

AMERICAN SAFETY INSURANCE GROUP LTD
Form 10-Q
May 15, 2003

**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, 2003

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 No

The aggregate number of shares outstanding of Registrant's common stock, \$.01 par value, on May 9, 2003 was 4,739,888.

AMERICAN SAFETY INSURANCE GROUP, LTD.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	December 31,	
	<u>2002</u>	
<u>Assets</u>		
Investments:		
Fixed maturity securities available for sale, at fair value	\$ 85,850,658	\$
Investment in real estate	41,050,921	
Short-term investments	<u>18,565,871</u>	
Total investments	145,467,450	
Cash and cash equivalents	22,158,730	
Restricted cash	7,516,845	
Accrued investment income	1,751,417	
Notes receivable - other	6,649,716	
Premiums receivable	19,218,941	
Ceded unearned premium	22,612,159	
Reinsurance recoverable	117,547,623	
Funds on deposit	485,956	
Income tax recoverable	345,882	
Deferred income taxes	7,405,586	
Deferred policy acquisition costs	7,683,458	
Property, plant and equipment	2,117,096	
Prepaid items	1,920,054	
Intangible assets	1,466,629	
Other assets	<u>1,059,796</u>	
Total assets	\$ 365,407,338	\$
	=====	
<u>Liabilities and Shareholders' Equity</u>		
Liabilities:		
Unpaid losses and loss adjustment expenses	\$ 160,628,579	\$
Unearned premiums	69,805,945	
Reinsurance on paid losses and loss adjustment expenses	4,290,250	
Ceded premiums payable	8,141,181	
Due to affiliate	1,284,097	
Escrow deposits	14,808,528	
Accounts payable and accrued expenses	13,458,995	
Funds held	4,570,428	
Dividend payable	570,113	
Loan payable	22,182,273	
Collateral held	1,315,686	

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Deferred Revenue	1,574,414
Unearned loan fees	<u>325,000</u>
Total liabilities	<u>302,955,489</u>

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	December 31, <u>2002</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, 2002 and March 31, 2003, 6,352,077 shares	63,520	
Additional paid-in capital	35,601,246	
Retained earnings	33,629,557	
Accumulated other comprehensive income, net	2,884,989	
Treasury stock, 1,612,189 shares at December 31, 2002, and March 31, 2003, at cost	<u>(9,727,463)</u>	
Total shareholders' equity	<u>62,451,849</u>	
Total liabilities and shareholders' equity	\$ 365,407,338	\$
	=====	

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Group, Ltd. and Subsidiaries

**Consolidated Statements of Earnings
(Unaudited)**

	Three Months Ended <u>March 31,</u>	
	<u>2002</u>	<u>2003</u>
Revenues:		
Direct premiums earned	\$ 29,857,907	\$ 32,575,000
Assumed premiums earned:		
Affiliate	2,987,619	1,737,000
Nonaffiliates	<u>1,248,272</u>	<u>6,157,000</u>
Total assumed premiums earned	<u>4,235,891</u>	<u>7,894,000</u>
Ceded premiums earned:		
Affiliate	740,052	989,000
Nonaffiliates	<u>19,476,779</u>	<u>18,190,000</u>
Total ceded premiums earned	<u>20,216,831</u>	<u>19,179,000</u>
Net premiums earned	<u>13,876,967</u>	<u>21,291,000</u>
Net investment income	975,557	1,114,000
Management fees from affiliate	417,427	277,000
Net realized gains	82,247	150,000
Real estate income	19,038,740	5,429,000
Other income	<u>116,933</u>	<u>14,000</u>

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Total revenues	<u>34,507,871</u>	<u>28,278</u>
Expenses:		
Losses and loss adjustment expenses incurred	8,969,141	12,094
Acquisition expenses	2,376,027	4,156
Payroll and related expenses	2,101,748	2,221
Real estate expenses	16,695,328	6,161
Other expenses	1,135,589	2,345
Expense due to rescission	<u>210,748</u>	<u>83</u>
Total expenses	<u>31,488,581</u>	<u>27,063</u>
Earnings before income taxes	3,019,290	1,214
Income taxes (benefit)	<u>973,759</u>	<u>(5)</u>
Net earnings	<u>\$2,045,531</u>	<u>\$1,220</u>
	=====	=====
Net earnings per share:		
Basic	<u>\$ 0.43</u>	<u>\$</u>
Diluted	<u>\$ 0.42</u>	<u>\$</u>
Common shares used in computing earnings per share:		
Basic	4,704,505	4,739
	=====	=====
Diluted	4,863,370	4,796
	=====	=====

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Group, Ltd. and Subsidiaries

**Consolidated Statements of Cash Flow
(Unaudited)**

	<u>2002</u>	Three Mon <u>March</u>
Cash flow from operating activities:		
Net earnings	\$2,045,531	
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Realized gains/losses on sale of investments	(82,247)	
Amortization of deferred acquisition costs	(485,902)	
Change in:		
Accrued investment and interest income	143,181	
Premiums receivable	(3,881,138)	
Reinsurance recoverable and ceded unearned premiums	(13,306,876)	
Funds held by reinsured	(708,337)	
Due from affiliate	(1,718,851)	
Funds on Deposit	195,314	
Income taxes	740,728	
Unpaid losses and loss adjustment expenses	11,593,669	
Unearned premiums	1,690,115	
Ceded premiums payable	3,977,717	
Due to affiliate	1,640,107	
Accounts payable and accrued expenses	(357,474)	
Collateral	221,437	
Prepaid items	(439,847)	
Deferred revenue	743,224	
Other, net	<u>(904,419)</u>	

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Net cash provided by operating activities	<u>1,105,932</u>
Cash flow from investing activities:	
Purchases of fixed maturities	(16,151,771)
Proceeds from maturity and redemption of fixed maturities	20,862
Proceeds from sale of fixed maturities	13,204,336
Proceeds from sale of equity investments	103,550
Decrease (increase) in investment in real estate	5,201,333
Increase in short-term investments	3,562,880
Repayment in notes receivable - other	99,650
Purchase of fixed assets, net	<u>(47,801)</u>
Net cash provided by (used in) investing activities	<u>5,993,039</u>
Cash flow from financing activities:	
Purchase of treasury stock	(111,741)
Proceeds from issuance of common stock	310,496
Proceeds (repayment) from loan payable	(7,264,547)
Withdrawals from restricted cash, net	721,172
Proceeds (repayment) from escrow deposits	<u>(1,322,198)</u>
Net cash provided by (used in) financing activities	<u>(7,666,818)</u>
Net increase (decrease) in cash	(567,847)
Cash and cash equivalents at beginning of period	<u>1,302,842</u>
Cash and cash equivalents at end of period	\$ 734,995 =====
Supplemental disclosure of cash flow information:	
Income taxes paid	\$ (161,891) =====
Interest paid	\$ 113,634 =====

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Group, Ltd. and Subsidiaries

**Consolidated Statements of Comprehensive Earnings
(Unaudited)**

	Three Months 2003
Net earnings	\$ 2,045,531
Other comprehensive earnings (loss) before income taxes:	
Unrealized gains (losses) on securities available for sale	(1,542,626)
Reclassification adjustment for realized gains included in net earnings	<u>82,247</u>
Total other comprehensive earnings (loss) before taxes	(1,624,873)
Income tax expense (benefit) related to items of other comprehensive income	<u>(397,532)</u>

Other comprehensive earnings (loss) net of income taxes	(1,227,341)
Total comprehensive earnings	\$818,190 =====

See accompanying notes to consolidated financial statements (unaudited).

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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, 2003 may not be indicative of the results that may be expected for the full year ending December 31, 2003. 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, 2002.

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.

Note 2 - Accounting Pronouncements

During the last two years, the Financial Accounting Standards Board (FASB) has issued a number of accounting pronouncements with various effective dates. Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations; SFAS No. 142, Goodwill and Other Intangible Assets; SFAS No. 143, Accounting for Asset Retirement Obligations; SFAS No. 144, Accounting for the impairment or Disposal of Long-Live Assets; SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections; SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities; and SFAS No. 147, Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements

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No. 72 and 144 and FASB Interpretation No. 9. These pronouncements do not have a material effect on our financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. This standard, which amends the transition and disclosure issues associated with SFAS No. 123, became effective for years ending after December 15, 2002. We have no plans to adopt the fair value provisions of SFAS No. 123. The requirements of this standard did not impact our financial position or results of operations. However, the Company is subject to the disclosure requirements of SFAS 148 as evidenced in Note 12 of this report.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. The disclosure provisions of this interpretation are effective for fiscal years ending after December 15, 2002. The initial recognition and measurement provisions of this interpretation apply to guarantees issued or modified after December 31, 2002 on a prospective basis. This interpretation is not expected to have a material impact on our financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation addresses consolidation and disclosure issues associated with variable interest entities. The requirements of the interpretation are not expected to have a material impact on our financial position or results of operations.

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 will create additional expenses not anticipated by the insurer in pricing its products 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.

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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.

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, 2002 and March 31, 2003 are as follows:

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	Amortized <u>cost</u>	Gross unrealized <u>gains</u>	Gross unrealized <u>losses</u>
December 31, 2002:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$36,361,353	\$1,451,538	\$ 569
Corporate securities	34,791,767	2,006,419	60,538
Mortgage-backed securities	<u>10,945,048</u>	<u>359,776</u>	<u>4,136</u>
Total fixed maturities	\$82,098,168 =====	\$3,817,733 =====	\$ 65,243 =====
March 31, 2003:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$43,335,040	\$1,722,329	\$ 1,099
Corporate securities	33,835,355	2,353,842	104,854
Obligations of states and political subdivisions	12,866,562	112,494	871
Mortgage-backed securities	<u>11,541,626</u>	<u>105,310</u>	<u>1,773</u>
Total fixed maturities	\$101,578,583 =====	\$4,293,975 =====	\$108,597 =====

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:

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.

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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. These products have been aggregated into the insurance segments, which is further broken down into United States-Insurance and Bermuda.

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 subsidiaries, 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>2002</u>	<u>2001</u>
<u>United States - Insurance</u>		
Net premiums earned - All other	\$13,817,064	\$20,954,000
Net premiums earned - Intersegment	(4,979,511)	(6,832,000)
Net investment income and interest on notes receivable	759,261	828,000

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Real estate income	-	
Other revenues	<u>530,264</u>	<u>443,</u>
Total revenues	10,849,348	15,392,
Interest expense	37,500	88,
Depreciation and amortization expense	54,006	68,
Equity in net earnings of subsidiaries	-	
Income taxes expense (benefit)	16,825	267,
Segment profit/(loss)	148,302	490,
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	910,569	901,
Total investments	63,032,678	91,534,
Total assets	246,603,956	318,927,
Total policy and contract liabilities	180,963,239	241,824,

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	Three Months Ended March 31,	
	<u>2002</u>	<u>2001</u>
Total liabilities	217,985,866	285,734,
<u>United States - Real Estate</u>		
Net premiums earned - All other	-	
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	-	
Real estate income	19,038,740	5,429,
Other revenues	<u>1,447</u>	<u>37,</u>
Total revenues	19,040,187	5,429,
Interest expense	113,634	196,
Depreciation and amortization expense	28,059	42,
Equity in net earnings of subsidiaries	-	
Income taxes expense (benefit)	956,934	(273,
Segment profit/(loss)	1,463,296	(458,
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	349,397	510,
Total investments	32,461,267	50,102,
Total assets	38,987,419	66,225,
Total policy and contract liabilities	-	
Total liabilities	26,463,319	53,341,
<u>Bermuda</u>		
Net premiums earned - All other	59,903	337,
Net premiums earned - Intersegment	4,979,511	6,832,
Net investment income and interest on notes receivable	216,296	286,
Real estate income	-	
Other revenues	<u>122,396</u>	<u>37,</u>
Total revenues	5,378,106	7,456,
Interest expense	-	
Depreciation and amortization expense	5,000	5,
Equity in net earnings of subsidiaries	1,611,598	31,
Income taxes	-	
Segment profit	433,933	1,188,
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	834,167	814,
Total investments	70,568,385	89,475,
Total assets	102,443,873	121,356,

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Total policy and contract liabilities	29,096,208	41,606,
Total liabilities	30,693,414	43,499,

Intersegment Eliminations

Net premiums earned - All other	-
Net premiums earned - Intersegment	-
Net investment income and interest on notes receivable	-

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	Three Months Ended March 31,	
	<u>2002</u>	<u>2001</u>
Real estate income	-	
Other revenues	(37,500)	(37,500)
Total revenues	(37,500)	(37,500)
Interest expense	(37,500)	(37,500)
Depreciation and amortization expense	-	
Equity in net earnings (loss) of subsidiaries	(1,611,598)	(31,500)
Income taxes	-	
Segment profit (loss)	-	
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	-	
Total investments	(52,459,132)	(59,912,000)
Total assets	(82,188,580)	(103,147,000)
Total policy and contract liabilities	(22,147,124)	(34,489,000)
Total liabilities	(29,729,452)	(43,235,000)
<u>Total</u>		
Net premiums earned - All other	13,876,967	21,291,000
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	975,557	1,114,000
Real estate income	19,038,740	5,429,000
Other revenues	616,607	443,000
Total revenues	34,507,871	28,278,000
Interest expense	113,634	247,000
Depreciation and amortization expense	87,065	115,000
Equity in net earnings of subsidiaries	-	
Income taxes expense (benefit)	973,759	(5,000)
Segment profit (loss)	2,045,531	1,220,000
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	2,094,133	2,226,000
Total investments	113,603,198	171,199,000
Total assets	305,846,668	403,361,000
Total policy and contract liabilities	187,912,323	248,941,000
Total liabilities	245,413,147	339,340,000

Note 6 - Shareholder Matters

During the three months 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

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"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, 2002 and March 31, 2003, the investment in real estate for the Harbour Village project is as follows (in thousands):

	<u>December 31, 2002</u>	<u>March 31, 2003</u>
Land	\$2,437	\$2,624
Capitalized overhead, interest and taxes	3,021	3,452
Work in process	<u>35,593</u>	<u>44,026</u>
Total	<u>\$41,051</u> =====	<u>\$50,102</u> =====

During the quarter ended March 31, 2003, the Company closed 10 condominium units and 14 boat slips at Harbour Village and for the quarter ended March 31, 2002, the Company closed 66 condominium units and 25 boat slips. The Company recognizes revenue when title to each individual unit or boat slip 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.

Note 8 - Income Taxes

Total income tax expense for the three months ended March 31, 2002 and 2003 were allocated as follows:

	Three Months Ended March 31,	
	<u>2002</u>	<u>2003</u>
Tax expense attributable to:		
Income from continuing operations	\$ 973,759	\$ (5,475)
Change in unrealized gains on securities available for sale	<u>(397,532)</u>	<u>98,166</u>
Total	<u>\$576,227</u> =====	<u>\$92,691</u> =====

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

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	<u>Current</u>	<u>Deferred</u>
March 31, 2002	394,380	579,379
March 31, 2003	1,076,792	(1,082,267)

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The state income tax components aggregated \$139,865 and \$(31,735) for the three months ended March 31, 2002 and 2003, respectively.

Income tax expense (benefit) for the periods ended March 31, 2002 and 2003 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>2002</u>	March 31, <u>2003</u>
Expected income tax expense	\$1,026,559	\$ 413,000
Foreign earned income not subject to U.S. taxation	(147,537)	(404,000)
State taxes and other	<u>94,737</u>	<u>(14,400)</u>
	\$973,759 =====	\$ (5,400) =====

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:

	December 31, <u>2002</u>	March <u>2003</u>
Deferred tax assets:		
Loss reserve discounting	3,196,291	3,574,000
Unearned premium reserves	2,301,174	2,323,000
Difference between tax and GAAP basis of Harbour Village Project	<u>4,481,199</u>	<u>4,892,000</u>
Gross deferred tax assets	<u>\$9,978,664</u>	<u>\$10,790,000</u>
Deferred tax liabilities:		
Deferred acquisition costs	1,718,506	1,448,000
Unrealized gain on securities	852,800	950,000

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	December 31,	March
Other	<u>1,772</u>	<u>1,000</u>
Gross Deferred tax liabilities	<u>2,573,078</u>	<u>2,401,000</u>
Net deferred tax asset	\$7,405,586 =====	\$8,389,000 =====

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 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.

As of March 31, 2003, notes receivable consists of two notes which are secured by real and personal property and various corporate and personal guarantees.

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The recorded investment in notes receivable, which meet the definition of impaired loans at December 31, 2002 and March 31, 2003 were \$6,649,716 and \$6,144,716, respectively. The weighted average recorded investment in impaired notes receivable as of December 31, 2002 and March 31, 2003 were \$7,723,853 and \$6,397,216, respectively. No interest income was recognized on impaired notes receivable during the three months ended March 31, 2002 and March 31, 2003. During the quarter ended March 31, 2003, the Company received \$505,000 in payments on these impaired notes receivable.

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).

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Goodwill and Intangibles (in Thousands)	December 31, <u>2002</u>	March 31, <u>2003</u>
Goodwill	\$ -	\$ -
Indefinite-lived Intangibles	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 shows the effect of the goodwill and intangibles amortization on the reported net income for the three months ended March 31, 2001 and March 31, 2003 to show comparability between the periods presented.

	<u>2002</u>	Three Months Ended March 31 (In Thousands) <u>2003</u>
Reported Net Earnings	\$2,046	\$1,220
Add back: Goodwill and Intangibles Amortization	<u>-</u>	<u>-</u>
Adjusted Net Earnings	\$2,046 =====	\$1,220 =====
Earnings Per Share Diluted		
Reported Net Earnings	\$0.43	\$0.26
Add back: Goodwill and Intangibles Amortization	<u>-</u>	<u>-</u>
Adjusted Net Earnings - Basic	\$0.43 =====	\$0.26 =====
Adjusted Net Earnings - Diluted	\$0.42 =====	\$0.25 =====

Note 11 - Commitments and Contingencies

During the fourth quarter of 2001, one of the Company's former reinsurers, Berkley Insurance Company, disputed its obligations under several reinsurance treaties entered into during the soft reinsurance market that existed in 1998 and 1999. As a result of adverse loss experience to the reinsurer from certain lines of business, Berkley has stopped reimbursing the Company for amounts due under such treaties and requested that the Company retroactively consider taking a greater portion of the losses than is required under the treaties or, alternatively, to rescind and reform

portions of certain treaties. The Company instituted arbitration proceedings against the reinsurer and the arbitration hearing is scheduled for late May 2003. Berkley is a subsidiary of W.R. Berkley Corp. (NYSE:BER). As of March 31, 2003, unreimbursed paid claims under the treaties totaled \$16.8 million and additional ceded case reserves and reserves for incurred but not reported losses totaled approximately \$17.7 million. The Company is discussing resolution of this matter with Berkley, although the Company believes the reinsurer's request has no merit and was made in bad faith. The Company recognized a \$1.1 million expense in 2002 for reinsurance recoverables relating to the Berkley dispute. The Company does not believe this dispute will have a material adverse

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effect on the overall financial condition or liquidity of the Company as management believes the Company has sufficient current cash flows and invested assets to meet its insurance obligations. However, due to the fact that the final decision rests in the hands of an arbitration panel, it is uncertain whether the panel's decision will be on terms favorable to the Company.

Note 12 - Employee Stock Options

At March 31, 2003, the Company had an employee stock options plan. The Company applied the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for the plan. No compensation expense is reflected in net earnings as all options granted under our stock option plan have an exercise price equal to the market value of the underlying common stock on the date of grant. The options in the plan vest evenly over a three year period. The following table illustrates the effect on net earnings and earnings per share, assuming we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

	Three Months Ending March 31	
	<u>2002</u>	<u>2003</u>
	(In thousands, except per share amounts)	
Net earnings:		
As reported	\$ 2,045	\$ 1,220
Effect of stock options	<u>166</u>	<u>72</u>
Pro forma net earnings	\$ 1,879 =====	\$ 1,148 =====
Net earnings per share		
Basic - as reported	\$ 0.43	\$ 0.26
Basic - pro forma	\$ 0.40	\$ 0.24
Diluted - as reported	\$ 0.42	\$ 0.25
Diluted - pro forma	\$ 0.39	\$ 0.23

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Item 2. Management's Discussion and Operations

General

American Safety Insurance Group, Ltd. (the Company or 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, contracting and other specialty risks. The Company is also the owner/developer of the

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Harbour Village Golf & Yacht Club (Harbour Village), a residential condominium, marina, par 3 golf course and beach club project in Ponce Inlet, Florida. Unless the context indicates otherwise, all references to the Company or American Safety refer to American Safety Insurance Group, Ltd. and its subsidiaries.

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

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	Three Months Ended March 31,		Three Months Ended March 31, 2002 to 2003
	<u>2002</u>	<u>2003</u>	<u>2003</u>
	<u>(Dollars in thousands)</u>		
Net Premiums earned:			
Reinsurance:			
Workers' compensation	\$ -	\$ -	-%
General liability	3,043	1,787	(41.3)
Program business	-	39	100.0
Total reinsurance	<u>3,043</u>	<u>1,826</u>	<u>(40.0)</u>
Primary insurance:			
Commercial Line	542	-	(100.0)
Workers' compensation	2,302	1,363	(40.8)
Surety	406	163	(59.9)
General liability	6,500	14,024	115.8
Program business	<u>1,084</u>	<u>3,916</u>	<u>261.3</u>
Total primary insurance	<u>10,834</u>	<u>19,466</u>	<u>79.7</u>
Total net premiums earned	<u>13,877</u>	<u>21,292</u>	<u>53.4</u>
Net investment income	976	1,114	14.1
Interest on notes receivable	-	-	-
Commission and fee income:			
Brokerage commission income	65	-	(100.0)
Management fees from affiliate	<u>417</u>	<u>278</u>	<u>(33.3)</u>
Total commission and fee income	<u>482</u>	<u>278</u>	<u>(42.3)</u>
Net realized gains (losses)	82	151	84.1
Real estate income	19,039	5,430	(71.5)
Other income	<u>52</u>	<u>41</u>	<u>(73.1)</u>
Total Revenues	<u>\$34,508</u>	<u>\$28,279</u>	<u>(18.1)%</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>2001</u>	<u>2002</u>	<u>2003</u>
Insurance operations:			
Loss and loss adjustment expense ratio	63.9%	64.6%	56.8%
Expense ratio	<u>26.6</u>	<u>21.9</u>	<u>28.6</u>
Combined ratio	<u>90.5%</u>	<u>86.5%</u>	<u>85.4%</u>

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Quarter Ended March 31, 2003 Compared to Quarter Ended March 31, 2002

Net Premiums Earned. Net premiums earned increased 53.4% to \$21.3 million in the quarter ended March 31, 2003 from \$13.9 million in the quarter ended March 31, 2002. The principal factors accounting for the increase were a \$6.3 million increase in general liability premiums, and a \$2.9 million increase in program business premiums. Net premiums earned for workers' compensation, commercial lines, and surety decreased 53.0% to \$1.5 million from \$3.3 million, which is consistent with the Company's strategy to focus on its more profitable lines of insurance business.

Net Investment Income. Net investment income increased to \$1.1 million in the quarter ended March 31, 2003 from \$976,000 in the quarter ended March 31, 2002 due to higher levels of invested assets generated from positive cash flows from operations. The average pre-tax yield on investments was 4.7% in the quarter ended March 31, 2002 and 4.0% in the quarter ended March 31, 2003. The average after-tax yield on investments was 3.5% in the quarter ended March 31, 2002 and 3.0% in the quarter ended March 31, 2003.

Brokerage Commission Income and Management Fees. Income from insurance brokerage operations and management fees decreased 42.3% from \$482,000 in the quarter ended March 31, 2002 to \$278,000 in the quarter ended March 31, 2003. This decrease is the result of lower costs allocated to the Company's risk retention affiliate. These allocations are based on premiums written.

Net Realized Gains. Net realized gains increased from \$82,000 in the quarter ended March 31, 2002 to \$151,000 for the quarter ended March 31, 2003 due to the sale of bonds in the Company's investment portfolio.

Real Estate Income. Real estate income at the Harbour Village project decreased 71.5% to \$5.4 million in the quarter ended March 31, 2003 from \$19 million in the quarter ended March 31, 2002. This income was realized from the closing of 10 condominium units and 7 boat slips in the quarter ended March 31, 2003, and from the closing of 66 condominium units and 25 boat slips in the quarter ended March 31, 2002. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses increased 34.8% from \$9 million in the quarter ended March 31, 2002 to \$12.1 million in the quarter ended March 31, 2003 due to increases in earned premiums. The loss ratio has decreased to 57% in the quarter ended March 31, 2003 from 65% in the quarter ended March 31, 2002, as a result of decreased earned premium in commercial lines, surety, and workers' compensation lines of business.

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Acquisition Expenses. Policy acquisition expenses increased to \$4.2 million for the quarter ended March 31, 2003 from \$2.4 million for the quarter ended March 31, 2002, as a result of increased earned premiums. Premium tax expense has decreased to \$485,000 from \$1.1 million due to lower volumes of direct premiums which are subject to premium taxes.

Payroll and Other Expenses. Payroll and other expenses increased 41.1% from \$3.2 million in the quarter ended March 31, 2002 to \$4.6 million in the quarter ended March 31, 2003 due to higher payroll expense and also from legal expenses associated with the arbitration proceedings with Berkley Insurance Company.

Real Estate Expenses. Real estate expenses associated with Harbour Village decreased from \$16.7 million in the quarter ended March 31, 2002 to \$6.2 million in the quarter ended March 31, 2003. Of the \$6.2 million of costs recognized during the quarter ended March 31, 2003, \$5.1 million were previously capitalized variable costs related to the sale of condominium units and boat slips, and the remaining \$1.1 million were fixed costs of the project, which includes advertising and other administration costs. Of the \$16.7 million of costs recognized during the quarter ended March 31, 2002, \$15.8 million was previously capitalized variable costs related to the sale of condominium units and

boat slips and the remaining \$900,000 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.

Expense Due to Rescission. Expense due to rescission litigation was \$84,000 for the quarter ended March 31, 2003 as compared to \$211,000 for the quarter ended March 31, 2002. All of these expenses were litigation related.

Income Taxes (Benefit). Federal and state income taxes decreased to a benefit of \$5,500 in the quarter ended March 31, 2003 from an expense of \$974,000 in the quarter ended March 31, 2002 due to lower levels of income in the Company's real estate operations

Total Earnings. Net earnings after tax decreased 40.3% to \$1.2 million for the quarter ended March 31, 2003 from \$2.0 million for the quarter ended March 31, 2002.

The Company's net earnings are detailed as follows (in thousands):

	Quarter Ended March 31, 2002	Quarter March 31
Insurance Operations	\$ 604	\$ 1,6
Real Estate Operations	1,463	(4
Other	<u>(22)</u>	<u> </u>
Net Earnings	\$ 2,045	\$ 1,2

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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 written, investment income, income from real estate development sales, commission income, management fees and reinsurance recoverables from reinsurers. The Company's short-term cash requirements are primarily for claims payments, reinsurance premiums, commissions, salaries, employee benefits, real estate development expenses, 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 described in Item 1. of 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.

As discussed in Item 1. of this Report, the Company has a pending material dispute with Berkley Insurance Company, one of the Company's former reinsurers, with respect to unreimbursed paid claims under treaties totaling \$16.8 million and additional ceded case reserves and reserves for incurred but not reported losses totaling approximately \$17.7 million as of March 31, 2003. The Company recognized a \$1.1 million expense in 2002 for reinsurance recoverables relating to the Berkley dispute as a result of a settlement offer made by the Company. The Company does not believe this dispute will have a material adverse effect on the overall financial condition or liquidity of the Company as management believes the Company has sufficient current cash flows and invested assets to meet its insurance obligations. However, due to the fact that the final decision rests in the hands of an arbitration panel, it is uncertain whether the panel's decision will be on terms favorable to the Company.

On a consolidated basis, net cash provided from operations was \$1.1 million for the quarter ended March 31, 2002 and \$8.7 million for the quarter ended March 31, 2003. The positive cash flows for said periods were primarily attributable to net premiums written, net earnings and real estate sales. Since 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 \$365.4 million at December 31, 2002 to \$403.4 million at March 31, 2003 primarily due to increases in invested assets, cash and reinsurance recoverables. Cash, invested assets and notes receivable increased from \$174.3 million at December 31, 2002 to \$200.9

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million at March 31, 2003, as a result of increases in fixed maturities and cash. At March 31, 2003, the Company has repurchased 1,612,189 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.

The Company, through its subsidiary, American Safety Holdings Corp., has a loan facility of \$5.0 million, which bears interest at LIBOR plus 2.5%. The outstanding amount of this loan at March 31, 2003 is \$5.0 million and is due in 2004.

Management has planned that Harbour Village will be developed in three Phases with projected completion in 2005. Through March 31, 2003, the Company had outstanding borrowings of \$26.6 million from an initial \$37 million development and construction loan facility. The estimated completion cost for the remainder of the Harbour Village project is approximately \$43.8 million. 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 our 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 the Harbour Village project during the next 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.

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 the Company's insurance and reinsurance programs.

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 forward-looking statements within the meaning of United States securities laws which are intended to be covered by the safe harbors created thereby. Such statements include the Company's estimations of future insurance claims and losses, and the Company's expectations with respect to the outcome of the Principal Management acquisition rescission litigation, the arbitration of the Berkley reinsurance recoverables dispute, and the future profitability and value of the Harbour Village real estate project, 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, timing or collectibility of reinsurance receivables, market acceptance of new coverages and enhancements, changes in reinsurance costs and availability, potential adverse decisions in litigation and arbitration proceedings, and changes in levels of general business activity and economic conditions. With respect to the development of the Harbour Village 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, 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. An adverse outcome of the Principal Management acquisition rescission litigation or the arbitration of the Berkley reinsurance recoverables dispute would have a material adverse effect on the financial condition of the Company. See discussion in Item 3. of this Report as to these material matters.

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, 2002.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) as of a date within ninety days before the filing of this Report, have concluded that, as of such date, our disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company (including consolidated subsidiaries) would be made known to them.

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Changes in Internal Controls

There were no significant changes in our internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. As a result, no corrective actions were required or undertaken.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The Company, through its subsidiaries, is routinely a party to pending or threatened litigation in the normal course of or related to its business. Based upon information presently available, in view of legal and other defenses available to the Company's subsidiaries, management does not believe that any pending or threatened litigation or disputes will have any material adverse effect on the Company's financial condition except for the following matters.

Principal Management, Inc. et al. In January 2000, the Company acquired (i) the stock of L&W Holdings, Inc. and its wholly-owned subsidiary, RCA Syndicate #1, Ltd., an Illinois licensed insurer operating on the INEX (formerly the Illinois Insurance Exchange), (ii) the stock of Principal Management, Inc., an insurance program development and management company headquartered in Okemos, Michigan, and in a related transaction, the Company also acquired (iii) the stock of Pegasus Insurance, a Cayman Islands licensed insurer. The transactions were structured as stock acquisitions, with the purchase price payable by the Company consisting of \$3,500,000 plus 200,000 American Safety common shares and earnout provisions for up to an additional 254,000 American Safety common shares over a five-year period. Of the purchase price, \$1,000,000 of cash and 109,086 shares of stock are held by the Company in escrow to secure the obligations of the sellers.

When RCA Syndicate #1, Ltd. filed its 1999 Annual Statement with the Illinois Department of Insurance in March 2000, the Company first became aware that there had been a material adverse change in the business affairs and financial condition of the acquired companies from that represented by the sellers. The Company launched an investigation which disclosed that the insurance claims experience of the acquired companies had been misrepresented and that incurred losses from insurance claims were significantly in excess of the amounts reported in their claims records and their financial statements. As a result, the Company then made written demand upon the selling shareholders of the acquired companies for rescission of the acquisitions, including a return of the purchase price paid for the companies. The Company filed a lawsuit in April 2000 in the United States District Court for the Northern District of Georgia for damages and, alternatively, to rescind the acquisitions based upon the sellers' breach of the representations and warranties made concerning the business affairs and financial condition of the acquired companies. The sellers' misrepresentations as to the business affairs and financial condition of the acquired companies, and the under-reserving for claims, relate only to the operations of the acquired companies. The sellers/defendants filed several motions for summary judgment opposing the Company's rescission claims. In September 2002, the Court entered an order granting the defendants' motions for summary judgment. However, the Court did not rule that the representations and warranties of the defendants in the definitive agreements were correct. The Court also granted the Company's motions for summary judgment on various counterclaims. The Company filed a motion for reconsideration with respect to the Court's order which the Court denied in November 2002. The case will now proceed to trial or the Court may allow additional summary judgment motions to be filed in order to dispose of the case. Thereafter, the Company will have the right to appeal all adverse prior rulings in the case.

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Berkley Insurance Company. During the fourth quarter of 2001, one of the Company's former reinsurers, Berkley Insurance Company, disputed its obligations under several reinsurance treaties entered into during the soft reinsurance market that existed in 1998 and 1999. As a result of adverse loss experience to the reinsurer from certain lines of business, Berkley has stopped reimbursing the Company for amounts due under such treaties and requested that the Company retroactively consider taking a greater portion of the losses than is required under the treaties or, alternatively, to rescind and reform portions of certain treaties. The Company instituted arbitration proceedings against the reinsurer and the arbitration hearing is scheduled for late May 2003. Berkley is a subsidiary of W.R. Berkley Corp. (NYSE:BER). As of March 31, 2003, unreimbursed paid claims under the treaties

totaled \$16.8 million and additional ceded case reserves and reserves for incurred but not reported losses totaled approximately \$17.7 million. The Company is discussing resolution of this matter with Berkley, although the Company believes the reinsurer's request has no merit and was made in bad faith. The Company recognized a \$1.1 million expense in 2002 for reinsurance recoverables relating to the Berkley dispute. The Company does not believe this dispute will have a material adverse effect on the overall financial condition or liquidity of the Company as management believes the Company has sufficient current cash flows and invested assets to meet its insurance obligations. However, due to the fact that the final decision rests in the hands of an arbitration panel, it is uncertain whether the panel's decision will be on terms favorable to the Company.

Harbour Village Zoning. On March 2, 2002, the Town of Ponce Inlet filed a petition for declaratory relief in the Circuit Court of Volusia County, Florida seeking clarification that the Company could not construct a building higher than 35 feet on its beachfront parcels in the last phase of the Harbour Village project, although the Town had permitted 30 other buildings in the Town over 35 feet in height, including 10 at the Harbour Village project. The Company's position was that the Town's 1984 ordinance and subsequent development agreements permitted it to construct a beachfront building of up to 70 feet in height in the Harbour Village project. On March 17, 2003, the Court found that a 1983 Town charter amendment limited all buildings in the Town of Ponce Inlet to 35 feet and accordingly ruled that all ordinances and development agreements of the Town adopted since the 1983 charter amendment were beyond the scope of the Town's authority (i.e., ultra vires).

The Company immediately filed a motion for rehearing and upon rehearing on April 11, 2003, the Court vacated its original ruling and issued a new ruling which limited construction of a building no higher than 35 feet on the beachfront parcels. In connection with the rehearing, the Company and the Town of Ponce Inlet agreed to settle pending disputes as to the Company's development plan for the last phase of Harbour Village project and to release all claims against each other. Under the settlement, the Company would (i) continue construction of the 7 story buildings in the Links phase (containing 376 units), (ii) build not more than a 3 story building with condominium units or a beach club on the beachfront parcels, (iii) reduce the Fisherman's Harbour building to a 2 or 3 story commercial center rather than a mixed use 7 story building (planned for 70 units), and (iv) make other accommodations including the payment of \$500,000 to the Town.

These changes in the Company's development plans would reduce the size of the Harbour Village project from 809 to 676 condominium units. As a result, the Company has reallocated the common and land costs of the Harbour Village project over such reduced number of condominium units.

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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:

<u>Exhibit No.</u>	<u>Description</u>
11	Computation of Earnings Per Share
99	Harbour Village Development Status

(b) Reports on Form 8-K.

None.

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

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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 2003.

American Safety Insurance Group, Ltd.

By: /s/ Stephen R. Crim
Stephen R. Crim
President and Chief Executive Officer

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

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Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002

I, Stephen R. Crim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Safety Insurance Group, Ltd.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and
 - c. presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2002

/s/ Stephen R. Crim
Stephen R. Crim
Chief Executive Officer
American Safety Insurance Group, Lt

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Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002

I, Steven B. Mathis, certify that:

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

1. I have reviewed this Quarterly Report on Form 10-Q of American Safety Insurance Group, Ltd.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and
 - c. presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Steven B. Mathis
Steven B. Mathis
Chief Financial Officer
American Safety Insurance Group, Lt

American Safety Insurance Group, Ltd. and subsidiaries

Computation of Earnings Per Share

	<u>Quarter ended</u>	
	March 31, <u>2001</u>	March 31, <u>2002</u>
Basic:		
Earnings available to common shareholders.....	\$ 2,045,531 =====	\$1,220,353 =====
Weighted average common shares outstanding.....	4,704,505	4,739,888
Basic earnings per common shares ...	\$.43 =====	\$.26 =====
Diluted:		
Earnings available to common shareholders.....	\$2,045,531 =====	\$1,220,353 =====
Weighted average common shares outstanding.....	4,704,505	4,739,888
Weighted average common shares equivalents associated with options....	158,865	56,884
Total weighted average common shares.....	4,863,370 =====	4,796,772 =====
Diluted earnings per common shares.....	\$.42 =====	\$.25 =====

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**Exhibit 99 Harbour
Village Development Status**

(000)s except references to Condo Units

(unaudited)

Exhibit 99

Harbour Village Development Status

(000)s except references to Condo Units

(unaudited)

Phase 1

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	Marina Condos	Townhouses Oak Hammock	Riverwalk
3/31/2003			
Planned Number of Condo Units and Boat Slips	248	18	28
Condo Units and Boat Slips under Contract	248	15	26
Value of Pre-sale Contracts (Note 1)	62,892	6,696	10,085
Number of Closed Units	248	9	15
Number of Buildings	8	4	6
Number of Buildings Complete by Task			
Building Foundation	8	4	6
Vertical Building Completed	8	4	6
Interior Finish Completed	8	4	5
Certificate of Occupancy Received	8	4	5
Actual 3/31/2003 YTD			
Units Closed	-	6	4
Revenue Recognized	194	2,713	1,662
Other Revenue			
Total Revenue			
Gross Profit (Loss) Recognized	7	(18)	(55)
Other Expense (Income) Items (Note 2)			
Pre-Tax Profit (Loss)			
Outlook For 2nd Quarter of 2003			
Units Closed	-	4	4
Revenue Recognized	157	1,661	1,592
Other Revenue			
Total Revenue			
Gross Profit Recognized	19	-	-
Other Expense (Income) Items			
Pre-Tax Profit			

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.

Note 3 - As a result of the settlement of material zoning litigation brought by the Town of Ponce Inlet, Florida, the Company, among other matters, will reduce the Fisherman s Harbour building to a 2 story commercial center, rather than a mixed use building with 70 units.

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

(unaudited)

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.