

AMERICAN SAFETY INSURANCE GROUP LTD
Form 10-Q
November 14, 2002

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002

Commission File Number 1-14795

AMERICAN SAFETY INSURANCE GROUP, LTD.

(Exact name of Registrant as specified in its charter)

Bermuda
(State or other
jurisdiction
of incorporation)

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

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

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

Indicate by check mark whether Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ___

The aggregate number of shares outstanding of Registrant's common stock, \$.01 par value, on October 2, 2002 was 4,747,884.

AMERICAN SAFETY INSURANCE GROUP, LTD.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Balance Sheets

| | December 31, <u>2001</u> | Sep |
|---|-----------------------------|------------|
| | | (u |
| Assets | | |
| Investments: | | |
| Securities available for sale, at fair value: | | |
| Fixed maturities | \$61,836,101 | \$96,6 |
| Investment in real estate | 37,662,600 | 34,4 |
| Short-term investments | <u>21,742,272</u> | <u>6,0</u> |
| Total investments | 121,240,973 | 137,1 |
| Cash | 1,302,842 | 14,7 |
| Restricted cash | 9,010,489 | 9,4 |
| Accrued investment income | 2,424,551 | 2,3 |
| Notes receivable - other | 8,081,899 | 8,0 |
| Premiums receivable | 25,783,225 | 21,4 |
| Ceded unearned premium | 19,161,319 | 25,2 |
| Reinsurance recoverable | 87,173,021 | 104,7 |
| Funds on deposit | 312,717 | 5 |
| Due from affiliate | 1,108,520 | 3 |
| Income tax recoverable | 1,614,940 | 1,2 |
| Deferred income taxes | 7,415,033 | 5,7 |
| Deferred acquisition costs | 5,781,810 | 8,2 |
| Property, plant and equipment | 2,046,332 | 2,1 |
| Prepaid items | 1,480,078 | 1,5 |
| Goodwill and other intangible assets | 1,466,629 | 1,4 |
| Other assets | <u>1,857,239</u> | <u>1.6</u> |
| Total assets | \$297,261,617 | \$346,1 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses | 121,423,039 | 145,1 |
| Unearned premiums | 53,205,500 | 72,2 |

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| | | |
|---|-------------------|-------------|
| Reinsurance on paid losses and loss adjustment expenses | 2,081,845 | 7 |
| Ceded premiums payable | 14,224,460 | 8,1 |
| Due to affiliate: | | |
| Reinsurance on paid losses and loss adjustment expenses | - | 1 |
| Escrow deposits | 11,718,824 | 12,9 |
| Accounts payable and accrued expenses | 13,459,422 | 11,2 |
| Funds held | 1,433,648 | 10,1 |
| Loan payable | 16,403,135 | 13,8 |
| Collateral held | 821,302 | 1,17 |
| Deferred Revenue | 2,185,104 | 3,4 |
| Unearned loan fees | <u>325,000</u> | <u>3</u> |
| Total liabilities | \$237,281,279 | \$279,5 |
| | ===== | ===== |

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| | | |
|--|--------------------|-------------|
| | December 31, | Sep |
| | <u>2001</u> | (u |
| | | (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, 2001, 6,287,266 shares, and at September 30, 2002, 6,349,023 shares | 62,873 | |
| Additional paid-in capital | 35,206,614 | 35,5 |
| Retained earnings | 33,416,851 | 36,6 |
| Accumulated other comprehensive income net | 834,974 | 3,9 |
| Treasury stock, 1,589,239 shares at December 31, 2001, and 1,601,139 shares at September 30, 2002 | <u>(9,540,974)</u> | <u>(9,6</u> |
| Total shareholders' equity | <u>59,980,338</u> | <u>66,6</u> |
| Total liabilities and shareholders' equity | \$297,261,617 | \$346,1 |
| | ===== | ===== |

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 | | Nine Mon |
| | September 30, | | September |
| | <u>2001</u> | <u>2002</u> | <u>2001</u> |
| Revenues: | | | |
| Direct premiums earned | \$ 28,494,114 | \$ 29,903,241 | \$79,657,272 |
| Assumed premiums earned: | | | |
| Affiliate | 2,633,927 | 2,211,894 | 7,737,630 |
| Nonaffiliates | <u>3,468,186</u> | <u>3,415,756</u> | <u>11,106,525</u> |
| Total assumed premiums earned | <u>6,102,113</u> | <u>5,627,650</u> | <u>18,844,155</u> |

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| | | | |
|---|-------------------|--------------------|--------------------|
| Ceded premiums earned: | | | |
| Affiliate | 1,925,225 | 869,927 | 4,842,878 |
| Nonaffiliates | <u>18,331,867</u> | <u>15,876,784</u> | <u>48,913,399</u> |
| Total ceded premiums earned | <u>20,257,092</u> | <u>16,746,711</u> | <u>53,756,277</u> |
| Net premiums earned | <u>14,339,135</u> | <u>18,784,180</u> | <u>44,745,150</u> |
| Net investment income | 946,765 | 973,320 | 2,709,385 |
| Interest on notes receivable | 207,622 | - | 766,937 |
| Brokerage commission income | 716,003 | 34,044 | 1,715,027 |
| Management fees from affiliate | 363,354 | 246,563 | 1,094,662 |
| Net realized gains (losses) | 186,005 | (56,183) | 601,354 |
| Sales - real estate | 3,180,705 | 10,723,526 | 3,180,705 |
| Other income | <u>128,814</u> | <u>30,504</u> | <u>978,399</u> |
| Total revenues | <u>20,068,403</u> | <u>30,735,954</u> | <u>55,791,619</u> |
| Expenses: | | | |
| Losses and loss adjustment expenses incurred | 9,636,161 | 10,648,265 | 28,501,533 |
| Acquisition expenses | 2,561,742 | 4,072,469 | 8,801,854 |
| Payroll and related expenses | 2,073,232 | 2,300,400 | 6,255,317 |
| Real estate expenses | 3,096,454 | 9,626,848 | 3,578,941 |
| Other expenses | 1,455,311 | 1,723,424 | 4,301,627 |
| Expense due to rescission | - | <u>1,152,876</u> | - |
| Total expenses | <u>18,822,900</u> | <u>29,524,282</u> | <u>51,439,272</u> |
| Earnings before income taxes | 1,245,503 | 1,211,672 | 4,352,347 |
| Income taxes | <u>266,750</u> | <u>178,143</u> | <u>526,150</u> |
| Net earnings | <u>\$978,753</u> | <u>\$1,033,529</u> | <u>\$3,826,197</u> |
| Net earnings per share: | | | |
| Basic | <u>\$ 0.20</u> | <u>\$ 0.22</u> | <u>\$ 0.79</u> |
| Diluted | <u>\$ 0.20</u> | <u>\$ 0.21</u> | <u>\$ 0.77</u> |
| Common shares used in computing earnings per share: | | | |
| Basic | 4,788,648 | 4,746,695 | 4,823,066 |
| | ===== | ===== | ===== |
| Diluted | 4,996,787 | 4,864,450 | 4,949,942 |
| | ===== | ===== | ===== |

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)

| | |
|---|-------------------------|
| | Nine Month September |
| | <u>2001</u> |
| Cash flow from operating activities: | |
| Net earnings | \$3,826,197 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | |
| Realized (gains)/losses on sale of investments | (601,354) |

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| | |
|---|---------------------|
| Amortization of deferred acquisition costs | (950,823) |
| Change in: | |
| Accrued investment income | (620,129) |
| Premiums receivable | (1,928,205) |
| Reinsurance recoverable and ceded unearned premiums | (28,755,811) |
| Unearned loan fees | (243,750) |
| Funds held by reinsured | (3,413,299) |
| Due from affiliate | 89,120 |
| Funds on deposit | (828,579) |
| Income taxes | 913,561 |
| Unpaid losses and loss adjustment expenses | 30,166,295 |
| Unearned premiums | 24,957,116 |
| Ceded premiums payable | (6,776,822) |
| Due to affiliate | 265,606 |
| Accounts payable and accrued expenses | 3,399,939 |
| Collateral held | 155,132 |
| Prepaid items | (263,356) |
| Deferred revenue | 256,916 |
| Other, net | <u>169,995</u> |
| Net cash provided by operating activities | <u>19,817,749</u> |
| | |
| Cash flow from investing activities: | |
| Purchases of fixed maturities | (40,573,756) |
| Purchases of equity investments | (2,905,977) |
| Proceeds from maturity and redemption of fixed maturities | 1,039,717 |
| Proceeds from sale of fixed maturities | 27,959,232 |
| Proceeds from sale of equity investments | 2,429,563 |
| Decrease (increase) in investment in real estate | (21,012,588) |
| Decrease (increase) in short-term investments | (6,934,692) |
| Advances in notes receivable - other | 803,902 |
| Purchase of fixed assets, net | <u>(1,082,041)</u> |
| Net cash (used in) investing activities | <u>(40,276,640)</u> |
| | |
| Cash flow from financing activities: | |
| Purchase of treasury stock | (2,000,562) |
| Proceeds from issuance of common stock | - |
| Proceeds from (repayment of) loan payable | 17,971,841 |
| Proceeds from escrow deposits | 7,417,423 |
| (Deposits) withdrawals from restricted cash | (4,450,789) |
| Dividends paid | <u>-</u> |
| Net cash provided by financing activities | <u>18,937,913</u> |
| | |
| Net increase (decrease) in cash | (1,520,979) |
| | |
| Cash at beginning of period | <u>3,784,102</u> |
| | |
| Cash at end of period | <u>\$2,263,124</u> |
| | |
| Supplemental disclosure of cash flow information: | |
| Interest expenses paid | 13,014 |

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(Unaudited)

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| | Three months ended September 30, | | |
|---|-------------------------------------|-----------------------|---------------------|
| | 2001 | 2002 | 2001 |
| Net earnings | \$ 978,753 | \$ 1,033,529 | \$ 3,826,1 |
| Other comprehensive earnings before income taxes: | | | |
| Unrealized gains on securities available for sale | 1,884,379 | 3,665,505 | 2,103,0 |
| Reclassification adjustment for realized gains (losses) included in net earnings | <u>186,005</u> | <u>(56,183)</u> | <u>601,3</u> |
| Total other comprehensive earnings before taxes | 1,698,374 | 3,721,688 | 1,501,6 |
| Income tax expense related to items of other comprehensive income | <u>469,118</u> | <u>849,568</u> | <u>387,6</u> |
| Other comprehensive earnings net of income taxes | <u>1,229,256</u> | <u>2,872,120</u> | <u>1,114,0</u> |
| Total comprehensive earnings | \$ 2,208,009 ===== | \$ 3,905,649 ===== | \$ 4,940,2 ===== |

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Group, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

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

The results of operations for the three months or nine months ended September 30, 2002 may not be indicative of the results that may be expected for the full year ending December 31, 2002. These unaudited interim consolidated

financial statements and notes should be read in conjunction with the financial statements and notes included in the audited consolidated financial statements of American Safety and its subsidiaries for the year ended December 31, 2001.

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

Note 2 - Accounting Pronouncements

In July 2001, the FASB issued Statement of Financial Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after September 30, 2001, as well as all purchase method business combinations completed after September 30, 2001. SFAS 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

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

As of the date of adoption, the Company had unamortized goodwill in the amount of \$1.5 million, which is subject to the transition provisions of Statement 141 and 142. Amortization expense related to goodwill was \$87,234, \$0 and \$0 for the year ended December 31, 2001 and the three and nine month periods ended September 30, 2002, respectively. See Note 10 for additional information.

The FASB issued SFAS 143, "Accounting for Asset Retirement Obligations" in August 2001. This standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The standard is effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS 143 effective January 1, 2003, and does not expect the adoption of this statement to have any material impact on its consolidated financial statements.

The FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" in October 2001. The FASB's new rules on asset impairment supersede FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and provide a single accounting model for long-lived assets to be disposed of. The standard is effective for fiscal years beginning after December 15,

2001 and interim periods within those fiscal years, with early application encouraged. The Corporation adopted SFAS 144 effective January 1, 2002 with no material impact on its consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146. This standard, which addresses accounting and reporting for costs associated with exit or disposal activities, will be effective January 1, 2003, and is not expected to have a material impact on the Company's financial position or results of operations.

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Note 3 - Nature of Operations

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

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

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

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

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

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

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

Note 4 - Investments

The amortized cost and estimated fair values of investments at December 31, 2001 and September 30, 2002 are as follows:

| | Amortized <u>cost</u> | Gross unrealized <u>gains</u> | Gross unrealized <u>losses</u> |
|---|--------------------------|-------------------------------------|--------------------------------------|
| December 31, 2001: | | | |
| Securities available for sale: | | | |
| Fixed maturities: | | | |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | \$28,618,104 | \$1,091,312 | \$101,892 |
| Corporate securities | 24,157,207 | 380,283 | 146,968 |
| Mortgage-backed securities | <u>7,914,282</u> | <u>3,956</u> | <u>80,183</u> |
| Total fixed maturities | \$60,689,593 ===== | \$1,475,551 ===== | \$ 329,043 ===== |
| September 30, 2002: | | | |
| Securities available for sale: | | | |
| Fixed maturities: | | | |
| U.S. Treasury securities and obligations of U.S. Government corporations and agencies | \$47,893,422 | \$2,804,131 | \$ 0 |
| Corporate securities | 35,060,359 | 2,453,841 | 336,859 |
| Foreign Securities | 599,411 | 68,664 | 0 |
| Mortgage-backed securities | <u>7,877,760</u> | <u>264,514</u> | <u>4,773</u> |
| Total fixed maturities | \$91,430,952 ===== | \$5,591,150 (a) ===== | \$341,632 ===== |

(a) Unrealized gains include 72,434, which relate to funds held

Note 5 - Segment Information

(a) Factors used to identify the Company's reportable segments:

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

(b) Products and services from each reportable segment:

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

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

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

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

| | Nine Months Ended September 30, | |
|--|------------------------------------|-------------|
| | <u>2001</u> | <u>2000</u> |
| United States - Insurance | | |
| Net premiums earned - All other | \$43,281,201 | \$48,371, |
| Net premiums earned - Intersegment | (6,977,694) | (17,233, |
| Net investment income and interest on notes receivable | 2,127,759 | 2,207, |
| Real estate income | - | |
| Other revenues | 4,117,682 | 718, |
| Total revenues | 42,548,948 | 34,063, |

| | Nine Months Ended September 30, | |
|------------------|------------------------------------|-------------|
| | <u>2001</u> | <u>2000</u> |
| Interest expense | 131,370 | 151, |

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| | | |
|---|----------------|--------------|
| Depreciation and amortization expense | 214,687 | 174, |
| Equity in net earnings of subsidiaries | - | |
| Income tax expense (benefit) | 660,364 | (274, |
| Segment profit (loss) | 1,299,554 | (658, |
| Significant noncash items other than depreciation and amortization | - | |
| Property, plant and equipment | 849,621 | 915, |
| Total investments | 65,996,404 | 76,289, |
| Total assets | 201,731,059 | 276,492, |
| Total policy and contract liabilities | 141,003,699 | 211,084, |
| Total liabilities | 172,920,822 | 243,418, |
| United States - Real Estate | | |
| Net premiums earned - All other | - | |
| Net premiums earned - Intersegment | - | |
| Net investment income and interest on notes receivable | - | |
| Real estate income | 3,180,705 | 44,659, |
| Other revenues | <u>3,491</u> | <u>1,</u> |
| Total revenues | 3,184,196 | 44,660, |
| Interest expense | - | |
| Depreciation and amortization expense | 4,524 | 107, |
| Equity in net earnings of subsidiaries | - | |
| Income taxes expense (benefit) | (134,214) | 2,307, |
| Segment profit/(loss) | (260,531) | 3,571, |
| Significant noncash items other than depreciation and amortization | - | |
| Property, plant and equipment | 323,996 | 444, |
| Total investments | 44,958,893 | 34,424, |
| Total assets | 57,822,811 | 49,434, |
| Total policy and contract liabilities | - | |
| Total liabilities | 47,182,538 | 34,577, |
| Bermuda | | |
| Net premiums earned - All other | 1,463,949 | 473, |
| Net premiums earned - Intersegment | 6,977,694 | 17,233, |
| Net investment income and interest on notes receivable | 1,348,563 | 640, |
| Real estate income | - | |
| Other revenues | <u>414,170</u> | <u>(133,</u> |
| Total revenues | 10,204,376 | 18,213, |
| Interest expense | - | |
| Depreciation and amortization expense | 5,833 | 15, |
| Equity in net earnings of subsidiaries | 1,039,023 | 2,912, |
| Income taxes | - | |
| Segment profit | 2,787,174 | 2,020, |
| Significant noncash items other than depreciation and amortization | - | |
| Property, plant and equipment | 844,167 | 824, |
| Total investments | 67,677,226 | 87,870, |

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| | Nine Months Ended September 30, | |
|---------------------------------------|------------------------------------|-------------|
| | <u>2001</u> | <u>2000</u> |
| Total assets | 91,981,519 | 116,842, |
| Total policy and contract liabilities | 16,436,234 | 34,362, |
| Total liabilities | 18,671,408 | 36,706, |
| Intersegment Eliminations | | |
| Net premiums earned - All other | - | |

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| | | |
|--|--------------|--------------|
| Net premiums earned - Intersegment | - | |
| Net investment income and interest on notes receivable | - | |
| Real estate income | - | |
| Other revenues | (145,901) | (112,000) |
| Total revenues | (145,901) | (112,000) |
| Interest expense | (112,500) | (112,000) |
| Depreciation and amortization expense | - | |
| Equity in net earnings (loss) of subsidiaries | (1,039,023) | (2,912,000) |
| Income taxes | - | |
| Segment profit (loss) | - | |
| Significant noncash items other than depreciation and amortization | - | |
| Property, plant and equipment | - | |
| Total investments | (51,859,674) | (61,464,000) |
| Total assets | (66,021,706) | (96,600,000) |
| Total policy and contract liabilities | (9,854,541) | (28,077,000) |
| Total liabilities | (14,062,032) | (35,135,000) |
| Total | | |
| Net premiums earned - All other | 44,745,150 | 48,844,000 |
| Net premiums earned - Intersegment | - | |
| Net investment income and interest on notes receivable | 3,476,322 | 2,848,000 |
| Real estate income | 3,180,705 | 44,659,000 |
| Other revenues | 4,389,442 | 473,000 |
| Total revenues | 55,791,619 | 96,825,000 |
| Interest expense | 18,870 | 39,000 |
| Depreciation and amortization expense | 225,044 | 296,000 |
| Equity in net earnings of subsidiaries | - | |
| Income taxes expense | 526,150 | 2,033,000 |
| Segment profit | 3,826,197 | 4,932,000 |
| Significant noncash items other than depreciation and amortization | - | |
| Property, plant and equipment | 2,017,784 | 2,184,000 |
| Total investments | 126,772,849 | 137,119,000 |
| Total assets | 285,513,683 | 346,169,000 |
| Total policy and contract liabilities | 147,585,392 | 217,369,000 |
| Total liabilities | 224,712,736 | 279,568,000 |

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Note 6 - Shareholder Matters

During the nine months ended September 30, 2002, the Company repurchased 11,900 shares of its stock at a total price of \$111,741 in open market transactions pursuant to its share repurchase program.

Note 7 - Investment in Real Estate

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

As of December 31, 2001 and September 30, 2002, the investment in real estate for the Harbour Village project is as follows (in thousands):

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| | <u>December 31, 2001</u> | <u>September 30, 2002</u> |
|--|--------------------------|---------------------------|
| Land | \$4,360 | \$2,308 |
| Capitalized overhead, interest and taxes | 3,925 | 2,647 |
| Work in process | <u>28,328</u> | <u>29,469</u> |
| Total | \$36,613 ===== | \$34,424 ===== |

During the quarter ended September 30, 2002, the Company closed 32 condominium units and 14 boat slips at Harbour Village. The Company has determined to recognize 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.

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Note 8 - Income Taxes

Total income tax expense for the nine months ended September 30, 2001 and 2002 were allocated as follows:

| | <u>2001</u> | Nine Months End September 30, |
|---|--------------------|----------------------------------|
| Tax expense attributable to: | | |
| Income from continuing operations | \$ 526,150 | |
| Unrealized gains on securities available for sale | <u>387,612</u> | |
| Total | \$913,762 ===== | |

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

| | <u>Current</u> | <u>Deferred</u> | T |
|--------------------|----------------|-----------------|-----|
| September 30, 2001 | 2,089,704 | (1,563,554) | 5 |
| September 30, 2002 | 271,259 | 1,762,177 | 2,0 |

The state income tax components aggregated \$(2,090) and \$520,985 for the periods ended September 30, 2001 and 2002, respectively.

Income tax expense (benefit) for the periods ended September 30, 2001 and 2002 differed from the amount computed by applying the U.S. Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following:

| | <u>2001</u> | September 30, | 20 |
|--|--------------|---------------|-----------|
| Expected income tax expense | \$1,479,798 | | \$2,36 |
| Foreign earned income not subject to U.S. taxation | (947,639) | | (68 |
| Tax-exempt interest | (15,654) | | |
| State taxes and other | <u>9,645</u> | | <u>35</u> |

| | |
|-----------|--------|
| \$526,150 | \$2,03 |
| ===== | ===== |

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

| | December 31, <u>2001</u> | September <u>2002</u> |
|---|-----------------------------|--------------------------|
| Deferred tax assets: | | |
| Loss reserve discounting | 2,336,868 | 3,085, |
| Unearned premium reserves | 2,128,862 | 2,281, |
| Difference between tax and GAAP basis of Harbour Village Project | <u>5,118,563</u> | <u>3,280,</u> |
| Gross deferred tax assets | <u>\$9,584,293</u> | <u>\$8,647,</u> |
| Deferred tax liabilities: | | |
| Deferred acquisition costs | 1,855,958 | 1,682, |
| Unrealized gain on securities | 311,530 | 1,209, |
| Other | <u>1,772</u> | <u>1,</u> |
| Gross Deferred tax liabilities | <u>2,169,260</u> | <u>2,893,</u> |
| Net deferred tax asset | <u>\$7,415,033</u> | <u>\$5,754,</u> |
| | ===== | ===== |

Note 9 - Notes Receivable

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

The recorded investment in notes receivable, which meet the definition of impaired loans at December 31, 2001 and September 30, 2002 were \$8,081,899 and \$8,015,967, respectively. The Company did not maintain an allowance for loan losses, as it believes that the value of collateral held is sufficient to preclude any losses. The weighted average recorded investment in impaired notes receivable as of December 31, 2001 and September 30, 2002 were \$2,494,294 and \$8,048,933 respectively. Interest income recognized on impaired notes receivable during the nine months ended September 30, 2001 and September 30, 2002 were \$0 and \$0, respectively.

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Note 10 - Goodwill and Intangibles

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

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| Goodwill and Intangibles (in Thousands) | December 31, <u>2001</u> | September 30, <u>2002</u> |
|--|-----------------------------|------------------------------|
| Goodwill | \$1,467 | - |
| Indefinite-lived Intangibles | - | \$1,467 |
| Other Amortizable Intangibles | <u>-</u> | <u>-</u> |
| Total Goodwill and Intangibles | \$1,467 ===== | \$1,467 ===== |

In accordance with the disclosure requirements of SFAS 142 the following table shows the effect of the goodwill and intangibles amortization on the reported net income for the nine months ended September 30, 2001 and September 30, 2002 to show comparability between the periods presented.

| | Nine Months Ended September 30 (In Thousands) | |
|--|---|------------------|
| | <u>2001</u> | <u>2002</u> |
| Reported Net Earnings | \$3,826 | \$4,932 |
| Add back: Goodwill and Intangibles Amortization | <u>66</u> | <u>-</u> |
| Adjusted Net Earnings | \$3,892 ===== | \$4,932 ===== |
| Earnings Per Share Diluted | | |
| Reported Net Earnings | \$0.79 | \$1.04 |
| Add back: Goodwill and Intangibles Amortization | <u>0.01</u> | <u>-</u> |
| Adjusted Net Earnings - Basic | \$0.80 ===== | \$1.04 ===== |
| Adjusted Net Earnings - Diluted | \$0.78 ===== | \$1.01 ===== |

Note 11 - Commitments and Contingencies

One of the Company's former reinsurers, Berkley Insurance Company, has disputed its obligations under several reinsurance treaties entered into during the "soft reinsurance

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market that existed in 1998 and 1999. As of September 30, 2002, unreimbursed paid claims totaled \$15.7 million and additional ceded case and incurred but not reported reserves totals approximately \$19.5 million. A reserve for this dispute has not been established since the Company does not believe it is probable a loss will occur nor is any potential loss estimatable. If any of these factors change in the future, the Company will establish a reserve at that time, which could be material. On April 5, 2002, the Company demanded arbitration against the reinsurer to collect the amounts owed. The arbitration panel has been chosen, and the arbitration panel has scheduled a hearing in May 2003. The parties are presently engaged in the discovery phase of the proceedings. Berkley is a subsidiary of W.R. Berkley Corp. (NYSE: BER). The Company does not believe that this dispute will have a material adverse effect on the overall financial condition or liquidity of the Company.

Note 12 - Consolidating Information

The following represents consolidating information for the Company and its subsidiaries:

American Safety Insurance Group, Ltd.
Consolidating Condensed Information

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| | American Safety Insurance Group, Ltd. | American Safety Holdings Corp. | Other Subsidiaries | Consolidated Adjustments |
|----------------------------|--|---|-------------------------------|-------------------------------------|
| Balance Sheet | | | | |
| December 31, 2001 | | | | |
| Assets | | | | |
| Investment in subsidiary | \$ 51,376,103 | \$38,704,393 | \$ - | \$ (90,080,4 |
| Fixed maturities | 4,297,570 | - | 57,538,531 | |
| Common stock | - | - | 100,000 | (100,0 |
| Investment in real estate | - | - | 37,662,600 | |
| Cash | 14,737 | 296,712 | 991,393 | |
| Restricted Cash | - | - | 9,010,489 | |
| Short term investments | 201,742 | - | 21,540,530 | |
| Secured notes receivable | 2,500,000 | - | 8,081,899 | (2,500,0 |
| Accrued investment income | <u>456,181</u> | <u>-</u> | <u>2,318,370</u> | <u>(350,0</u> |
| Total investments and cash | 58,846,333 | 39,001,105 | 137,243,812 | (93,030,4 |
| Premium receivable | 1,434,586 | - | 31,576,824 | (7,228,1 |
| Due from affiliate | 1,304,302 | 859,945 | - | (1,055,7 |
| Reinsurance recoverable | 577,000 | - | 124,115,361 | (18,336,8 |
| Income taxes recoverable | - | 1,208,703 | 406,237 | |
| Deferred income taxes | - | - | 7,415,033 | |
| Other assets | <u>1,056,421</u> | <u>1,267,704</u> | <u>11,260,800</u> | <u>(661,3</u> |
| Total Assets | <u>\$ 63,218,642</u> | <u>\$ 42,337,457</u> | <u>\$ 312,018,067</u> | <u>\$ (120,312,5</u> |

Liabilities and Shareholders' Equity

| | | | | |
|--|--------------|------|----------------|-------------|
| Unpaid losses and loss adjustment expenses | \$ 1,964,279 | \$ - | \$ 129,136,148 | \$ (9,677,3 |
| Unearned premium | - | - | 55,640,711 | (2,435,2 |
| Ceded premiums payable | 992,803 | - | 27,059,259 | (13,827,6 |
| Assumed loss and lae payable | - | - | 1,925,739 | |
| Deferred revenue | - | - | 2,185,104 | |
| Due to affiliate | - | - | 3,456,121 | (3,456,1 |

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**American Safety Insurance Group, Ltd.
Consolidating Condensed Information**

| | American Safety Insurance Group, Ltd. | American Safety Holdings Corp. | Other Subsidiaries | Consolidated Adjustments |
|--|--|---|-------------------------------|-------------------------------------|
| Loan payable | - | 1,006,000 | 15,397,135 | |
| Escrow deposits | - | - | 11,718,824 | |
| Income taxes payable | - | - | - | |
| Accounts payable and accrued expenses | 181,222 | 1,031,000 | 15,718,987 | (735,7 |
| Total Liabilities | <u>3,138,304</u> | <u>2,037,000</u> | <u>262,238,028</u> | <u>(30,132,0</u> |
| Common stock | 162,873 | 500 | 3,621,500 | (3,722,0 |
| Additional paid in capital | 35,206,612 | 38,818,852 | 34,023,383 | (72,842,2 |
| Accumulated other comprehensive earnings (loss), net | 834,974 | 604,736 | 598,894 | (1,203,6 |
| Retained earnings | 33,416,853 | 876,369 | 11,536,262 | (12,412,6 |

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| | | | | |
|--|--------------|---------------|----------------|--------------|
| Treasury stock | (9,540,974) | - | - | |
| Total Shareholders' Equity | 60,080,338 | 40,300,457 | 49,780,039 | (90,180,4 |
| Total Liabilities and Shareholders' Equity | \$63,218,642 | \$ 42,337,457 | \$ 312,018,067 | \$(120,312,5 |

Balance Sheet

September 30, 2002

Assets

| | | | | |
|----------------------------|---------------|---------------|----------------|--------------|
| Investment in subsidiary | \$ 61,364,772 | \$ 47,451,497 | \$ - | \$(108,816,2 |
| Fixed maturities | 3,033,881 | - | 93,646,589 | |
| Common stock | - | - | 100,000 | (100,0 |
| Investment in real estate | - | - | 34,424,322 | |
| Cash | 973,821 | - | 13,795,271 | |
| Restricted Cash | - | - | 9,497,648 | |
| Short term investments | - | - | 6,015,135 | |
| Secured notes receivable | 2,500,000 | - | 8,015,967 | (2,500,0 |
| Accrued investment income | 497,202 | - | 2,286,558 | (462,5 |
| Total investments and cash | 68,369,676 | 47,451,497 | 167,781,490 | (111,878,7 |
| Premium receivable | 1,138,513 | - | 23,876,449 | (3,523,6 |
| Due from affiliate | (2,187,574) | (180,283) | 3,053,551 | (339,0 |
| Reinsurance recoverable | 868,500 | - | 158,912,873 | (29,270,4 |
| Income taxes recoverable | - | 1,686,363 | (409,244) | |
| Deferred income taxes | - | - | 5,754,812 | |
| Other assets | 820,777 | 1,416,026 | 12,817,615 | 10,0 |
| Total Assets | \$ 69,009,892 | \$ 50,373,603 | \$ 371,787,546 | \$(145,001,9 |

Liabilities and Shareholders'

Equity

| | | | | |
|--|--------------|-----------|----------------|--------------|
| Unpaid losses and loss adjustment expenses | \$ 2,063,736 | \$ - | \$ 158,136,282 | \$ (15,079,3 |
| Unearned premium | - | - | 85,246,936 | (12,998,2 |
| Ceded premiums payable | 38,348 | - | 12,973,443 | (4,896,1 |
| Assumed loss and lae payable | - | - | - | |
| Deferred revenue | - | - | 3,424,162 | |
| Due to affiliate | - | - | 3,372,578 | (2,462,6 |
| Loan payable | - | 1,006,000 | 12,885,973 | |
| Escrow deposits | - | - | 12,962,845 | |
| Income taxes payable | - | - | - | |
| Accounts payable and accrued expenses | 206,697 | 1,437,323 | 21,899,338 | (649,3 |
| Total Liabilities | 2,308,781 | 2,443,323 | 310,901,557 | (36,085,6 |

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**American Safety Insurance Group, Ltd.
Consolidating Condensed Information**

| | American Safety Insurance Group, Ltd. | American Safety Holdings Corp. | Other Subsidiaries | Consolida Adjustme |
|--|--|---|-------------------------------|-------------------------------|
| Common stock | 163,490 | 500 | 3,621,500 | (3,722,0 |
| Additional paid in capital | 35,574,493 | 41,793,619 | 36,998,150 | (78,791,7 |
| Accumulated other comprehensive earnings (loss), net | 3,967,835 | 2,347,365 | 3,679,479 | (6,026,8 |
| Retained earnings | 36,648,008 | 3,788,796 | 16,586,860 | (20,375,6 |

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| | | | | |
|--|---------------|---------------|----------------|---------------|
| Treasury stock | (9,652,715) | - | - | |
| Total Shareholders' Equity | 66,701,111 | 47,930,280 | 60,885,989 | (108,916,2 |
| Total Liabilities and Shareholders' Equity | \$ 69,009,892 | \$ 50,373,603 | \$ 371,787,546 | \$ (145,001,9 |

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American Safety Insurance Group, Ltd.
Consolidating Condensed Information

| | American Safety Insurance Group, Ltd. | American Safety Holdings Corp. | Other Subsidiaries | Consolida Adjustme |
|---|--|---|-----------------------|-----------------------|
| Income Statement | | | | |
| September 30, 2001 | | | | |
| Quarter to Date | | | | |
| Direct and assumed premiums earned | \$ - | \$ - | \$ 36,437,052 | \$ (1,840,8 |
| Ceded premiums earned | - | - | (22,097,917) | 1,840,8 |
| Investment income | 56,652 | 46 | 14,339,135 | |
| Interest on notes receivable | 15,923 | - | 890,067 | |
| Brokerage commission income | - | - | 191,699 | |
| Management fees from related party | - | - | 2,079,985 | (1,363,9 |
| Realized gains (losses) on investments | - | - | 733,635 | (370,2 |
| Real estate income | - | - | 186,005 | |
| Other income | 52,228 | - | 3,180,705 | |
| Total revenues | 124,803 | 46 | 114,086 | (37,5 |
| Losses and LAE incurred | (250,000) | - | 21,715,317 | (1,771,7 |
| Acquisition expenses | - | - | 9,886,161 | |
| Real estate expenses | - | - | 3,925,724 | (1,363,9 |
| Payroll and related expenses | 11,561 | - | 3,096,454 | |
| Other expenses | 200,446 | 171,038 | 2,061,671 | |
| Expenses due to rescission | - | - | 1,491,121 | (407,7 |
| Total expenses | (37,993) | 171,038 | - | (1,771,7 |
| Earnings (loss) before equity in earnings in subsidiary | 162,796 | (170,992) | 20,461,618 | |
| Equity in net earnings (loss) of subsidiary | 815,957 | 665,339 | 1,253,699 | (1,481,2 |
| Earnings (loss) before income taxes | 978,753 | 494,347 | 1,253,699 | (1,481,2 |
| Income Taxes | - | (58,137) | 324,887 | |
| Net earnings (loss) | \$ 978,753 | \$ 552,484 | \$ 928,812 | \$ (1,481,2 |

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American Safety Insurance Group, Ltd.
Consolidating Condensed Information

| | American Safety Insurance | American Safety Holdings | Other | Consolida |
|--|---------------------------------|--------------------------------|-------|-----------|
|--|---------------------------------|--------------------------------|-------|-----------|

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| <u>Income Statement</u> | <u>Group, Ltd.</u> | <u>Corp.</u> | <u>Subsidiaries</u> | <u>Adjustme</u> |
|---|--------------------|--------------|---------------------|-----------------|
| September 30, 2002 | | | | |
| Quarter to Date | | | | |
| Direct and assumed premiums earned | \$ - | \$ - | \$ 41,924,289 | \$ (6,393,3 |
| Ceded premiums earned | - | - | (23,140,109) | 6,393,3 |
| Net premiums earned | - | - | 18,784,180 | |
| Investment income | 29,347 | - | 943,973 | |
| Interest on notes receivable | - | - | - | |
| Brokerage commission income | - | - | 34,044 | |
| Management fees from related party | - | - | 246,563 | |
| Realized gains (losses) on investments | 3,086 | - | (59,269) | |
| Real estate income | - | - | 10,723,526 | |
| Other income | 37,500 | - | 30,504 | (37,5 |
| Total revenues | 69,933 | - | 30,703,521 | (37,5 |
| Losses and LAE incurred | - | - | 10,648,265 | |
| Acquisition expenses | - | - | 4,072,469 | |
| Real estate expenses | - | - | 9,432,887 | 193,9 |
| Payroll and related expenses | 26,097 | - | 2,389,363 | (115,0 |
| Other expenses | 228,052 | 201,077 | 1,410,696 | (116,4 |
| Expenses due to rescission | - | 1,152,876 | - | |
| Total expenses | 254,149 | 1,353,953 | 27,953,680 | (37,5 |
| Earnings (loss) before equity in earnings in subsidiary | (184,216) | (1,353,953) | 2,749,841 | |
| Equity in net earnings (loss) of subsidiary | 1,217,745 | 1,088,607 | - | (2,306,3 |
| Earnings (loss) before income taxes | 1,033,529 | (265,346) | 2,749,841 | (2,306,3 |
| Income Taxes | - | (460,344) | 638,487 | |
| Net earnings (loss) | \$ 1,033,529 | \$ 194,998 | \$ 2,111,354 | \$ (2,306,3 |

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**American Safety Insurance Group, Ltd.
Consolidating Condensed Information**

| <u>Income Statement</u> | <u>American Safety Insurance Group, Ltd.</u> | <u>American Safety Holdings Corp.</u> | <u>Other Subsidiaries</u> | <u>Consolida Adjustme</u> |
|------------------------------------|--|---------------------------------------|---------------------------|---------------------------|
| September 30, 2001 | | | | |
| Year to Date | | | | |
| Direct and assumed premiums earned | \$ - | \$ - | 105,479,121 | (6,977,6 |
| Ceded premiums earned | - | - | (60,733,971) | 6,977,6 |
| Net premiums earned | - | - | 44,745,150 | |
| Investment income | 169,326 | 754 | 2,539,305 | |
| Interest on notes receivable | 103,844 | - | 663,093 | |
| Brokerage commission income | - | - | 4,677,957 | (2,962,9 |
| Management fees from related | | | | |

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| | | | | |
|---|---------------------|---------------------|---------------------|--------------------|
| party | - | - | 2,169,370 | (1,074,7 |
| Realized gains on investments | - | - | 601,354 | |
| Real estate income | - | - | 3,180,705 | |
| Other income | <u>173,675</u> | - | <u>917,224</u> | (112,5 |
| Total revenues | 446,845 | 754 | 59,494,158 | (4,150,1 |
| Losses and LAE incurred | (751,969) | - | 29,253,502 | |
| Acquisition expenses | - | - | 11,764,784 | (2,962,9 |
| Real estate expenses | - | - | 3,578,941 | |
| Payroll and related expenses | 11,561 | - | 6,243,756 | |
| Other expenses | 472,553 | 612,783 | 4,403,499 | (1,187,2 |
| Expenses due to rescission | - | - | - | |
| Total expenses | <u>(267,855)</u> | <u>612,783</u> | <u>55,244,482</u> | <u>(4,150,1</u> |
| Earnings (loss) before equity in earnings in subsidiary | 714,700 | (612,029) | 4,249,676 | |
| Equity in net earnings (loss) of subsidiary | <u>3,111,497</u> | <u>1,442,962</u> | - | (4,554,4 |
| Earnings (loss) before income taxes | 3,826,197 | 830,933 | 4,249,676 | (4,554,4 |
| Income Taxes | - | (208,090) | 734,240 | |
| Net earnings (loss) | \$ <u>3,826,197</u> | \$ <u>1,039,023</u> | \$ <u>3,515,436</u> | \$ <u>(4,554,4</u> |

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American Safety Insurance Group, Ltd.
Consolidating Condensed Information

| | <u>American Safety Insurance Group, Ltd.</u> | <u>American Safety Holdings Corp.</u> | <u>Other Subsidiaries</u> | <u>Consolidated Adjustments</u> |
|--|--|---|-------------------------------|-------------------------------------|
| <u>Income Statement</u> | | | | |
| September 30, 2002 | | | | |
| Year to Date | | | | |
| Direct and assumed premiums earned | \$ - | \$ - | \$ 119,987,871 | \$ (17,233,0 |
| Ceded premiums earned | - | - | (71,143,255) | 17,233,0 |
| Net premiums earned | - | - | 48,844,616 | |
| Investment income | 122,188 | 4,263 | 2,721,744 | |
| Interest on notes receivable | - | - | - | |
| Brokerage commission income | - | - | 136,684 | |
| Management fees from related party | - | - | 739,744 | |
| Realized gains (losses) on investments | 82,260 | - | (604,145) | |
| Real estate income | - | - | 44,659,187 | |
| Other income | <u>113,020</u> | - | <u>118,494</u> | (112,5 |
| Total revenues | 317,468 | 4,263 | 96,616,324 | (112,5 |
| Losses and LAE incurred | - | - | 28,178,777 | |
| Acquisition expenses | - | - | 10,369,914 | |
| Real estate expenses | - | - | 38,207,711 | 573,6 |
| Payroll and related expenses | 50,701 | - | 6,898,979 | (345,1 |
| Other expenses | 575,268 | 183,069 | 4,001,276 | (340,9 |
| Expenses due to rescission | - | 1,506,468 | - | |
| Total expenses | <u>625,969</u> | <u>1,689,537</u> | <u>87,656,657</u> | <u>(112,5</u> |
| Earnings (loss) before equity in | | | | |

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| | | | | |
|---|--------------|--------------|--------------|-------------|
| earnings in subsidiary | (308,501) | (1,685,274) | 8,959,667 | |
| Equity in net earnings (loss) of subsidiary | 5,240,957 | 4,029,699 | - | (9,270,6 |
| Earnings (loss) before income taxes | 4,932,456 | 2,344,425 | 8,959,667 | (9,270,6 |
| Income Taxes | - | (567,993) | 2,601,429 | |
| Net earnings (loss) | \$ 4,932,456 | \$ 2,912,418 | \$ 6,358,238 | \$ (9,270,6 |

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American Safety Insurance Group, Ltd.
Consolidating Condensed Information

| | <u>American Safety Insurance Group, Ltd.</u> | <u>American Safety Holdings Corp.</u> | <u>Other Subsidiaries</u> | <u>Consolida Adjustme</u> |
|--|--|---|-------------------------------|-------------------------------|
| September 30, 2001 | | | | |
| Cash Flow | | | | |
| Net cash provided (used) in operating activities | 298,737 | (1,032,257) | 20,451,269 | 100,00 |
| Cash flow from investing activities: | | | | |
| Decrease (increase) in investments | 1,732,215 | 36,301 | (40,963,115) | |
| Investment in subsidiary | - | (10,000) | - | 10,00 |
| Sales (purchases) of fixed assets, net | - | - | (1,082,041) | |
| Net cash provided (used) by investing activities | 1,732,215 | 26,301 | (42,045,156) | 10,00 |
| Cash flow from financing activities: | | | | |
| Proceeds from sale of common stock | 100,000 | - | - | (100,00 |
| Proceeds (repayment) of loans payable | - | 1,006,000 | 16,965,841 | |
| Proceeds from escrow deposits | - | - | 7,417,423 | |
| Restricted cash | - | - | (4,450,789) | |
| Receipt of funds from parent | - | - | 10,000 | (10,00 |
| Dividends paid | - | - | - | |
| Purchase of treasury stock | (2,000,562) | - | - | |
| Net cash provided (used) by financing activities | (1,900,562) | 1,006,000 | 19,942,475 | (110,00 |
| Net increase (decrease) in cash | 130,390 | 44 | (1,651,412) | |
| Cash at beginning of year | 152,642 | 175,774 | 3,455,686 | |
| Cash at end of year | 283,032 | 175,818 | 1,804,274 | |

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American Safety Insurance Group, Ltd.
Consolidating Condensed Information

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| September 30, 2002 | <u>American Safety Insurance Group, Ltd.</u> | <u>American Safety Holdings Corp.</u> | <u>Other Subsidiaries</u> | <u>Consolidated Adjustments</u> |
|--|--|---|-------------------------------|-------------------------------------|
| Cash Flow | | | | |
| Net cash provided (used) in operating activities | 2,553,049 | (297,064) | 25,162,085 | 1,360 |
| Cash flow from investing activities: | | | | |
| Decrease (increase) in investments | 1,465,431 | - | (13,440,495) | |
| Investment in subsidiary | (1,614,851) | (2,974,415) | - | 4,589 |
| Sales (purchases) of fixed assets, net | - | - | (138,177) | |
| Net cash provided (used) by investing activities | (149,420) | (2,974,415) | (13,578,672) | 4,589 |
| Cash flow from financing activities: | | | | |
| Proceeds from sale of common stock | 368,498 | - | - | |
| Proceeds (repayment) of loans payable | - | - | (2,511,162) | |
| Proceeds from escrow deposits | - | - | 1,244,021 | |
| Restricted cash | - | - | (487,159) | |
| Receipt of funds from parent | - | 2,974,767 | 2,974,767 | (5,949) |
| Dividends paid | (1,701,302) | - | - | |
| Purchase of treasury stock | (111,741) | - | - | |
| Net cash provided (used) by financing activities | (1,444,545) | 2,974,767 | 1,220,467 | (5,949) |
| Net increase (decrease) in cash | 959,084 | (296,712) | 12,803,878 | |
| Cash at beginning of year | 14,737 | 296,712 | 991,393 | |
| Cash at end of year | 973,821 | - | 13,795,271 | |

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

General

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

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

Three Months

Nine Months

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| | Ended September 30, | | Ended September 30, | |
|---------------------------------|------------------------|-----------------|---------------------|-----------------|
| | 2001 | 2002 | 2001 | 2002 |
| | (Dollars in thousands) | | | |
| Net Premiums earned: | | | | |
| Reinsurance: | | | | |
| Workers' compensation | \$2,659 | \$ - | \$ 8,300 | \$ - |
| General liability | <u>1,963</u> | <u>4,793</u> | <u>7,232</u> | <u>11,488</u> |
| Total reinsurance | <u>4,622</u> | <u>4,793</u> | <u>15,532</u> | <u>11,488</u> |
| Primary insurance: | | | | |
| Commercial Line | 1,185 | 72 | 3,217 | 865 |
| Workers' compensation | 1,882 | 1,593 | 4,009 | 5,955 |
| Surety | 1,023 | 298 | 5,492 | 950 |
| General liability | 5,237 | 9,401 | 12,159 | 22,990 |
| Program business | <u>390</u> | <u>2,627</u> | <u>4,336</u> | <u>6,597</u> |
| Total primary insurance | <u>9,717</u> | <u>13,991</u> | <u>29,213</u> | <u>37,357</u> |
| Total net premiums earned | <u>14,339</u> | <u>18,784</u> | <u>44,745</u> | <u>48,845</u> |
| Net investment income | 947 | 973 | 2,709 | 2,848 |
| Interest on notes receivable | 207 | - | 767 | - |
| Commission and fee income: | | | | |
| Brokerage commission income | 716 | 34 | 1,715 | 137 |
| Management fees from affiliate | <u>363</u> | <u>247</u> | <u>1,095</u> | <u>740</u> |
| Total commission and fee income | <u>1,079</u> | <u>281</u> | <u>2,810</u> | <u>877</u> |
| Net realized gains (losses) | 186 | (56) | 601 | (522) |
| Real estate income | 3,181 | 10,724 | 3,181 | 44,659 |
| Other income | <u>129</u> | <u>30</u> | <u>979</u> | <u>119</u> |
| Total Revenues | <u>\$20,068</u> | <u>\$30,736</u> | <u>\$55,792</u> | <u>\$96,826</u> |

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2001 | 2002 | 2001 | 2002 |
| Insurance operations: | | | | |
| Loss and loss adjustment expense ratio | 67.2% | 56.7% | 63.7% | 57.7% |
| Expense ratio | <u>22.9</u> | <u>26.9</u> | <u>25.2</u> | <u>26.9</u> |
| Combined ratio | <u>90.1%</u> | <u>83.6%</u> | <u>88.9%</u> | <u>84.6%</u> |

Quarter Ended September 30, 2002 Compared to Quarter Ended September 30, 2001

Net Premiums Earned. Net premiums earned increased 31% to \$18.8 million in the quarter ended September 30, 2002 from \$14.3 million in the quarter ended September 30, 2001. The principal factors accounting for the increase were a \$4.2 million increase in primary general liability premiums, a \$2.8 million increase in reinsurance general liability premiums, and a \$2.2 million increase in program business premiums. Also, net premiums earned for workers' compensation commercial lines, and surety decreased 70.9% to \$2 million from \$6.7 million. These results were in line with the Company's strategy to focus on its more profitable lines of insurance business.

Net Investment Income. Net investment income increased to \$973,000 in the quarter ended September 30, 2002 from \$947,000 in the quarter ended September 30, 2001. The average pre-tax yield on investments was 4.9% in the quarter ended September 30, 2001 and 4.7% in the quarter ended September 30, 2002. The average after-tax yield on investments was 3.6% in the quarter ended September 30, 2001 and 3.5% in the quarter ended September 30, 2002.

Interest from Notes Receivable. Interest from notes receivable decreased 100% from \$207,000 in the quarter ended September 30, 2001 to \$0 in the quarter ended September 30, 2002 due to repayments on various loans. During 2001, the Company ceased accruing interest on two impaired loans with one borrower in accordance with its accounting policies. While the May 2002 appraised value of the collateral securing these loans is in excess of the balances owed, the borrower is seeking refinancing from third party sources and the Company intends to obtain a more current appraisal of the collateral. Average notes receivable decreased to \$8 million in the quarter ended September 30, 2002 from \$8.6 million in the quarter ended September 30, 2001.

Brokerage Commission Income and Management Fees. Income from insurance brokerage operations and management fees decreased 74% from \$1.1 million in the three months ended September 30, 2001 to \$281,000 in the three months ended September 30, 2002. This decrease is the result of a change in the manner fees are realized from our risk retention group affiliate. Previously, the risk retention group paid a fixed management fee plus a commission based on a percentage of the premiums produced by the Company. Effective January 1, 2002, the risk retention group pays fees based on its portion of costs allocated from the Company for its portion of premiums written. This change was implemented to coincide with the creation of an internal pooling agreement between the Company and its subsidiaries, including the risk retention group affiliate. The result of this change will initially lower the commission income and management fees paid to the Company by the risk retention group affiliate, but the net earned premiums retained by the Company will increase which are earned as revenue over the life of the underlying policies as opposed to earning the commissions and fees at the time such policies are written.

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Net Realized Gains and Losses. Net realized gains and losses decreased from a gain of \$186,000 in the quarter ended September 30, 2001 to a loss of \$56,000 for the quarter ended September 30, 2002 due to the sale of bonds in the Company's investment portfolio.

Real Estate Income. Real estate sales at the Harbour Village project increased 237.1% to \$10.7 million in the quarter ended September 30, 2002 from \$3.2 million in the quarter ended September 30, 2001. These sales were realized from the closing of 32 residential condominium units and 14 boat slips in the quarter ended September 30, 2002, and from the closing of 12 residential condominium units and 6 boat slips in the quarter ended September 30, 2001. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Other Income. Other income decreased 76.7% from \$129,000 in the quarter ended September 30, 2001 to \$30,000 for the quarter ended September 30, 2002 as a result of reduced fees earned by the Company's financial services subsidiary, American Safety Financial Corp. During 2001, the Company discontinued this line of business.

Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses increased 10.5% from \$9.6 million in the quarter ended September 30, 2001 to \$10.6 million in the quarter ended September 30, 2002, and the loss ratio has decreased to 57% in the quarter ended September 30, 2002 from 67% in the quarter ended September 30, 2001. The loss ratio has decreased as a result of decreased earned premium in commercial lines, surety, and workers' compensation lines of business, which have higher loss ratios.

Acquisition Expenses. Policy acquisition expenses increased to \$4.1 million for the three months ended September 30, 2002 from \$2.6 million for the three months ended September 30, 2001, as a result of increased earned premiums. Premium tax expense has decreased to \$541,000 from \$794,000 due to lower volumes of direct premiums

which are subject to premium taxes.

Payroll and Other Expenses. Payroll and other expenses increased 14% from \$3.5 million in the quarter ended September 30, 2001 to \$4 million in the quarter ended September 30, 2002 due to higher payroll and legal expenses during the quarter.

Real Estate Expenses. Real estate expenses associated with Harbour Village increased from \$3.1 million in the quarter ended September 30, 2001 to \$9.6 million in the quarter ended September 30, 2002. Of the \$9.6 million of costs recognized during the quarter ended September 30, 2002, \$8.6

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million were previously capitalized variable costs related to the sale of condominium units and boat slips, and the remaining \$1 million were fixed costs of the project, which includes advertising and other administration costs. Of the \$3.1 million of costs recognized during the quarter ended September 30, 2001, \$2.7 million was previously capitalized variable costs related to the sale of condominium units and boat slips and the remaining \$400,000 were fixed costs of the project, which includes advertising and other administration costs. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Rescission Expense. Expense due to rescission was \$1.2 million for the quarter ended September 30, 2002. Of the \$1.2 million of expense recognized, \$153,000 was for legal fees, and \$1 million was related to amounts held in escrow for the acquisition as a result of the Court's granting of defendants' summary judgment motions in part of the lawsuit. See Item 6(b) for more information.

Income Taxes. Federal and state income taxes increased to \$178,000 in the quarter ended September 30, 2001 from \$267,000 in the quarter ended September 30, 2002 due to lower levels of income in the Company's U.S. insurance and real estate subsidiaries.

Total Earnings. Net earnings after tax increased 5.6% to \$1 million for the quarter ended September 30, 2002 from \$979,000 for the quarter ended September 30, 2001. This increase in net earnings is from increases in insurance and real estate income. Operating earnings, which are earnings excluding amounts for realized capital gains and losses and rescission expenses, increased 133% to \$1.8 million for quarter ended September 30, 2002 from \$785,000 for the quarter ended September 30, 2001. This increase in operating earnings is the result of higher insurance and real estate income.

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

Net Premiums Earned. Net premiums earned increased 9.2% from \$44.7 million in the nine months ended September 30, 2001 to \$48.8 million in the nine months ended September 30, 2002. The principal factors accounting for the increase were an increase of \$10.8 million in primary general liability premiums, an increase of \$4.3 million in reinsurance general liability premiums and an increase of \$2.3 million in program business premiums. Also, net premiums earned for workers' compensation, commercial lines, and surety decreased 63% to \$7.8 million from \$21 million. These results were in line with the Company's strategy to focus on its more profitable lines of insurance business.

Net Investment Income. Net investment income increased 5.1% from \$2.7 million in the nine months ended September 30, 2001 to \$2.8 million in the nine months ended September 30, 2002 due to higher levels of invested assets generated from positive cash flows from operations. The average pre-tax yield on investments was 5% in the nine months ended September 30, 2001 and 4.1% in the nine months ended September 30, 2002. The average after-tax yield on investments was 3.1% in the nine months ended September 30, 2001 and 3% in the nine months ended

September 30, 2002.

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Interest from Notes Receivable. Interest from notes receivable decreased 100% from \$767,000 in the nine months ended September 30, 2001 to \$0 in the nine months ended September 30, 2002 due to repayment of various loans. During 2001, the Company ceased accruing interest on two impaired loans with one borrower in accordance with its accounting policies. While the May 2002 appraised value of the collateral securing these loans is in excess of the balances owed, the borrower is seeking refinancing from third party sources and the Company intends to obtain a more current appraisal of the collateral. Average notes receivable decreased to \$8 million from \$8.5 million for the nine months.

Brokerage Commission Income and Management Fees. Income from insurance brokerage operations and management fees decreased 68.8% from \$2.8 million in the nine months ended September 30, 2001 to \$877,000 in the nine months ended September 30, 2002. This decrease is the result of a change in the manner fees are realized from our risk retention group affiliate. Previously, the risk retention group paid a fixed management fee plus a commission based on a percentage of the premiums produced by the Company. Effective January 1, 2002, the risk retention group pays fees based on its portion of costs allocated from the Company for its portion of premiums written. This change was implemented to coincide with the creation of an internal pooling agreement between the Company and its subsidiaries, including the risk retention group affiliate. The result of this change will initially lower the commission income and management fees paid to the Company by the risk retention group affiliate, but the net earned premiums retained by the Company will increase which are earned as revenue over the life of the underlying policies as opposed to earning the commissions and fees at the time such policies are written.

Net Realized Gains and Losses. Net realized gains and losses decreased from a gain of \$601,000 in the nine months ended September 30, 2001 to a loss of \$522,000 for the nine months ended September 30, 2002 due to the sale of bonds in the Company's investment portfolio, primarily 8% WorldCom Industrial Bonds due May 15, 2031.

Real Estate Income. Real estate sales at the Harbour Village project increased to \$44.7 million in the nine months ended September 30, 2002 from \$3.2 million in the nine months ended September 30, 2001. The sales in the nine months ended September 30, 2002 were realized from the closing of 147 residential condominium units and 59 boat slips. The sales in the nine months ended September 30, 2001 were realized from the closings of 12 residential condominium units and 6 boat slips. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Other Income. Other income decreased from \$979,000 in the nine months ended September 30, 2001 to \$119,000 for the nine months ended September 30, 2002 as a result of lower fees earned by the Company's financial services subsidiary, American Safety Financial Corp. During 2001, the Company discontinued this line of business.

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Losses and Loss Adjustment Expenses. Losses and loss adjustment expenses decreased 1.1% from \$28.5 million in the nine months ended September 30, 2001 to \$28.2 million in the nine months ended September 30, 2002, as a result of decreased net premiums earned in commercial lines, surety and workers' compensation lines of insurance business which caused the loss ratio to decrease to 58% from 64% for the period.

Acquisition Expenses. Policy acquisition expenses increased 17.8% from \$8.8 million in the nine months ended September 30, 2001 to \$10.4 million in the nine months ended September 30, 2002 as a result of increased net earned premiums in its general liability line of insurance business. Premium tax expense decreased to \$2.2 million from \$2.3 million due to lower volumes of direct premiums earned which are subject to premium taxes.

Payroll and Other Expenses. Payroll and other expenses increased 4.4% from \$10.6 million in the nine months ended September 30, 2001 to \$11 million in the nine months ended September 30, 2002, due to higher payroll and legal expenses during the period.

Real Estate Expenses. Real estate expenses associated with Harbour Village increased from \$3.6 million in the nine months ended September 30, 2001 to \$38.8 million in the nine months ended September 30, 2002. Of the \$38.8 million of costs recognized during the nine months ended September 30, 2002, \$36 million was previously capitalized variable costs related to the sale of condominium units and boat slips, and the remaining \$2.8 million were fixed costs of the project, which includes advertising and other administration costs. Of the \$3.6 million of costs recognized during the nine months ended September 30, 2001, \$2.7 million were previously capitalized variable costs related to the sale of condominium units and boat slips, and the remaining \$900,000 were fixed costs of the project, which includes advertising and other administration costs. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Rescission Expense. Expense due to rescission was \$1.5 million for the nine months ended September 30, 2002. Of the \$1.5 million of expense recognized, \$506,468 was for legal fees, and \$1 million was related to amounts held in escrow for the acquisition as a result of the Court's granting of defendants' summary judgment motions in part of the lawsuit. See Item 6(b) for more information.

Income Taxes. Federal and state income taxes increased from \$526,000 in the nine months ended September 30, 2001 to \$2 million in the nine months ended September 30, 2002 due to higher levels of income in the Company's U.S. insurance and real estate subsidiaries.

Total Earnings. Net earnings after tax increased 28.9% to \$4.9 million for the nine months ended September 30, 2002 from \$3.8 million for the nine months ended September 30, 2001. This increase in net earnings is principally from real estate income. Operating earnings, which are earnings excluding amounts for realized capital gains and losses and rescission expenses, increased 90% to \$6.4 million for nine months ended September 30, 2002 from \$3.3 million for the nine months ended September 30, 2001. This increase in operating earnings is the result of higher real estate income.

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Liquidity and Capital Resources

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

One of the Company's former reinsurers, Berkley Insurance Company, has disputed its obligations under several reinsurance treaties entered into during the "soft reinsurance market" that existed in 1998 and 1999. As of September 30, 2002, unreimbursed paid claims totaled \$15.7 million and additional ceded case and incurred but not reported reserves totaled approximately \$19.5 million. A reserve for this dispute has not been established since the Company does not believe it is probable a loss will occur nor is any potential loss estimatable. If any of these factors change in the future, the Company will establish a reserve at that time, which could be material. On April 5, 2002, the Company demanded arbitration against the reinsurer to collect the amounts owed. The arbitration panel has been chosen, and the hearing has been scheduled for May 2003. The parties are presently engaged in the discovery phase of the proceedings. Berkley is a subsidiary of W.R. Berkley Corp. (NYSE: BER). The Company does not believe that this dispute will have a material adverse effect on the overall financial condition or liquidity of the Company.

On a consolidated basis, net cash provided from operations was \$19.8 million for the nine months ended September 30, 2001 and \$28.8 million for the nine months ended September 30, 2002. The positive cash flows for said periods were primarily attributable to net premiums written, net earnings and sales of real estate. Because workers' compensation and general liability claims may be paid over an extended period of time, the Company has established loss reserves for such lines of business. The assets supporting the Company's reserves continue to earn investment income until claims payments are made.

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Total assets increased from \$297.3 million at December 31, 2001 to \$346.2 million at September 30, 2002 primarily due to increases in invested assets, cash and reinsurance recoverables. Cash, invested assets and notes receivable increased from \$139.6 million at December 31, 2001 to \$169.4 million at September 30, 2002, as a result of increases in fixed maturities and cash. At September 30, 2002, the Company has repurchased 1,601,139 shares of its common stock at a total cost of \$9.7 million since January 1999.

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

Harbour Village Development. The Company announced in March 2000 its plans to complete development of the Harbour Village Golf and Yacht Club ("Harbour Village"), located in Ponce Inlet, Florida, consisting of 786 residential condominium units, a marina containing 142 boat slips, a par 3 golf course and beach club. The Harbour Village property (comprising 173 acres) was acquired by the Company through foreclosure in April 1999, and has been under development by its subsidiary, Ponce Lighthouse Properties, Inc. and its general contracting subsidiary, Rivermar Contracting Company. The number of residential condominium units planned for the project has been increased from 786 to 809. From inception through September 30, 2002, the Company's marketing efforts had generated over \$177 million of pre-sales of condominium units and boat slips.

Management anticipates that Harbour Village will be developed in three Phases with projected completion in 2005, depending on future sales activities and economic conditions that may impact the marketing of the condominium units. Through September 30, 2002, we had outstanding borrowings of \$12.9 million from an initial \$37 million development and construction loan facility. The estimated completion cost for the remainder of the Harbour Village project is approximately \$82.3 million. No assurance can be given, however, as to either future sales activities of the condominium units or the impact of local and national economic conditions on our marketing efforts for the development of the Harbour Village project.

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

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Income Taxes

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

Impact of Inflation

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

Combined Ratio

The combined ratio of an insurance company measures only the underwriting results of insurance operations and not the profitability of the overall company. The Company's reported combined ratio for its insurance operations may not provide an accurate indication of the Company's overall profitability from insurance and reinsurance programs due to the exclusion of fee and commission income and expenses generated in related management and agency subsidiaries. Depending on the Company's mix of business going forward, the combined ratio may fluctuate from time to time and may not reflect the overall profitability of the Company's insurance and reinsurance programs.

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Reserves

Certain of the Company's insurance policies and reinsurance assumed, including general and pollution liability policies covering environmental remediation, excess and surplus, and workers' compensation risks, may be subject to claims brought years after an incident has occurred or the policy period has ended. The Company is required to maintain reserves to cover its estimated liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred. The Company engages an independent internationally recognized actuarial consulting firm to provide reserve studies, rate studies, and opinions. Reserves are estimates at a given time, which are established from actuarial and statistical projections by the Company of the ultimate settlement and administration

costs of claims occurring on or prior to such time, including claims that have not yet been reported to the insurer. The establishment of appropriate loss reserves is an inherently uncertain process, and there can be no assurance that the ultimate payments will not materially exceed the Company's reserves.

Forward Looking Statements

This Report contains certain forward-looking statements within the meaning of United States' securities laws which are intended to be covered by the safe harbors created thereby. The use of such statements include estimations of future insurance claims and losses, the Company's view of the potential outcome of the rescission litigation and the reinsurance recoverables arbitration, and the future profitability and value of the Harbour Village condominium real estate project in Florida, 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 property, such forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, and are subject to change based on various real estate development industry factors, including competitive housing conditions in the local market area, risks inherent in real estate development and new construction, increases in construction costs, construction delays, weather, zoning, litigation, changes in interest rates and the availability of mortgage financing for prospective purchasers of condominium units and boat slips, and changes in local and national levels of general business activity and economic conditions.

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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, 2001.

Item 4. Controls and Procedures

- a. Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a- 14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's

disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic filings under the Exchange Act.

- b. Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities and Use of Proceeds.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

None.

Item 5. Other Information.

None.

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

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

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

- (b) Reports on Form 8-K.

In April 2000, the Company filed a lawsuit in the United States District Court for the Northern District of Georgia 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 motions for summary judgment opposing the Company's

claim for rescission. The Company filed a Form 8-K, dated October 23, 2002, regarding the Court's entering of an Order granting the defendants' motions for summary judgment. However, the Court did not rule that the

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representations and warranties of the defendants in the definitive agreements were correct. The Court also granted the Company's motions for summary judgment on various counterclaims filed by the defendants. The Company has filed a Motion for Reconsideration with respect to the Court's Order and is also considering other responses.

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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 November 2002.

American Safety Insurance Group,

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

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

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

I, Lloyd A. Fox, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Safety Insurance Group, Ltd.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Quarterly Report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this Quarterly Report (the "Evaluation Date"); and
 - c. presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this Quarterly Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Lloyd A. Fox
Lloyd A. Fox
Chief Executive Officer
American Safety Insurance Group, Lt

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

I, Steven B. Mathis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Safety Insurance Group, Ltd.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;

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

Date: November 14, 2002

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

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Exhibit 11

American Safety Insurance Group, Ltd. and subsidiaries

Computation of Earnings Per Share

| | <u>Three Months Ended</u> | | Septem |
|---|------------------------------|------------------------------|---------|
| | September 30, <u>2001</u> | September 30, <u>2002</u> | |
| Basic: | | | |
| Earnings available to common shareholders..... | \$ 978,753 | \$1,033,529 | \$3,826 |

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| | ===== | ===== | ===== |
|---|------------|-------------|---------|
| Weighted average common shares outstanding..... | 4,788,648 | 4,746,695 | 4,823 |
| Basic earnings per common shares ... | \$.20 | \$.22 | \$ |
| | ===== | ===== | ===== |
| Diluted: | | | |
| Earnings available to common shareholders..... | \$ 978,753 | \$1,033,529 | \$3,826 |
| | ===== | ===== | ===== |
| Weighted average common shares outstanding..... | 4,788,648 | 4,746,695 | 4,823 |
| Weighted average common shares equivalents associated with options.... | 208,139 | 117,755 | 126 |
| Total weighted average common shares..... | 4,996,787 | 4,864,450 | 4,949 |
| | ===== | ===== | ===== |
| Diluted earnings per common shares..... | \$.20 | \$.21 | \$ |
| | ===== | ===== | ===== |

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Exhibit 99

Harbour Village Development Status

(000)s except references to Condo Units

(unaudited)

| | Phase 1 | | | Phase 2 |
|--|-------------------------|-----------------------|------------------|------------------------------|
| | Marina <u>Condos</u> | Townhouses | | The Links <u>North</u> |
| | | Oak <u>Hammock</u> | <u>Riverwalk</u> | |
| Planned Number of Condo Units and Boat Slips | 248 | 18 | 28 | 188 |
| Condo Units and Boat Slips under Contract .. | 248 | 17 | 28 | 170 |
| Value of Pre-sale Contracts (Note 1) | 62,892 | 7,902 | 10,771 | 42,587 |
| Number of Buildings | 8 | 4 | 6 | 4 |
| Number of Buildings Complete by Task | | | | |
| Building Foundation | 8 | 4 | 5 | 4 |
| Vertical Building Completed | 8 | 4 | 5 | -- |
| Interior Finish Completed | 8 | - | 1 | -- |
| Certificate of Occupancy Received | 8 | - | 1 | -- |
| Outlook For 4th Quarter of 2002 | | | | |
| Units Closed | -- | 8 | 21 | -- |

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| | | | | |
|------------------------------------|----|-------|-------|----|
| Revenue Recognized | -- | 3,572 | 7,579 | -- |
| Other Revenue | | | | |
| Total Revenue | | | | |
| Gross Profit Recognized | -- | (143) | (228) | -- |
| Other Expense (Income) Items | | | | |
| Pre-Tax Profit | | | | |

3rd Quarter Actual

| | | | | |
|------------------------------------|-------|----|-----|----|
| Units Closed | 31 | -- | 1 | -- |
| Revenue Recognized | 8,803 | -- | 312 | -- |
| Other Revenue | | | | |
| Total Revenue | | | | |
| Gross Profit Recognized | 1,566 | -- | -- | -- |
| Other Expense (Income) Items | | | | |
| Pre-Tax Profit | | | | |

Note 1 - No assurance can be given that purchasers under binding pre-sale contracts with d

Note 2 - Other includes net brokerage commissions, advertising, promotion, and other gener

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.