

AMERICAN SAFETY INSURANCE GROUP LTD
Form 10-Q
May 15, 2002

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 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, 2002

Commission File Number 1-14795

AMERICAN SAFETY INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda
(State or other
jurisdiction
of incorporation)

Not Applicable
(I.R.S. Employer
Identification
No.)

44 Church Street
P.O. Box HM2064
Hamilton HM HX, Bermuda
(Address, zip code of principal executive offices)

(441) 296-8560
(Registrant's telephone number, including area code)

Indicate by check mark whether 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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No___

The aggregate number of shares outstanding of Registrant's common stock, \$.01 par value, on May 13, 2002 was 4,738,217.

FORM 10-Q

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.....	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	17
Item 3. Quantitative and Qualitative Disclosures About Market Risks.....	26

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.....	27
Item 2. Changes in Securities and Use of Proceeds.....	27
Item 3. Defaults Upon Senior Securities.....	27

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Item 4.	Submission of Matters to a Vote of Security Holders.....	27
Item 5.	Other Information.....	27
Item 6.	Exhibits and Reports on Form 8-K.....	27

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2001	March 31, 2002 (unaudited)
Assets		
Investments:		
Securities available for sale, at fair value:		
Fixed maturities	\$61,836,101	\$62,962,539
Investment in real estate	37,662,600	32,461,267
Short-term investments	<u>21,742,272</u>	<u>18,179,392</u>
Total investments	121,240,973	113,603,198
Cash	1,302,842	734,995
Restricted cash	9,010,489	8,289,317
Accrued investment income	2,424,551	2,281,370
Notes receivable - other	8,081,899	7,982,249
Premiums receivable	25,783,225	29,664,363
Ceded unearned premium	19,161,319	20,194,394
Reinsurance recoverable	87,173,021	97,049,029
Funds on deposit	312,717	117,403
Due from affiliate	1,108,520	2,827,371
Income tax recoverable	1,614,940	1,056,679
Deferred income taxes	7,415,033	7,232,566
Deferred acquisition costs	5,781,810	6,583,660
Property, plant and equipment	2,046,332	2,094,133
Prepaid items	1,480,078	1,919,925
Goodwill	1,466,629	1,466,629
Other assets	<u>1,857,239</u>	<u>2,749,387</u>
Total assets	\$297,261,617	\$305,846,668
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	121,423,039	133,016,708
Unearned premiums	53,205,500	54,895,615
Reinsurance on paid losses and loss adjustment expenses	2,081,845	-
Ceded premiums payable	14,224,460	18,202,177
Due to affiliate:		
Ceded premiums payable	-	1,049,240
Reinsurance on paid losses and loss adjustment expenses	-	590,867
Escrow deposits	11,718,824	10,396,626
Accounts payable and accrued expenses	13,459,422	13,101,948
Funds held	1,433,648	725,311
Loan payable	16,403,135	9,138,588
Collateral held	821,302	1,042,739

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Deferred Revenue	2,185,104	2,928,328
Unearned loan fees	<u>325,000</u>	<u>325,000</u>
Total liabilities	<u>237,281,279</u>	<u>245,413,147</u>

-1-

	December 31, 2001	March 31, 2002 (unaudited)
Shareholders' equity:		
Preferred stock, \$0.01 par value; authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, \$0.01 par value; authorized 15,000,000 shares; issued and outstanding at December 31, 2001, 6,287,266 shares, and at March 31, 2002, 6,339,356 shares	62,873	63,393
Additional paid-in capital	35,206,614	35,516,588
Retained earnings	33,416,851	34,898,622
Accumulated other comprehensive income (loss), net	834,974	(392,367)
Treasury stock, 1,589,239 shares at December 31, 2001, and 1,601,139 shares at March 31, 2002	<u>(9,540,974)</u>	<u>(9,652,715)</u>
Total shareholders' equity	<u>59,980,338</u>	<u>60,433,521</u>
Total liabilities and shareholders' equity	<u>\$297,261,617</u> =====	<u>\$305,846,668</u> =====

See accompanying notes to consolidated financial statements (unaudited).

-2-

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Earnings

(Unaudited)

	Three Months Ended March 31,	
	<u>2001</u>	<u>2002</u>
Revenues:		
Direct premiums earned	\$ 23,007,062	\$ 29,857,907
Assumed premiums earned:		
Affiliate	2,462,812	2,987,619
Nonaffiliates	<u>3,759,342</u>	<u>1,248,272</u>
Total assumed premiums earned	<u>6,222,154</u>	<u>4,235,891</u>
Ceded premiums earned:		
Affiliate	1,377,007	740,052
Nonaffiliates	<u>14,483,191</u>	<u>18,754,509</u>
Total ceded premiums earned	<u>15,860,198</u>	<u>19,494,561</u>
Net premiums earned	<u>13,369,018</u>	<u>14,599,237</u>
Net investment income	857,512	975,557
Interest on notes receivable	275,932	-
Brokerage commission income	490,943	65,126

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Management fees from affiliate	363,805	417,427
Net realized gains	239,519	82,247
Real estate income	-	19,038,740
Other income	<u>659,859</u>	<u>51,807</u>
Total revenues	<u>16,256,588</u>	<u>35,230,141</u>
Expenses:		
Losses and loss adjustment expenses incurred	8,097,967	8,969,141
Acquisition expenses	3,105,728	3,098,297
Payroll and related expenses	2,086,937	2,101,748
Real estate expenses	385,930	16,695,328
Other expenses	<u>1,278,859</u>	<u>1,346,337</u>
Total expenses	<u>14,955,421</u>	<u>32,210,851</u>
Earnings before income taxes	1,301,167	3,019,290
Income taxes	<u>39,391</u>	<u>973,759</u>
Net earnings	<u>\$1,261,776</u>	<u>\$2,045,531</u>
	=====	=====
Net earnings per share:		
Basic	<u>\$ 0.26</u>	<u>\$ 0.43</u>
Diluted	<u>\$ 0.25</u>	<u>\$ 0.42</u>
Common shares used in computing earnings per share:		
Basic	4,882,375	4,704,505
	=====	=====
Diluted	4,962,112	4,863,370
	=====	=====

See accompanying notes to consolidated financial statements (unaudited).

-3-

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Cash Flow

(Unaudited)

	Three Months March 31, 2001
Cash flow from operating activities:	
Net earnings	\$1,261,776
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Realized gains/losses on sale of investments	(239,519)
Amortization of deferred acquisition costs	(1,771,849)
Change in:	
Accrued investment and interest income	(523,078)
Premiums receivable	2,753,248
Commissions receivable	(26,033)
Reinsurance recoverable and ceded unearned premiums	(5,331,637)
Unearned loan fees	(81,250)
Funds held by reinsured	(180,681)
Due from affiliate	(2,363,549)
Funds on Deposit	(386,072)
Income taxes	152,374
Unpaid losses and loss adjustment expenses	14,140,891

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Unearned premiums	7,739,246
Ceded premiums payable	(7,425,488)
Due to affiliate	(469,519)
Accounts payable and accrued expenses	311,194
Collateral	(477,520)
Prepaid items	(97,367)
Deferred revenue	-
Other, net	<u>93,310</u>
Net cash provided by operating activities	<u>7,078,477</u>
Cash flow from investing activities:	
Purchases of fixed maturities	(10,849,760)
Purchases of equity investments	(1,177,155)
Proceeds from maturity and redemption of fixed maturities	821,207
Proceeds from sale of fixed maturities	5,016,101
Proceeds from sale of equity investments	-
Decrease (increase) in investment in real estate	(6,714,492)
Increase in short-term investments	2,039,759
(Advances) repayment in notes receivable - other	(176,165)
Purchase of fixed assets, net	<u>(108,072)</u>
Net cash used in investing activities	<u>(11,148,577)</u>
Cash flow from financing activities:	
Purchase of treasury stock	(1,387,862)
Proceeds from issuance of common stock	-
Proceeds (repayment) from loan payable	4,818,529
Proceeds (repayment) from escrow deposits	<u>2,573,712</u>
Net cash provided by financing activities	<u>6,004,379</u>
Net increase (decrease) in cash	1,934,279
Cash at beginning of period	<u>9,901,784</u>
Cash at end of period	\$11,836,063
	=====

See accompanying notes to consolidated financial statements (unaudited).

-4-

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(Unaudited)

	Three Months E March 31,
	<u>2001</u>
Net earnings	\$ 1,261,776
Other comprehensive earnings (loss) before income taxes:	
Unrealized gains (losses) on securities available for sale	835,242
Reclassification adjustment for realized gains included in net earnings	<u>239,519</u>

Total other comprehensive earnings (loss) before taxes	595,723
Income tax expense (benefit) related to items of other comprehensive income	<u>113,351</u>
Other comprehensive earnings (loss) net of income taxes	<u>482,372</u>
Total comprehensive earnings	\$1,744,148 =====

See accompanying notes to consolidated financial statements (unaudited).

-5-

American Safety Insurance Group, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited interim consolidated financial statements of American Safety Insurance Group, Ltd. ("American Safety") and its subsidiaries (collectively, the "Company") are prepared in accordance with accounting principles generally accepted in the United States of America and, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the interim period presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, based on the best information available, in recording transactions resulting from business operations. The balance sheet amounts that involve a greater extent of accounting estimates and actuarial determinations subject to future changes are the Company's liabilities for unpaid losses and loss adjustment expenses. As additional information becomes available (or actual amounts are determinable), the recorded estimates may be revised and reflected in operating results. While management believes that the liability for unpaid losses and loss adjustment expenses is adequate to cover the ultimate liability, such estimates may be more or less than the amounts actually paid when claims are settled.

The results of operations for the three months ended March 31, 2002 may not be indicative of the results that may be expected for the full year ending December 31, 2002. These unaudited interim consolidated financial statements and notes should be read in conjunction with the financial statements and notes included in the audited consolidated financial statements of American Safety and its subsidiaries for the year ended December 31, 2001.

The unaudited interim consolidated financial statements include the accounts of American Safety and each of its subsidiaries. All significant intercompany balances have been eliminated. Certain items from prior periods have been reclassified to conform with the 2002 presentation.

-6-

Note 2 - Accounting Pronouncements

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June

30, 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

Statement 141 requires upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company is required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company is required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss is measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period. The Company adopted SFAS 142 effective January 1, 2002.

As of the date of adoption, the Company had unamortized goodwill in the amount of \$1.5 million, which will be subject to the transition provisions of Statement 141 and 142. Amortization expense related to goodwill was \$87,234 and \$0 for the year ended December 31, 2001 and the three months ended March 31, 2002, respectively. See Note 10 for additional information.

The FASB issued Statement No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations" in August 2001. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The standard is effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS 143 effective January 1, 2003, and does not expect the adoption of this statement to have any material impact on its consolidated financial statements.

The FASB issued Statement 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets" in October 2001. The FASB's new rules on asset impairment supersede FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and provide a single accounting model for long-lived assets to be disposed of. The standard is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years, with early application encouraged. The Corporation adopted SFAS 144 effective January 1, 2002 with no material impact on its consolidated financial statements.

-7-

Note 3 - Nature of Operations

The following is a description of certain risks facing the Company:

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which an insurer operates which will create additional expenses not anticipated by the insurer in pricing its products and beyond those recorded in the financial statements. Regulatory initiatives designed to reduce insurer profits or otherwise affecting the industry in which the Company operates, new legal theories or insurance company insolvencies through guaranty fund assessments, may create costs for the Company beyond those recorded in the financial statements. The Company attempts to mitigate this risk by writing insurance business in several states, thereby spreading this risk over a large geographic area.

Potential Risk of United States Taxation of Bermuda Operations. Under current Bermuda law, American Safety is not required to pay any taxes in Bermuda on either income or capital gains. American Safety has received an undertaking from the Minister of Finance in Bermuda that will exempt American Safety from taxation until the year 2016 in the event of any such taxes being imposed. The Company, exclusive of its United States subsidiaries, does not consider itself to be engaged in a trade or business in the United States and accordingly does not expect to be subject to direct United States income taxation. The Company's U.S. subsidiaries are subject to taxation in the United States.

Whether a foreign corporation is engaged in a United States trade or business or is carrying on an insurance business in the United States depends upon the level of activities conducted in the United States. If the activities of a foreign company are "continuous, regular, and considerable," the foreign company will be deemed to be engaged in a United States trade or business. Due to the fact that American Safety will continue to maintain an office in Bermuda and American Safety and its Bermuda insurance subsidiary's business is reinsuring contracts via treaty reinsurance agreements, which are all signed outside of the United States, American Safety does not consider itself to be engaged in a trade or business in the United States and, accordingly, does not expect to be subject to United States income taxes. This position is consistent with the position taken by various other entities that have the same operational structure as American Safety.

However, because the Internal Revenue Code of 1986, as amended, the Treasury Regulations and court decisions do not definitively identify activities that constitute being engaged in a United States trade or business, and because of the factual nature of the determination, there can be no assurance that the Internal Revenue Service will not contend that American Safety or its Bermuda insurance subsidiary are engaged in a United States trade or business. In general, if American Safety or its Bermuda insurance subsidiary are considered to be engaged in a United States trade or business, it would be subject to (i) United States Federal income tax on its taxable income that is effectively connected with a United States trade or business at graduated rates and (ii) the 30 percent branch profits tax on its effectively connected earnings and profits deemed repatriated from the United States.

-8-

Credit Risk is the risk that issuers of securities owned by the Company or secured notes receivable will default or that other parties, including reinsurers that have obligations to the insurer, will not pay or perform. The Company attempts to mitigate this risk by adhering to a conservative investment strategy, by obtaining sufficient collateral for secured note obligations and by maintaining sound reinsurance, credit and collection policies.

Interest Rate Risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. The Company attempts to mitigate this risk by attempting to match the maturities of its assets with the expected payouts of its liabilities.

Note 4 - Investments

The amortized cost and estimated fair values of investments at December 31, 2001 and March 31, 2002 are as follows:

	Amortized Cost	Gross unrealized gains	Gross unrealized losses
December 31, 2001:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$28,618,104	\$1,091,312	\$101,89
Corporate securities	24,157,207	380,283	146,96

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Mortgage-backed securities	<u>7,914,282</u>	<u>3,956</u>	<u>80,18</u>
Total fixed maturities	\$60,689,593	\$1,475,551	\$ 329,04
	=====	=====	=====

March 31, 2002:

Securities available for sale:

Fixed maturities:

U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$30,227,858	\$608,599	\$368,34
Corporate securities	25,766,366	96,458	618,64
Foreign Securities	599,361	-	22,50
Mortgage-backed securities	<u>6,847,319</u>	<u>12</u>	<u>173,93</u>
Total fixed maturities	\$63,440,904	\$705,069	\$1,183,43
	=====	=====	=====

Note 5 - Segment Information

Factors used to identify the Company's reportable segments:

The Company's United States and Bermuda operating segments were identified by management as separate operating segments based upon the regulatory environments of each of these countries. Significant differences exist under United States and Bermuda law concerning the regulation of insurance entities including differences in: types of permissible investments, minimum capital requirements, solvency monitoring, pricing, corporate taxation, etc.

-9-

(b) Products and services from each reportable segment:

The Company's United States and Bermuda operating segments, develop, underwrite, manage and market primary casualty insurance and reinsurance programs in the alternative insurance market for environmental remediation risks, contracting and other specialty risks. The Company has demonstrated expertise in developing specialty insurance coverages and custom designed risk management programs not generally available in the standard insurance market.

The Company is also involved in the development of the Harbour Village Golf and Yacht Club project in Ponce Inlet, Florida, as discussed in Note 7 and this item is reflected in the segment United States-Real Estate.

The United States operating segment's specialty insurance programs provide insurance and reinsurance for general, pollution and professional liability exposures, for workers' compensation and surety, as well as custom designed risk management programs for contractors, consultants and other business and property owners who are involved with environmental remediation, general construction and other specialty risks.

Through its United States brokerage and management services subsidiaries, the Company also provides specialized insurance program development, underwriting, risk and reinsurance placement, program management, brokerage, loss control, claims administration and marketing services. The Company also insures and places risks through its United States insurance subsidiary, as well as its non-subsidiary risk retention group affiliate and other unaffiliated insurance and reinsurance

companies.

Through its Bermuda operating segment, the Company places and reinsures a portion of the risks underwritten directly by its United States segment, its risk retention group affiliate and other insurers.

(c) Information about segment profit or loss and assets:

	Three Months Ended March 31,	
	<u>2001</u>	<u>2002</u>
United States - Insurance		
Net premiums earned - All other	\$12,726,831	\$14,539,334
Net premiums earned - Intersegment	(2,469,582)	(4,979,511)
Net investment income and interest on notes receivable	662,588	759,261
Real estate income	-	-
Other revenues	<u>1,735,852</u>	<u>530,264</u>
Total revenues	12,655,689	10,849,348

-10-

	Three Months Ended March 31,	
	<u>2001</u>	<u>2002</u>
Interest expense	-	37,500
Depreciation and amortization expense	62,182	54,006
Equity in net earnings of subsidiaries	-	-
Income taxes expense (benefit)	124,617	16,825
Segment profit/(loss)	213,393	225,120
Significant noncash items other than depreciation and amortization	-	-
Property, plant and equipment	732,046	910,569
Total investments	53,102,812	63,032,678
Total assets	168,489,730	246,603,956
Total policy and contract liabilities	106,754,585	180,963,239
Total liabilities	139,725,696	217,985,866

United States - Real Estate

Net premiums earned - All other	-	-
Net premiums earned - Intersegment	-	-
Net investment income and interest on notes receivable	-	-
Real estate income	-	19,040,187
Other revenues	<u>864</u>	<u>-</u>
Total revenues	864	19,040,187
Interest expense	-	-
Depreciation and amortization expense	14,493	28,059
Equity in net earnings of subsidiaries	-	-
Income taxes expense (benefit)	(85,226)	956,934
Segment profit/(loss)	(165,439)	1,386,478
Significant noncash items other than depreciation and amortization	-	-
Property, plant and equipment	311,769	349,397
Total investments	30,660,797	32,461,267
Total assets	36,497,204	38,987,419

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Total policy and contract liabilities	-	-
Total liabilities	27,335,385	26,463,319

Bermuda

Net premiums earned - All other	642,187	59,903
Net premiums earned - Intersegment	2,469,582	4,979,511
Net investment income and interest on notes receivable	470,856	216,296
Real estate income	-	-
Other revenues	<u>37,500</u>	<u>122,396</u>
Total revenues	3,620,125	5,378,106
Interest expense	-	-
Depreciation and amortization expense	-	5,000
Equity in net earnings of subsidiaries	47,954	1,611,598
Income taxes	-	-
Segment profit	1,213,822	433,933
Significant noncash items other than depreciation and amortization	-	-

-11-

	Three Months Ended March 31,	
	<u>2001</u>	<u>2002</u>
Property, plant and equipment	-	834,167
Total investments	62,911,219	70,568,385
Total assets	89,332,513	102,443,873
Total policy and contract liabilities	17,903,538	29,096,208
Total liabilities	19,245,358	30,693,414
Intersegment Eliminations		
Net premiums earned - All other	-	-
Net premiums earned - Intersegment	-	-
Net investment income and interest on notes receivable	-	-
Real estate income	-	-
Other revenues	<u>(20,090)</u>	<u>(37,500)</u>
Total revenues	(20,090)	(37,500)
Interest expense	-	(112,500)
Depreciation and amortization expense	-	-
Equity in net earnings (loss) of subsidiaries	(47,954)	(1,611,598)
Income taxes	-	-
Segment profit (loss)	-	-
Significant noncash items other than depreciation and amortization	-	-
Property, plant and equipment	-	-
Total investments	(49,853,577)	(52,459,132)
Total assets	(66,398,463)	(82,188,580)
Total policy and contract liabilities	(10,316,005)	(22,147,124)
Total liabilities	(16,544,886)	(29,729,452)

Total

Net premiums earned - All other	13,369,018	14,599,237
Net premiums earned - Intersegment	-	-
Net investment income and interest on notes receivable	1,133,444	975,557
Real estate income	-	19,040,187
Other revenues	<u>1,754,126</u>	<u>615,160</u>

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Total revenues	16,256,588	35,230,141
Interest expense	-	-
Depreciation and amortization expense	76,675	87,065
Equity in net earnings of subsidiaries	-	-
Income taxes expense (benefit)	39,391	973,759
Segment profit (loss)	1,261,776	2,045,531
Significant noncash items other than depreciation and amortization	-	-
Property, plant and equipment	1,043,815	2,094,133
Total investments	96,821,251	113,603,198
Total assets	227,920,984	305,846,668
Total policy and contract liabilities	114,342,118	187,912,323
Total liabilities	169,761,553	245,413,147

-12-

Note 6 - Shareholder Matters

During the quarter ended March 31, 2002, the Company repurchased 11,900 shares of its stock at a total price of \$111,741 in open market transactions pursuant to its share repurchase program.

Note 7 - Investment in Real Estate

The Company's investment in the development of the Harbour Village Golf and Yacht Club ("Harbour Village") project is comprised of 173 acres of property in Ponce Inlet, Florida (the "Property") that was acquired through foreclosure on April 13, 1999. At the date of foreclosure, the Company evaluated the carrying value of its investment in real estate by comparing the fair value of the foreclosed collateral to the book value of the underlying loan and accrued interest. As the book value of the loan and accrued interest was less than the fair value of the collateral, no loss was recognized on foreclosure and the basis of real estate was recorded in accordance with EITF Abstract 98-11, which included the recognition of \$5.8 million in a deferred tax asset.

As of December 31, 2001 and March 31, 2002, the investment in real estate for the Harbour Village project is as follows (in thousands):

	<u>December 31, 2001</u>	<u>March 31, 2002</u>
Land	\$4,360	\$3,222
Capitalized overhead, interest and taxes	3,925	2,857
Work in process	<u>28,328</u>	<u>26,382</u>
Total	\$36,613 =====	\$32,461 =====

During the quarter ended March 31, 2002, the Company closed 66 condominium units and 25 boat slips at Harbour Village. The Company recognizes revenue when title to the individual units and boat slips passes to the purchaser. When title passes, the Company uses a percentage of completion method, based on actual costs to total estimated costs (including allocated common costs) to recognize revenue. The difference between total sales price and the revenue recognized is set up as deferred revenue and will be recognized as the additional costs of each building are incurred.

-13-

Note 8 - Income Taxes

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Total income tax (benefit) for the three months ended March 31, 2001 and 2002 were allocated as follows:

	Quarter Ended March 31,	
	<u>2001</u>	<u>2002</u>
Tax expense (benefit) attributable to:		
Income from continuing operations	\$ 39,391	973,759
Unrealized gains (losses) on securities available for sale	<u>113,351</u>	<u>(397,532)</u>
Total	\$152,742 =====	\$576,227 =====

U.S. Federal and state income tax expense (benefit) from continuing operations consists of the following components:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
March 31, 2001	191,652	(152,261)	39,391
March 31, 2002	394,380	579,379	973,759

The state income tax components aggregated \$21,905 and \$139,865 for the periods ended March 31, 2001 and 2002, respectively.

Income tax expense (benefit) for the periods ended March 31, 2001 and 2002 differed from the amount computed by applying the U.S. Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following:

	March 31,	
	<u>2001</u>	<u>2002</u>
Expected income tax expense	\$442,398	\$1,026,559
Foreign earned income not subject to U.S. taxation	(412,699)	(147,537)
Tax-exempt interest	(15,275)	-
State taxes and other	<u>24,967</u>	<u>94,737</u>
	\$39,391 =====	\$973,759 =====

-14-

Deferred income taxes are based upon temporary differences between the financial statement and tax bases of assets and liabilities. The following deferred taxes are recorded:

	December 31, <u>2001</u>	March 31 <u>2002</u>
Deferred tax assets:		
Loss reserve discounting	2,336,868	2,593,127
Unearned premium reserves	2,128,862	1,524,727
Unrealized loss on securities	-	85,382
Difference between tax and GAAP basis of Harbour Village Project	<u>5,118,563</u>	<u>4,367,203</u>
Gross deferred tax assets	<u>9,584,293</u>	<u>8,570,439</u>

Deferred tax liabilities:

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Deferred acquisition costs	1,855,958	1,336,101
Unrealized gain on securities	311,530	
Other	<u>1,772</u>	<u>1,772</u>
Gross Deferred tax liabilities	<u>2,169,260</u>	<u>1,337,873</u>
Net deferred tax asset	\$7,415,033 =====	\$7,232,566 =====

Note 9 - Notes Receivable

The Company ceases the accrual of interest on loans when any payment is past due. Additionally, the Company assesses loan impairment by comparing the carrying value of such loan, including accrued but unpaid interest at the valuation date to the fair market value of collateral held with respect to such loan. Any shortage of fair value over carrying value is first recognized by reversing interest income recognized for the year of impairment and then recognizing any further loss against the allowance for loan losses. Cash receipts on impaired notes receivable are applied to reduce the principal amount of such notes until the principal has been recovered and are recognized as interest income, thereafter.

The recorded investment in notes receivable, which meet the definition of impaired loans at December 31, 2001 and March 31, 2002 were \$8,081,899 and \$7,982,249, respectively. The Company did not maintain an allowance for loan losses, as it believes that the value of collateral held is sufficient to preclude any losses. The weighted average recorded investment in impaired notes receivable as of December 31, 2001 and March 31, 2002 were \$2,494,294 and \$8,032,074, respectively. Interest income recognized on impaired notes receivable during the three months ended March 31, 2001 and March 31, 2002 were \$0 and \$0, respectively.

-15-

Note 10 - Goodwill and Intangibles

The Company adopted SFAS 142 on January 1, 2002. Under SFAS 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives (but with no maximum life).

Goodwill and Intangibles (in Thousands)	December 31, <u>2001</u>	March 31, <u>2002</u>
Goodwill	\$1,467	\$1,467
Other Amortizable Intangibles	<u>-</u>	<u>-</u>
Total Goodwill and Intangibles	\$1,467 =====	\$1,467 =====

In accordance with the disclosure requirements of SFAS 142 the following table reverses the effect of the goodwill and intangibles amortization on the reported net loss for the three months ended March 31, 2001 to show comparability between the periods presented.

	Three Months Ended March 31 (In Thousands)	
	<u>2001</u>	<u>2002</u>
Reported Net Income	\$1,262	\$2,046
Add back: Goodwill and Intangibles Amortization	<u>22</u>	<u>-</u>
Adjusted Net Income	1,284 =====	\$2,046 =====

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Income Per Share Diluted		
Reported Net Income	\$.26	\$.43
Add back: Goodwill and Intangibles Amortization	<u>—</u>	<u>—</u>
Adjusted Net Income - Basic	\$.26	\$.43
	===	===
Adjusted Net Income - Diluted	\$.25	\$.42
	===	===

Note 11 - Commitments and Contingencies

One of the Company's former reinsurers, Berkley Insurance Company, has disputed its obligations under several reinsurance treaties entered into during the "soft reinsurance market" that existed in 1998 and 1999. As of March 31, 2002, unreimbursed paid claims totaled \$11.0 million and additional ceded case and incurred but not reported reserves totals approximately \$22.0 million. A reserve for this dispute has not been established since the Company does not believe it is probable a loss will occur nor is any potential loss estimatable. If any of these factors change in the future, the Company will establish a reserve at that time, which could be material. On April 5, 2002, the Company demanded arbitration against the reinsurer to collect the amounts owed. Berkley is a subsidiary of W.R. Berkley Corp. (NYSE: BER). The Company does not believe that this dispute will have a material adverse effect on the overall financial condition or liquidity of the Company.

-16-

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

General

American Safety is a specialty insurance holding company organized under the laws of Bermuda which, through its subsidiaries, develops, underwrites, manages and markets primary casualty insurance and reinsurance programs in the alternative insurance market in all 50 states for environmental remediation risks, contracting and other specialty risks, and provides a broad range of financial services and products to middle market businesses. The Company is also the owner/developer of the Harbour Village Golf & Yacht Club ("Harbour Village"), a residential condominium, marina, par 3 golf course and beach club project in Ponce Inlet, Florida.

-17-

The following table sets forth the Company's consolidated revenues:

	Three Months Ended March 31,			Months E Mar 20
	2000	2001	2002	
	(Dollars in thousands)			
Net Premiums earned:				
Reinsurance:				
Workers' compensation	\$2,371	\$2,711	\$ —	
General liability	<u>744</u>	<u>2,708</u>	<u>3,043</u>	2
Total reinsurance	<u>3,115</u>	<u>5,419</u>	<u>3,043</u>	
Primary insurance:				
Commercial Line	259	771	542	1

Edgar Filing: AMERICAN SAFETY INSURANCE GROUP LTD - Form 10-Q

Workers' compensation	-	639	2,302
Surety	546	2,025	406
General liability	-	2,969	6,500
Program business	<u>143</u>	<u>1,546</u>	<u>1,806</u>
Total primary insurance	<u>948</u>	<u>7,950</u>	<u>11,556</u>
Total net premiums earned	<u>4,063</u>	<u>13,369</u>	<u>14,599</u>
Net investment income	729	858	976
Interest on notes receivable	435	276	-
Commission and fee income:			
Brokerage commission income	473	491	65
Management fees from affiliate	<u>367</u>	<u>364</u>	<u>417</u>
Total commission and fee income	<u>840</u>	<u>855</u>	<u>482</u>
Net realized gains (losses)	(126)	239	82
Real estate income	-	-	19,039
Other income	<u>656</u>	<u>660</u>	<u>52</u>
Total Revenues	<u>\$6,597</u>	<u>\$16,257</u>	<u>\$35,230</u>

The following table sets forth the components of the Company's GAAP combined ratio for the periods indicated:

	Three months ended <u>March 31,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Insurance operations:			
Loss and loss adjustment expense ratio	68.8%	60.6%	61.5%
Expense ratio	<u>33.3</u>	<u>30.4</u>	<u>25.7</u>
Combined ratio	<u>102.1%</u>	<u>91.0%</u>	<u>87.2%</u>

-18-

Quarter Ended March 31, 2002 Compared to Quarter Ended March 31, 2001

Net Premiums Earned. Net premiums earned increased 9.2% from \$13.4 million in the quarter ended March 31, 2001 to \$14.6 million in the quarter ended March 31, 2002. The principal factor accounting for the increase was a \$3.5 million increase in primary general liability premiums.

Net Investment Income. Net investment income increased 13.8% from \$858,000 in the quarter ended March 31, 2001 to \$976,000 in the quarter ended March 31, 2002 due to higher levels of invested assets generated from increased cash flows from operations. The average pre-tax yield on investments was 5.4% in the quarter ended March 31, 2001 and 4.7% in the quarter ended March 31, 2002. The average after-tax yield on investments was 4.1% in the quarter ended March 31, 2001 and 3.5% in the quarter ended March 31, 2002.

Interest from Notes Receivable. Interest from notes receivable decreased 100.0% from \$276,000 in the quarter ended March 31, 2001 to \$0 in the quarter ended March 31, 2002 due to repayment of various loans. Average notes receivable decreased to \$7.9 million in the quarter ended March 31, 2002 from \$9.0 million in the quarter ended March 31, 2001. During 2001, the Company ceased accruing interest on two impaired loans with one borrower in accordance with its accounting policies. However, the appraised value of the collateral securing these loans is in excess of the balances owed.

Brokerage Commission Income. Income from insurance brokerage operations decreased 86.8% from \$491,000 in the quarter ended March 31, 2001 to \$65,000 in the quarter ended March 31, 2002 as a result of lower levels of premiums produced by the Company's risk retention group affiliate.

Management Fees. Management fees increased 14.6 from \$364,000 in the quarter ended March 31, 2001 to \$417,000 in the quarter ended March 31, 2002. These fees are derived from services provided by the Company to its risk retention group affiliate.

Net Realized Gains and Losses. Net realized gains decreased 65.7% from \$239,000 in the quarter ended March 31, 2001 to \$82,000 for the quarter ended March 31, 2002 due to the sale of bonds in the Company's investment portfolio.

Real Estate Income. Real estate sales at the Harbour Village project were \$19.0 million in the quarter ended March 31, 2002. These sales were realized from the closing of 66 residential condominium units and 25 boat slips. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Other Income. Other income decreased 92.1% from \$660,000 in the quarter ended March 31, 2001 to \$52,000 for the quarter ended March 31, 2002 as a result of reduced fees generated by the Company's financial services subsidiary, American Safety Financial Corp. During 2001, the Company discontinued this line of business.

-19-

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses increased 10.8% from \$8.1 million in the quarter ended March 31, 2001 to \$9.0 million in the quarter ended March 31, 2002 due to an increase in net earned premiums. The loss ratio is constant at 61% for both periods.

Acquisition Expenses. Policy acquisition expenses remained at \$3.1 million for both periods even though net earned premiums increased 9.2%. This is a result of increased fees from our program business as a result of increased premiums earned. Premium tax expense also increased to \$1.1 million from \$765,000 due to higher volumes of direct premiums earned.

Payroll and Other Expenses. Payroll and other expenses remained at \$2.1 million for both periods.

Real Estate Expenses. Real estate expenses associated with Harbour Village increased from \$386,000 in the quarter ended March 31, 2001 to \$16.7 million in the quarter ended March 31, 2002. Of the \$16.7 million of costs recognized during the year, \$15.9 million were previously capitalized variable costs related to the sale of condominium units and boat slips, and the remaining \$847,000 were fixed costs of the project, which includes advertising and other administration costs. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Income Taxes. Federal and state income taxes increased from \$39,000 in the quarter ended March 31, 2001 to \$974,000 in the quarter ended March 31, 2002 due to higher levels of income in the Company's U.S. insurance and real estate subsidiaries.

Quarter Ended March 31, 2001 Compared to Quarter Ended March 31, 2000

Net Premiums Earned. Net premiums earned increased 229% from \$4.1 million in the quarter ended March 31, 2000 to \$13.4 million in the quarter ended March 31, 2001. The principal factor accounting for the increase were an increase in program business premiums by 981.1% or 1.4 million, an increase in surety premiums by 270.9% or \$1.5 million, an increase in commercial lines premiums of 197.7% or \$512,000, an increase in general liability reinsurance premiums of 264% or \$2.0 million, and an increase in workers' compensation premiums of 14.3% or \$340,000.

Net Investment Income. Net investment income increased 17.7% from \$729,000 in the quarter ended March 31, 2000 to \$858,000 in the quarter ended March 31, 2001 due to higher levels of invested assets generated from positive cash flows from operations. The average pre- tax yield on investments was 6.2% in the quarter ended March 31, 2000

and 5.4% in the quarter ended March 31, 2001. The average after-tax yield on investments was 5.5% in the quarter ended March 31, 2000 and 4.1% in the quarter ended March 31, 2001.

Interest from Notes Receivable. Interest from notes receivable decreased 36.6% from \$435,000 in the quarter ended March 31, 2000 to \$276,000 in the quarter ended March 31, 2001 due to the repayment of various loans. Average notes receivable decreased to \$9.0 million from \$12.6 million for the quarter.

-20-

Brokerage Commission Income. Income from insurance brokerage operations decreased 3.8% from \$473,000 in the quarter ended March 31, 2000 to \$491,000 in the quarter ended March 31, 2001 due to slightly higher levels of premiums produced by the Company's risk retention group affiliate, American Safety Risk Retention Group, Inc.

Management Fees. Management fees were \$364,000 in the quarter ended March 31, 2000 and \$367,000 in the quarter ended March 31, 2001. These fees are derived from services provided by the Company to its risk retention group affiliate, which services remained consistent as compared to the prior period.

Net Realized Gains and Losses. Net realized gains and losses increased from a loss of \$126,000 in the quarter ended March 31, 2000 to a gain of \$240,000 for the quarter ended March 31, 2001 due to the sale of bonds in the Company's investment portfolio.

Other Income. Other income increased from \$656,000 in the quarter ended March 31, 2000 to \$660,000 for the quarter ended March 31, 2001 as a result of fees generated by the Company's financial services subsidiary. No assurance can be given as to the regularity or amount of fees being generated by the Company's financial services subsidiary.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses increased 189.5% from \$2.8 million in the quarter ended March 31, 2000 to \$8.1 million in the quarter ended March 31, 2001 due to an increase in net premiums earned. Increases in commercial lines and surety premiums accounted for the largest portion of the increase in the losses and loss adjustment expenses. During the quarter ended March 31, 2001, the Company also recognized \$250,000 of reserve redundancies in certain older accident years relating to the environmental line of business. The Company will continue to monitor its reserves and recognize any future redundancies if and when appropriate.

Acquisition Expenses. Policy acquisition expenses increased 307.0% from \$763,000 in the quarter ended March 31, 2000 to \$3.1 million in the quarter ended March 31, 2001 as a result of increased premiums earned. Premium tax expense also increased to \$781,000 from \$224,000 due to higher volumes of direct premiums earned.

Payroll and Other Expenses. Payroll and other expenses increased 33.9% from \$2.5 million in the quarter ended March 31, 2000 to \$3.4 million in the quarter ended March 31, 2001 as a result of increased payroll and related items in the Company's newer business units.

Income Taxes. Federal and state income taxes increased from a benefit of \$1.1 million in the quarter ended March 31, 2000 to an expense of \$39,000 in the quarter ended March 31, 2001 due to higher levels of income in the Company's U.S. subsidiaries operations.

-21-

Liquidity and Capital Resources

The Company historically has met its cash requirements and financed its growth principally through cash flows generated from operations. During the past decade, the Company has operated in a soft market cycle which was

characterized by excess insurance capacity and declining insurance premium rates; however, commencing in fiscal year 2000 the Company has operated in a hardening market with increased insurance premium rates for workers' compensation and excess and surplus lines. The Company's primary sources of cash flow are proceeds from the sale or maturity of invested assets, premiums earned, investment income, income from real estate development sales, commission income and management fees. The Company's short-term cash requirements are primarily for claims payments, reinsurance premiums, commissions, salaries, employee benefits, real estate development expenses, and other operating expenses, and the purchase of investment securities, which have historically been satisfied from operating cash flows. Due to the uncertainty regarding settlement of unpaid claims, the long-term liquidity requirements of the Company may vary, and the Company has attempted to structure its investment portfolio to take into account the historical payout patterns. The Company also purchases reinsurance to mitigate the effect of large claims and to help stabilize demands on its liquidity. Notwithstanding the Company's dispute with one of its former reinsurers, Berkley Insurance Company, as disclosed elsewhere in this Report, management believes that the Company's current cash flows are sufficient for the short-term needs of its insurance business and the Company's invested assets are sufficient for the long-term needs of its insurance business.

One of the Company's former reinsurers, Berkley Insurance Company, has disputed its obligations under several reinsurance treaties entered into during the "soft reinsurance market" that existed in 1998 and 1999. As of March 31, 2002, unreimbursed paid claims totaled \$11.0 million and additional ceded case and incurred but not reported reserves totals approximately \$22.0 million. A reserve for this dispute has not been established since the Company does not believe it is probable a loss will occur nor is any potential loss estimatable. If any of these factors change in the future, the Company will establish a reserve at that time, which could be material. On April 5, 2002, the Company demanded arbitration against the reinsurer to collect the amounts owed. Berkley is a subsidiary of W.R. Berkley Corp. (NYSE: BER). The Company does not believe that this dispute will have a material adverse effect on the overall financial condition or liquidity of the Company.

On a consolidated basis, net cash provided from operations was \$7.1 million for the three months ended March 31, 2001 and \$1.1 million for the three months ended March 31, 2002. The positive cash flows for said periods were primarily attributable to net premiums written and net earnings. Because workers' compensation and general liability claims may be paid over an extended period of time, the Company has established loss reserves for such lines of business. The assets supporting the Company's reserves continue to earn investment income until claims payments are made.

-22-

Total assets increased from \$297.3 million at December 31, 2001 to \$305.8 million at March 31, 2002 primarily due to increases in reinsurance recoverables. Cash, invested assets and notes receivable decreased from \$139.6 million at December 31, 2001 to \$130.6 million at March 31, 2002, as a result of decreases in real estate and short term investments. At March 31, 2002, the Company has repurchased 1,601,139 shares of its common stock at a total cost of \$9.7 million since January 1999.

American Safety is an insurance holding company whose principal assets are its investment portfolio and its investment in the capital stock of its subsidiaries. American Safety's ability to pay dividends to its shareholders will depend, to a significant degree, on the ability of the Company's subsidiaries to generate earnings from which to pay dividends to American Safety. The jurisdictions in which American Safety and its insurance and reinsurance subsidiaries are domiciled place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of insurers.

Harbour Village Development. The Company announced in March 2000 its plans to complete development of the Harbour Village Golf and Yacht Club ("Harbour Village"), located in Ponce Inlet, Florida, consisting of 786 residential condominium units, a marina containing 142 boat slips, a par 3 golf course and beach club. The Harbour Village property (comprising 173 acres) was acquired by the Company through foreclosure in April 1999, and has

been under development by its subsidiary, Ponce Lighthouse Properties, Inc. and its general contracting subsidiary, Rivermar Contracting Company. The number of residential condominium units planned for the project has been increased from 786 to 809. As of April 30, 2002, the Company's marketing efforts had generated over \$132 million of pre-sales of condominium units and boat slips.

Management anticipates that Harbour Village will be developed in three Phases through 2004-2005, depending on future sales activities and economic conditions that may impact the marketing of the condominium units. In July 2000, the Company initially closed a \$37 million acquisition, development and construction loan facility in order to commence construction of Phase I of the project, which loan facility was increased in July 2001. Through March 31, 2002, the Company has outstanding borrowings of \$8.1 million from this loan facility. The estimated construction and development cost for the entire Harbour Village project is approximately \$200 million. Phase I of the development currently under construction consists of site work including a 142-boat slip marina, 294 residential units, and related amenities. No assurance can be given, however, as to either future sales activities of the condominium units or the impact of local and national economic conditions on the Company's marketing efforts for the development of the Harbour Village project.

Management believes that the bank credit facility, together with anticipated cash flows from marketing and sales operations, will meet the liquidity needs for the construction and development of Phase I of the Harbour Village project during the first 24 months of development. There can be no assurance, however, that the amounts available from the Company's sources of liquidity, exclusive of the bank credit facility for the project, will be sufficient or available to meet the Company's future capital needs for the project. See Exhibit 99 for further information regarding Harbour Village.

-23-

Income Taxes

American Safety is incorporated under the laws of Bermuda and, under current Bermuda law, is not obligated to pay any taxes in Bermuda based upon income or capital gains. American Safety has received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of The Exempted Undertakings Tax Protection Act 1966, which exempts American Safety and its shareholders, other than shareholders ordinarily resident in Bermuda, from any Bermuda taxes computed on profits, income or any capital asset, gain or appreciation, or any tax in the nature of estate, duty or inheritance until March 28, 2016. The Company, exclusive of its United States subsidiaries, does not consider itself to be engaged in a trade or business in the United States and accordingly does not expect to be subject to direct United States income taxation. The Company's U.S. subsidiaries are subject to taxation in the United States.

Impact of Inflation

Property and casualty insurance premiums are established before the amounts of losses and loss adjustment expenses are known and therefore before the extent by which inflation may affect such expenses is known. Consequently, the Company attempts, in establishing its premiums, to anticipate the potential impact of inflation. However, for competitive and regulatory reasons, the Company may be limited in raising its premiums consistent with anticipated inflation, in which event the Company, rather than its insureds, would absorb inflation costs. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on the Company's investment income.

Combined Ratio

The combined ratio of an insurance company measures only the underwriting results of insurance operations and not the profitability of the overall company. The Company's reported combined ratio for its insurance operations may not provide an accurate indication of the Company's overall profitability from insurance and reinsurance programs due

to the exclusion of fee and commission income and expenses generated in related management and agency subsidiaries. Depending on the Company's mix of business going forward, the combined ratio may fluctuate from time to time and may not reflect the overall profitability of insurance programs to the Company.

-24-

Reserves

Certain of the Company's insurance policies and reinsurance assumed, including general and pollution liability policies covering environmental remediation, excess and surplus, and workers' compensation risks, may be subject to claims brought years after an incident has occurred or the policy period has ended. The Company is required to maintain reserves to cover its estimated liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred. The Company engages an independent internationally recognized actuarial consulting firm to provide reserve studies, rate studies, and opinions. Reserves are estimates at a given time, which are established from actuarial and statistical projections by the Company of the ultimate settlement and administration costs of claims occurring on or prior to such time, including claims that have not yet been reported to the insurer. The establishment of appropriate loss reserves is an inherently uncertain process, and there can be no assurance that the ultimate payments will not materially exceed the Company's reserves.

Forward Looking Statements

This Report contains certain forward-looking statements within the meaning of United States' securities laws which are intended to be covered by the safe harbors created thereby. The use of such statements include estimations of future insurance claims and losses and estimated profits from Harbour Village as reflected in the Company's consolidated financial statements and Exhibit 99 to this Report. In addition, all statements, other than statements of historical facts, included or incorporated by reference in this Report that address activities, events or developments that the Company expects or anticipates will or may occur in the future constitute forward-looking statements.

Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, and are subject to change based on various insurance industry factors, including, without limitation, competitive conditions in the insurance industry, levels of new and renewal insurance business, unpredictable developments in loss trends, adequacy and changes in loss reserves, collectibility of reinsurance receivables, market acceptance of new coverages and enhancements, changes in reinsurance costs and availability, and changes in levels of general business activity and economic conditions. With respect to the development of the Harbour Village property, such forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, and are subject to change based on various real estate development industry factors, including competitive housing conditions in the local market area, risks inherent in real estate development and new construction, increases in construction costs, construction delays, weather, zoning, litigation, changes in interest rates and the availability of mortgage financing for prospective purchasers of condominium units and boat slips, and changes in local and national levels of general business activity and economic conditions.

-25-

Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could over time prove to be inaccurate and therefore, there can be no assurance that the forward-looking statements included in this Report will themselves prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company expressly disclaims any obligation to update any forward-looking statements except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

The Company's market risk has not changed materially since December 31, 2001.

[The remainder of this page is intentionally left blank.]

-26-

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) The following exhibits are filed as part of this Report:

Exhibit No.	Description
11	Computation of Earnings Per Share
99	Harbour Village Development Status

(b) Reports on Form 8-K.

None.

-27-

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 15th day of May 2002.

By: /s/ Lloyd A. Fox
Lloyd A. Fox
President and Chief Executive Officer

By: /s/ Steven B. Mathis
Steven B. Mathis
Chief Financial Officer
(Principal Financial Officer)

-28-

Exhibit 11

American Safety Insurance Group, Ltd. and subsidiaries

Computation of Earnings Per Share

	Three Months Ended	
	March 31, <u>2001</u>	March 31, <u>2002</u>
Basic:		
Earnings (loss) available to common shareholders.....	\$1,261,776	\$2,045,531

Weighted average common shares outstanding.....	4,882,375	4,704,505

Basic earnings (loss) per common shares	\$.26	\$.43

Diluted:		
Earnings (loss) available to common shareholders.....	\$1,261,776	\$2,045,531

Weighted average common shares outstanding.....	4,882,375	4,704,505

Weighted average common shares equivalents associated with options....	79,737	158,865

Total weighted average common shares.....	4,962,112	4,863,370

Diluted earnings (loss) per common shares.....	\$.25	\$.42

-29-

Exhibit 99**Harbour Village Development Status****(000)s except references to Condo Units**

	Phase 1			Phase 2	
	Townhouses				
	Marina	Oak		The Links	The Links
	Condos	Hammock	Riverwalk	North	South
3/31/2002					
Planned Number of Condo Units and Boat Slips	248	18	28	188	188
Condo Units and Boat Slips under Contract	245	14	28	132	—
Value of Pre-sale Contracts (Note 1)	\$61,985	\$6,530	\$10,638	\$32,829	—
Number of Buildings	8	4	6	4	4
Number of Buildings Complete by Task					
Building Foundation	8	4	4	2	—
Vertical Building Completed	8	3	2	—	—
Interior Finish Completed	7	—	—	—	—
Certificate of Occupancy Received	6	—	—	—	—
Actual 3/31/2002 YTD					
Units Closed	66	—	—	—	—
Revenue Recognized	\$16,815	—	—	—	—
Other Revenue					
Total Revenue					
Gross Profit Recognized	\$2,348	—	—	—	—
Other Expense (Income) Items					
Pre-Tax Profit					
Projected Outlook For 2nd Quarter of 2002					
Units to Close	56	—	—	—	—
Revenue to be Recognized	\$14,308	—	—	—	—
Other Revenue - Projected					
Total Revenue - Projected					
Gross Profit to be Recognized	\$1,849	—	—	—	—
Other Expense (Income) Items					
- Projected (Note 2)					
Pre-Tax Profit - Projected					

Note 1 - No assurance can be given that purchasers under binding pre-sale contracts with deposits will close each contemplated transaction.

Note 2 - Other includes net brokerage commissions, advertising, promotion, and other general and administrative costs. These items are not allocated to specific buildings.

The projected results contained above for unit closings, revenue, gross profit, fixed costs and pre-tax profit are forward looking statements. With respect to the Company's development of the Harbour Village property, such forward looking statements involve risks and uncertainties which may cause actual results to differ materially, and are subject to change based on various real estate development industry factors, including competitive housing conditions in the local market area, risks inherent in real estate development and new construction, increases in construction costs, construction delays, weather, litigation, changes in interest rates and the availability of mortgage financing for prospective purchasers of condominium units and boat slips and changes in local and national levels of general business activity and economic conditions.