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.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Balance Sheets

	December 31, 2001	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	21,742,272	6,0
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	1,857,239	1,6
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

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	325,000	3
Total liabilities	$237,281,279	$279,5

	December 31, 2001	Sep (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	(9,540,974)	(9,6
Total shareholders' equity	59,980,338	66,6
Total liabilities and shareholders' equity	$297,261,617	$346,1

See accompanying notes to consolidated financial statements (unaudited).

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Earnings

(Unaudited)

	Three Months Ended September 30,		Nine Mon Septem
	2001	2002	2001
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	3,468,186	3,415,756	11,106,525
Total assumed premiums earned	6,102,113	5,627,650	18,844,155

Ceded premiums earned:			
Affiliate	1,925,225	869,927	4,842,878
Nonaffiliates	18,331,867	15,876,784	48,913,399
Total ceded premiums earned	20,257,092	16,746,711	53,756,277
Net premiums earned	14,339,135	18,784,180	44,745,150
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	128,814	30,504	978,399
Total revenues	20,068,403	30,735,954	55,791,619
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	-	1,152,876	-
Total expenses	18,822,900	29,524,282	51,439,272
Earnings before income taxes	1,245,503	1,211,672	4,352,347
Income taxes	266,750	178,143	526,150
Net earnings	$978,753	$1,033,529	$3,826,197
Net earnings per share:			
Basic	$ 0.20	$ 0.22	$ 0.79
Diluted	$ 0.20	$ 0.21	$ 0.77
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 Mont Septemb
	2001
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)

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	169,995
Net cash provided by operating activities	19,817,749
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	(1,082,041)
Net cash (used in) investing activities	(40,276,640)
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	-
Net cash provided by financing activities	18,937,913
Net increase (decrease) in cash	(1,520,979)
Cash at beginning of period	3,784,102
Cash at end of period	$2,263,124
Supplemental disclosure of cash flow information:	
Interest expenses paid	13,014

See accompanying notes to consolidated financial statements (unaudited).

American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(Unaudited)

		Three months ended September 30,		N
	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	186,005	(56,183)		601,3
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	469,118	849,568		387,6
Other comprehensive earnings net of income taxes	1,229,256	2,872,120		1,114,0
Total comprehensive earnings	$ 2,208,009	$ 3,905,649		$ 4,940,2

See accompanying notes to consolidated financial statements (unaudited).

American Safety Insurance Group, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited interim consolidated financial statements of American 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.

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.

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.

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 cost	Gross unrealized gains	Gross unrealize losses
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	7,914,282	3,956	80,183
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	7,877,760	264,514	4,773
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-subsidiary risk retention group affiliate and other unaffiliated insurance and reinsurance companies.

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

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

	Nine Months Ended September 30,	
	2001	200
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,	
	2001	200
Interest expense	131,370	151,

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	3,491	1,
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	414,170	(133,
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,

	Nine Months Ended September 30,	
	2001	200
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	-	

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

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):

	December 31, 2001	September 30, 2002
Land	$4,360	$2,308
Capitalized overhead, interest and taxes	3,925	2,647
Work in process	28,328	29,469
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.

Note 8 - Income Taxes

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

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

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

	Current	Deferred	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:

	September 30,	
	2001	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	9,645	35

	$526,150	$2,03
	========	=====

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, 2001	Septembe 2002
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	5,118,563	3,280,
Gross deferred tax assets	$9,584,293	$8,647,
Deferred tax liabilities:		
Deferred acquisition costs	1,855,958	1,682,
Unrealized gain on securities	311,530	1,209,
Other	1,772	1,
Gross Deferred tax liabilities	2,169,260	2,893,
Net deferred tax asset	$7,415,033	$5,754,
	==========	=======

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.

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).

Goodwill and Intangibles (in Thousands)	December 31, 2001	September 30, 2002
Goodwill	$1,467	-
Indefinite-lived Intangibles	-	$1,467
Other Amortizable Intangibles	-	-
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)	
	2001	2002
Reported Net Earnings	$3,826	$4,932
Add back: Goodwill and Intangibles Amortization	66	-
Adjusted Net Earnings	$3,892	$4,932
Earnings Per Share Diluted		
Reported Net Earnings	$0.79	$1.04
Add back: Goodwill and Intangibles Amortization	0.01	-
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

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

	American Safety Insurance Group, Ltd.	American Safety Holdings Corp.	Other Subsidiaries	Consolida Adjustme
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	456,181	-	2,318,370	(350,0
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	1,056,421	1,267,704	11,260,800	(661,3
Total Assets	$ 63,218,642	$ 42,337,457	$ 312,018,067	$(120,312,5
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

American Safety Insurance Group, Ltd.
Consolidating Condensed Information

	American Safety Insurance Group, Ltd.	American Safety Holdings Corp.	Other Subsidiaries	Consolida Adjustme
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	3,138,304	2,037,000	262,238,028	(30,132,0
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

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

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

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

American Safety Insurance Group, Ltd.
Consolidating Condensed Information

Income Statement	**American Safety Insurance Group, Ltd.**	**American Safety Holdings Corp.**	**Other Subsidiaries**	**Consolida Adjustme**
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
rned	-	-	14,339,135	
Investment income	56,652	46	890,067	
Interest on notes receivable	15,923	-	191,699	
Brokerage commission income	-	-	2,079,985	(1,363,9
Management fees from related party	-	-	733,635	(370,2
Realized gains (losses) on investments	-	-	186,005	
Real estate income	-	-	3,180,705	
Other income	52,228	-	114,086	(37,5
Total revenues	124,803	46	21,715,317	(1,771,7
Losses and LAE incurred	(250,000)	-	9,886,161	
Acquisition expenses	-	-	3,925,724	(1,363,9
Real estate expenses	-	-	3,096,454	
Payroll and related expenses	11,561	-	2,061,671	
Other expenses	200,446	171,038	1,491,121	(407,7
Expenses due to rescission	-	-	-	
Total expenses	(37,993)	171,038	20,461,618	(1,771,7
Earnings (loss) before equity in earnings in subsidiary	162,796	(170,992)	1,253,699	
Equity in net earnings (loss) of subsidiary	815,957	665,339	-	(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

American Safety Insurance Group, Ltd.
Consolidating Condensed Information

American Safety Insurance	**American Safety Holdings**	**Other**	**Consolida**

Income Statement		Group, Ltd.		Corp.		Subsidiaries		Adjustme
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

American Safety Insurance Group, Ltd.
Consolidating Condensed Information

Income Statement		American Safety Insurance Group, Ltd.		American Safety Holdings Corp.	Other Subsidiaries	Consolida Adjustme
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						

party	-	-	2,169,370	(1,074,7
Realized gains on investments	-	-	601,354	
Real estate income	-	-	3,180,705	
Other income	173,675	-	917,224	(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	(267,855)	612,783	55,244,482	(4,150,1
Earnings (loss) before equity in earnings in subsidiary	714,700	(612,029)	4,249,676	
Equity in net earnings (loss) of subsidiary	3,111,497	1,442,962	-	(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)	$ 3,826,197	$ 1,039,023	$ 3,515,436	$ (4,554,4

American Safety Insurance Group, Ltd.
Consolidating Condensed Information

Income Statement	**American Safety Insurance Group, Ltd.**	**American Safety Holdings Corp.**	**Other Subsidiaries**	**Consolida Adjustme**
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	113,020	-	118,494	(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	625,969	1,689,537	87,656,657	(112,5
Earnings (loss) before equity in				

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

American Safety Insurance Group, Ltd.
Consolidating Condensed Information

September 30, 2001 **Cash Flow**	**American Safety Insurance Group, Ltd.**	**American Safety Holdings Corp.**	**Other Subsidiaries**	**Consolida Adjustme**
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	

American Safety Insurance Group, Ltd.
Consolidating Condensed Information

September 30, 2002 Cash Flow	American Safety Insurance Group, Ltd.	American Safety Holdings Corp.	Other Subsidiaries	Consolida Adjustme
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	Th

	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	1,963	4,793	7,232	11,488
Total reinsurance	4,622	4,793	15,532	11,488
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	390	2,627	4,336	6,597
Total primary insurance	9,717	13,991	29,213	37,357
Total net premiums earned	14,339	18,784	44,745	48,845
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	363	247	1,095	740
Total commission and fee income	1,079	281	2,810	877
Net realized gains (losses)	186	(56)	601	(522)
Real estate income	3,181	10,724	3,181	44,659
Other income	129	30	979	119
Total Revenues	$20,068	$30,736	$55,792	$96,826

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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	22.9	26.9	25.2	26.9
Combined ratio	90.1%	83.6%	88.9%	84.6%

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

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 defendents' 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.

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.

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.