

AMERISAFE INC
Form 10-Q
May 03, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

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

Commission File Number:

001-12251

AMERISAFE, INC.

(Exact Name of Registrant as Specified in Its Charter)

Texas
(State of Incorporation)

75-2069407
(I.R.S. Employer Identification Number)

2301 Highway 190 West, DeRidder, Louisiana 70634
(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

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

Trading

Title of each class	Symbol(s)	Name of each exchange on which registered
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Common	AMSF	NASDAQ
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As of April 30, 2019, there were 19,274,980 shares of the Registrant’s common stock, par value \$0.01 per share, outstanding.

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FORWARD-LOOKING STATEMENTS

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

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

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements in this report, including under the caption “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AMERISAFE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

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

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

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

(unaudited)

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

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

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

See accompanying notes.

AMERISAFE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except share data)

(unaudited)

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

See accompanying notes.

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AMERISAFE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

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

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

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AMERISAFE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1. Basis of Presentation

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

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

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

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the financial position, the results of operations and cash flows for the periods presented. The unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q under the Securities Exchange Act of 1934 and therefore do not include all information and footnotes to be in conformity with accounting principles generally accepted in the United States (“GAAP”). The results for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited consolidated financial statements contained herein should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenues and expenses and related disclosures. Some of the estimates result from judgments that can be subjective and complex and, consequently, actual results in future periods might differ from these estimates.

Adopted Accounting Guidance

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

Prospective Accounting Guidance

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

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

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

Note 2. Stock Options and Restricted Stock

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

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

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

Note 3. Earnings Per Share

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

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

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

Three Months Ended

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

Note 4. Investments

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

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

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

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

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

Cost	Gross	Gross	Fair
	Unrealized	Unrealized	Value

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(in thousands)

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

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

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

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

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

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

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

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

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

Note 5. Income Taxes

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

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

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

Note 6. Loss Reserves

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

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

	Three Months Ended March 31,	
	2019	2018
	(in thousands)	
Balance, beginning of period	\$798,409	\$771,845
Less amounts recoverable from reinsurers		
on unpaid loss and loss adjustment expenses	107,216	84,889
Net balance, beginning of period	691,193	686,956
Add incurred related to:		
Current accident year	61,587	62,426
Prior accident years	(11,974)	(9,264)
Total incurred	49,613	53,162
Less paid related to:		
Current accident year	3,381	4,686
Prior accident years	43,180	47,354
Total paid	46,561	52,040
Net balance, end of period	694,245	688,078
Add amounts recoverable from reinsurers		
on unpaid loss and loss adjustment expenses	106,335	89,220
Balance, end of period	\$800,580	\$777,298

The foregoing reconciliation reflects favorable development of the net reserves at March 31, 2019 and March 31, 2018. The favorable development reduced loss and loss adjustment expenses incurred by \$12.0 million and \$9.3 million in 2019 and 2018, 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 \$25.2 million for the three months ended March 31, 2019, compared to \$10.3 million for the three months ended March 31, 2018. 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 and in 2019, due to a change in the deferred tax asset valuation allowance of \$0.2 million.

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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 statements of comprehensive income, we used a 21 percent tax rate in 2019 and 2018. 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 March 31, 2019 2018 (in thousands)	
Beginning balance	\$(832)	\$3,612
Other comprehensive income (loss) before		
reclassification	5,981	(5,634)
Amounts reclassified from accumulated other		
comprehensive income	11	(214)
Change in deferred tax valuation allowance	(198)	—
Net current period other comprehensive		
income (loss)	5,794	(5,848)
Ending balance	\$4,962	\$(2,236)

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	Three Months Ended March 31, 2019 2018 (in thousands)	Affected line item in the statement of income
Income		
Unrealized gains (losses) on available-for- sale securities	\$(14) \$17	Net realized gains (losses) on investments
	(14) 17	Income before income taxes
	3 (57)	Income tax expense

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 three months ended March 31, 2019.

At March 31, 2019, assets measured at fair value on a recurring basis are summarized below:

	March 31, 2019			Total
	Level 1	Level 2	Level 3	Fair
	Inputs	Inputs	Inputs	Value
	(in thousands)			
Financial instruments carried at fair value, classified as a part of:				
Securities available-for-sale—fixed maturity:				
States and political subdivisions	\$—	\$227,064	\$ —	\$227,064
Corporate bonds	—	171,623	—	171,623
U.S. agency-based mortgage-backed securities	—	12,282	—	12,282

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U.S. Treasury securities	60,285	—	—	60,285
Total securities available-for-sale—fixed maturity	60,285	410,969	—	471,254
Equity securities:				
Domestic common stock	21,615	—	—	21,615
Total	\$81,900	\$410,969	\$ —	\$492,869

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At March 31, 2019, assets measured at amortized cost are summarized below:

	March 31, 2019			Total Fair Value
	Level 1	Level 2	Level 3	
	Inputs	Inputs	Inputs	Value
	(in thousands)			
Securities held-to-maturity—fixed maturity:				
States and political subdivisions	\$—	\$441,473	\$ —	\$441,473
Corporate bonds	—	103,139	—	103,139
U.S. agency-based mortgage-backed securities	—	10,164	—	10,164
U.S. Treasury securities	8,325	—	—	8,325
Obligations of U.S. government agencies	—	51,097	—	51,097
Asset-backed securities	—	1,019	—	1,019
Total held-to-maturity	\$8,325	\$606,892	\$ —	\$615,217

At December 31, 2018, assets measured at fair value on a recurring basis are summarized below:

	December 31, 2018			Total Fair Value
	Level 1	Level 2	Level 3	
	Inputs	Inputs	Inputs	Value
	(in thousands)			
Financial instruments carried at fair value, classified as part of:				
Securities available-for-sale—fixed maturity:				
States and political subdivisions	\$—	\$233,245	\$ —	\$233,245
Corporate bonds	—	173,214	—	173,214
U.S. agency-based mortgage-backed securities	—	12,515	—	12,515
U.S. Treasury securities and obligations				
of U.S. government agencies	59,756	—	—	59,756
Total securities available-for-sale—fixed maturity	\$59,756	\$418,974	\$ —	\$478,730
Equity securities:				
Domestic common stock	18,651	—	—	18,651
Total	\$78,407	\$418,974	\$ —	\$497,381

At December 31, 2018, assets measured at amortized cost are summarized below:

December 31, 2018

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	Level 1	Level 2	Level 3	Total Fair
	Inputs	Inputs	Inputs	Value
	(in thousands)			
Securities held-to-maturity—fixed maturity:				
States and political subdivisions	\$—	\$448,947	\$—	\$448,947
Corporate bonds	—	91,369	—	91,369
U.S. agency-based mortgage-backed securities	—	8,349	—	8,349
U.S. Treasury securities	7,111	—	—	7,111
Obligations of U.S. government agencies	—	59,932	—	59,932
Asset-backed securities	—	1,064	—	1,064
Total held-to-maturity	\$7,111	\$609,661	\$—	\$616,772

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.

At March 31, 2019, 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 using level 2 inputs and had an adjusted amortized cost of \$11,000 at March 31, 2019. The security was valued at fair value at the time of impairment and is currently being carried at the adjusted amortized cost. The fair value of the security is \$31,000 at March 31, 2019.

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 March 31, 2019		As of December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Assets:				
Fixed maturity securities—held-to-maturity	\$604,056	\$615,217	\$613,878	\$616,772
Fixed maturity securities—available-for-sale	471,254	471,254	478,730	478,730
Equity securities	21,615	21,615	18,651	18,651
Short-term investments	64,708	64,708	14,231	14,231
Cash and cash equivalents	34,895	34,895	40,344	40,344

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 three months ended March 31, 2019 and 2018.

Note 10. Leases

The Company has operating and finance leases for office space and equipment. Our leases have remaining lease terms of 5 months to 58 months, some of which include options to extend the leases for up to 5 years. The Company, in determining the present value of lease payments, utilizes either the rate implicit in the lease if that rate is readily determinable or the Company's incremental secured borrowing rate commensurate with the term of the underlying lease.

Supplemental balance sheet information related to leases is as follows:

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	March 31, 2019 (in thousands)	Balance Sheet Classification
Operating leases:		
Operating lease right-of-use assets	\$ 539	Other assets
Operating lease liabilities	\$ 539	Accounts payable and other liabilities
Finance leases:		
Finance lease right-of-use assets	\$ 185	
Finance lease accumulated amortization		
right-of-use assets	(133)	
Property and equipment, net	\$ 52	Property and equipment, net
Finance lease liabilities	\$ 90	Accounts payable and other liabilities

Note 11. Subsequent Events

On April 29, 2019, the Company's Board of Directors declared a quarterly cash dividend of \$0.25 per share payable on June 21, 2019 to shareholders of record as of June 7, 2019. The Board considers 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 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, 2018.

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 months ended March 31, 2019 and 2018. 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 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, 2018.

Results of Operations

The following table summarizes our consolidated financial results for the three months ended March 31, 2019 and 2018.

	Three Months Ended March 31, 2019 2018 (dollars in thousands, except per share data) (unaudited)	
Gross premiums written	\$93,107	\$97,342
Net premiums earned	84,948	87,310
Net investment income	8,015	7,209
Total revenues	95,190	94,175
Total expenses	71,381	74,761
Net income	19,400	16,169
Diluted earnings per common share	\$1.01	\$0.84
Other Key Measures		
Net combined ratio (1)	84.0 %	85.6 %
Return on average equity (2)	18.5 %	15.1 %
Book value per share (3)	\$22.33	\$22.43

(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 March 31, 2019 Compared to March 31, 2018

Gross Premiums Written. Gross premiums written for the quarter ended March 31, 2019 were \$93.1 million, compared to \$97.3 million for the same period in 2018, a decrease of 4.4%. The decrease was attributable to a \$5.2 million decrease in annual premiums on voluntary policies written during the period and a \$0.2 million decrease in assumed premium from mandatory pooling arrangements. The effective loss cost multiplier, or ELCM, for our voluntary business was 1.59 for the first quarter ended March 31, 2019 compared to 1.63 for the same period in 2018.

Net Premiums Written. Net premiums written for the quarter ended March 31, 2019 were \$90.7 million, compared to \$95.0 million for the same period in 2018, a decrease of 4.6%. The decrease was primarily attributable to the decrease in gross premiums written. As a percentage of gross premiums earned, ceded premiums were 2.8% for the first quarter of 2019 compared to 2.6% for the same period in 2018. The increase in ceded premiums as a percentage of gross premiums earned reflects additional ceded premium of \$0.2 million resulting from a sunset clause charge. For additional information, see Item 1, "Business—Reinsurance" in our Annual Report on Form 10-K for the year ended December 31, 2018.

Net Premiums Earned. Net premiums earned for the first quarter of 2019 were \$84.9 million, compared to \$87.3 million for the same period in 2018, a decrease of 2.7%. The decrease was attributable to the decrease in net premiums written during the period.

Net Investment Income. Net investment income for the quarter ended March 31, 2019 was \$8.0 million, compared to \$7.2 million for the same period in 2018, an increase of 11.2%. 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 March 31, 2019 and 2018. The pre-tax investment yield on our investment portfolio was 2.7% per annum during the quarter ended March 31, 2019 compared to 2.4% per annum during the same period in 2018. The tax-equivalent yield on our investment portfolio was 3.1% per annum for the quarter ended March 31, 2019 and 2.9% for the same period in 2018. The tax-equivalent yield is calculated using the effective interest rate and the appropriate marginal tax rate.

Net Realized Gains (Losses) on Investments. Net realized gains on investments for the three months ended March 31, 2019 totaled \$0.1 million compared to minimal net realized losses for the same period in 2018. Net realized gains in the first quarter of 2019 were attributable to the sale of fixed maturity securities.

Net Unrealized Gains (Losses) on Equity Securities. Net unrealized gains on equity securities for the three months ended March 31, 2019 were \$2.2 million compared to net unrealized losses of \$0.4 million for the same period in 2018.

Loss and Loss Adjustment Expenses Incurred. Loss and loss adjustment expenses (“LAE”) incurred totaled \$49.6 million for the three months ended March 31, 2019, compared to \$53.2 million for the same period in 2018, a decrease of \$3.5 million, or 6.7%. The current accident year loss and LAE incurred were \$61.6 million, or 72.5% of net premiums earned, compared to \$62.4 million, or 71.5% of net premiums earned for the same period in 2018. We recorded favorable prior accident year development of \$12.0 million in the first quarter of 2019, compared to favorable prior accident year development of \$9.3 million in the same period of 2018, as further discussed below in “Prior Year Development.” Our net loss ratio was 58.4% in the first quarter of 2019, compared to 60.9% for the same period of 2018.

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 March 31, 2019 were \$20.7 million, compared to \$20.3 million for the same period in 2018, an increase of 2.0%. This increase was primarily due to a \$0.8 million increase in compensation expense due to higher estimates of variable share price based incentive compensation costs compared with the first quarter of 2018, a \$0.2 million increase in insurance related assessments, and a \$0.2 million increase in accounts receivable write-offs. The increases were offset by a \$0.2 million decrease in premium taxes, and a \$0.2 million increase in contingent profit commission. Our expense ratio was 24.3% in the first quarter of 2019 compared to 23.2% in the first quarter of 2018.

Income Tax Expense. Income tax expense for the three months ended March 31, 2019 was \$4.4 million, compared to \$3.2 million for the same period in 2018. The increase was attributable to an increase in the pre-tax income to \$23.8 million in the quarter ended March 31, 2019 from \$19.4 million in the same period in 2018. The effective tax rate for the Company increased to 18.5% in the quarter ended March 31, 2019 from 16.7% in the same period in 2018. The increase in the effective tax rate is due to a lower proportion of tax-exempt income to underwriting income in the quarter relative to the first quarter of 2018 and an increase of \$0.2 million for the change in valuation allowance for deferred tax assets.

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 \$20.3 million for the three months ended March 31, 2019, which represented a \$7.6 million increase from \$12.7 million in net cash provided by operating activities for the three months ended March 31, 2018. This increase in operating cash flow was attributable to a \$7.9 million decrease in the change in amounts held by others and a \$5.5 million decrease in loss and loss adjustment expenses paid. Offsetting these amounts were a \$4.0 million decrease in premiums collected, a \$0.8 million increase in dividends paid to policyholders, a \$0.5 million increase in underwriting and other operating expenses paid, and a \$0.3 million increase in federal income taxes paid.

Net cash used in investing activities was \$20.8 million for the three months ended March 31, 2019, compared to net cash used in investment activities of \$27.9 million for the same period in 2018. Cash provided by sales and maturities of investments totaled \$80.9 million for the three months ended March 31, 2019, compared to \$48.1 million for the same period in 2018. A total of \$101.7 million in cash was used to purchase investments in the three months ended March 31, 2019, compared to \$75.1 million in purchases for the same period in 2018.

Net cash used in financing activities in the three months ended March 31, 2019 was \$4.9 million compared to net cash used in financing activities of \$4.3 million for the same period in 2018. In the three months ended March 31, 2019, \$4.9 million of cash was used for dividends paid to shareholders compared to \$4.4 million in the same period of 2018.

Investment Portfolio

Our investment portfolio, including cash and cash equivalents, totaled \$1.2 billion at March 31, 2019 and December 31, 2018. 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.

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The composition of our investment portfolio, including cash and cash equivalents, as of March 31, 2019, is shown in the following table:

	Carrying Value (in thousands)	Percentage of Portfolio	
Fixed maturity securities—held-to-maturity:			
States and political subdivisions	\$431,247	36.0	%
Corporate bonds	102,774	8.6	%
U.S. agency-based mortgage-backed securities	9,824	0.8	%
U.S. Treasury securities and obligations of			
U.S. government agencies	59,210	5.0	%
Asset-backed securities	1,001	0.1	%
Total fixed maturity securities—held-to-maturity	604,056	50.5	%
Fixed maturity securities—available-for-sale:			
States and political subdivisions	227,064	19.0	%
Corporate bonds	171,623	14.4	%
U.S. agency-based mortgage-backed securities	12,282	1.0	%
U.S. Treasury securities and obligations of			
U.S. government agencies	60,285	5.0	%
Total fixed maturity securities—available-for-sale	471,254	39.4	%
Equity securities	21,615	1.8	%
Short-term investments	64,708	5.4	%
Cash and cash equivalents	34,895	2.9	%
Total investments, including cash and cash equivalents	\$1,196,528	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. The change in fair value of our equity investments is presented as a component of net income.

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

Prior Year Development

The Company recorded favorable prior accident year development of \$12.0 million in the three months ended March 31, 2019. The table below sets forth the favorable development for the three months ended March 31, 2019 and 2018 for accident years 2014 through 2018 and, collectively, for all accident years prior to 2014.

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Three
Months
Ended
March 31,
2019 2018
(in
millions)

Accident Year

2018	\$ —	\$ —
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