

AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form 10-Q
May 14, 2004

**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, 2004

Commission File Number 1-14795

AMERICAN SAFETY INSURANCE HOLDINGS, 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 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 ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate number of shares outstanding of Registrant's common stock, \$.01 par value, on May 4, 2004 was 6,921,935.

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

American Safety Insurance Holdings, Ltd. and Subsidiaries Consolidated Balance Sheets

| | December 31, <u>2003</u> | |
|---|-----------------------------|----------|
| Assets | | |
| Investments: | | |
| Fixed maturity securities available for sale, at fair value | \$214,043,420 | \$ 23 |
| Common stock | 2,694,736 | |
| Investment in real estate | 37,855,549 | 3 |
| Short-term investments | <u>5,680,817</u> | <u>2</u> |
| Total investments | 260,274,522 | 29 |
| Cash and cash equivalents | 32,153,379 | 3 |
| Restricted cash | 1,767,614 | |
| Accrued investment income | 2,771,691 | |
| Notes receivable | 1,435,000 | |
| Premiums receivable | 27,944,508 | 2 |
| Ceded unearned premium | 27,109,135 | 3 |
| Reinsurance recoverable | 126,986,307 | 13 |
| Funds on deposit | 1,165,301 | |
| Income tax recoverable | 936,010 | |
| Deferred income taxes | 11,684,609 | 1 |
| Deferred policy acquisition costs | 11,960,495 | 1 |
| Property, plant and equipment | 4,094,763 | |
| Prepaid items | 1,242,422 | |
| Intangible assets | 1,466,629 | |
| Other assets | <u>1,267,259</u> | |

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| | | |
|--------------|----------------|------|
| Total assets | \$ 514,259,644 | \$55 |
| | ===== | == |

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| | December 31, <u>2003</u> | |
|---|-----------------------------|-----------|
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses | \$ 230,103,754 | \$ 25 |
| Unearned premiums | 99,938,562 | 10 |
| Reinsurance on paid losses and loss adjustment expenses | 6,486,149 | |
| Ceded premiums payable | 17,722,931 | 2 |
| Escrow deposits | 9,235,847 | |
| Accounts payable and accrued expenses | 14,260,809 | |
| Loan payable | 30,441,348 | 2 |
| Securities payable | - | 1 |
| Funds held | 4,046,407 | |
| Collateral held | 905,061 | |
| Deferred revenue | 1,817,775 | |
| Minority interest | <u>3,957,878</u> | <u>4</u> |
| Total liabilities | <u>418,916,521</u> | <u>45</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, 2003, 6,910,766 and March 31, 2004, 6,920,935 shares | 69,108 | |
| Additional paid-in capital | 52,744,720 | 5 |
| Retained earnings | 41,043,967 | 4 |
| Accumulated other comprehensive income, net | <u>1,485,328</u> | |
| Total shareholders' equity | <u>95,343,123</u> | <u>10</u> |
| Total liabilities and shareholders' equity | \$ 514,259,644 | \$55 |
| | ===== | == |

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Statements of Earnings
(Unaudited)

| | Three Months Ended March 31, | |
|-------------------------|---------------------------------|---------------------|
| | <u>2003</u> | <u>2004</u> |
| Revenues: | | |
| Direct premiums earned | \$39,372,509 | \$ 53,972,080 |
| Assumed premiums earned | 3,436,392 | 1,452,353 |
| Ceded premiums earned | <u>(19,996,906)</u> | <u>(21,305,696)</u> |

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| | | |
|--------------------------------------|-----------------------|-----------------------|
| Net premiums earned | <u>22,811,995</u> | <u>34,118,737</u> |
| Net investment income | 1,219,743 | 2,071,112 |
| Net realized gains | 150,715 | 25,411 |
| Real estate income | 5,429,847 | 13,952,154 |
| Other income | <u>14,394</u> | <u>31,113</u> |
| Total revenues | <u>29,626,694</u> | <u>50,198,527</u> |
| Expenses: | | |
| Losses and loss adjustment expenses | 12,816,638 | 22,359,442 |
| Acquisition expenses | 4,677,225 | 6,610,218 |
| Payroll and related expenses | 2,221,912 | 2,623,376 |
| Real estate expenses | 6,161,641 | 11,493,835 |
| Other expenses | 2,379,455 | 2,096,542 |
| Minority interest | 71,386 | 174,111 |
| Expense due to rescission | <u>83,559</u> | <u>29,574</u> |
| Total expenses | <u>28,411,816</u> | <u>45,387,098</u> |
| Earnings before income taxes | 1,214,878 | 4,811,429 |
| Income taxes | <u>(5,475)</u> | <u>1,161,610</u> |
| Net earnings | \$ 1,220,353 ===== | \$ 3,649,819 ===== |
| Net earnings per share: | | |
| Basic | \$ <u>0.26</u> | \$ <u>0.53</u> |
| Diluted | \$ <u>0.25</u> | \$ <u>0.49</u> |
| Average number of shares outstanding | | |
| Basic | 4,739,888 ===== | 6,916,099 ===== |
| Diluted | 4,796,772 ===== | 7,408,663 ===== |

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Statements of Cash Flow>
(Unaudited)

| | |
|---|---------------------------------------|
| | Three Month March 3 <u>2003</u> |
| Cash flow from operating activities: | |
| Net earnings | \$1,220,353 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | |
| Realized gains on investments | (150,715) |
| Depreciation expense | 73,003 |
| Amortization of deferred acquisition costs, net | (698,201) |
| Accretion of discount | 69,429 |
| Change in: | |
| Accrued investment and interest income | 469,389 |
| Premiums receivable | (1,482,981) |
| Reinsurance recoverable, payable and ceded unearned premiums | 4,376,662 |

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| | |
|---|---------------------|
| Funds held by reinsured | (36,132) |
| Funds on deposit | (147,299) |
| Income taxes | (1,691,732) |
| Unpaid losses and loss adjustment expenses | 4,581,476 |
| Unearned premiums | 3,106,152 |
| Ceded premiums payable | 734,422 |
| Accounts payable and accrued expenses | 437,619 |
| Collateral held | 78,780 |
| Prepaid items | (251,198) |
| Deferred revenue | (234,972) |
| Other, net | <u>(162,548)</u> |
| Net cash provided by operating activities | <u>10,291,507</u> |
| Cash flow from investing activities: | |
| Purchases of fixed maturities | (17,489,930) |
| Purchases of equity securities | - |
| Proceeds from sale of fixed maturities | 4,598,768 |
| Proceeds from sale of equity investments | - |
| Decrease (increase) in short-term investments | 2,427,054 |
| Decrease notes receivable | 505,000 |
| Decrease (increase) in real estate investment | (9,051,223) |
| Purchase of fixed assets, net | <u>(109,046)</u> |
| Net cash used in investing activities | <u>(19,119,377)</u> |
| Cash flow from financing activities: | |
| Proceeds from issuance of common stock | 23,799 |
| Proceeds from (repayment of) loan payable | 9,423,871 |
| Proceeds from (repayment of) escrow deposits | 1,155,706 |
| Withdrawals of restricted cash | <u>471,440</u> |
| Net cash (used in) provided by financing activities | <u>11,074,816</u> |
| Net increase in cash and cash equivalents | 2,246,946 |
| Cash and cash equivalents at beginning of period | <u>26,003,795</u> |
| Cash and cash equivalents at end of period | \$28,250,741 |
| | ===== |
| Supplemental disclosure of cash flow information: | |
| Income taxes paid | \$ 1,864,441 |
| | ===== |
| Interest paid | \$ 247,255 |
| | ===== |

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American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Statements of Comprehensive Earnings
(Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------|
| | <u>2003</u> | <u>2004</u> |
| Net earnings | \$ 1,220,353 | \$ 3,649,819 |
| Other comprehensive earnings before income taxes: | | |
| Unrealized gains on securities available-for-sale, net of minority interest of \$8,477 and \$141,086 for 2003 and 2004, respectively | 597,643 | 3,242,572 |
| Unrealized losses on hedging transaction | - | (288,803) |

| | | |
|--|----------------------|-----------------------|
| Reclassification adjustment for realized gains included in net earnings, net of minority interest of \$0 and \$0 for 2003 and 2004, respectively | <u>150,715</u> | <u>25,411</u> |
| Total other comprehensive earnings before taxes | <u>446,928</u> | <u>2,928,358</u> |
| Income tax expense related to items of other comprehensive income | <u>98,167</u> | <u>645,498</u> |
| Other comprehensive earnings net of income taxes | <u>348,761</u> | <u>2,282,860</u> |
| Total comprehensive earnings | \$1,569,114 ===== | \$ 5,932,679 ===== |

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Holdings, 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 Holdings, Ltd. (American Safety), its subsidiaries and American Safety Risk Retention Group, Inc. (American Safety RRG), a non-subsidiary risk retention group affiliate (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, 2004 may not be indicative of the results that may be expected for the full year ending December 31, 2004. 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, 2003.

The unaudited interim consolidated financial statements include the accounts of American Safety, each of its subsidiaries and American Safety RRG. All significant intercompany balances have been eliminated. Certain items from prior periods have been reclassified to conform with the 2004 presentation.

Note 2 - Accounting Pronouncements

During the last two years, the FASB has issued a number of accounting pronouncements with various effective dates. 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 Exist or Disposal Activities; and SFAS

No. 147, Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9; FASB statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure; and FASB statement No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities and FASB statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity; FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. These pronouncements do not have a material effect on our financial statements.

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In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46). This interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the expected residual gains, or both, as a result of ownership, contractual or other financial interests in the entity. In October 2003, FASB delayed the effective date of FIN 46 for Variable Interest Entities (VIE) or potential VIE created before February 2003. In December 2003, the FASB issued a revised version of FIN 46, FIN 46(R), which finalized the accounting guidance for VIE. The Company adopted FIN 46(R) and has restated all prior year balances to conform to the new consolidation policies. As a result of adopting FIN 46(R), the Company consolidated its affiliate, American Safety RRG.

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.

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.

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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.

Our fixed maturity holdings are invested predominantly in high quality corporate, government and municipal bonds with relatively short durations. The fixed maturity portfolio is exposed to interest rate fluctuations; as interest rates rise, their fair values decline and as interest rates fall, their fair values rise. The changes in the fair market value of the fixed maturity portfolio are presented as a component of shareholders' equity in accumulated other comprehensive income, net of taxes.

We work to manage the impact of interest rate fluctuations on our fixed maturity portfolio. The effective duration of the fixed maturity portfolio is managed with consideration given to the estimated payout timing of our liabilities. We have investment policies which limit the maximum duration and maturity of individual securities within the portfolio and set target levels for average duration and maturity of the entire portfolio.

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Note 4 - Investments

The amortized cost and estimated fair values of investments at December 31, 2003 and March 31, 2004 are as follows:

| | Amortized <u>Cost</u> | Gross unrealized <u>gains</u> | Gross unrealized <u>losses</u> |
|---|--------------------------|-------------------------------------|--------------------------------------|
| December 31, 2003: | | | |
| Securities available for sale: | | | |
| Fixed maturities: | | | |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | \$59,335,374 | \$1,340,823 | \$ 319,700 |
| States of the U.S. and political subdivisions of the states | 22,343,998 | 346,245 | 119,788 |
| Corporate securities | 81,522,358 | 1,694,500 | 376,514 |
| Mortgage-backed securities | <u>48,965,816</u> | <u>134,843</u> | <u>824,535</u> |
| Total fixed maturities | 212,167,546 | 3,516,411 | 1,640,537 |
| | ===== | ===== | ===== |
| Common Stock | \$ 2,520,930 | \$ 188,678 | \$ 14,872 |
| | ===== | ===== | ===== |
| March 31, 2004: | | | |
| Securities available for sale: | | | |

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Fixed maturities:

| | | | |
|---|-------------------|----------------|----------------|
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | \$60,873,880 | \$2,155,031 | \$ 99,504 |
| States of the U.S. and political subdivisions of the states | 24,699,886 | 568,564 | 85,859 |
| Corporate securities | 81,841,666 | 2,909,932 | 256,346 |
| Mortgage-backed securities | <u>62,992,040</u> | <u>281,211</u> | <u>228,400</u> |
| Total fixed maturities | \$230,407,472 | \$5,914,738 | \$ 670,109 |
| | ===== | ===== | ===== |
| Common stock | \$ 5,020,321 | \$ 244,575 | \$ 81,262 |
| | ===== | ===== | ===== |

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Except for two mortgage-backed security, the securities listed in the following table have been trading at a loss for less than 12 months. The Company believes that the declines in fair value resulted primarily from changes in interest rates and market conditions rather than credit issues. Therefore, no impairment charges have been taken. The two mortgage-backed securities, which has been trading at a loss for greater than 12 months, are U.S. government-backed GNMA. Therefore, the Company has no concern regarding the ultimate collectibility of the security value, and accordingly, has not recorded any impairment write-down.

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---------------------|------------------|---------------------|----------------|-------------------|------------|
| | Unrealized | | Unrealized | | Unre | |
| | Fair Value | Losses | Fair Value | Losses | Fair Value | Los |
| US Treasury Securities & other government corp and agencies | 8,115,580 | (99,504) | - | - | 8,115,580 | (9 |
| States of the US and political subdivisions of the states | 5,941,818 | (85,859) | - | - | 5,941,818 | (8 |
| Corporate securities | 13,726,843 | (256,346) | - | - | 13,726,843 | (25 |
| Mortgage-backed securities | <u>16,226,494</u> | <u>(226,653)</u> | <u>17,217</u> | <u>(1,747)</u> | <u>16,243,711</u> | <u>(22</u> |
| Subtotal, fixed maturities | 44,010,735 | (668,362) | 17,217 | (1,747) | 44,027,952 | (67 |
| Common stock | <u>1,543,905</u> | <u>(81,262)</u> | <u>-</u> | <u>-</u> | <u>1,543,905</u> | <u>(8</u> |
| Total temporarily impaired securities | 45,554,640 | (749,624) | 17,217 | (1,747) | 45,571,857 | (75 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Note 5 - Segment Information

The Company initially segregates its business into the following segments: Real Estate and Insurance Operations. The Insurance Operations segment is further classified into three reportable segments: environmental specialty, excess and surplus lines and program business.

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Real estate consists of the Harbour Village project in Ponce Inlet, Florida, as discussed in Note 6. In our Insurance Operations segment, environmental specialty writes insurance coverages for the environmental remediation industry. Excess and surplus lines provides commercial casualty insurance coverages, generally in the area of construction and products liability. Program business facilitates the offering of insurance to homogeneous niche groups of risks.

The Company measures the Real Estate and Insurance Operations segments using net earnings, total assets and total equity. The reportable Insurance Operations segments are measured by net premiums earned, incurred losses and loss adjustment expenses and acquisition expenses. Assets are not allocated to the reportable Insurance Operations segments. The following table presents key financial data by segment for the three months ended March 31, 2003 and March 31, 2004 (in thousands):

| March 31, 2003 | Real Estate | Insurance | | | | Cor & |
|-------------------------------------|----------------|---------------|---------|----------|-------|----------|
| | | Environmental | E&S | Programs | Other | |
| Gross premiums written | - | 9,112 | 16,940 | 16,637 | 2,783 | |
| Net premiums written | - | 6,959 | 14,326 | 3,951 | 2,258 | |
| Net premiums earned | - | 4,646 | 10,942 | 5,698 | 1,526 | |
| Losses and loss adjustment expenses | - | 2,086 | 6,016 | 3,460 | 1,255 | |
| Acquisition expenses | - | 1,386 | 2,406 | 620 | 265 | |
| Underwriting profit | - | 1,174 | 2,520 | 1,618 | 6 | |
| Income tax expense/(benefit) | (274) | | 269 | | | |
| Net earnings/(loss) | (458) | | 1,628 | | | |
| Assets | 66,225 | | 350,813 | | | |
| Equity | 12,884 | | 51,386 | | | |

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| March 31, 2004 | Real Estate | Insurance | | | | O |
|-------------------------------------|----------------|---------------|---------|----------|---------|---|
| | | Environmental | E&S | Programs | Other | |
| Gross premiums written | - | 9,159 | 27,897 | 20,542 | 1,756 | |
| Net premiums written | - | 7,072 | 23,787 | 2,378 | 1,320 | |
| Net premiums earned | - | 6,916 | 19,841 | 6,154 | 1,208 | |
| Losses and loss adjustment expenses | - | 2,864 | 13,235 | 4,020 | 2,240 | |
| Acquisition expenses | - | 1,806 | 4,272 | 314 | 218 | |
| Underwriting profit/(loss) | - | 2,246 | 2,334 | 1,820 | (1,250) | |
| Income tax expense/(benefit) | 937 | | 228 | | | |
| Net earnings | 1,521 | | 2,111 | | | |
| Assets | 46,515 | | 511,417 | | | |
| Equity | 13,598 | | 87,901 | | | |

Additionally the Company conducts business in the following insurance geographic segments: United States and Bermuda. Significant differences exist in the regulatory environment in each country. Those differences include laws regarding the types of investments, capital requirements, solvency monitoring, pricing, corporate taxation, etc. The following provides key measurable information about the insurance geographic segments for the three months ended March 31, 2003 and March 31, 2004 (in thousands):

| March 31, 2003 | United States | Bermuda |
|----------------|---------------|---------|
| Income tax | (5) | - |
| Net earnings | 32 | 1,188 |
| Assets | 358,155 | 58,944 |

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| | | |
|-----------------------|----------------------|----------------|
| Equity | 46,076 | 17,945 |
| March 31, 2003 | United States | Bermuda |
| Income tax | 1,162 | - |
| Net earnings | 2,079 | 1,571 |
| Assets | 452,998 | 105,163 |
| Equity | 53,786 | 47,562 |

Note 6 - Investment in Real Estate

The Company's investment in the development of the Harbour Village Golf and Yacht Club (Harbour Village) project is comprised of 173 acres of property in Ponce Inlet, Florida (the Property) that was acquired through foreclosure on April 13, 1999. At the date of foreclosure, the Company evaluated the carrying value of its investment in real estate by comparing the fair value of the foreclosed collateral to the book value of the underlying loan and accrued interest. As the book value of the loan and accrued interest was less than the fair value of the collateral, no loss was recognized on foreclosure and the basis of real estate.

As of December 31, 2003 and March 31, 2004, the investment in real estate for the Harbour Village project is as follows (in thousands):

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| | <u>December 31, 2003</u> | <u>March 31, 2004</u> |
|--|--------------------------|-----------------------|
| Land | \$ 1,587 | \$ 1,314 |
| Capitalized overhead, interest and taxes | | |
| | 2,254 | 1,911 |
| Work in process | <u>34,015</u> | <u>29,054</u> |
| Total | \$37,856 | \$ 32,279 |
| | ===== | ===== |

During the quarter ended March 31, 2004, the Company closed 36 condominium units and 1 boat slips at Harbour Village, and during the quarter ended March 31, 2003, the Company closed 10 condominium units and 7 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 7 - Income Taxes

Total income tax expense for the periods ended March 31, 2003 and 2004, were allocated as follows:

| | Three Months Ended March 31, | |
|---|---------------------------------|----------------|
| | <u>2003</u> | <u>2004</u> |
| Tax expense (benefit) | | |
| attributable to | | |
| Income from continuing operations | \$ (5,475) | \$ 1,161,610 |
| Change in unrealized gains/losses on securities available for sale and on hedging transaction | <u>98,166</u> | <u>645,498</u> |
| Total | \$ 92,691 | \$1,807,108 |
| | ===== | ===== |

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> |
|--------------------|----------------|-----------------|--------------|
| Three Months Ended | | | |
| March 31, 2003 | \$1,076,792 | \$ (1,082,267) | \$ (5,475) |
| March 31, 2004 | \$1,583,029 | \$ (421,419) | \$1,161,610 |

The state income tax expense (benefit) aggregated \$(31,735) and \$174,659 for the three months ended March 31, 2003 and 2004, respectively.

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Income tax expense (benefit) for the periods ended March 31, 2003 and 2004 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:

| | Three Months Ended March 31, | |
|---|---------------------------------|---------------|
| | <u>2003</u> | <u>2004</u> |
| Expected income tax expense | \$ 413,059 | \$1,635,886 |
| Foreign earned income not subject to U.S. taxation | (404,046) | (534,464) |
| State taxes and other | <u>(14,488)</u> | <u>60,188</u> |
| | \$ (5,475) | \$1,161,610 |
| | ===== | ===== |

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>2003</u> |
|--|-----------------------------|
| Deferred tax assets: | |
| Loss reserve discounting | \$5,785,906 |
| Unearned premium reserves | 3,404,780 |
| Difference between tax and GAAP basis of Harbour Village project. | 1,153,901 |
| Difference between tax and GAAP method at Harbour Village project | 3,087,159 |
| Warranty reserve | 1,407,578 |
| NOL carry forward | <u>579,362</u> |
| Gross deferred tax assets | 15,418,686 |
| Valuation allowance | <u>(1,141,809)</u> |
| Gross deferred tax assets after valuation allowance | 14,276,877 |
| Deferred tax liabilities: | |
| Deferred acquisition costs | 2,163,012 |
| Net unrealized gains | 129,234 |
| Other | <u>300,022</u> |
| Gross Deferred tax liabilities | <u>2,012,906</u> |
| Net deferred tax asset | \$11,684,609 |
| | ===== |

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Except for the deferred tax assets associated with American Safety RRG, we believe it is more likely than not that we will realize the full benefit of our deferred tax assets described herein; therefore, a valuation allowance has not been established against these assets. However, given the historical loss position of American Safety RRG, it has established a 100% valuation allowance on its deferred tax assets totaling \$1,141,809 and \$528,929 at December 31, 2003 and March 31, 2004, respectively.

Note 8 - Notes Receivable

During the quarter ended March 31, 2004, the Company received \$1,435,000 from a borrower on two notes receivable that were past due. This represented the remaining balance carried on the Company's balance sheet. The Company continues to pursue other amounts legally due from the borrower.

Note 9 - Goodwill and Intangibles

The Company adopted SFAS No. 142 on January 1, 2003. Under SFAS No. 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). The recorded indefinite-lived intangibles at December 31, 2003 and March 31, 2004 were \$1,467,000.

In accordance with the disclosure requirements of SFAS No. 142 there were no effects of goodwill on the net earnings for the three months ended March 31, 2003 and 2004.

Note 10 - Employee Stock Option

At March 31, 2004, the Company had an employee stock option plan. The Company applies 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 or greater than the market value of the underlying common stock on the date of grant. The majority of our options generally vest evenly over three years. 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.

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| | Three Months Ending March 31, | |
|-------------------------|---|-------------------|
| | <u>2003</u> | <u>2004</u> |
| | (In thousands, except per share amounts) | |
| Net earnings: | | |
| As reported | \$ 1,220 | \$ 3,650 |
| Effect of stock options | <u>72</u> | <u>209</u> |
| Pro forma net earnings | \$ 1,148 ===== | \$ 3,441 ===== |
| Net earnings per share | | |
| Basic - as reported | \$ 0.26 | \$ 0.53 |
| Basic - pro forma | \$ 0.24 | \$ 0.50 |
| Diluted - as reported | \$ 0.25 | \$ 0.49 |
| Diluted - pro forma | \$ 0.23 | \$ 0.46 |

Note 11 - Loans Payable

Acquisition and Development Loan

In July 2000, the Company, through its subsidiary, Ponce Lighthouse Properties, Inc., initially closed a \$37,900,000 acquisition, development and construction loan facility with a commercial bank for the Harbour Village project. The current facility was later increased to \$57.0 million. As of December 31, 2003 and March 31, 2004, the Company had outstanding borrowings of \$17,561,122 and \$16,583,266, respectively. Interest only is due monthly until July 31, 2004, at which time all outstanding principal and interest is due. The loan is being repaid from closings of units at Harbour Village. Partial repayments are required as residential condominium units and boat slips are sold. The loan bears interest at a variable rate equal to 30 day LIBOR plus 2.25%, adjusted monthly. The loan is secured by a first mortgage on the real estate and a first priority security interest in all contracts for the sale of condominium units and boat slips, as well as all personal property used in the project. Both the Company and American Safety Holdings Corp., a subsidiary, have provided partial loan guarantees. The Company was in compliance with all debt covenants at December 31, 2003 and at March 31, 2004, and there were no defaults of events of default during 2003 and at March 31, 2004.

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Trust Preferred Offerings

During 2003 American Safety Capital and American Safety Capital II, both non-consolidated, wholly-owned subsidiaries of the Company, issued \$8 million and \$5 million, respectively, of variable rate 30-year trust preferred securities. The proceeds are being used to support the growth of the Company's insurance business, to repay short term debt and for general corporate purposes. The securities require interest payments on a quarterly basis calculated at a floating rate of LIBOR + 4.2% and LIBOR + 3.95% for American Safety Capital and American Safety Capital II, respectively. The securities can be redeemed by the Company commencing in five years.

The underlying debt obligations between the Company and American Safety Capital and American Safety Capital II expose the Company to variability in interest payments due to changes in interest rates. Management entered into an interest rate swap for each trust preferred offering to manage that variability. Under each interest rate swap, the Company receives variable interest payments and makes fixed interest rate payments to the applicable capital trust entity, thereby creating fixed rate long-term debt. The overall effective fixed rate expense as a result of this hedge is 7.1% and 7.6% for American Safety Capital and American Safety Capital II, respectively, over the first five years of the obligation.

Interest expense for the twelve months ended December 31, 2003 and March 31, 2004 includes no gains or losses from the interest rate swaps. Changes in fair value of the interest rate swaps designated as hedging instruments of the variability of cash flow associated with a floating rate, long-term debt obligation is reported in accumulated other comprehensive income. The gross unrealized gains and (losses) on the interest rate swaps at December 31, 2003 and March 31, 2004 were \$135,558 and \$(40,705) for American Safety Capital Trust and (\$39,604) and \$(152,145) for American Safety Capital II, respectively. The interest rate swaps are 100% effective at March 31, 2004.

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

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The information in the following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto included elsewhere in this Report. All amounts and percentages are rounded.

Net earnings for the quarter ended March 31, 2004 increased to \$3.7 million, or \$0.49 per diluted share, from \$1.2 million, or \$0.25 per diluted share, for the same period of 2003. The Company's net earnings are detailed as follows (in thousands):

| | Quarter ended <u>March 31, 2003</u> | Quarter ended <u>March 31, 2004</u> |
|---|--|--|
| Insurance Operations | \$1,628 | \$ 2,111 |
| Real Estate Operations | (458) | 1,521 |
| Other, including realized gains and (losses) | <u>50</u> | <u>18</u> |
| Net Earnings | \$1,220 | \$ 3,650 |

The increase in net earnings from insurance operations was due to strong underwriting profits in the Company's core environmental, excess and surplus and program business lines. The increase in net earnings from real estate operations was due to increased closings of condominium units and boat slips at Harbour Village. Total revenues for the quarter ended March 31, 2004 increased 69% to \$50 million as compared to the same period of 2003 as a result of increased net premiums earned, investment income and real estate income. Net premiums earned for the quarter ended March 31, 2004 increased 50% to \$34 million from the same period of 2003 due to increases in net premiums earned in the Company's core lines of business. Net cash flow from operations increased to \$23 million for the quarter ended March 31, 2004 from \$10 million in the same period of 2003.

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The following table breaks out the significant components of our consolidated revenues (in thousands):

| | Quarter Ended March 31, | | |
|----------------------------|-------------------------|-----------------|---------------------------|
| | <u>2003</u> | <u>2004</u> | 2003 to <u>2004</u> |
| Net premiums written: | | | |
| Environmental | \$ 6,959 | \$ 7,072 | 1.6% |
| Excess and Surplus | 14,326 | 23,787 | 66.0 |
| Programs | 3,951 | 2,378 | (39.8) |
| Other | <u>2,258</u> | <u>1,320</u> | <u>(41.5)</u> |
| Total net premiums written | 27,494 ===== | 34,557 ===== | 25.7% ===== |
| Net premiums earned: | | | |
| Environmental | \$ 4,646 | \$ 6,916 | 48.9% |
| Excess and Surplus | 10,942 | 19,841 | 81.3 |
| Programs | 5,698 | 6,154 | 8.0 |
| Other | <u>1,526</u> | <u>1,208</u> | <u>(20.8)</u> |
| Total net premiums earned | 22,812 | 34,119 | 49.6 |
| Net investment income | 1,220 | 2,071 | 69.8 |
| Net realized gains | 151 | 25 | (83.4) |
| Real estate income | 5,430 | 13,952 | 156.9 |

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| | | | |
|----------------|-------------------|-------------------|----------------|
| Other income | <u>14</u> | <u>32</u> | <u>128.6</u> |
| Total Revenues | \$29,627 ===== | \$50,199 ===== | 69.4% ===== |

The following table sets forth the components of our GAAP combined ratio for the period indicated:

| | Quarter ended March 31, | |
|--------------------------------------|-------------------------|-----------------------|
| | <u>2003</u> | <u>2004</u> |
| Insurance operations | | |
| Loss & loss adjustment expense ratio | 56.2% | 65.5% |
| Expense ratio | <u>39.0</u> | <u>32.3</u> |
| Combined ratio | <u>95.2%</u> ===== | <u>97.8%</u> ===== |

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Net Premiums Written and Earned

Environmental. Our environmental line of business continued its solid growth in 2004 from 2003. Our written premiums on active business increased \$310,000 offset by a decrease of \$200,000 due to the elimination of one environmental program.

Excess and Surplus. Our excess and surplus lines continue to capitalize on current market conditions, specifically, the lack of insurance capacity for certain construction risks. As our growth allows for increased capacity in this unit, our objective is to diversify our risk portfolio both geographically and by class of business. We continue to work with a small core group of producers to identify selected risks for our portfolio. Renewal premium rate increases of 15% or more were not uncommon.

Programs. Historically, we have not retained significant portions of risk (less than 10%) in our program line; however, as we see opportunities to generate underwriting profits on existing programs, we expect to take advantage of these opportunities. Effective in 2002, we took significant risk (70%) on a pest control operators program and in 2003 and 2004 expanded our risk position in other programs (10% to 25%). Based on the opportunities available in the marketplace, we will continue to look for specialty niche program opportunities where we can take more significant risk positions. Program written premiums decreased primarily due to our assumed liability program, which was put into run-off in the first quarter of 2004. This program had net return premiums of \$706,000 at March 31, 2004 compared to net written premiums of \$1,359,000 during the same period of 2003. This was partially offset by increases in other active programs.

Other. The decrease in other premium earnings is attributable to our exiting specific lines of business that no longer fit in our business model. During the first quarter of 2003, we made the decision to only offer renewal policies for workers' compensation business; that line will be in full run-off starting in the second quarter of 2004.

Net Investment Income

The 70% increase in net investment income from March 31, 2003 to March 31, 2004 is attributable to an increase in our invested assets. Average invested assets increased from \$121 million at March 31, 2003 to \$244 million at March 31, 2004 due to positive cash flows from insurance operations and approximately \$40 million in net funds raised from two private issuances of trust preferred securities and a public issuance of common stock. Our pre-tax investment yield decreased from 4.0% to 3.4% and our after-tax investment yield decreased from 3.1% to 2.7%. The decrease in the pre-tax yield is due to the Company realizing some gains on its bond portfolio in the second quarter of 2003 and the proceeds from the sales were invested into bonds carrying lower yields. In addition, the Company began investing

a set amount on a monthly basis in equity securities in the third quarter of 2003.

Net Realized Gains

Net realized gains decreased from \$151,000 in the quarter ended March 31, 2003 to \$25,000 in the quarter ended March 31, 2004. During the quarter ended March 31, 2004 the Company had minimal sales of investments.

Real Estate Income

Real estate revenue increased to \$14 million at March 31, 2004, from \$5 million at March 31, 2003. This revenue is generated from closings of condominium units and boat slips at our real estate project known as Harbour Village. We do not recognize revenue until a closing occurs and title passes to the buyer. The following chart shows the number of condominium units and boat slips that were closed each quarter:

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| | Quarter Ended March 31 |
|-------------------|---------------------------|
| | <u>2003</u> |
| Condominium Units | 10 |
| Boat Slips | <u>7</u> |
| Total | 17 |

During 2004, we expect to close substantially all of the remaining units at Harbour Village, and we do not expect to engage in any further real estate activities in the future. The earnings and funds generated from Harbour Village will be redeployed into our insurance operations as the project is completed. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Loss and Loss Adjustment Expense Ratio

At March 31, 2004 our loss ratio increased 9.3 points from 56.2% at March 31, 2003 to 65.5%, due to a combination of factors. Our workers' compensation line of business, currently in run-off, experienced adverse loss development of \$1.3 million and our excess and surplus line of business experienced adverse loss development of \$1.5 million due to contractor's liability business in 2001 and products liability on certain types of risk. This negative development contributed 8% to our loss ratio at March 31, 2004. An offsetting factor to such reserve development was the continuing implementation of our growth strategies in our core insurance business lines which continue to project overall loss and loss adjustment expense ratios of less than 60%.

Acquisition Expenses

Acquisition expenses are amounts that are paid to agents and brokers for the production of premium for the Company offset in part by the ceding commissions we retain from our reinsurers. For our program business, fees are typically earned through ceding commissions and have the effect of lowering our acquisition expenses. Acquisition expenses also include amounts paid for premium taxes to the states where we do business on an admitted basis. Acquisition expenses were \$5 million at March 31, 2003, and increased to \$7 million at March 31, 2004. Acquisition expenses as a function of net earned premiums were 19% at March 31, 2004, and 21% at March 31, 2003. The decrease is a result of our Company having higher earned premium on our excess and surplus lines business that is not subject to premium taxes when written by our excess and surplus insurance subsidiary.

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Real Estate Expenses

Real estate expenses increased to \$11 million at March 31, 2004 from \$6 million at March 31, 2003 from our real estate project known as Harbour Village. The majority of real estate expenses (variable costs) are recognized at the same time as revenue is recognized. General and administrative expenses (fixed costs) are expensed as incurred once the project begins closing units. The following chart shows the components of costs (in millions):

| | Quarter Ended March 31, | |
|----------|----------------------------|-------------|
| | <u>2003</u> | <u>2004</u> |
| Variable | 5,137 | 10,505 |
| Fixed | <u>1,025</u> | <u>989</u> |
| Total | 6,162 | 11,494 |
| | ===== | ===== |

These variable costs, when applied to real estate revenue, produced gross margins of 5% at March 31, 2003, and 25% at March 31, 2004. The gross margin is higher at March 31, 2004 due to more closings of condominium units compared to March 31, 2003. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Liquidity and Capital Resources

We meet our cash requirements and finance our growth principally through cash flows generated from operations. Since 2000 we have operated in a hardening market with increased insurance premium rates for general liability coverages and increased fees for program business opportunities. Our primary sources of short-term cash flow are premium writings, investment income and income from sales at our Harbour Village project. Our short-term cash requirements relate to claims payments, reinsurance premiums, commissions, salaries, employee benefits, real estate development expenses, and other operating expenses. Due to the uncertainty regarding the timing and amount of settlements of unpaid claims, our future liquidity requirements may vary; therefore, we have structured our investment portfolio maturities to allow for variations in those factors. We believe our current cash flows are sufficient for the short-term needs of our insurance business and our invested assets are sufficient for the long-term needs of our insurance business. However, the recent increases in market interest rates have offset unrealized gains in the Company's fixed income investments and reduced the Company's invested assets.

Consistent with the discussion above, net cash provided from operations was \$10 million for the quarter ended March 31, 2003 and \$23 million for the quarter ended March 31, 2004.

Our ability to pay future dividends to shareholders will depend, to a significant degree, on the ability of our subsidiaries to generate earnings from which to pay dividends to us. The jurisdictions in which we and our 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. Given our Company's growth and the capital requirements associated with that growth, we do not anticipate paying dividends on the common shares in the near future.

Harbour Village is being developed in three phases with projected completion in 2005. At March 31, 2004, we had outstanding borrowings of \$17 million, down from an initial \$37 million development and construction loan facility. This loan will mature on July 31, 2004 and is being repaid from closings of units at Harbour Village. The estimated completion cost for the remainder of Harbour Village is approximately \$7 million. 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 Harbour Village. There can be no assurance, however, that the amounts available from our sources of liquidity, exclusive of the bank credit facility for the project, will be sufficient or available to meet our 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. Our reported combined ratio for our insurance operations may not provide an accurate indication of our overall profitability for instance, depending on our mix of business, the combined ratio may fluctuate from time to time and may not reflect the overall profitability of our insurance operations.

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Reserves

Certain of our 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. We are required to maintain loss reserves to cover the unpaid portion of the estimated liability for losses and loss adjustment expenses with respect to (i) reported claims and (ii) incurred-but-not-reported claims. A full actuarial analysis is performed to provide this estimate of all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements. In evaluating whether the reserves make a reasonable provision for unpaid loss and loss adjustment expenses, it is necessary to project future loss and loss adjustment expense payments. It is certain that the actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections.

With respect to reported claims, reserves are established on a case-by-case basis. The reserve amounts on each reported claim are determined by taking into account the circumstances surrounding each claim and policy provisions relating to the type of loss. Loss reserves are reviewed on a regular basis, and as new information becomes available, appropriate adjustments are made to reserves.

In establishing reserves, several methods are employed in determining ultimate losses: the expected loss ratio method; the Bornhuetter-Ferguson method based on expected loss ratios, paid losses and reported losses; and the loss development method based on paid and reported losses. The first method uses industry expected losses adjusted for our actual experience, while the last method relies on industry payment and reporting patterns to develop our actual losses. The Bornhuetter-Ferguson method is a combination of the other two methods, using expected loss ratios produce expected losses, then applying loss payment and reporting patterns to the expected losses to produce the expected incurred-but-not-reported losses. We review the ultimate projections from all three methods and, based on the merits of each method, determine our estimated ultimate losses. However, the establishment of appropriate loss reserves is an inherently uncertain process, and there can be no assurance that such ultimate payments will not materially exceed our 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, 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 would have a material adverse effect on the financial condition of the Company. See discussion in Part II, Item 1 of this Report as to this material matter.

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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, 2003.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Report, concluded that, as of such date, the Company's 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.

Changes in Internal Control

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation described above that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

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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 or arbitration disputes 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 arbitration disputes will have any material adverse effect on the Company's financial condition or operating results, except for the following matter.

Acquisition Rescission Litigation. In April 2000, we filed a lawsuit in the U.S. District Court for the Northern District of Georgia for damages and, alternatively, to rescind the stock purchase of a Michigan insurance agency and two related insurance companies specializing in insurance program business based upon the sellers' breach of the representations and warranties made in the definitive agreements concerning the business affairs and financial condition of the acquired companies. The defendants filed several motions for summary judgment opposing our 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 defendant in the definitive agreements were correct. The Court also granted our motions on various counterclaims. We filed a motion for reconsideration with respect to the Court's order which the Court denied in November 2002. In August 2003, we filed a motion requesting the Court certify its previous order granting the defendants' motion for summary judgment as final so that we could appeal the adverse rulings. The Court denied our motion in December 2003 and the remaining issues in the case will now proceed to trial in late 2004. After the trial, we will have the right to appeal all adverse prior rulings in the case.

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:

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| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 11 | Computation of Earnings Per Share |
| 31.1 | Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2003 |
| 31.2 | Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2003 |
| 32.1 | Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2003 |
| 32.2 | Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2003 |
| 99 | Harbour Village Development Status |

- (b) Reports on Form 8-K.

On April 5, 2004, the Company filed a report on Form 8-K with respect to the issuance of a press release reporting its financial results for the fourth quarter and year ended December 31, 2003.

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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 14th day of May 2004.

American Safety Insurance Holding

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

By: /s/ Steven B. Mathis
Steven B. Mathis

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

| | <u>Three Months Ended</u> | |
|--|---------------------------|--------------------------|
| | March 31, <u>2003</u> | March 31, <u>2004</u> |
| Basic: | | |
| Earnings available to common shareholders..... | \$1,220,353 ===== | \$3,649,819 ===== |
| Weighted average common shares outstanding..... | 4,739,888 | 6,916,099 |
| Basic earnings per common shares ... | \$.26 ===== | \$.53 ===== |
| Diluted: | | |
| Earnings available to common shareholders..... | \$ 1,220,353 ===== | \$3,649,819 ===== |
| Weighted average common shares outstanding..... | 4,739,888 | 6,916,099 |
| Weighted average common shares equivalents associated with options... | 56,884 | 492,564 |
| Total weighted average common shares..... | 4,796,772 ===== | 7,408,663 ===== |
| Diluted earnings per common shares..... | \$.25 ===== | \$ 0.49 ===== |

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Exhibit 31.1**Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2003**

I, Stephen R. Crim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Safety Insurance Holdings, Ltd.;
2. Based on my knowledge, this 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 Report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 Report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - c. designed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: May 14, 2004

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

Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2003

I, Steven B. Mathis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Safety Insurance Holdings, Ltd.;
2. Based on my knowledge, this 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 Report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 Report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
 - c. designed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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 and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: May 14, 2004

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

Exhibit 32.1

Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2003

The undersigned, as the Chief Executive Officer of American Safety Insurance Group, Ltd., certifies that, to the best of his knowledge and belief, the Quarterly Report on Form 10-Q for the period ended March 31, 2004, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of American Safety Insurance Group, Ltd. at the dates and for the periods indicated. The foregoing certification is made pursuant to & 906 of the Sarbanes-Oxley Act of 2003 (18 U.S.C. & 1350) and shall not be relied upon for any other purpose.

Date: May 14, 2004

/s/ Stephen R. Crim
Stephen R. Crim
Chief Executive Officer

A signed original of this written statement required by & 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by & 906, has been provided to American Safety Insurance Holdings, Ltd. and will be retained by American Safety Insurance Holdings, Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.

The information in this Exhibit 32.1 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

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Exhibit 32.2

Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2003

The undersigned, as the Chief Financial Officer of American Safety Insurance Group, Ltd., certifies that, to the best of his knowledge and belief, the Quarterly Report on Form 10-Q for the period ended March 31, 2004, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of American Safety Insurance Group, Ltd. at the dates and for the periods indicated. The foregoing certification is made pursuant to & 906 of the Sarbanes-Oxley Act of 2003 (18 U.S.C. & 1350) and shall not be relied upon for any other purpose.

Date: May 14, 2004

/s/ Steven B. Mathis
Steven B. Mathis
Chief Financial Officer

A signed original of this written statement required by & 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by & 906, has been provided to American Safety Insurance Holdings, Ltd. and will be retained by American Safety Insurance Holdings, Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.

The information in this Exhibit 32.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities

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Act of 1933, except as shall be expressly set forth by specific reference in such filing.

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| Exhibit 99 | | | | | |
|---|----------------|-----------|----------------|----------------|--------|
| Harbour Village Development Status | | | | | |
| (000)s except references to Condo Units | | | | | |
| Phase 1 | | | Phase 2 | | |
| Townhouses | | | The | The | |
| Marina Condos | Oak Hammock | Riverwalk | Links North | Links South | |
| 3/31/2004 | | | | | |
| Planned Number of Condo Units and Boat | 248 | 18 | 28 | 188 | 188 |
| Condo Units and Boat Slips under Contract | 248 | 17 | 27 | 181 | 168 |
| Value of Pre-sale Contracts (Note 1) | 62,892 | 7,931 | 10,479 | 46,178 | 47,070 |
| Number of Buildings | 8 | 4 | 6 | 4 | 4 |
| Number of Closed Units | 248 | 17 | 26 | 180 | 24 |
| Number of Buildings Complete by Task | | | | | |
| Building Foundation | 8 | 4 | 6 | 4 | 4 |
| Vertical Building Completed | 8 | 4 | 6 | 4 | 4 |
| Interior Finish Completed | 8 | 4 | 6 | 4 | 2 |
| Certificate of Occupancy Received | 8 | 4 | 6 | 4 | 2 |
| 1st Quarter Actual | | | | | |
| Units Closed | - | 2 | 1 | 9 | 24 |
| Revenue Recognized | | | | | |
| Condos and Boat Slips | 154 | 1,204 | 386 | 3,039 | 6,770 |
| Land Sales and Other Revenue | | | | | |
| Total Revenue | | | | | |
| Gross Profit Recognized | | | | | |
| Condos and Boat Slips | 76 | 32 | 10 | 679 | 1,697 |
| Land Sales and Other Revenue | | | | | |
| Total Gross Profit | | | | | |
| Other Expense (Income) Items | | | | | |
| Pre-Tax Profit | | | | | |
| Outlook For 2nd Quarter of 2004 | | | | | |
| Units Closed | - | - | - | 2 | 50 |
| Sales Value of Closed Units | - | - | - | 678 | 13,569 |

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| | | | | | |
|------------------------------|---|---|---|-----|--------|
| Revenue Recognized | | | | | |
| Condos and Boat Slips | - | - | - | 658 | 13,162 |
| Land Sales and Other Revenue | | | | | |
| Total Revenue | | | | | |
| Gross Profit Recognized | | | | | |
| Condos and Boat Slips | - | - | - | 135 | 2,172 |
| Land Sales and Other Revenue | | | | | |
| Total Gross Profit | | | | | |
| 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.

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