AMERICAN SAFETY INSURANCE GROUP LTD
Form 10-Q
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

Commission File Number 1-14795

AMERICAN SAFETY INSURANCE GROUP, LTD.
(Exact name of Registrant as specified in its charter)

Bermuda
(State or other jurisdiction of incorporation)

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

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

Indicate by check mark whether Registrant: (1) has filed all reports required to be filed by Sec
13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such
shorter period that Registrant was required to file such reports), and (2) has been subject to su
filing requirements for the past 90 days. Yes x No___

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

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, 2000
Assets	
Investments:	
Securities available for sale, at fair value:	
Fixed maturities	$45,985,656
Common stock	162,322
Investment in real estate	29,786,224
Short-term investments	15,312,377
Total investments	91,246,579
Cash	3,784,102
Restricted Cash	6,117,682
Accrued investment and interest income	1,543,675
Notes receivable	8,878,018
Premiums receivable	33,344,382
Commissions receivable	-
Funds on deposit	298,000
Ceded unearned premium	22,190,095
Reinsurance recoverable	27,929,794
Due from affiliate	985,320
Income tax recoverable	160,333
Deferred income taxes	1,543,272
Deferred Acquisition Costs	3,039,144
Property, plant and equipment	935,743
Prepaid Items	1,755,191
Goodwill	1,553,863

Other assets	1,992,923
Total assets	$207,298,116

Liabilities and Shareholders' Equity

Liabilities:	
Unpaid losses and loss adjustment expenses	$50,508,627
Unearned premiums	41,953,354
Reinsurance on paid loss and loss adjustment expenses	928,865
Ceded premiums payable	24,311,656
Due to affiliate:	
Ceded premiums payable	567,786
Reinsurance on paid loss and loss adjustment expenses	229,790
Escrow Deposits	6,200,182
Accounts payable and accrued expenses	6,384,429
Funds held	4,861,472
Loan payable	11,435,221
Collateral held	1,544,839
Income tax payable	-

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Unearned Loan Fees	568,750
Total liabilities	149,494,971
Shareholders' equity:	
Preferred stock, $0.01 par value; authorized 5,000,000 shares; no shares issued and outstanding	-
Common stock, $0.01 par value; authorized 15,000,000 shares; issued and outstanding at December 31, 2000, 6,281,386 shares, and at March 31, 2001, 6,281,386 shares	62,814
Additional paid-in capital	35,148,577
Retained earnings	29,262,582
Accumulated other comprehensive income, net	428,085
Treasury Stock, 1,267,200 shares at December 31, 2000 and 1,477,839 shares at March 31, 2001	(7,098,913)
Total shareholders' equity	57,803,145
Total liabilities and shareholders's equity	$207,298,116

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 March 31, 2000	2001
Revenues:		
Direct premiums earned	$ 3,159,207	$ 23,007,062
Assumed premiums earned:		
Affiliate	995,736	2,462,812
Nonaffiliates	2,412,417	3,759,342
Total assumed premiums earned	3,408,153	6,222,154
Ceded premiums earned:		
Affiliate	846,088	1,377,007
Nonaffiliates	1,657,949	14,483,191
Total ceded premiums earned	2,504,037	15,860,198
Net premiums earned	4,063,323	13,369,018
Net investment income	729,102	857,512
Interest on notes receivable	434,594	275,932
Brokerage commission income	473,139	490,943
Management fees from affiliate	367,000	363,805
Net realized gains (losses)	(126,047)	239,519
Other income	656,162	659,859
Total revenues	6,597,273	16,256,588
Expenses:		
Losses and loss adjustment expenses incurred	2,797,099	8,097,967
Acquisition expenses	763,048	2,142,255
Payroll and related expenses	1,628,224	2,086,937
Other expenses	886,066	1,664,789
Expense due to rescission	3,541,848	
Total expenses	9,616,285	13,991,948
Earnings (loss) before income taxes	(3,019,012)	2,264,640
Income taxes (benefit)	(1,070,259)	366,971
Net earnings (loss)	$(1,948,753)	$1,897,669
Net earnings (loss) per share:		
Basic	$ (0.33)	$ 0.39
Diluted	$ (0.33)	$ 0.38
Common shares used in computing earnings per share:		
Basic	5,926,654	4,882,375

Diluted	5,931,996	4,962,112
	=========	=========

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)

	Three mont March
	2000
Cash flow from operating activities:	
Net earnings	$(1,948,753)
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Realized gains/losses on sale of investments	126,047
Amortization of deferred acquisition costs	678,192
Change in:	
Accrued investment and interest income	(259,039)
Premiums receivable	(969,773)
Commissions receivable	(5,702)
Reinsurance recoverable and ceded unearned premiums	(2,968,321)
Unearned loan fees	-
Funds held by reinsured	95,734
Due from affiliate	(74,777)
Funds on Deposit	(11,323)
Income taxes	(1,554,507)
Unpaid losses and loss adjustment expenses	1,123,014
Unearned premiums	3,365,859
Liability for deductible fees held	(41,014)
Ceded premiums payable	2,146,443
Due to affiliate	342,945
Accounts payable and accrued expenses	1,561,978
Collateral	(283,037)
Prepaid items	30,806
Other, net	(210,145)
Net cash provided by operating activities	1,144,627
Cash flow from investing activities:	
Purchases of fixed maturities	-
Purchases of Equity Investments	(4,898,758)
Proceeds from maturity and redemption of fixed maturities	-
Proceeds from sale of fixed maturities	4,008,167
Proceeds from sale of equity investments	4,591,753
Purchase of Trafalgar Insurance Company	(7,050,877)
Increase in Investment in Real Estate	(1,068,981)
Increase in short-term investments	2,178,744
Proceeds from notes receivable - related parties	1,530,000

Advances in notes receivable - other	(821,792)
Purchase of fixed assets, net	(64,199)
Net cash used in investing activities	(1,595,943)
Cash flow from financing activities:	
Purchase of treasury stock	(665,119)
Proceeds from loan payable	11,648,855
Proceeds from escrow deposits	-
Net cash provided by financing activities	10,983,736
Net increase (decrease) in cash	10,532,420
Cash at beginning of period	427,154
Cash at end of period	$10,959,574
NONCASH ITEMS	
Operating activities:	
Recoverable due to rescission in other assets	(1,323,000)
Financing activities:	-
Issuance of common stock	1,323,000
Net noncash adjustments	-

See accompanying notes to consolidated financial statements (unaudited).

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Earnings
(Unaudited)

	Three months ended March 31,	
	2000	2001
Net earnings (loss)	$(1,948,753)	$1,897,669
Other comprehensive earnings before income taxes:		
Unrealized gains on securities available for sale	16,913	835,242

Reclassification adjustment for realized (gains) losses included in net earnings	126,047	(239,519)
Total other comprehensive earnings before taxes	142,960	595,723
Income tax expense (benefit) related to items of comprehensive income	(234,263)	113,351
Other comprehensive earnings net of income taxes	377,223	482,372
Total comprehensive earnings (loss)	$(1,571,530)	$2,380,041

See accompanying notes to consolidated financial statements (unaudited).

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 Saf 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 recurrin adjustments, considered necessary for a fair presentation of the interim period presented. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates, based on the best information available, in recording transactions resulting from business operations. The balance sheet amounts that involve a greater extent of accounting estimates and actuarial determinations subject to future changes are the Company's liabilities for unpaid losses and loss adjustment expenses. As additional information becomes available (or actual amounts are determinable), the recorded estimates may be revised and reflected in operating results. While management believes that the liability for unpaid losses an adjustment expenses is adequate to cover the ultimate liability, such estimates may be more or le than the amounts actually paid when claims are settled.

The results of operations for the three months ended March 31, 2001 may not be indic of the results that may be expected for the full year ending December 31, 2001. These unaudited interim consolidated financial statements and notes should be read in conjunction with the financ statements and notes included in the audited consolidated financial statements of American Safety and its subsidiaries for the year ended December 31, 2000.

The unaudited interim consolidated financial statements include the accounts of Amer Safety and each of its subsidiaries. All significant intercompany balances have been eliminated.

Note 2 - Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133, as amended, is effective for years beginning after June 15, 20 The standard requires that all derivatives be recorded as an asset or liability, at estimated fai regardless of the purpose or intent for holding the derivative. If a derivative is not utilized hedge, all gains or losses from the change in the derivative's estimated fair value are recognize earnings. The gains or losses from the change in estimated fair value of certain derivatives uti as hedges are recognized in earnings or other comprehensive income depending on the type of hedge relationship. The adoption of SFAS No. 133, as amended, did not have a material impact on the Company's consolidated financial position and results of operation.

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

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 environmen which an insurer operates which will create additional expenses not anticipated by the insurer in pricing its products and beyond those recorded in the financial statements. Regulatory initiative designed to reduce insurer profits or otherwise affecting the industry in which the Company opera new legal theories or insurance company insolvencies through guaranty fund assessments, may creat 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 ris a large geographic area.

Potential Risk of United States Taxation of Bermuda Operations. Under current Bermu law, American Safety is not required to pay any taxes in Bermuda on either income or capital gain 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 b engaged in a trade or business in the United States and accordingly does not expect to be subject direct United States income taxation. The Company's U.S. subsidiaries are subject to taxation in United States.

Whether a foreign corporation is engaged in a United States trade or business or is on an insurance business in the United States depends upon the level of activities conducted in t United States. If the activities of a foreign company are "continuous, regular, and considerable foreign company will be deemed to be engaged in a United States trade or business. Due to the fa that American Safety will continue to maintain an office in Bermuda and American Safety and its Bermuda subsidiary's business is reinsuring contracts via treaty reinsurance agreements, which ar all signed outside of the United States, American Safety does not consider itself to be engaged i trade or business in the United States and, accordingly, does not expect to be subject to United income taxes. This position is consistent with the position taken by various other entities that 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 eng in a United States trade or business, and because of the factual nature of the determination, the be no assurance that the Internal Revenue Service will not contend that American Safety or its Bermuda subsidiary are engaged in a United States trade or business. In general, if American Saf or its Bermuda subsidiary are considered to be engaged in a United States trade or business, it w be subject to (i) United States Federal income tax on its taxable income that is effectively conn with a United States trade or business at graduated rates and (ii) the 30 percent branch profits 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 n receivable will default or that other parties, including reinsurers that have obligations to the will not pay or perform. The Company attempts to mitigate this risk by adhering to a conservativ investment strategy, by obtaining sufficient collateral for secured note obligations and by maint sound reinsurance, credit and collection policies.

Interest Rate Risk is the risk that interest rates will change and cause a decrease of an insurer's investments. The Company attempts to mitigate this risk by attempting to match t 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, 2000 and March 31, 2001 are as follows:

	Amortized Cost	Gross unrealized gains	un
December 31, 2000:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 30,952,452	$615,498	$112
Obligations of states and political subdivisions	6,083,661	190,974	
Corporate securities	6,799,319	17,688	153
Mortgage-backed securities	1,562,888	31,997	3
Total fixed maturities	45,398,320	856,157	268
Equity investments - common stocks	162,322	-	
Total	$45,560,642	$856,157	$268
March 31, 2001:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$32,711,996	$1,015,802	
Obligations of states and political subdivisions	636,503	20,721	
Corporate securities	13,319,497	104,585	
Mortgage-backed securities	3,697,393	76,707	

Total fixed maturities	50,365,389	1,217,815
Equity investments - common stocks	1,339,387	-
Total	$51,704,776	$1,217,815

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 la 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; employee leasing and staffing industry risks; and other specialty risks. The Company has demonstrated expertise in developing specialty insurance coverages and custom designed risk management programs not generally available in the standard insurance market.

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

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

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

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

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

Three Months E

	March 31,	
	2000	2
	----	-
United States - Insurance		
Net premiums earned - All other	$ 4,782,989	$12,7
Net premiums earned - Intersegment	(1,551,002)	(2,4
Net investment income and interest on notes receivable	312,567	6
Other revenues	786,914	1,7
	------------	---
Total revenues	4,331,468	12,6
Interest expense	-	
Depreciation and amortization expense	34,469	
Equity in net earnings of subsidiaries	(3,070,300)	8
Income taxes	(1,070,259)	4
Segment profit/(loss)	(2,000,041)	8
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	462,661	7
Total investments	37,997,156	57,8
Total assets	87,338,785	169,4
Total policy and contract liabilities	27,508,968	106,7
Total liabilities	60,403,070	140,0
United States - Real Estate		
Net premiums earned - All other	-	
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	-	
Other revenues	-	
	-------	---
Total revenues	-	
Interest expense	-	
Depreciation and amortization expense	-	
Equity in net earnings of subsidiaries	-	
Income taxes	-	(
Segment profit/(loss)	-	(1
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	-	3
Total investments	-	31,7
Total assets	-	36,4
Total policy and contract liabilities	-	
Total liabilities	-	27,3

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	Three Months Ended March 31,	
Bermuda		
Net premiums earned - All other	519,589	642,187
Net premiums earned - Intersegment	1,551,002	2,469,582
Net investment income and interest on notes receivable	851,129	470,856
Other revenues	519,515	37,500
	---------	----------

Total revenues	3,441,235	3,620,125
Interest expense	-	-
Depreciation and amortization expense	-	-
Equity in net earnings of subsidiaries	(890,890)	(1,626,479
Income taxes	-	-
Segment profit	51,288	1,213,822
Significant noncash items other than depreciation and amortization	-	-
Property, plant and equipment	835,832	-
Total investments	53,602,506	62,911,219
Total assets	95,804,898	89,332,513
Total policy and contract liabilities	13,837,066	17,903,538
Total liabilities	17,661,013	19,245,358

Intersegment Eliminations

Net premiums earned - All Other	-	
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	-	
Other revenues	(178,804)	(20,09
Total revenues	(178,804)	(20,09
Interest expense	-	
Depreciation and amortization expense	-	
Equity in net earnings of subsidiaries	890,890	779,53
Income taxes	-	
Segment profit (loss)	-	
Significant noncash items other than depreciation and amortization	-	
Property, plant and equipment	-	
Total investments	(44,952,489)	(49,853,5
Total assets	(60,330,326)	(66,398,4
Total policy and contract liabilities	(6,947,583)	(10,316,0
Total liabilities	(15,377,837)	(16,544,8

		Three Mo Mar
Total		
Net premiums earned - All other	5,302,578	
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	1,163,696	
Other revenues	1,127,625	
Total revenues	7,593,899	
Interest expense	-	
Depreciation and amortization expense	34,469	
Equity in net earnings of subsidiaries	-	
Income taxes	(1,070,259)	
Segment profit (loss)	(1,948,753)	
Significant noncash items other than depreciation and amortization	-	

Property, plant and equipment	1,298,493
Total investments	59,755,996
Total assets	122,813,357
Total policy and contract liabilities	34,398,451
Total liabilities	62,686,246

Note 6 - Shareholder Matters

During the quarter ended March 31, 2001, the Company repurchased 210,639 shares of it stock at a total price of $1,387,862 in open market transactions pursuant to its share repurchase program.

Note 7 - Investment in Real Estate

The Company's investment in the development of the Harbour Village Golf and Yacht Club project is comprised of 173 acres of property in Ponce Inlet, Florida (the "Property") that acquired through foreclosure on April 13, 1999. At the date of foreclosure, the Company evaluate 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 t loan and accrued interest was less than the fair value of the collateral, no loss was recognized foreclosure and the book balance of the loan and accrued interest became the basis of the real es

As of December 31, 2000 and March 31, 2001, the investment in real estate for the Harbour Village project is as follows (in thousands):

	December 31, 2000	March 31, 2001
Land	$11,989	$11,989
Capitalized overhead, interest and taxes	3,886	4,323
Work in process	8,961	15,468
Total	$24,836	$31,780

Note 8 - Income Taxes

Total income tax (benefit) for the quarters ended March 31, 2000 and 2001 were allocated as follows:

	Quarter Ended March 31, 2000	Quarter Ended March 31, 2001
Tax benefit attributable to:		
Income from continuing operations	(1,070,259)	366,971
Unrealized losses on securities available for sale	(232,639)	112,944
Total	$ (1,302,898)	$479,915

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

	Current	Deferred	Total
March 31, 2000	(1,132,235)	61,976	(1,070,259)
March 31, 2001	519,232	(152,261)	366,971

The state income tax components aggregated $(4,461) and $21,905 for the quarters ended March 31, 2000 and 2001, respectively.

Income tax expense for the quarters ended March 31, 2000 and 2001 differed from the amount computed by applying the U.S. Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following:

	March 31, 2000	March 31, 2001
Expected income tax expense	$(1,026,464)	$769,978
Foreign earned income not subject to U.S. taxation	(17,438)	(412,699)
Tax-exempt interest	(28,643)	(15,275)
State taxes and other	2,286	24,967
	$(1,070,259)	$366,971

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

	December 31, 2000	March 31 2001
Deferred tax assets:		
Loss reserve discounting	$ 1,075,061	$ 1,558,963
Unearned premium reserves	1,209,162	1,859,470
Difference between tax and GAAP basis of Harbour Village Project	-	3,854,177
Net operating loss carry forward	398,597	-
Gross deferred tax assets	2,682,820	7,272,610
less: Valuation allowance	-	(3,854,177
Gross deferral tax assets, net of valuation allowance	2,682,820	3,418,433
Deferred tax liabilities:		
Deferred acquisition costs	978,785	1,562,089

Unrealized gain on securities	159,251	272,195
Other	1,512	1,560
Gross Deferred tax liabilities	1,139,548	1,835,844
Net deferred tax asset	$1,543,272	$1,582,589

The valuation allowance in the above table is related to the Harbour Village project. This allowance will decrease as condominium units and boat slips are closed. The Company will continue to monitor this valuation allowance in future periods.

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

General

American Safety is a specialty insurance and financial services holding company which, through its subsidiaries, develops, underwrites, manages and markets primary casualty insurance a reinsurance programs in the alternative insurance market for environmental risks and other specia risks, and provides a broad range of financial services and products to middle market businesses. The Company is also the owner/developer of the Harbour Village Golf & Yacht Club, a residential condominium, marina and golf course project in Ponce Inlet, Florida..

Forward Looking Statements

This Report contains certain forward-looking statements within the meaning of United S securities laws which are intended to be covered by the safe harbors created thereby. Forward-looking statements involve risks and uncertainties which may cause actual results to diff and are subject to change based on various industry factors, including the outcome of the Company lawsuit for rescission of the acquisition of an insurance agency and two related insurance compan competitive conditions in the insurance industry, unpredictable developments in loss trends, adequacy and changes in loss reserves, market acceptance of new coverages and enhancements, changes in reinsurance costs and availability, and changes in levels of general business activity economic conditions. With respect to the development of the Harbour Village Golf and Yacht Club project, such forward-looking statements involve risks and uncertainties which may cause actual results to differ, and are subject to change based on various real estate development industry fa including competitive housing conditions in the local market area, risks inherent in new construc changes in interest rates and the availability of mortgage financing for prospective purchasers o condominium units and boat slips, and changes in local and national levels of general business activity and economic conditions. All statements, other than statements of historical facts, inc or incorporated by reference in this Report that address activities, events or developments that Company expects or anticipates will or may occur in the future constitute forward-looking statements. Although the Company believes that the assumptions underlying the forward-looking statements contained in this Report are reasonable, any of the assumptions could over time prove be inaccurate and therefore, there can be no assurance that the forward-looking statements includ in this Report will themselves prove to be accurate. In light of the significant uncertainties i in the forward-looking statements included in this Report, the inclusion of such information shou not be regarded as a representation by the Company or any other person that the objectives and pl of the Company will be achieved.

Results of Operations

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

	Three Ended M		
	1999	2000	2001
	(Dollars in thousa		
Net Premiums earned:			
Reinsurance:			
Workers' compensation	$1,370	$2,371	$2,711
General liability	643	744	2,708
Auto Liability	13	-	-
Total reinsurance	2,026	3,115	5,419
Primary insurance:			
Commercial Line	-	259	771
Workers' compensation	-	-	639
Surety	283	546	2,025
General Liability	-	-	2,969
Program Business	18	143	1,546
Total primary insurance	301	948	7,950
Total net premiums earned	2,327	4,063	13,369
Net investment income	699	729	858
Interest on notes receivable	926	435	276
Commission and fee income:			
Brokerage commission income	443	473	491
Management fees from affiliate	341	367	364
Total commission and fee income	784	840	855
Net realized gains (losses)	(1)	(126)	240
Other income	79	656	660
Total Revenues	$4,814	$6,597	$16,258

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

	Three months ended March 31,		
	1999	2000	2001
Insurance operations:			
Loss and loss adjustment expense ratio	53.7%	68.8%	60.6%

Expense ratio	16.6	33.3	25.2
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Combined ratio	70.3%	102.1%	85.8%
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Quarter Ended March 31, 2001 Compared to Quarter Ended March 31, 2000

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

Net Investment Income. Net investment income increased 17.7% from $729,000 in the quarter ended March 31, 2000 to $858,000 in the quarter ended March 31, 2001 due to higher levels of invested assets generated from positive cash flows from operations. The average pre-tax yield investments was 6.2% in the quarter ended March 31, 2000 and 5.4% in the quarter ended March 31, 2001. The average after-tax yield on investments was 5.5% in the quarter ended March 31, 200 and 4.1% in the quarter ended March 31, 2001.

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

Brokerage Commission Income. Income from insurance brokerage operations increased 3.8% from $473,000 in the quarter ended March 31, 2000 to $491,000 in the quarter ended March 31, 2001 due to slightly higher levels of premiums produced by the risk retention group affiliate

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

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

Other Income. Other income increased from $656,000 in the quarter ended March 31, 2 to $660,000 for the quarter ended March 31, 2001 as a result of fees generated by the Company's financial services subsidiary. No assurance can be given as to the regularity or amount of such being generated by the Company's financial services subsidiary.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses increased 189.5% from $2.8 million in the quarter ended March 31, 2000 to $8.1 million in the quarter ended March 31, 2001 due to an increase in net premiums earned. Increases in commercial lines and sure premiums accounted for the largest portion of the increase in the losses and loss adjustment expenses. During the quarter ended March 31, 2001, the Company also recognized $250,000 of

reserve redundancies in certain older accident years relating to the environmental line of busine The Company will continue to monitor its reserves and recognize any future redundancies if and when appropriate.

Acquisition Expenses. Policy acquisition expenses increased 180.7% from $763,000 in the quarter ended March 31, 2000 to $2.1 million in the quarter ended March 31, 2001 as a result increased premiums earned. Premium tax expense also increased to $781,000 from $224,000 due to higher volumes of direct premiums earned.

Payroll and Other Expenses. Payroll and other expenses increased 49.2% from $2.5 million in the quarter ended March 31, 2000 to $3.8 million in the quarter ended March 31, 2001 a a result of increased payroll and related expenses in the Company's newer business units and non-capitalizable expenses of $252,000 related to the development of the Harbour Village project.

Income Taxes. Federal and state income taxes increased from a benefit of $1.1 milli the quarter ended March 31, 2000 to an expense of $367,000 in the quarter ended March 31, 2001 due to higher levels of income in the Company's U.S. subsidiaries' operations.

Quarter Ended March 31, 2000 Compared to Quarter Ended March 31, 1999

Net Premiums Earned. Net premiums earned increased 74.6% from $2.3 million in the quarter ended March 31, 1999 to $4.1 million in the quarter ended March 31, 2000. The principal factor accounting for the increase was the Company's assumption of workers' compensation reinsurance business from an unaffiliated insurance carrier, which increased net premiums earned from workers' compensation reinsurance from $1.4 million in the quarter ended March 31, 1999 to $2.4 million in the quarter ended March 31, 2000. This increase was a result of additional premi from new insureds in this line of business. Another factor accounting for the increase was an increase of the Company's surety business by 92.9% from $283,000 in the quarter ended March 31, 1999 to $546,000 in the quarter ended March 31, 2000. The increase in surety business is attributable to additional premiums from new business and the Company's new reinsurance program.

Net Investment Income. Net investment income increased 4.3% from $699,000 in the quarter ended March 31, 1999 to $729,000 in the quarter ended March 31, 2000 due to an increase in the investment portfolio and cash. The average pre-tax yield on investments was 5.5% in the quarter ended March 31, 1999 and 6.2% in the quarter ended March 31, 2000. The average after-tax yield on investments was 5.2% in the quarter ended March 31, 1999 and 5.5% in the quarter ended March 31, 2000.

Interest from Notes Receivable. Interest from notes receivable decreased 53% from $926,000 in the quarter ended March 31, 1999 to $435,000 in the quarter ended March 31, 2000 as a result of interest income lost as a result of the foreclosure on the Harbour Village property i 1999.

Brokerage Commission Income. Income from insurance brokerage operations increased 6.8% from $443,000 in the quarter ended March 31, 1999 to $473,000 in the quarter ended March 31, 2000 as a result of higher levels of premiums produced by our non-subsidiary affiliate.

Management Fees. Management fees increased 7.6% from $341,000 in the quarter ended March 31, 1999 to $367,000 in the quarter ended March 31, 2000 as a result of increased service levels, provided by the Company, to its risk retention group affiliate.

Net Realized Losses. Net realized losses decreased from$1,000 in the quarter ended 31, 1999 to$126,000 for the quarter ended March 31, 2000 due to the sale of bonds for the purchas of Trafalgar Insurance Company.

Other Income. Other income increased from $79,000 in the quarter ended March 31, 19 to $656,000 for the quarter ended March 31, 2000. $590,000 of this relates to the commitment fee on the proposed sale of Harbour Village.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses increased 112% from $1.3 million in the quarter ended March 31, 1999 to $2.8 million in the quarter ended March 31, 2000 due to an increase in net premiums earned. Increases in workers' compensation premiums accounted for the largest portion of the increase in the losses and loss adjustment expenses, as that line of business has a higher loss ratio than the general liability or surety l business.

Acquisition Expenses. Policy acquisition expenses increased 336.2% from ($323,000) the quarter ended March 31, 1999 to $763,000 in the quarter ended March 31, 2000 as a result of increased premiums production.

Payroll and Other Expenses. Payroll and other expenses increased 56.3% from $1.6 million in the quarter ended March 31, 1999 to $2.5 million in the quarter ended March 31, 2000 a a result of increases in salary, benefits and operating expense primarily due to increased staffi new and existing programs.

Expense Due to Rescission. Expense due to rescission was $3.5 million for the quart relates to the rescission of the acquisition of the Michigan group of companies.

Income Taxes. Federal and state income taxes decreased from a benefit of $46,000 in quarter ended March 31, 1999 to a benefit of $1.1 million in the quarter ended March 31, 2000 due to decreased taxable income in the Company's U.S. subsidiaries. The decrease in taxable income was primarily due to expenses relating to rescission.

Liquidity and Capital Resources

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

On a consolidated basis, net cash provided from operations was $1.1 million for the th months ended March 31, 2000 and $7.1 million for the three months ended March 31, 2001. The positive cash flows for said periods were primarily attributable to net premiums written and net earnings. Because workers' compensation and general liability claims may be paid over an extende period of time, the Company has established loss reserves for such lines of business. The assets supporting the Company's reserves continue to earn investment income until claims payments are made.

Total assets increased from $207.3 million at December 31, 2000 to $228.9 million at M 31, 2001 primarily due to increases in premiums receivable, reinsurance recoverables and real est investments. Cash, invested assets and notes receivable increased from $110.1 million at Decembe 31, 2000 to $123.5 million at March 31, 2001, as a result of increases in net premiums written, investment income and real estate. At March 31, 2001, the Company has repurchased 1,477,839 shares of its common stock at a total cost of $8.5 million since January 1999.

American Safety is an insurance and financial services holding company whose principal assets are its investment portfolio and its investment in the capital stock of its subsidiaries.

American Safety's ability to pay dividends to its shareholders will depend, to a significant degr on the ability of the Company's subsidiaries to pay dividends to American Safety. The jurisdicti in which American Safety and its insurance and reinsurance subsidiaries are domiciled place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of insurers.

Harbour Village Development. The Company announced in March 2000 its plans to complete development of the Harbour Village Golf and Yacht Club ("Harbour Village"), located in Ponce Inlet, Florida, consisting of 786 residential condominium units, a marina containing 142 bo slips, a par 3 golf course and beach club. The Harbour Village property (comprising 173 acres) w acquired by the Company through foreclosure in April 1999, and has been under development by its subsidiary, Ponce Lighthouse Properties, Inc. and its general contracting subsidiary, Riverma Contracting Company. The number of residential condominium units planned for the project has been increased from 786 to 809. As of May 10, 2001, the Company's marketing efforts had generated approximately $90 million of pre-sales of condominium units and boat slips.

It is anticipated that Harbour Village will be developed in three Phases over the next to five years, depending on future sales activities and economic conditions that may impact the marketing of the condominium units. In July 2000, the Company closed a $37 million acquisition, development and construction loan facility in order to commence construction of Phase I of the project. Through March 31, 2001, the Company had borrowed approximately $16 million from this loan facility. The estimated construction and development cost for the entire Harbour Village pr is approximately $200 million over a three to five year period. Phase I of the development curre under construction consists of site work including a 142-boat slip marina, 294 residential units, related amenities. No assurance can be given, however, as to either future sales activities of t condominium units or the impact of local and national economic conditions on the Company's marketing efforts for the development of the Harbour Village project.

Management believes that the bank credit facility, together with anticipated cash flow marketing and sales operations, will meet the liquidity needs for the construction and developmen of Phase I of the Harbour Village project during the first 24 months of development. There can b 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 th Company's future capital needs for the project.

Income Taxes

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

Inflation

Property and casualty insurance premiums are established before the amounts of losse 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, th Company may be limited in raising its premiums consistent with anticipated inflation, in which ev the Company, rather than its insureds, would absorb inflation costs. Inflation also affects the r 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 overall profitability from insurance and reinsurance programs due to the exclusion of fee and commission income and expenses generated in related management and agency subsidiaries. Depending on the Company's mix of business going-forward, the combined ratio may fluctuate from time to time and may not reflect the overall profitability of insurance programs to the Company.

Reserves

Certain of the Company's insurance policies and reinsurance assumed, including gener and pollution liability policies covering environmental remediation risks, as well as workers' compensation policies, may be subject to claims brought years after an incident has occurred or t 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 fir to provide reserve studies, opinions and rate studies. Reserves are estimates at a given time, w are established from actuarial and statistical projections by the Company of the ultimate settlem and administration costs of claims occurring on or prior to such time, including claims that have yet been reported to the insurer. The establishment of appropriate loss reserves is an inherentl uncertain process, and there can be no assurance that the ultimate payments will not materially exceed the Company's reserves.

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 2. Changes in Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

Not applicable.

Item 5. Other Information.

Timothy E. Walsh resigned as a director of the Company effective April 11, 2001.

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

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

Exhibit No.	Description
11	Computation of Earnings Per Share

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registr has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authori on the 15th day of May 2001.

American Safety Insurance Group, Ltd.

By: /s/ Lloyd A. Fox

Lloyd A. Fox
President and Chief Executive Officer

By: /s/ Steven B. Mathis

Steven B. Mathis
Chief Financial Officer
(Principal Financial Officer)

Exhibit 11

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

	Three Mo
	March 31, 2000
Basic:	
Earnings (loss) available to common shareholders..	$(1,948,753)
Weighted average common shares outstanding..	5,926,654
Basic earnings (loss) per common shares	$ (.33)
Diluted:	
Earnings (loss) available to common shareholders..	$(1,948,753)
Weighted average common shares outstanding...	5,926,654
Weighted average common shares equivalents associated with options.................	5,342
Total weighted average common shares..	5,931,996
Diluted earnings (loss) per common shares...........	$ (.33)

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