

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

AMERICAN SAFETY INSURANCE GROUP LTD  
Form 10-Q  
August 14, 2001

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 JUNE 30, 2001

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)

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 Sec  
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 su  
filing requirements for the past 90 days. Yes  No

The aggregate number of shares outstanding of Registrant's common stock, \$.01 par value, on July  
3, 2001 was 4,798,547.

---

AMERICAN SAFETY INSURANCE GROUP, LTD.

FORM 10-Q

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements.....	1
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
Item 3. Quantitative and Qualitative Disclosures About Market Risks.....	23
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings.....	24
Item 2. Changes in Securities and Use of Proceeds.....	24

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

Item 3. Defaults Upon Senior Securities.....	24
Item 4. Submission of Matters to a Vote of Security Holders.....	24
Item 5. Other Information.....	24
Item 6. Exhibits and Reports on Form 8-K.....	24

-2-

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

#### American Safety Insurance Group, Ltd. and Subsidiaries Consolidated Balance Sheets

	<u>December 31,</u> <u>2000</u>	<u>June 30,</u> <u>2001</u> (unaudited)
<u>Assets</u>		
Investments:		
Securities available for sale, at fair value:		
Fixed maturities	\$45,985,656	\$56,017,782
Common stock	162,322	769,248
Investment in real estate	23,946,305	38,814,819
Short-term investments	<u>15,312,377</u>	<u>16,523,416</u>
Total investments	85,406,660	112,125,265
Cash	3,784,102	958,892
Restricted cash	6,117,682	10,339,886
Accrued investment and interest income	1,543,675	2,194,924
Notes receivable	8,878,018	9,190,428
Premiums receivable	33,344,382	30,540,214
Commissions receivable	-	26,034
Funds on deposit	298,000	953,584
Ceded unearned premium	22,190,095	22,245,418
Reinsurance recoverable	27,929,794	42,182,772
Due from affiliate	985,320	4,633,080
Income tax recoverable	160,333	-
Deferred income taxes	7,383,191	8,064,387
Deferred acquisition costs	3,039,144	4,799,405
Property, plant and equipment	935,743	1,960,859
Prepaid items	1,755,191	2,038,787
Goodwill	1,553,863	1,510,247
Other assets	<u>1,992,923</u>	<u>2,271,196</u>
Total assets	<u>\$207,298,116</u>	<u>\$256,035,378</u>
=====		
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$50,508,627	\$76,266,944
Unearned premiums	41,953,354	53,306,068
Reinsurance on paid loss and loss adjustment expenses	928,865	61,063
Ceded premiums payable	24,311,656	17,526,451
Due to affiliate:		
Ceded premiums payable	567,786	1,010,155
Reinsurance on paid loss and loss adjustment expense	229,790	280,879
Escrow deposits	6,200,182	11,888,685
Accounts payable and accrued expenses	6,384,429	7,706,215

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

Funds held	4,861,472	3,605,261
Loan payable	11,435,221	23,340,812
Collateral held	1,544,839	834,794
Income tax payable	-	699,007

-1-

	December 31, <u>2000</u>
Unearned Loan Fees	<u>568,750</u>
Total liabilities	<u>149,494,971</u>
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, 2000, 6,281,386 shares, and at June 30, 2001, 6,281,386 shares	62,814
Additional paid-in capital	35,148,577
Retained earnings	29,262,582
Accumulated other comprehensive income, net	428,085
Treasury Stock, 1,267,200 shares at December 31, 2000 and 1,482,839 shares at June 30, 2001	<u>(7,098,913)</u>
Total shareholders' equity	<u>57,803,145</u>
Total liabilities and shareholders's equity	\$207,298,116 =====

See accompanying notes to consolidated financial statements (unaudited).

-2-

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Earnings  
(Unaudited)

	Three Months Ended <u>June 30,</u>		Six Mon <u>Jun</u>
	<u>2000</u>	<u>2001</u>	<u>2000</u>
Revenues:			
Direct premiums earned	\$ 4,775,058	\$ 28,156,096	\$ 7,934,265
Assumed premiums earned:			
Affiliate	1,232,805	2,640,891	2,228,541
Nonaffiliates	<u>2,587,640</u>	<u>3,878,997</u>	<u>5,000,057</u>
Total assumed premiums earned	<u>3,820,445</u>	<u>6,519,888</u>	<u>7,228,598</u>
Ceded premiums earned:			
Affiliate	1,203,557	1,540,646	2,049,645
Nonaffiliates	<u>2,206,330</u>	<u>16,098,341</u>	<u>3,864,279</u>
Total ceded premiums earned	<u>3,409,887</u>	<u>17,638,987</u>	<u>5,913,924</u>
Net premiums earned	<u>5,185,616</u>	<u>17,036,997</u>	<u>9,248,939</u>
Net investment income	604,905	905,108	1,334,007
Interest on notes receivable	440,375	283,383	874,969
Brokerage commission income	1,151,024	508,081	1,624,163
Management fees from affiliate	351,346	367,503	718,346

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

Net realized gains (losses)	(79,664)	175,830	(205,711)
Other income	<u>42,244</u>	<u>189,726</u>	<u>698,406</u>
Total revenues	<u>7,695,846</u>	<u>19,466,628</u>	<u>14,293,119</u>
Expenses:			
Losses and loss adjustment expenses incurred	4,023,727	10,767,405	6,820,826
Acquisition expenses	1,103,237	3,134,384	1,866,285
Payroll and related expenses	1,953,834	2,095,148	3,582,058
Other expenses	1,398,208	1,664,014	2,284,274
Expense due to rescission	<u>-</u>	<u>-</u>	<u>3,541,848</u>
Total expenses	<u>8,479,006</u>	<u>17,660,951</u>	<u>18,095,291</u>
Earnings (loss) before income taxes	(783,160)	1,805,677	(3,802,172)
Income taxes (benefit)	<u>(291,063)</u>	<u>220,009</u>	<u>(1,361,322)</u>
Net earnings (loss)	\$ <u>(492,097)</u>	\$ <u>1,585,668</u>	\$ <u>(2,440,850)</u>
Net earnings (loss) per share:			
Basic	\$ <u>(0.09)</u>	\$ <u>0.33</u>	\$ <u>(0.4)</u>
Diluted	\$ <u>(0.09)</u>	\$ <u>0.32</u>	\$ <u>(0.4)</u>
Common shares used in computing earnings per share:			
Basic	<u>5,525,804</u>	<u>4,799,206</u>	<u>5,726,229</u>
Diluted	<u>5,525,804</u>	<u>4,984,085</u>	<u>5,728,900</u>

See accompanying notes to consolidated financial statements (unaudited).

-3-

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Cash Flow

(Unaudited)

	2000	Six months ended June 30,
Cash flow from operating activities:		
Net earnings (loss)	\$ (2,440,850)	\$ 2,440,850
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Realized (gains)/losses on sale of investments	205,711	(1,000,000)
Amortization of deferred acquisition costs	(908,447)	(1,000,000)
Change in:		
Accrued investment and interest income	(588,119)	(1,000,000)
Premiums receivable	(6,880,213)	(1,000,000)
Commissions receivable	(16,844)	(1,000,000)
Reinsurance recoverable and ceded unearned premiums	(7,601,048)	(15,000,000)
Unearned loan fees	-	(1,000,000)
Funds held by reinsured	581,747	(1,000,000)
Due from affiliate	1,328,101	(3,000,000)
Funds on Deposit	-	(1,000,000)
Income taxes	(1,787,246)	(1,000,000)
Unpaid losses and loss adjustment expenses	4,490,206	25,000,000
Unearned premiums	8,667,753	11,000,000
Liability for deductible fees held	(48,375)	(1,000,000)
Ceded premiums payable	8,499,829	(6,000,000)
Due to affiliate	(1,538,170)	(1,000,000)
Accounts payable and accrued expenses	3,012,498	1,000,000
Collateral held	203,985	(1,000,000)

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

Prepaid items	(1,496,380)	
Other, net	<u>285,430</u>	
Net cash provided by operating activities	<u>3,969,568</u>	<u>13</u>
Cash flow from investing activities:		
Purchases of fixed maturities	(47,267)	(30)
Purchases of Equity Investments	(5,350,818)	(2)
Proceeds from maturity and redemption of fixed maturities	150,242	
Proceeds from sale of fixed maturities	6,531,178	19
Proceeds from sale of equity investments	4,601,317	1
Purchase of Trafalgar Insurance Company	(7,050,877)	
Increase in Investment in Real Estate	(1,315,543)	(14)
(Increase) decrease in short-term investments	1,910,559	(1)
Proceeds from notes receivable - related parties	1,530,000	
Advances in notes receivable - other	(1,009,366)	
Purchase of fixed assets, net	<u>(223,216)</u>	<u>(1)</u>
Net cash used in investing activities	<u>(273,791)</u>	<u>(28)</u>
Cash flow from financing activities:		
Purchase of treasury stock	(3,183,933)	(1)
Proceeds from loan payable	1,375,584	11
Proceeds from escrow deposits	<u>4,294,839</u>	<u>5</u>
Net cash provided by financing activities	<u>2,486,490</u>	<u>16</u>
Net increase (decrease) in cash	6,182,267	1
Cash at beginning of period	<u>427,154</u>	<u>9</u>
Cash at end of period	\$6,609,421	\$11
	=====	=====
NONCASH ITEMS		
Operating activities:		
Recoverable due to rescission in other assets	(1,323,000)	
Change in prepaid items	(170,000)	
Financing activities:		
Issuance of common stock	<u>1,323,000</u>	
Notes receivable related parties	<u>170,000</u>	
Net noncash adjustments	-	
	=====	=====

See accompanying notes to consolidated financial statements (unaudited).

-4-

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Earnings  
(Unaudited)

	Three months ended June 30,		Six
	2000	2001	2000
Net earnings (loss)	\$ (492,097)	\$ 1,585,668	\$ (2,440,850)
Other comprehensive earnings (loss) before income taxes:			

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

Unrealized gains (losses) on securities available for sale	172,712	(968,239)	441,719
Reclassification adjustment for realized gains (losses) included in net earnings	<u>(79,664)</u>	<u>175,830</u>	<u>(205,711)</u>
Total other comprehensive earnings (loss) before taxes	93,048	(792,409)	236,008
Income tax expense (benefit) related to items of other comprehensive income	<u>(58,817)</u>	<u>(194,853)</u>	<u>(175,446)</u>
Other comprehensive earnings (loss) net of income taxes	<u>34,231</u>	<u>(597,556)</u>	<u>411,454</u>
Total comprehensive earnings (loss)	\$ <u>(457,866)</u>	\$ <u>988,112</u>	\$ <u>(2,029,396)</u>

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 generally accepted accounting principles 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 six months ended June 30, 2001 may not be indicative of the results that may be expected for the full year ending December 31, 2001. 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, 2000.

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 2001 presentation.

Note 2 - Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133, as amended, is effective for years beginning after June 15, 2000. The standard requires that all derivatives be recorded as an asset or liability, at estimated fair value, regardless of the purpose or intent for holding the derivative. If a derivative is not utilized as a hedge, all gains or losses from the change in the derivative's estimated fair value are recognized in earnings. The gains or losses from the change in estimated fair value of certain derivatives utilized as hedges are recognized in earnings or other comprehensive income depending on the type of hedge relationship. The adoption of SFAS No. 133, as amended, did not have a material impact on the Company's consolidated financial position and results of operation.

-6-

---

In September 2000, the FASB issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, a replacement of FASB Statement No. 125. SFAS No. 140 revises the standards of accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures not previously required under SFAS No. 125. This statement is effective for all transfers and servicing of financial assets and liabilities occurring after March 31, 2001. For recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral, it is effective for fiscal years ended after December 15, 2000. The Company is currently assessing the impact of SFAS No. 140, but does not believe that the statement will have a material impact on the Company's consolidated financial position and results of operation.

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 will require 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 will also require 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 will require 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 will be 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 will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

As of the date of adoption, the Company expects to have unamortized goodwill in the amount of \$1.5 million, which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was \$69,869 and \$43,617 for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively.

-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



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

The amortized cost and estimated fair values of investments at December 31, 2000 and June 30, 2001 are as follows:

	Amortized <u>Cost</u>	Gross unrealized <u>gains</u>	Gross unrealized <u>losses</u>
December 31, 2000:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 30,952,452	\$615,498	\$112,5
Obligations of states and political subdivisions	6,083,661	190,974	
Corporate securities	6,799,319	17,688	153,2
Mortgage-backed securities	<u>1,562,888</u>	<u>31,997</u>	<u>3,0</u>
Total fixed maturities	45,398,320	856,157	268,8
Equity investments - common stocks	<u>162,322</u>	<u>-</u>	<u>-</u>
Total	\$45,560,642 =====	\$856,157 =====	\$268,8 =====
June 30, 2001:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$30,141,046	\$ 593,005	\$ 9,0
Obligations of states and political subdivisions	-	-	
Corporate securities	23,705,715	76,715	268,8
Mortgage-backed securities	<u>1,780,371</u>	<u>26,362</u>	<u>27,5</u>
Total fixed maturities	55,627,132	696,082	305,4
Equity investments - common stocks	<u>769,248</u>	<u>-</u>	<u>-</u>
Total	\$56,396,380 =====	\$696,082 =====	\$305,4 =====

-9-

---

Note 5 - Segment Information

a. 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.

b. Products and services from each reportable segment:

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

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 risks 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.

-10-

c. Information about segment profit or loss and assets:

	<u>2000</u>	Six Months Ended <u>June 30,</u>	<u>200</u>
United States - Insurance			
Net premiums earned - All other	\$ 8,073,345		\$29,266,
Net premiums earned - Intersegment	(3,457,748)		(5,136,
Net investment income and interest on notes receivable	787,127		1,380,
Other revenues	<u>2,707,638</u>		<u>2,940,</u>
Total revenues	8,110,362		28,450,
Interest expense	-		74,
Depreciation and amortization expense	79,746		128,
Equity in net earnings of subsidiaries	-		
Income taxes expense (benefit)	(1,296,417)		422,
Segment profit/(loss)	(2,321,284)		803,
Significant noncash items other than depreciation and amortization	-		
Property, plant and equipment	555,992		801,
Total investments	38,158,198		60,224,
Total assets	87,996,880		179,635,
Total policy and contract liabilities	35,110,299		121,964,
Total liabilities	61,361,789		155,142,
United States - Real Estate			

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

Net premiums earned - All other	-	
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	-	
Other revenues	-	2,
Total revenues	-	2,
Interest expense	-	578,
Depreciation and amortization expense	-	31,
Equity in net earnings of subsidiaries	-	
Income taxes expense (benefit)	(64,905)	(163,
Segment profit/(loss)	(120,538)	(317,
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	70,721	309,
Total investments	-	38,814,
Total assets	13,885,759	51,006,
Total policy and contract liabilities	-	
Total liabilities	4,341,611	37,512,
Bermuda		
Net premiums earned - All other	1,175,594	1,139,
Net premiums earned - Intersegment	3,457,748	5,136,
Net investment income and interest on notes receivable	1,421,849	941,
Other revenues	558,963	150,
Total revenues	6,614,154	7,369,

-11-

	<u>2000</u>	Six Months Ended <u>June 30,</u>	<u>200</u>
Interest expense	-		
Depreciation and amortization expense	10,063		9,
Equity in net earnings (loss) of subsidiaries	(2,441,822)		486,
Income taxes	-		
Segment profit	972		2,360,
Significant noncash items other than depreciation and amortization	-		
Property, plant and equipment	830,797		849,
Total investments	52,231,003		63,077,
Total assets	83,935,949		90,290,
Total policy and contract liabilities	14,871,557		17,519,
Total liabilities	17,815,445		19,183,
Intersegment Eliminations			
Net premiums earned - All Other	-		
Net premiums earned - Intersegment	-		
Net investment income and interest on notes receivable	-		
Other revenues	(431,397)		(98,
Total revenues	(431,397)		(98,
Interest expense	-		(75,
Depreciation and amortization expense	-		
Equity in net earnings (loss) of subsidiaries	2,441,822		(486,
Income taxes	-		
Segment profit (loss)	-		
Significant noncash items other than depreciation and amortization	-		
Property, plant and equipment	-		
Total investments	(45,134,085)		(49,991,

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

Total assets	(57,942,504)	(64,897,
Total policy and contract liabilities	(7,616,170)	(9,910,
Total liabilities	(12,808,419)	(14,905,
Total		
Net premiums earned - All other	9,248,939	30,406,
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	2,208,976	2,321,
Other revenues	<u>2,835,204</u>	<u>2,995,</u>
Total revenues	14,293,119	35,723,
Interest expense	-	578,
Depreciation and amortization expense	89,809	169,
Equity in net earnings of subsidiaries	-	
Income taxes expense (benefit)	(1,361,322)	259,
Segment profit (loss)	(2,440,850)	2,847,
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	1,457,510	1,960,
Total investments	45,255,116	112,125,

-12-

	Six Months Ended	
	<u>June 30,</u>	
	<u>2000</u>	<u>2001</u>
Total assets	127,876,084	256,035,
Total policy and contract liabilities	42,365,686	129,573,
Total liabilities	70,710,426	196,932,

Note 6 - Shareholder Matters

During the quarter ended June 30, 2001, the Company repurchased 5,000 shares of its stock at a total price of \$44,750 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 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, 2000 and June 30, 2001, the investment in real estate for the Harbour Village project is as follows (in thousands):

	<u>December 31, 2000</u>	<u>June 30, 2001</u>
Land	\$6,149	\$6,149
Capitalized overhead, interest and taxes	3,886	4,878
Work in process	<u>8,961</u>	<u>23,304</u>
Total	\$18,996	\$34,331
	=====	=====

---

**Note 8 - Income Taxes**

Total income tax (benefit) for the six months ended June 30, 2000 and 2001 were allocated as follows:

	Six Months Ended <u>June 30,</u>	
	<u>2000</u>	<u>2001</u>
Tax expense (benefit) attributable to:		
Income from continuing operations	(1,361,322)	\$259,400
Unrealized gains (losses) on securities available for sale	<u>(222,781)</u>	<u>81,502</u>
Total	\$ (1,584,103) =====	\$340,902 =====

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>
June 30, 2000	(1,379,755)	18,433	(1,361,322)
June 30, 2001	859,090	(599,690)	259,400

The state income tax components aggregated \$(17,750) and \$13,170 for the periods ended June 30, 2000 and 2001, respectively.

Income tax expense (benefit) for the periods ended June 30, 2000 and 2001 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:

---

	<u>June 30,</u>	
	<u>2000</u>	<u>2001</u>
Expected income tax expense (benefit)	\$ (1,292,738)	\$1,056,327
Foreign earned income not subject to U.S. taxation	(330)	(802,708)
Tax-exempt interest	(59,599)	(15,654)
State taxes and other	(8,655)	21,435
	\$ (1,361,322) =====	\$259,400 =====

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:

	<u>December 31,</u> <u>2000</u>	<u>June 30,</u> <u>2001</u>
Deferred tax assets:		
Loss reserve discounting	\$ 1,075,061	\$ 1,951,744
Unearned premium reserves	1,209,162	1,945,174
Difference between tax and GAAP basis of Harbour Village Project	5,839,919	5,839,919

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

Net operating loss carry forward	<u>398,597</u>	<u>-</u>
Gross deferred tax assets	8,522,739	9,736,837
Deferred tax liabilities:		
Deferred acquisition costs	978,785	1,592,933
Unrealized gain on securities	159,251	77,745
Other	<u>1,512</u>	<u>1,772</u>
Gross Deferred tax liabilities	<u>1,139,548</u>	<u>1,672,450</u>
Net deferred tax asset	\$7,383,191 =====	\$8,064,387 =====

-15-

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

General

American Safety is a specialty insurance and financial services holding company which, through its subsidiaries, develops, underwrites, manages and markets primary casualty insurance and reinsurance programs in the alternative insurance market for environmental risks 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, a residential condominium, marina and golf course project in Ponce Inlet, Florida.

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. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, and are subject to change based on various industry factors, including the outcome of the Company's competitive conditions in the insurance industry, unpredictable developments in loss trends, adequacy and changes in loss reserves, 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 Golf and Yacht Club project, 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, 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. 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. Although the Company believes that the assumptions underlying the forward-looking statements contained in this Report 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 in this Report, 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.

-16-

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

Three Months Ended June 30,	Six Months Ended June 30,
--------------------------------	------------------------------

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

	2000	2001	2000	2001
	(Dollars in thousands)			
Net Premiums earned:				
Reinsurance:				
Workers' compensation	\$2,512	\$2,930	\$4,883	\$5,641
General liability	<u>1,094</u>	<u>2,561</u>	<u>1,838</u>	<u>5,269</u>
Total reinsurance	3,606	5,491	6,721	10,910
Primary insurance:				
Commercial Line	506	1,262	765	2,033
Workers' compensation	-	1,488	-	2,127
Surety	858	2,444	1,404	4,469
General Liability	-	3,953	-	6,922
Program Business	<u>216</u>	<u>2,399</u>	<u>359</u>	<u>3,945</u>
Total primary insurance	<u>1,580</u>	<u>11,546</u>	<u>2,528</u>	<u>19,496</u>
Total net premiums earned	<u>5,186</u>	<u>17,037</u>	<u>9,249</u>	<u>30,406</u>
Net investment income	605	905	1,334	1,763
Interest on notes receivable	440	283	875	559
Commission and fee income:				
Brokerage commission income	1,151	508	1,624	999
Management fees from affiliate	<u>351</u>	<u>367</u>	<u>718</u>	<u>731</u>
Total commission and fee income	<u>1,502</u>	<u>875</u>	<u>2,342</u>	<u>1,730</u>
Net realized gains (losses)	(80)	175	(206)	415
Other income	<u>43</u>	<u>190</u>	<u>699</u>	<u>850</u>
Total Revenues	\$ <u>7,696</u>	\$ <u>19,465</u>	\$ <u>14,293</u>	\$ <u>35,723</u>

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

	Three months ended June 30,		Six months ended June 30,	
	2000	2001	2000	2001
Insurance operations:				
Loss and loss adjustment expense ratio	77.6%	63.2%	73.7%	62.0%
Expense ratio	<u>19.0</u>	<u>23.2</u>	<u>25.3</u>	<u>26.4</u>
Combined ratio	<u>96.6%</u>	<u>86.4%</u>	<u>99.0%</u>	<u>88.4%</u>

-17-

Quarter Ended June 30, 2001 Compared to Quarter Ended June 30, 2000

Net Premiums Earned. Net premiums earned increased 228% from \$5.2 million in the quarter ended June 30, 2000 to \$17.0 million in the quarter ended June 30, 2001. The principal factors accounting for the increase were an increase in the program business premiums by 1,010% or \$2.2 million, an increase in surety premiums by 184% or \$1.5 million, an increase in commercial lines premiums of 149% or \$750,000, an increase in general liability reinsurance premiums of 134% or \$1.5 million, and primary workers' compensation premiums and primary general liability premiums of \$1.9 million and \$4.0, respectively. The Company expects written premium volume from its workers' compensation and commercial lines of business to decrease, as the Company focuses its underwriting efforts on other lines of insurance business which are anticipated to be more profitable.

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

**Net Investment Income.** Net investment income increased 49.6% from \$605,000 in the quarter ended June 30, 2000 to \$905,000 in the quarter ended June 30, 2001 due to higher levels of invested assets generated from positive cash flows from operations. The average pre-tax yield on investments was 5.3% in the quarter ended June 30, 2000 and 5.2% in the quarter ended June 30, 2001. The average after-tax yield on investments was 4.2% in the quarter ended June 30, 2000 and 3.8% in the quarter ended June 30, 2001.

**Interest from Notes Receivable.** Interest from notes receivable decreased 35.7% from \$440,000 in the quarter ended June 30, 2000 to \$283,000 in the quarter ended June 30, 2001 due to the repayment of various loans. Average notes receivable decreased to \$9.1 million from \$12.3 million for the quarter.

**Brokerage Commission Income.** Income from insurance brokerage operations decreased 55.9% from \$1.2 million in the quarter ended June 30, 2000 to \$508,000 in the quarter ended June 30, 2001 as a result of lower levels of premiums produced by the Company's risk retention group affiliate, American Safety Risk Retention Group, Inc.

**Management Fees.** Management fees increased 4.6% from \$351,000 in the quarter ended June 30, 2000 to \$367,000 in the quarter ended June 30, 2001. The 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 \$80,000 in the quarter ended June 30, 2000 to a gain of \$175,000 for the quarter ended June 30, 2001 due to the sale of bonds in the Company's investment portfolio.

**Other Income.** Other income increased from \$43,000 in the quarter ended June 30, 2000 to \$190,000 for the quarter ended June 30, 2001 as a result of fees generated by the Company's financial services subsidiary, American Safety Financial Corp. No assurance can be given as to the regularity or amount of fees being generated by the Company's financial services subsidiary.

-18-

---

**Losses and Loss Adjustment Expenses.** Losses and loss adjustment expenses increased 167.6% from \$4.0 million in the quarter ended June 30, 2000 to \$10.8 million in the quarter ended June 30, 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 loss and loss adjustment expenses. During the quarter ended June 30, 2001, the Company recognized \$250,000 of reserve redundancies in certain previous 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 184% from \$1.1 million in the quarter ended June 30, 2000 to \$3.1 million in the quarter ended June 30, 2001 as a result of increased premiums earned. Premium tax expense also increased to \$765,000 from \$298,000 due to higher volumes of direct premiums earned.

**Payroll and Other Expenses.** Payroll and other expenses increased 12% from \$3.4 million in the quarter ended June 30, 2000 to \$3.8 million in the quarter ended June 30, 2001 due to increases in payroll and related items and non-capitalizable expenses development of the Harbour Village project.

**Income Taxes.** Federal and state income taxes increased from a benefit of \$291,000 in the quarter ended June 30, 2000 to an expense of \$220,000 in the quarter ended June 30, 2001 due to higher levels of income in the Company's U.S. subsidiaries operations.

Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000



**Net Premiums Earned.** Net premiums earned increased 228.7% from \$9.2 million in the six months ended June 30, 2000 to \$30.4 million in the six months ended June 30, 2001. The principal factors accounting for the increase were an increase in program business premiums by 998.9% or \$3.6 million, an increase in surety premiums by 218.3% or \$3.1 million, an increase in commercial lines premiums of 165.8% or \$1.3 million, an increase in general liability reinsurance premiums of 186.7% or \$3.4 million, and primary workers' compensation premiums and primary general liability premiums of \$2.1 million and \$6.9 million, respectively. The Company expects written premium volume from its workers' compensation and commercial lines of business to decrease, as the Company focuses its underwriting efforts other lines of insurance business which are anticipated to be more profitable.

**Net Investment Income.** Net investment income increased 32.2% from \$1.3 million in the six months ended June 30, 2000 to \$1.8 million in the six months ended June 30, 2001 due to higher levels of invested assets generated from positive cash flows from operations. The average pre-tax yield on investments was 5.7% in the six months ended June 30, 2000 and 5.2% in the six months ended June 30, 2001. The average after-tax yield on investments was 4.8% in the six months ended June 30, 2000 and 3.9% in the six months ended June 30, 2001.

**Interest from Notes Receivable.** Interest from notes receivable decreased 36.1% from \$875,000 in the six months ended June 30, 2000 to \$559,000 in the six months ended June 30, 2001 due to

-19-

---

repayment of various loans. Average notes receivable decreased to \$9 million in the six months ended June 30, 2001 from \$12.6 million in the six months ending June 30, 2000.

**Brokerage Commission Income.** Income from insurance brokerage operations decreased 38.5% from \$1.6 million in the six months ended June 30, 2000 to \$1 million in the six months ended June 30, 2001 due to lower levels of premiums produced by the Company's risk retention group affiliate, American Safety Risk Retention Group, Inc.

**Management Fees.** Management fees were \$718,000 in the six months ended June 30, 2000 and \$731,000 in the six months ended June 30, 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 \$206,000 in the six months ended June 30, 2000 to a gain of \$415,000 for the six months ended June 30, 2001 due to the sale of bonds in the Company's investment portfolio.

**Other Income.** Other income increased from \$699,000 in the six months ended June 30, 2000 to \$850,000 for the six months ended June 30, 2001 as a result of fees generated by the Company's financial services subsidiary, American Safety Financial Corp. No assurance can be given as to the regularity or amount of such fees being generated by the Company's financial services subsidiary.

**Losses and Loss Adjustment Expenses.** Losses and loss adjustment expenses increased 176% from \$6.8 million in the six months ended June 30, 2000 to \$18.9 million in the six months ended June 30, 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 six months ended June 30, 2001, the Company recognized \$500,000 of reserve redundancies in certain previous 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 234% from \$1.9 million in the six months ended June 30, 2000 to \$6.2 million in the six months ended June 30, 2001 as a result of increased premiums earned. Premium tax expense also increased to \$1.5 million from \$522,000 due to higher volumes of direct premiums earned.

**Payroll and Other Expenses.** Payroll and other expenses increased 28% from \$5.9 million in the six months ended June 30, 2000 to \$7.5 million in the six months ended June 30, 2001 as a result of increased payroll and related expenses in the Company's newer business units and non-capitalizable expenses of \$482,000 related to the development of the Harbour Village project.

**Income Taxes.** Federal and state income taxes increased from a benefit of \$1.3 million in the six months ended June 30, 2000 to an expense of \$259,000 in the six months ended June 30, 2001 due to higher levels of income in the Company's U.S. subsidiaries' operations.

-20-

---

## 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, commission income and management fees. The Company's short-term cash requirements are primarily for claims payments, reinsurance premiums, commissions, salaries, employee benefits and other operating expenses, and the purchase of investment securities, which requirements 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. 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. The Company also purchases reinsurance to mitigate the effect of large claims and to help stabilize demands on its liquidity.

On a consolidated basis, net cash provided from operations was \$4 million for the six months ended June 30, 2000 and \$13.6 million for the six months ended June 30, 2001. 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.

Total assets increased from \$207.3 million at December 31, 2000 to \$256 million at June 30, 2001 primarily due to increases in investments, reinsurance recoverables and real estate investments. Cash, invested assets and notes receivable increased from \$104.2 million at December 31, 2000 to \$132.6 million at June 30, 2001, as a result of increases in net premiums written, investment income and real estate investments. At June 30, 2001, the Company has repurchased 1,482,839 shares of its common stock at a total cost of \$8.5 million since January 1999.

American Safety is an insurance and financial services 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 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 July 31, 2001, the Company's marketing efforts had generated over \$100 million of pre-sales of condominium units and boat slips.

It is anticipated that Harbour Village will be developed in three Phases over the next three to five years, depending on future sales activities and economic conditions that may impact the marketing of the condominium units. In July 2000, the Company closed a \$37 million acquisition, development and construction loan facility in order to commence construction of Phase I of the project. Through June 30, 2001, the Company had borrowed \$22 million from this loan facility. The estimated construction and development cost for the entire Harbour Village project is approximately \$200 million over a three to five year period. 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.

#### 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.

---

#### 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.

#### Reserves

Certain of the Company's insurance policies and reinsurance assumed, including general and pollution liability policies covering environmental remediation risks, as well as workers' compensation policies, 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, opinions and rate studies. 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.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risks.

The Company's market risk has not changed materially since December 31, 2000.

-23-

---

## 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.

The Annual General Meeting of Shareholders of the Company was held on June 22, 2001 in Hamilton, Bermuda. Proxies for the Annual General Meeting were solicited by the Board of Directors pursuant to applicable Bermuda law. The Company's shareholders elected William O. Mauldin, Jr., Frederick C. Treadway and Jerome D. Weaver as directors to serve three year terms expiring at the Annual General Meeting of Shareholders in 2004. The votes for the directors totaled 3,509,554 and 1,100 votes withheld authority to elect the directors. In addition, the Company's shareholders ratified the appointment of KPMG as the independent public accountants for the Company's fiscal year ending December 31, 2001. The votes for such ratification totaled 3,350,554, with 159,800 votes against and 300 votes abstaining.

Item 5. Other Information.

Not applicable.

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

-24-

(b) Reports on Form 8-K.

None.

-25-

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 14th day of August 2001.

American Safety Insurance Group,

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)

-26-

Exhibit 11 American Safety Insurance Group, Ltd. and subsidiaries Computation of Earnings Per Share

	Three Months Ended		S June 30, 2000
	June 30, 2000	June 30, 2001	
Basic:			
Earnings (loss) available to common shareholders.....	\$ (492,097) =====	\$1,585,668 =====	\$ (2,440,850) =====
Weighted average common shares outstanding.....	5,525,804	4,799,206	5,726,229

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

Basic earnings (loss) per common shares	\$ (.09)	\$ .33	\$ (.43)
	=====	=====	=====
Diluted:			
Earnings (loss) available to common shareholders.....	\$ (492,097)	\$1,558,181	\$ (2,440,850)
	=====	=====	=====
Weighted average common shares outstanding.....	5,525,804	4,799,206	5,726,229
Weighted average common shares equivalents associated with options....	-	184,879	2,671
Total weighted average common shares.....	5,525,804	4,984,085	5,728,900
	=====	=====	=====
Diluted earnings (loss) per common shares	\$ (.09)	\$ .32	\$ (.43)
	=====	=====	=====