with Customers. The guidance revises the criteria for revenue recognition and requires that the revenue recognized reflect the transfer of promised goods or services to customers in an amount that represents the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard was effective for us in the first quarter of 2018. The adoption of the new guidance had no impact on the Company's reporting and disclosure of net premiums earned, net investment income or net realized gains and losses, as these items are not within the scope of this new guidance. The remaining revenue sources are immaterial.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220). This ASU provided new guidance on reclassification from Other Comprehensive Income ("OCI") of tax effects related to the recently passed tax reform legislation (the "Tax Act"). The guidance gives entities the option to reclassify to retained earnings tax effects related to items in accumulated OCI deemed to be stranded as a result of tax reform. The guidance was effective for us in the first quarter of 2018 and was applied retrospectively. The Company's policy for releasing income tax effects from accumulated OCI was the individual securities approach for available-for-sale securities. The adoption of this guidance did not have a material impact on our financial condition and results of operations.

In December 2017, the SEC issued Staff Accounting Bulletin (SAB) 118 which provided guidance on accounting for tax effects of the Tax Act. Among many changes of the Tax Act which affected Property and Casualty Insurers, the Tax Act required property and casualty taxpayers to discount loss reserves based solely on IRS factors and no longer by reference to historical payment patterns. As the IRS has yet to release the 2018 discount factors, we have used the 2017 IRS discount factors to estimate the impact of the change in loss reserve discounting factors and adjusted our deferred tax balances for the impact of these changes. Once the IRS has released the 2018 loss reserve discount factors, we will complete our analysis and include the effect of the difference in the reserve discount factors in the period the analysis is complete or the impact is reasonably estimable.

Prospective Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under current guidance for lessees, leases are only included on the balance sheet if certain criteria, classifying the contract as a capital lease, are met. The new guidance requires a lessee to recognize a lease liability and a right of use asset for all leases extending beyond twelve months. The new guidance is effective for us in the first quarter of 2019. Prior comparative periods will not be adjusted. Adoption of the guidance is not expected to have a material effect on the Company's consolidated financial statements as the Company does not have any significant leases.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses. The new guidance replaces the methodology of credit loss impairment, which currently, delays the recognition of credit losses until a probable loss has been incurred. The new guidance requires credit losses for securities measured at amortized cost to be determined using current expected credit loss estimates. These estimates are to be derived from historical, current and reasonable supporting forecasts, including prepayments and estimates, and will be recorded through a valuation allowance account that will run through the income statement. The same method will be used for available-for-sale securities, but the valuation allowance will be limited to the amount by which the fair value is below amortized cost. The standard is effective for us in the first quarter of 2020. The Company will continue to monitor and evaluate the impact as the implementation date approaches.

All other issued but not yet effective accounting and reporting standards as of September 30, 2018 are either not applicable to the Company or are not expected to have a material impact on the Company.

Note 2. Stock Options and Restricted Stock

As of September 30, 2018, the Company has three equity incentive plans: the AMERISAFE 2005 Equity Incentive Plan (the "2005 Incentive Plan"), the AMERISAFE Non-Employee Director Restricted Stock Plan (the "Restricted Stock Plan") and the AMERISAFE 2012 Equity and Incentive Compensation Plan (the "2012 Incentive Plan"). In connection with the approval of the 2012 Incentive Plan by the Company's shareholders, no further grants will be made under the 2005 Incentive Plan. All grants made under the 2005 Incentive plan continue in effect, subject to the terms and conditions of the 2005 Incentive Plan. See Note 12 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information regarding the Company's incentive plans.

During the nine months ended September 30, 2018, the Company granted 3,304 shares of common stock to executive officers and 5,761 shares of restricted common stock to non-employee directors. The market value of the shares granted totaled $0.5 million. During the nine months ended September 30, 2017, the Company granted 7,434 shares of common stock to executive officers and 6,454 shares of restricted common stock to non-employee directors. The market value of the shares granted totaled $0.7 million.

During the nine months ended September 30, 2018, options to purchase 15,000 shares of common stock were exercised. In connection with these exercises, the Company received $0.1 million of stock option proceeds. During the nine months ended September 30, 2017, no options to purchase shares of common stock were exercised.

The Company recognized share-based compensation expense of $0.3 million in the quarter ended September 30, 2018 and 2017. The Company recognized share-based compensation expense of $1.1 million in the nine months ended September 30, 2018 and $1.3 million for the same period in 2017.

Note 3. Earnings Per Share

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

Basic EPS is calculated by dividing net income by the weighted-average number of common shares outstanding during the period.

The diluted EPS calculation includes potential common shares assumed issued under the treasury stock method, which reflects the potential dilution that would occur if any outstanding options were exercised or restricted stock becomes vested.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands, except share and per share amounts) | | | |
| Basic EPS: | | | | |
| Net income | $19,701 | $16,577 | $52,826 | $45,582 |
| Basic weighted average common shares | 19,216,545 | 19,171,912 | 19,204,196 | 19,161,529 |
| Basic earnings per common share | $1.03 | $0.86 | $2.75 | $2.38 |
| Diluted EPS: | | | | |
| Net income | $19,701 | $16,577 | $52,826 | $45,582 |
| Diluted weighted average common shares: | | | | |
| Weighted average common shares | 19,216,545 | 19,171,912 | 19,204,196 | 19,161,529 |
| Stock options and restricted stock | 56,439 | 64,202 | 76,840 | 74,426 |
| Diluted weighted average common shares | 19,272,984 | 19,236,114 | 19,281,036 | 19,235,955 |
| Diluted earnings per common share | $1.02 | $0.86 | $2.74 | $2.37 |

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, 2018 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| States and political subdivisions | $430,408 | $ 3,053 | $ (4,773) | $428,688 |
| Corporate bonds | 95,731 | 9 | (879) | 94,861 |
| U.S. agency-based mortgage-backed securities | 8,535 | 359 | (87) | 8,807 |

| | | | | |
|---|---|---|---|---|
| U.S. Treasury securities and obligations of U.S. government agencies | 67,052 | 325 | (966 ) | 66,411 |
| Asset-backed securities | 1,104 | 24 | (10 ) | 1,118 |
| Totals | $602,830 | $ 3,770 | $ (6,715 ) | $599,885 |

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, 2018 are summarized as follows:

| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| States and political subdivisions | $229,007 | $ 2,334 | $ (3,854 ) | $227,487 |
| Corporate bonds | 163,834 | 43 | (929 ) | 162,948 |
| U.S. agency-based mortgage-backed securities | 13,256 | — | (476 ) | 12,780 |
| U.S. Treasury securities and obligations of U.S. government agencies | 67,218 | — | (2,414 ) | 64,804 |
| Totals | $473,315 | $ 2,377 | $ (7,673 ) | $468,019 |

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, 2017 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| States and political subdivisions | $460,428 | $ 9,628 | $ (955 ) | $469,101 |
| Corporate bonds | 100,024 | 190 | (167 ) | 100,047 |
| U.S. agency-based mortgage-backed securities | 10,260 | 625 | (40 ) | 10,845 |
| U.S. Treasury securities and obligations of U.S. government agencies | 57,657 | 548 | (198 ) | 58,007 |
| Asset-backed securities | 1,299 | 25 | (15 ) | 1,309 |
| Totals | $629,668 | $ 11,016 | $ (1,375 ) | $639,309 |

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, 2017 are summarized as follows:

| | Cost or Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| States and political subdivisions | $244,898 | $ 6,819 | $ (577 ) | $251,140 |
| Corporate bonds | 130,210 | 224 | (212 ) | 130,222 |
| U.S. agency-based mortgage-backed securities | 18,813 | — | (799 ) | 18,014 |
| U.S. Treasury securities and obligations of U.S. government agencies | 67,315 | 29 | (1,126 ) | 66,218 |
| Total fixed maturity | 461,236 | 7,072 | (2,714 ) | 465,594 |
| Equity securities | 8,503 | 779 | — | 9,282 |
| Totals | $469,739 | $ 7,851 | $ (2,714 ) | $474,876 |

A summary of the amortized cost and fair value of investments in fixed maturity securities, classified as held-to-maturity at September 30, 2018, by contractual maturity, is as follows:

| | Amortized Cost | Fair Value |
|---|---|---|

| | (in thousands) | |
|---|---|---|
| Maturity: | | |
| Within one year | $80,180 | $80,293 |
| After one year through five years | 260,292 | 259,523 |
| After five years through ten years | 85,673 | 84,902 |
| After ten years | 167,046 | 165,242 |
| U.S. agency-based mortgage-backed securities | 8,535 | 8,807 |
| Asset-backed securities | 1,104 | 1,118 |
| Totals | $602,830 | $599,885 |

A summary of the amortized cost and fair value of investments in fixed maturity securities, classified as available-for-sale at September 30, 2018, by contractual maturity, is as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| | (in thousands) | |
| Maturity: | | |
| Within one year | $73,298 | $73,137 |
| After one year through five years | 165,853 | 163,342 |
| After five years through ten years | 44,355 | 43,378 |
| After ten years | 176,553 | 175,382 |
| U.S. agency-based mortgage-backed securities | 13,256 | 12,780 |
| Totals | $473,315 | $468,019 |

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

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value of Investments with Unrealized Losses | Gross Unrealized Losses | Fair Value of Investments with Unrealized Losses | Gross Unrealized Losses | Fair Value of Investments with Unrealized Losses | Gross Unrealized Losses |
| | (in thousands) | | | | | |
| September 30, 2018 | | | | | | |
| Held-to-Maturity | | | | | | |
| Fixed maturity securities: | | | | | | |
| States and political subdivisions | $237,284 | $ 3,737 | $35,373 | $ 1,036 | $272,657 | $ 4,773 |
| Corporate bonds | 67,454 | 584 | 21,100 | 295 | 88,554 | 879 |
| U.S. agency-based mortgage-backed securities | 1,962 | 65 | 482 | 22 | 2,444 | 87 |
| U.S. Treasury securities and obligations of U.S. government agencies | 31,676 | 443 | 29,054 | 523 | 60,730 | 966 |
| Asset-backed securities | 510 | 8 | 38 | 2 | 548 | 10 |
| Total held-to-maturity securities | 338,886 | 4,837 | 86,047 | 1,878 | 424,933 | 6,715 |
| Available-for-Sale | | | | | | |
| Fixed maturity securities: | | | | | | |
| States and political subdivisions | $97,971 | $ 2,118 | $21,048 | $ 1,736 | $119,019 | $ 3,854 |
| Corporate bonds | 133,712 | 772 | 9,615 | 157 | 143,327 | 929 |
| U.S. agency-based mortgage-backed securities | 8,356 | 288 | 4,424 | 188 | 12,780 | 476 |
| U.S. Treasury securities and obligations of U.S. government agencies | 8,376 | 296 | 56,428 | 2,118 | 64,804 | 2,414 |
| Total available-for-sale securities | 248,415 | 3,474 | 91,515 | 4,199 | 339,930 | 7,673 |
| Total | $587,301 | $ 8,311 | $177,562 | $ 6,077 | $764,863 | $ 14,388 |

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

| | Losses (in thousands) | | Losses | | Losses | |
|---|---|---|---|---|---|---|
| December 31, 2017 | | | | | | |
| Held-to-Maturity | | | | | | |
| Fixed maturity securities: | | | | | | |
| States and political subdivisions | $110,698 | $ 654 | $19,895 | $ 301 | $130,593 | $ 955 |
| Corporate bonds | 56,425 | 156 | 4,121 | 11 | 60,546 | 167 |
| U.S. agency-based mortgage-backed securities | 2,798 | 40 | — | — | 2,798 | 40 |
| U.S. Treasury securities and obligations of U.S. government agencies | 48,153 | 122 | 3,948 | 76 | 52,101 | 198 |
| Asset-backed securities | — | — | 967 | 15 | 967 | 15 |
| Total held-to-maturity securities | 218,074 | 972 | 28,931 | 403 | 247,005 | 1,375 |
| Available-for-Sale | | | | | | |
| Fixed maturity securities: | | | | | | |
| States and political subdivisions | $23,365 | $ 86 | $19,153 | $ 491 | $42,518 | $ 577 |
| Corporate bonds | 82,795 | 171 | 5,888 | 41 | 88,683 | 212 |
| U.S. agency-based mortgage-backed securities | 14,686 | 59 | 3,328 | 740 | 18,014 | 799 |
| U.S. Treasury securities and obligations of U.S. government agencies | 14,730 | 204 | 47,716 | 922 | 62,446 | 1,126 |
| Total available-for-sale securities | 135,576 | 520 | 76,085 | 2,194 | 211,661 | 2,714 |
| Total | $353,650 | $ 1,492 | $105,016 | $ 2,597 | $458,666 | $ 4,089 |

At September 30, 2018, the Company held 507 individual fixed maturity securities that were in an unrealized loss position, of which 101 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months.

During the third quarter of 2018, the Company recognized through income $0.6 million of net unrealized gains on equity securities held as of September 30, 2018. For the nine months ended September 30, 2018, the Company recognized through income $0.3 million of net unrealized gains on equity securities held as of September 30, 2018.

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

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

- any reduction or elimination of preferred dividends, or nonpayment of scheduled principal or interest payments;
- the financial condition and near-term prospects of the issuer of the applicable security, including any specific events that may affect its operations or earnings;
- how long and by how much the fair value of the security has been below its cost or amortized cost;
- any downgrades of the security by a rating agency;
- our intent not to sell the security for a sufficient time period for it to recover its value;
- the likelihood of being forced to sell the security before the recovery of its value; and
- an evaluation as to whether there are any credit losses on debt securities.

We reviewed all securities with unrealized losses in accordance with the impairment policy described above. The Company determined that the unrealized losses in the fixed maturity securities portfolio related primarily to changes in market interest rates since the date of purchase, current conditions in the capital markets and the impact of those conditions on market liquidity and prices generally. During the nine months ended September 30, 2018, unrealized losses increased as rising interest rates decreased the fair value of securities held in the fixed maturity securities portfolio. We expect to recover the carrying value of these securities as it is not more likely than not that we will be required to sell the securities before the recovery of the amortized cost basis.

During the nine months ended September 30, 2018 and 2017, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments.

Net realized losses in the nine months ended September 30, 2018 were $1.5 million resulting from the sale of equity and fixed maturity securities classified as available-for-sale of $1.1 million and called fixed maturity securities of $0.4 million. Net realized losses in the nine months ended September 30, 2017 were $0.8 million resulting from called fixed maturity securities.

Note 5. Income Taxes

In accordance with FASB ASC Topic 740, "Income Taxes," we provide for the recognition and measurement of deferred income tax benefits based on the likelihood of their realization in future years. As of September 30, 2018, the Company had no material unrecognized tax benefits and no adjustments to liabilities were required.

In December 2017, the Tax Act was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017. As a result, we recorded a decrease to our net deferred tax assets revalued at the new lower rate of 21% in the fourth quarter of 2017, the period in which the legislation was enacted.

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, 2018 and 2017.

Tax years 2014 through 2017 are subject to examination by the federal and state taxing authorities.

Note 6. Loss Reserves

We record reserves for estimated losses under insurance policies that we write and for loss adjustment expenses related to the investigation and settlement of policy claims. Our reserves for loss and loss adjustment expenses represent the estimated cost of all reported and unreported loss and loss adjustment expenses incurred and unpaid as of a given point in time. The reserves for loss and loss adjustment expenses are estimated using individual case-basis valuations, statistical analyses and estimates based upon experience for unreported claims and their associated loss and loss adjustment expenses. Such estimates may be more or less than the amounts ultimately paid when the claims are settled. The estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in these estimates, management believes that the reserves for loss and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Any adjustments are included in current operations. See Note 9 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for additional information regarding the Company's loss and loss adjustment expense development.

The following table provides the Company's liability for unpaid loss and loss adjustment expenses, net of related amounts recoverable from reinsurers, for the nine months ended September 30, 2018 and 2017:

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| | (in thousands) | |
| Balance, beginning of period | $771,845 | $742,776 |
| Less amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses | 84,889 | 78,256 |
| Net balance, beginning of period | 686,956 | 664,520 |
| Add incurred related to: | | |
| Current accident year | 186,964 | 178,562 |
| Prior accident years | (34,128 ) | (27,524 ) |
| Total incurred | 152,836 | 151,038 |
| Less paid related to: | | |
| Current accident year | 37,901 | 31,749 |
| Prior accident years | 115,194 | 108,284 |
| Total paid | 153,095 | 140,033 |
| Net balance, end of period | 686,697 | 675,525 |
| Add amounts recoverable from reinsurers on unpaid loss and loss adjustment expenses | 104,432 | 79,501 |
| Balance, end of period | $791,129 | $755,026 |

The foregoing reconciliation reflects favorable development of the net reserves at September 30, 2018 and September 30, 2017. The favorable development reduced loss and loss adjustment expenses incurred by $34.1 million and $27.5 million in 2018 and 2017, respectively. The revisions to the Company's reserves reflect new information gained by claims adjusters in the normal course of adjusting claims and is reflected in the financial statements when the information becomes available. It is typical for more serious claims to take several years or longer to settle and the Company continually revises estimates as more information about claimants' medical conditions and potential disability becomes known and the claims get closer to being settled. 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.

Note 7. Comprehensive Income and Accumulated Other Comprehensive Income

Comprehensive income was $17.6 million for the three months ended September 30, 2018, compared to $17.2 million for the three months ended September 30, 2017. Comprehensive income was $45.0 million for the nine months ended September 30, 2018, compared to $49.1 million for the same period in 2017. 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 debt securities.

Comprehensive income includes net income plus unrealized gains (losses) on our available-for-sale debt securities, net of tax. In reporting comprehensive income on a net basis in the statements of comprehensive income, we used a 21 percent tax rate in 2018 and a 35 percent tax rate in 2017. 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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands) | | | |
| Beginning balance | $(2,083) | $2,416 | $3,612 | $(492) |
| Other comprehensive income (loss) before reclassification | (2,143) | 820 | (7,964) | 4,032 |
| Amounts reclassified from accumulated other comprehensive income | 25 | (203) | 151 | (507) |
| Net current period other comprehensive income (loss) | (2,118) | 617 | (7,813) | 3,525 |
| Ending balance | $(4,201) | $3,033 | $(4,201) | $3,033 |

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 |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | |
| | (in thousands) | | | | |
| Unrealized gains (losses) on available-for-sale securities | $(32) | $312 | $(445) | $780 | Net realized losses on investments |
| | (32) | 312 | (445) | 780 | Income before income taxes |
| | 7 | (109) | 40 | (273) | Income tax expense |
| | $(25) | $203 | $(405) | $507 | Net income |

Note 8. Fair Value Measurements

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

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

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

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

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

- Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.
- Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.
- Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are to be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

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

The fair values of the Company's investments are based upon prices provided by an independent pricing service. The Company has reviewed these prices for reasonableness and has not adjusted any prices received from the independent provider. Securities reported at fair value utilizing Level 1 inputs represent assets whose fair value is determined based upon observable unadjusted quoted market prices for identical assets in active markets. Level 2 securities represent assets whose fair value is determined using observable market information such as previous day trade prices, quotes from less active markets or quoted prices of securities with similar characteristics. There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2018.

At September 30, 2018, assets measured at fair value on a recurring basis are summarized below:

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | 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—fixed maturity: | | | | |
| States and political subdivisions | $— | $227,487 | $ — | $227,487 |
| Corporate bonds | — | 162,948 | — | 162,948 |
| U.S. agency-based mortgage-backed securities | — | 12,780 | — | 12,780 |

| | | | | |
|---|---|---|---|---|
| U.S. Treasury securities | 64,804 | — | — | 64,804 |
| Total securities available-for-sale—fixed maturity | 64,804 | 403,215 | — | 468,019 |
| Equity securities: | | | | |
| Domestic common stock | 14,789 | — | 2 | 14,791 |
| Total | $79,593 | $403,215 | $ 2 | $482,810 |

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At September 30, 2018, assets measured at amortized cost are summarized below:

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
| | (in thousands) | | | |
| Securities held-to-maturity—fixed maturity: | | | | |
| States and political subdivisions | $— | $428,688 | $ — | $428,688 |
| Corporate bonds | — | 94,861 | — | 94,861 |
| U.S. agency-based mortgage-backed securities | — | 8,807 | — | 8,807 |
| U.S. Treasury securities | 7,057 | — | — | 7,057 |
| Obligations of U.S. government agencies | — | 59,354 | — | 59,354 |
| Asset-backed securities | — | 1,118 | — | 1,118 |
| Total held-to-maturity | $7,057 | $592,828 | $ — | $599,885 |

At December 31, 2017, assets measured at fair value on a recurring basis are summarized below:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | 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—fixed maturity: | | | | |
| States and political subdivisions | $— | $251,140 | $ — | $251,140 |
| Corporate bonds | — | 130,222 | — | 130,222 |
| U.S. agency-based mortgage-backed securities | — | 18,014 | — | 18,014 |
| U.S. Treasury securities and obligations of U.S. government agencies | 66,218 | — | — | 66,218 |
| Total securities available-for-sale—fixed maturity | $66,218 | $399,376 | $ — | $465,594 |
| Securities available-for-sale—Equity: | | | | |
| Domestic common stock | 9,248 | — | 34 | 9,282 |
| Total available-for-sale | $75,466 | $399,376 | $ 34 | $474,876 |

At December 31, 2017, assets measured at amortized cost are summarized below:

December 31, 2017

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| Securities held-to-maturity—fixed maturity: | | | | |
| States and political subdivisions | $— | $469,101 | $ — | $469,101 |
| Corporate bonds | — | 100,047 | — | 100,047 |
| U.S. agency-based mortgage-backed securities | — | 10,845 | — | 10,845 |
| U.S. Treasury securities | 6,750 | — | — | 6,750 |
| Obligations of U.S. government agencies | — | 51,257 | — | 51,257 |
| Asset-backed securities | — | 1,309 | — | 1,309 |
| Total held-to-maturity | $6,750 | $632,559 | $ — | $639,309 |

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.

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, 2018 | Twelve Months Ended December 31, 2017 |
|---|---|---|
| | (in thousands) | |
| Balance, beginning of period | $ 34 | $ — |
| Transfer into Level 3 | — | 34 |
| Unrealized loss on equity security | (32 ) | — |
| Balance, end of period | $ 2 | $ 34 |

At September 30, 2018, the Company held one security measured at fair value on a nonrecurring basis due to a recognized impairment of $100,000. The security was valued at fair value at the time of impairment and is currently being carried at the adjusted amortized cost value of $12,000 at September 30, 2018. The security is valued using Level 2 inputs and had a fair value of $32,000 at September 30, 2018.

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.

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

| | As of September 30, 2018 | | As of December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in thousands) | | | |
| Assets: | | | | |
| Fixed maturity securities—held-to-maturity | $602,830 | $599,885 | $629,668 | $639,309 |
| Fixed maturity securities—available-for-sale | 468,019 | 468,019 | 465,594 | 465,594 |
| Equity securities | 14,791 | 14,791 | 9,282 | 9,282 |
| Short-term investments | 104,896 | 104,896 | 25,770 | 25,770 |
| Cash and cash equivalents | 33,324 | 33,324 | 55,559 | 55,559 |

Note 9. Treasury Stock

The Company’s Board of Directors initiated a share repurchase program in February 2010. In October 2016, the Board reauthorized this program with a limit of $25.0 million with no expiration date.  There were no shares repurchased under this program in the nine months ended September 30, 2018 and 2017.

Note 10. Subsequent Events

On October 23, 2018, the Company’s Board of Directors declared a quarterly cash dividend of $0.22 per share payable on December 28, 2018 to shareholders of record as of December 14, 2018. The Board considers the payment of a regular cash dividend each calendar quarter.

On October 23, 2018, the Company’s Board of Directors declared an extraordinary dividend of $3.50 per share payable on December 28, 2018 to shareholders of record as of December 14, 2018.

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

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q, together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2017.

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, 2018 and 2017. 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, logging and lumber, manufacturing, 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 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, 2017.

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Results of Operations

The following table summarizes our consolidated financial results for the three and nine months ended September 30, 2018 and 2017.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (dollars in thousands, except per share data) (unaudited) | | | |
| Gross premiums written | $85,324 | $87,035 | $276,368 | $269,152 |
| Net premiums earned | 85,184 | 85,118 | 261,489 | 258,779 |
| Net investment income | 7,884 | 7,788 | 22,396 | 21,969 |
| Total revenues | 93,529 | 92,804 | 283,084 | 280,271 |
| Total expenses | 69,069 | 69,248 | 218,280 | 215,831 |
| Net income | 19,701 | 16,577 | 52,826 | 45,582 |
| Diluted earnings per common share | $1.02 | $0.86 | $2.74 | $2.37 |
| Other Key Measures | | | | |
| Net combined ratio (1) | 81.1 % | 81.4 % | 83.5 % | 83.5 % |
| Return on average equity (2) | 17.4 % | 13.6 % | 15.9 % | 12.8 % |
| Book value per share (3) | $23.82 | $25.72 | $23.82 | $25.72 |

(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, 2018 Compared to September 30, 2017

Gross Premiums Written. Gross premiums written for the quarter ended September 30, 2018 were $85.3 million, compared to $87.0 million for the same period in 2017, a decrease of 2.0%. The decrease was attributable to a $1.0 million decrease in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $0.5 million decrease in assumed premium from mandatory pooling arrangements.  The effective loss cost multiplier, or ELCM, for our voluntary business was 1.65 for the third quarter ended September 30, 2018 compared to 1.69 for the same period in 2017.

Net Premiums Written. Net premiums written for the quarter ended September 30, 2018 were $83.0 million, compared to $85.0 million for the same period in 2017, a decrease of 2.4%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 2.6% for the third quarter of 2018 compared to 2.3% for the same period in 2017.  The increase in ceded premiums as a percentage of gross premiums earned reflects a $0.3 million decrease in the third quarter of 2017 resulting from a prior period accrual adjustment.  For additional information, see Item 1, "Business—Reinsurance" in our Annual Report on Form 10-K for the year ended December 31, 2017.

Net Premiums Earned. Net premiums earned for the third quarter of 2018 were $85.2 million, compared to $85.1 million for the same period in 2017, an increase of 0.1%. The increase was attributable to earned premium on policies written in previous quarters.

Net Investment Income. Net investment income for the quarter ended September 30, 2018 was $7.9 million, compared to $7.8 million for the same period in 2017, an increase of 1.2%. The increase was due to slightly higher investment yields on fixed-income securities. Average invested assets, including cash and cash equivalents, were $1.2 billion in the quarter ended September 30, 2018 and 2017. The pre-tax investment yield on our investment portfolio was 2.6% per annum during the quarter ended September 30, 2018 and 2017. The tax-equivalent yield on our investment portfolio was 3.0% per annum for the quarter ended September 30, 2018 and 3.2% for the same period in 2017. The tax-equivalent yield is calculated using the effective interest rate and the appropriate marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized losses on investments for the three months ended September 30, 2018 totaled $0.3 million compared to net realized losses of $0.2 million for the same period in 2017. Net realized losses in the third quarter of 2018 and 2017 were attributable to called fixed maturity securities.

Net Unrealized Gains (Losses) on Equity Securities. Net unrealized gains on equity securities for the three months ended September 30, 2018 were $0.6 million and represent the change in fair value recognized in net income as a result of the adoption of ASU 2016-01 as further discussed in Note 1 above.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses ("LAE") incurred totaled $47.6 million for the three months ended September 30, 2018, compared to $48.4 million for the same period in 2017, a decrease of $0.8 million, or 1.6%. The current accident year loss and LAE incurred were $60.9 million, or 71.5% of net premiums earned, compared to $58.7 million, or 69.0% of net premiums earned for the same period in 2017. We recorded favorable prior accident year development of $13.3 million in the third quarter of 2018, compared to favorable prior accident year development of $10.3 million in the same period of 2017, as further discussed below in "Prior Year Development." Our net loss ratio was 55.9% in the third quarter of 2018, compared to 56.9% for the same period of 2017.

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, 2018 were $20.6 million, compared to $19.3 million for the same period in 2017, an increase of 6.9%. This increase was primarily due to a $0.7 million increase in insurance related assessments, a $0.4 million increase in commission expense and a $0.2 million increase in accounts receivable write-offs.  Our expense ratio was 24.2% in the third quarter of 2018 compared to 22.7% in the third quarter of 2017.

Income Tax Expense. Income tax expense for the three months ended September 30, 2018 was $4.8 million, compared to $7.0 million for the same period in 2017. The decrease was attributable to the lower federal corporate income tax rate of 21% compared to 35% in the same period of 2017 offset by an increase in the pre-tax income to $24.5 million in the quarter ended September 30, 2018 from $23.6 million in the same period in 2017. The effective tax rate for the Company decreased to 19.5% in the quarter ended September 30, 2018 from 29.6% in the same period in 2017. The decrease in the effective tax rate resulted from the lower federal income tax rate offset by a slightly lower proportion of tax-exempt income to underwriting income in the quarter relative to the third quarter of 2017.

Consolidated Results of Operations for Nine Months Ended September 30, 2018 Compared to September 30, 2017

Gross Premiums Written. Gross premiums written for the first nine months of 2018 were $276.4 million, compared to $269.2 million for the same period in 2017, an increase of 2.7%. The increase was primarily attributable to a $6.5 million increase in premiums resulting from payroll audits and related premium adjustments for policies written in previous quarters and a $0.9 million increase in annual premiums on voluntary policies written during the period.  These increases were partially offset by a $5.8 million decrease in assumed premium from mandatory pooling arrangements.  The ELCM for our voluntary business was 1.65 for the nine months ended September 30, 2018 compared to 1.67 for the same period in 2017.

Net Premiums Written. Net premiums written for the nine months ended September 30, 2018 were $269.4 million, compared to $262.6 million for the same period in 2017, an increase of 2.6%. The increase was primarily attributable to the increase in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 2.6% for the first nine months of 2018 compared to 2.5% for the same period in 2017.  The increase in ceded premiums as a percentage of gross premiums earned reflects a decrease of $0.3 million of ceded premiums in 2017 resulting from a prior period accrual adjustment.  For additional information, see Item 1, "Business—Reinsurance" in our Annual Report on Form 10-K for the year ended December 31, 2017.

Net Premiums Earned. Net premiums earned for the first nine months of 2018 were $261.5 million, compared to $258.8 million for the same period in 2017, an increase of 1.0%. The increase was attributable to the increase in net premiums written during the period.

Net Investment Income. Net investment income for the first nine months of 2018 was $22.4 million, compared to $22.0 million for the same period in 2017, an increase of 1.9%. The increase was due to slightly higher investment yields on fixed-income securities. Average invested assets, including cash and cash equivalents were $1.2 billion in the nine months ended September 30, 2018 and 2017. The pre-tax investment yield on our investment portfolio was 2.5% per annum during the nine months ended September 30, 2018 and 2017. The tax-equivalent yield on our investment portfolio was 3.0% per annum for the first nine months of 2018 compared to 3.2% in the same period in 2017. The tax-equivalent yield is calculated using the effective interest rate and the appropriate marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized losses on investments for the nine months ended September 30, 2018 totaled $1.5 million, compared to net realized losses of $0.8 million for the same period in 2017. Net realized losses in the first nine months of 2018 were attributable to the sale of equity and fixed maturity securities classified as available-for-sale and called fixed maturity securities. Net realized losses in the first nine months of 2017 were attributable to called fixed maturity securities.

Net Unrealized Gains (Losses) on Equity Securities. Net unrealized gains on equity securities for the nine months ended September 30, 2018 were $0.3 million and represent the change in fair value recognized in net income as a result of the adoption of ASU 2016-01 as further discussed in Note 1 above.

Loss and Loss Adjustment Expenses Incurred. Loss and LAE incurred totaled $152.8 million for the nine months ended September 30, 2018, compared to $151.0 million for the same period in 2017, an increase of $1.8 million, or 1.2%. The current accident year loss and LAE incurred were $187.0 million, or 71.5% of net premiums earned, compared to $178.6 million, or 69.0% of net premiums earned, for the same period in 2017. We recorded favorable prior accident year development of $34.1 million in the first nine months of 2018, compared to favorable prior accident year development of $27.5 million in the same period of 2017, as further discussed below in "Prior Year Development." Our net loss ratio was 58.4% in the first nine months of both 2018 and 2017.

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, 2018 were $62.2 million, compared to $60.7 million for the same period in 2017, an increase of 2.4%. This increase was primarily due to a $1.4 million increase in premium taxes and a $1.1 million increase in commission expense. Offsetting these increases were a $1.0 million decrease in insurance related assessments and a $0.4 million decrease in accounts receivable write-offs. Our expense ratio was 23.8% in the first nine months of 2018 compared to 23.5% in the same period of 2017.

Income Tax Expense. Income tax expense for the nine months ended September 30, 2018 was $12.0 million, compared to $18.9 million for the same period in 2017. The decrease was attributable to the lower federal corporate income tax rate of 21% compared to 35% in the same period of 2017 offset by an increase in pre-tax income to $64.8 million in the first nine months of 2018 from $64.4 million in the first nine months of 2017. The effective tax rate for the Company decreased to 18.5% for the nine months ended September 30, 2018 from 29.3% for the nine months ended September 30, 2017. The decrease in the effective tax rate resulted largely from the lower federal income tax rate offset by a slightly lower proportion of tax-exempt income to underwriting income for the nine months ended September 30, 2018 compared with the nine months ended September 30, 2017.

Liquidity and Capital Resources

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

Net cash provided by operating activities was $70.7 million for the nine months ended September 30, 2018, which represented a $31.6 million decrease from $102.3 million in net cash provided by operating activities for the nine months ended September 30, 2017. This decrease in operating cash flow was attributable to a $35.7 million increase in the change in amounts held by others, a $12.7 million increase in losses paid, a $2.2 million decrease in investment income and a $1.2 million increase in dividends paid to policyholders. Offsetting these amounts were a $13.0 million decrease in federal taxes paid, a $5.3 million increase in premium collections and a $2.0 million decrease in underwriting expenses paid. In the prior year, the Company recorded the return of an appeal bond of $26.8 million which resulted in increased cash flow from operations during that period.

Net cash used in investing activities was $80.1 million for the nine months ended September 30, 2018, compared to net cash used in investment activities of $69.2 million for the same period in 2017. Cash provided by sales and maturities of investments totaled $213.8 million for the nine months ended September 30, 2018, compared to $212.6 million for the same period in 2017. A total of $293.0 million in cash was used to purchase investments in the nine months ended September 30, 2018, compared to $290.4 million in purchases for the same period in 2017.

Net cash used in financing activities in the nine months ended September 30, 2018 was $12.9 million compared to net cash used in financing activities of $11.6 million for the same period in 2017. In the nine months ended September 30, 2018, $12.9 million of cash was used for dividends paid to shareholders compared to $11.6 million in the same period of 2017.

Investment Portfolio

Our investment portfolio, including cash and cash equivalents, totaled $1.2 billion at September 30, 2018 and December 31, 2017. Purchases of fixed maturity securities are classified as available-for-sale or held-to-maturity at the time of purchase based on the individual security. 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, 2018, is shown in the following table:

| | Carrying Value | Percentage of Portfolio | |
|---|---|---|---|
| | (in thousands) | | |
| Fixed maturity securities—held-to-maturity: | | | |
| States and political subdivisions | $430,408 | 35.2 | % |
| Corporate bonds | 95,731 | 7.8 | % |
| U.S. agency-based mortgage-backed securities | 8,535 | 0.7 | % |
| U.S. Treasury securities and obligations of U.S. government agencies | 67,052 | 5.5 | % |
| Asset-backed securities | 1,104 | 0.1 | % |
| Total fixed maturity securities—held-to-maturity | 602,830 | 49.3 | % |
| Fixed maturity securities—available-for-sale: | | | |
| States and political subdivisions | 227,487 | 18.6 | % |
| Corporate bonds | 162,948 | 13.3 | % |
| U.S. agency-based mortgage-backed securities | 12,780 | 1.0 | % |
| U.S. Treasury securities and obligations of U.S. government agencies | 64,804 | 5.3 | % |
| Total fixed maturity securities—available-for-sale | 468,019 | 38.2 | % |
| Equity securities | 14,791 | 1.2 | % |
| Short-term investments | 104,896 | 8.6 | % |
| Cash and cash equivalents | 33,324 | 2.7 | % |
| Total investments, including cash and cash equivalents | $1,223,860 | 100.0 | % |

Our debt 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 (Loss), 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.  Beginning January 1, 2018, the change in fair value of our equity investments is presented as a component of net income.

During the three and nine months ended September 30, 2018 and 2017, there were no impairment losses recognized for other-than-temporary declines in the fair value of our investments.

Prior Year Development

The Company recorded favorable prior accident year development of $13.3 million in the three months ended September 30, 2018. The table below sets forth the favorable development for the three and nine months ended September 30, 2018 and 2017 for accident years 2013 through 2017 and, collectively, for all accident years prior to 2013.

| | Three Months Ended | Nine Months Ended September 30, |
|---|---|---|

| | September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (in millions) | | | |
| Accident Year | | | | |
| 2017 | $— | $— | $— | $— |
| 2016 | 2.4 | — | 5.6 | — |
| 2015 | 4.9 | 3.4 | 14.3 | 7.8 |
| 2014 | 3.1 | 3.0 | 7.4 | 10.5 |
| 2013 | 1.7 | 1.3 | 3.3 | 5.2 |
| Prior to 2013 | 1.2 | 2.6 | 3.5 | 4.0 |
| Total net development | $ 13.3 | $ 10.3 | $ 34.1 | $ 27.5 |

The table below sets forth the number of open claims as of September 30, 2018 and 2017, 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, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Open claims at beginning of period | 5,022 | 4,841 | 4,982 | 5,195 |
| Claims reported | 1,536 | 1,428 | 4,181 | 3,904 |
| Claims closed | (1,273) | (1,190) | (3,878) | (4,020) |
| Open claims at end of period | 5,285 | 5,079 | 5,285 | 5,079 |

The number of open claims at September 30, 2018 increased by 206 claims as compared to the number of open claims at September 30, 2017. At September 30, 2018, our incurred amounts for certain accident years, particularly 2016, 2015 and 2014, developed more favorably than management previously expected. The revisions to the Company's reserves reflect new information gained by claims adjusters in the normal course of adjusting claims and is reflected in the financial statements when the information becomes available. It is typical for more serious claims to take several years or longer to settle and the Company continually revises estimates as more information about claimants' medical conditions and potential disability becomes known and the claims get closer to being settled.  Multiple factors can cause both favorable and unfavorable loss development. The favorable loss development we experienced across accident years was largely due to favorable case reserve development from closed claims and claims where the worker had reached maximum medical improvement.

The assumptions we used in establishing our reserves were based on our historical claims data. However, as of September 30, 2018, actual results for certain 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, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Since December 31, 2017, 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, 2017.

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Item 4. Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information we are required to disclose in reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms specified by the SEC. We note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

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

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

PART II—OTHER INFORMATION

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

The Board of Directors initially authorized the Company's share repurchase program in February 2010. In October 2016, the Board reauthorized this program with no expiration date. As of September 30, 2018, we had repurchased a total of 1,258,250 shares of our outstanding common stock for $22.4 million.  The Company had $25.0 million available for future purchases at September 30, 2018 under this program.  There were no shares repurchased during the nine months ended September 30, 2018 and 2017. The purchases may be effected 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.

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 |

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 26, 2018 | /s/ G. Janelle Frost<br>G. Janelle Frost<br>President, Chief Executive Officer and Director<br>(Principal Executive Officer) |
| October 26, 2018 | /s/ Neal A. Fuller<br>Neal A. Fuller<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) |