

AMERICAN SAFETY INSURANCE GROUP LTD
Form 10-Q
August 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 JUNE 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 July 10, 2002 was 4,749,604.

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>	June 30, <u>2002</u> (unaudited)
<u>Assets</u>		
Investments:		
Securities available for sale, at fair value:		
Fixed maturities	\$61,836,101	71,166,457
Investment in real estate	37,662,600	32,243,516
Short-term investments	<u>21,742,272</u>	<u>12,191,991</u>
Total investments	121,240,973	115,601,964
Cash	1,302,842	5,400,444
Restricted cash	9,010,489	8,708,072
Accrued investment income	2,424,551	2,517,756
Notes receivable - other	8,081,899	7,983,768
Premiums receivable	25,783,225	20,619,266
Ceded unearned premium	19,161,319	23,387,683
Reinsurance recoverable	87,173,021	99,869,828
Funds on deposit	312,717	333,219
Due from affiliate	1,108,520	2,816,997
Income tax recoverable	1,614,940	1,037,339
Deferred income taxes	7,415,033	7,022,302
Deferred acquisition costs	5,781,810	6,701,091
Property, plant and equipment	2,046,332	2,131,302
Prepaid items	1,480,078	1,684,743
Goodwill and other intangible assets	1,466,629	1,466,629
Other assets	<u>1,857,239</u>	<u>4,369,563</u>
Total assets	<u>\$297,261,617</u>	<u>\$311,651,966</u>
<u>Liabilities and Shareholders' Equity</u>		
Liabilities:		
Unpaid losses and loss adjustment expenses	121,423,039	138,592,123
Unearned premiums	53,205,500	59,218,024
Reinsurance on paid losses and loss adjustment expenses	2,081,845	-
Ceded premiums payable	14,224,460	11,195,856
Due to affiliate:		
Reinsurance on paid losses and loss adjustment expenses	-	599,353
Escrow deposits	11,718,824	9,768,029
Accounts payable and accrued expenses	13,459,422	10,935,117

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Funds held	1,433,648	2,037,810
Loan payable	16,403,135	11,211,145
Collateral held	821,302	1,309,532
Deferred Revenue	2,185,104	3,203,566
Unearned loan fees	<u>325,000</u>	<u>325,000</u>
Total liabilities	<u>237,281,279</u>	<u>248,395,555</u>

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	December 31, <u>2001</u>	June 30, <u>2002</u> (unaudited)
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 June 30, 2002, 6,347,689 shares	62,873	63,476
Additional paid-in capital	35,206,614	35,566,503
Retained earnings	33,416,851	36,183,432
Accumulated other comprehensive income (loss), net	834,974	1,095,715
Treasury stock, 1,589,239 shares at December 31, 2001, and 1,601,139 shares at June 30, 2002	<u>(9,540,974)</u>	<u>(9,652,715)</u>
Total shareholders' equity	<u>59,980,338</u>	<u>63,256,411</u>
Total liabilities and shareholders' equity	<u>\$297,261,617</u>	<u>\$311,651,966</u>

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 June 30,		Six Months Ended June 30,	
	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Revenues:				
Direct premiums earned	\$ 28,156,096	\$ 27,940,967	\$ 51,163,158	\$ 57,790,000
Assumed premiums earned:				
Affiliate	2,640,891	3,553,857	5,103,703	6,540,000
Nonaffiliates	<u>3,878,997</u>	<u>1,635,335</u>	<u>7,638,339</u>	<u>2,880,000</u>
Total assumed premiums earned	<u>6,519,888</u>	<u>5,189,192</u>	<u>12,742,042</u>	<u>9,420,000</u>
Ceded premiums earned:				
Affiliate	1,540,646	787,385	2,917,653	1,520,000
Nonaffiliates	<u>16,098,341</u>	<u>16,881,575</u>	<u>30,581,532</u>	<u>35,630,000</u>
Total ceded premiums earned	<u>17,638,987</u>	<u>17,668,960</u>	<u>33,499,185</u>	<u>37,150,000</u>
Net premiums earned	<u>17,036,997</u>	<u>15,461,199</u>	<u>30,406,015</u>	<u>30,060,000</u>

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Net investment income	905,108	899,318	1,762,620	1,877,000
Interest on notes receivable	283,383	-	559,315	559,315
Brokerage commission income	508,081	37,514	999,024	1,036,538
Management fees from affiliate	367,503	75,754	731,308	807,057
Net realized gains (losses)	175,830	(547,949)	415,349	(372,119)
Real estate income	-	14,896,921	-	33,933,933
Other income	<u>189,726</u>	<u>36,703</u>	<u>849,585</u>	<u>849,585</u>
Total revenues	<u>19,466,628</u>	<u>30,859,460</u>	<u>35,723,216</u>	<u>66,088,311</u>
Expenses:				
Losses and loss adjustment expenses incurred	10,767,405	8,561,371	18,865,372	17,533,933
Acquisition expenses	3,134,384	3,199,148	6,240,112	6,299,112
Payroll and related expenses	2,095,148	2,202,352	4,182,085	4,301,352
Real estate expenses	365,359	12,459,152	751,289	29,151,289
Other expenses	1,298,655	1,559,663	2,577,514	2,699,663
Expense due to rescission	-	<u>142,844</u>	-	<u>35,353</u>
Total expenses	<u>17,660,951</u>	<u>28,124,530</u>	<u>32,616,372</u>	<u>60,333,933</u>
Earnings before income taxes	1,805,677	2,734,930	3,106,844	5,754,378
Income taxes	<u>220,009</u>	<u>881,534</u>	<u>259,400</u>	<u>1,851,943</u>
Net earnings	<u>\$1,585,668</u>	<u>\$1,853,396</u>	<u>\$2,847,444</u>	<u>\$3,902,435</u>
Net earnings per share:				
Basic	<u>\$ 0.33</u>	<u>\$ 0.39</u>	<u>\$ 0.59</u>	<u>\$ 0.59</u>
Diluted	<u>\$ 0.32</u>	<u>\$ 0.38</u>	<u>\$ 0.58</u>	<u>\$ 0.58</u>
Common shares used in computing earnings per share:				
Basic	<u>4,799,206</u>	<u>4,743,803</u>	<u>4,840,561</u>	<u>4,720,561</u>
Diluted	<u>4,984,085</u>	<u>4,882,899</u>	<u>4,949,580</u>	<u>4,870,580</u>

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)

	Six Months End <u>June 30,</u> <u>2001</u>
Cash flow from operating activities:	
Net earnings	\$2,847,444
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Realized (gains) losses on sale of investments	(415,349)
Amortization of deferred acquisition costs	(1,760,261)
Change in:	
Accrued investment and interest income	(651,249)
Premiums receivable	2,804,168
Commissions receivable	(26,034)

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Reinsurance recoverable and ceded unearned premiums	(15,176,103)
Unearned loan fees	(162,500)
Funds held by reinsured	(1,256,211)
Due from affiliate	(3,647,760)
Funds on Deposit	(655,584)
Income taxes	178,144
Unpaid losses and loss adjustment expenses	25,758,317
Unearned premiums	11,352,714
Ceded premiums payable	(6,785,205)
Due to affiliate	493,458
Accounts payable and accrued expenses	1,321,786
Collateral	(710,045)
Prepaid items	(283,596)
Deferred revenue	-
Other, net	<u>342,503</u>
Net cash provided by operating activities	<u>13,568,637</u>
Cash flow from investing activities:	
Purchases of fixed maturities	(30,788,837)
Purchases of equity investments	(2,304,382)
Proceeds from maturity and redemption of fixed maturities	898,850
Proceeds from sale of fixed maturities	19,580,957
Proceeds from sale of equity investments	1,697,366
Decrease (increase) in investment in real estate	(14,868,514)
Decrease (increase) in short-term investments	(1,211,039)
(Advances) repayment in notes receivable - other	(312,410)
Purchase of fixed assets, net	<u>(1,025,116)</u>
Net cash (used in) provided by investing activities	<u>(28,333,125)</u>
Cash flow from financing activities:	
Purchase of treasury stock	(1,432,612)
Proceeds from issuance of common stock	-
Proceeds from (repayment of) loan payable	11,905,591
Proceeds from (repayment of) escrow deposits	5,688,503
Dividends paid	-
Net cash provided by (used in) financing activities	<u>16,161,482</u>
Net increase in cash	1,396,994
Cash at beginning of period	<u>9,901,784</u>
Cash at end of period	\$11,298,778
	=====

See accompanying notes to consolidated financial statements (unaudited).

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American Safety Insurance Group, Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(Unaudited)

Three months ended
June 30,

2001

2002

2001

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Net earnings	\$	1,585,668	\$	1,853,396	\$	2,847,4
Other comprehensive earnings (loss) before income taxes:						
Unrealized gains (losses) on securities available for sale		(616,579)		1,385,811		218,6
Reclassification adjustment for realized gains (losses) included in net earnings		<u>175,830</u>		<u>(547,949)</u>		<u>415,3</u>
Total other comprehensive earnings (loss) before taxes		(792,409)		1,933,760		(196,6
Income tax expense (benefit) related to items of other comprehensive income		<u>(194,853)</u>		<u>445,678</u>		<u>(81,5</u>
Other comprehensive earnings (loss) net of income taxes		<u>(597,556)</u>		<u>1,488,082</u>		<u>(115,1</u>
Total comprehensive earnings	\$	<u>988,112</u>	\$	<u>3,341,478</u>	\$	<u>2,732,2</u>

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 six months ended June 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 No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. Statement 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. Statement 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 Statement 142. Statement 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated

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Note 2 - Accounting Pronouncements

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.

Statement 141 requires upon adoption of Statement 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 Statement 141 for recognition apart from goodwill. Upon adoption of Statement 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 Statement 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 six month periods ended June 30, 2002, respectively. See Note 10 for additional information.

The FASB issued Statement No. 143 ("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 Statement 144 ("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.

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

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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 June 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 =====
June 30, 2002:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$30,654,029	\$1,079,444	\$100,906
Corporate securities	33,969,100	751,115	336,293
Foreign Securities	599,411	12,243	-
Mortgage-backed securities	<u>4,488,521</u>	<u>58,738</u>	<u>8,945</u>
Total fixed maturities	\$69,711,061 =====	\$1,901,540 =====	\$446,144 =====

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 subsidiary, as well as its non-subsidiary risk retention group affiliate and other unaffiliated insurance and reinsurance companies.

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

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

	<u>2001</u>	Six Months Ended June 30,	<u>2000</u>
United States - Insurance			
Net premiums earned - All other	\$29,266,036		\$29,867,
Net premiums earned - Intersegment	(5,136,869)		(10,839,
Net investment income and interest on notes receivable	1,380,030		1,465,
Real estate income	-		
Other revenues	<u>2,940,980</u>		<u>466,</u>
Total revenues	28,450,177		20,960,
Interest expense	74,856		102,
Depreciation and amortization expense	128,633		109,
Equity in net earnings of subsidiaries	-		
Income taxes expense (benefit)	422,730		(193,
Segment profit/(loss)	803,591		(420,
Significant noncash items other than depreciation and	-		
Property, plant and equipment	801,769		881,
Total investments	60,224,512		66,695,
Total assets	179,635,063		250,802,
Total policy and contract liabilities	121,964,519		191,561,
Total liabilities	155,142,118		218,792,

	<u>2001</u>	Six Months Ended June 30,	<u>2000</u>
United States - Real Estate			

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Net premiums earned - All other	-	
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	-	
Real estate income	-	33,935,
Other revenues	<u>2,105</u>	<u>1,</u>
Total revenues	2,105	33,937,
Interest expense	-	
Depreciation and amortization expense	31,760	67,
Equity in net earnings of subsidiaries	-	
Income taxes expense (benefit)	(163,330)	2,048,
Segment profit/(loss)	(317,052)	3,113,
Significant noncash items other than depreciation and	-	
Property, plant and equipment	309,323	420,
Total investments	38,814,819	32,243,
Total assets	51,006,457	42,802,
Total policy and contract liabilities	-	
Total liabilities	37,512,023	28,751,

Bermuda

Net premiums earned - All other	1,139,979	192,
Net premiums earned - Intersegment	5,136,869	10,839,
Net investment income and interest on notes receivable	941,905	409,
Real estate income	-	
Other revenues	<u>150,696</u>	<u>(174,</u>
Total revenues	7,369,449	11,267,
Interest expense	-	
Depreciation and amortization expense	9,292	10,
Equity in net earnings of subsidiaries	486,529	2,646,
Income taxes	-	
Segment profit	2,360,905	1,206,
Significant noncash items other than depreciation and	-	
Property, plant and equipment	849,167	829,
Total investments	63,077,705	74,104,
Total assets	90,290,969	105,588,
Total policy and contract liabilities	17,519,117	29,627,
Total liabilities	19,183,783	30,952,

Intersegment Eliminations

Net premiums earned - All other	-	
Net premiums earned - Intersegment	-	
Net investment income and interest on notes receivable	-	
Real estate income	-	
Other revenues	<u>(98,815)</u>	<u>(75,</u>

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	Six Months Ended June 30,	
	<u>2001</u>	<u>200</u>
Total revenues	(98,815)	(75,
Interest expense	(75,000)	(75,
Depreciation and amortization expense	-	
Equity in net earnings (loss) of subsidiaries	(486,539)	(2,646,
Income taxes	-	
Segment profit (loss)	-	
Significant noncash items other than depreciation and		

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Property, plant and equipment	-	-
Total investments	(49,991,771)	(57,441,771)
Total assets	(64,897,111)	(87,542,771)
Total policy and contract liabilities	(9,910,624)	(23,378,771)
Total liabilities	(14,905,340)	(30,100,771)
Total		
Net premiums earned - All other	30,406,015	30,060,015
Net premiums earned - Intersegment	-	-
Net investment income and interest on notes receivable	2,321,935	1,874,935
Real estate income	-	33,935
Other revenues	<u>2,995,266</u>	<u>218,935</u>
Total revenues	35,723,216	66,089,935
Interest expense	-	27,935
Depreciation and amortization expense	169,685	187,935
Equity in net earnings of subsidiaries	-	-
Income taxes expense (benefit)	259,400	1,855,935
Segment profit (loss)	2,847,444	3,898,935
Significant noncash items other than depreciation and	-	-
Property, plant and equipment	1,960,859	2,131,859
Total investments	112,125,265	115,601,859
Total assets	256,035,378	311,651,859
Total policy and contract liabilities	129,573,012	197,810,859
Total liabilities	196,932,584	248,395,859

Note 6 - Shareholder Matters

During the six months ended June 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

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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 June 30, 2002, the investment in real estate for the Harbour Village project is as follows (in thousands):

	<u>December 31, 2001</u>	<u>June 30, 2002</u>
Land	\$4,360	\$2,428
Capitalized overhead, interest and taxes	3,925	2,597
Work in process	<u>28,328</u>	<u>27,219</u>
Total	\$36,613	\$32,244

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During the quarter ended June 30, 2002, the Company closed 49 condominium units and 20 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 (benefit) for the six months ended June 30, 2001 and 2002 were allocated as follows:

	Six Months Ended June 30,	
	<u>2001</u>	<u>2002</u>
Tax expense (benefit) attributable to:		
Income from continuing operations	\$ 259,400	1,855,293
Unrealized gains (losses) on securities available for sale	<u>81,502</u>	<u>(48,150)</u>
Total	\$340,902 =====	\$1,807,143 =====

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

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	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
June 30, 2001	859,090	(599,690)	259,400
June 30, 2002	511,037	1,344,256	1,855,293

The state income tax components aggregated \$13,170 and \$450,001 for the periods ended June 30, 2001 and 2002, respectively.

Income tax expense (benefit) for the periods ended June 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:

	June 30,	
	<u>2001</u>	<u>2002</u>
Expected income tax expense	\$1,056,327	\$1,950,000
Foreign earned income not subject to U.S. taxation	(802,708)	(410,000)
Tax-exempt interest	(15,654)	(10,000)
State taxes and other	<u>21,435</u>	<u>30,000</u>
	\$259,400 =====	\$1,850,000 =====

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:

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	December 31, <u>2001</u>	June 30, <u>2002</u>
Deferred tax assets:		
Loss reserve discounting	2,336,868	2,680,000
Unearned premium reserves	2,128,862	1,640,000
Difference between tax and GAAP basis of Harbour Village Project	<u>5,118,563</u>	<u>4,394,000</u>
Gross deferred tax assets	<u>\$9,584,293</u>	<u>\$8,715,000</u>
Deferred tax liabilities:		
Deferred acquisition costs	1,855,958	1,331,000
Unrealized gain on securities	311,530	359,000
Other	<u>1,772</u>	<u>1,000</u>
Gross Deferred tax liabilities	<u>2,169,260</u>	<u>1,692,000</u>
Net deferred tax asset	\$7,415,033 =====	\$7,022,000 =====

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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 June 30, 2002 were \$8,081,899 and \$7,983,768, 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 June 30, 2002 were \$2,494,294 and \$8,032,834 respectively. Interest income recognized on impaired notes receivable during the six months ended June 30, 2001 and June 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, <u>2001</u>	June 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 =====

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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 six months ended June 30, 2001 to show comparability between the periods presented.

	Six Months Ended June 30 (In Thousands)	
	<u>2001</u>	<u>2002</u>
Reported Net Income	\$2,847	\$3,899
Add back: Goodwill and Intangibles Amortization	<u>44</u>	<u>-</u>
Adjusted Net Income	\$2,891	\$3,899
	=====	=====
Income Per Share Diluted		
Reported Net Income	\$.59	\$.83
Add back: Goodwill and Intangibles Amortization	<u>-</u>	<u>-</u>
Adjusted Net Income - Basic	\$.59	\$.83
	=====	=====
Adjusted Net Income - Diluted	\$.58	\$.80
	=====	=====

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 June 30, 2002, unreimbursed paid claims totaled \$12.5 million and additional ceded case and incurred but not reported reserves totals approximately \$21.0 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. 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.

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.

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

Three Months Ended June 30,		Six Months Ended June 30,	
<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
(Dollars in thousands)			

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Net Premiums earned:				
Reinsurance:				
Workers' compensation	\$2,930	\$ -	\$ 5,641	\$ -
General liability	<u>2,561</u>	<u>3,451</u>	<u>5,269</u>	<u>6,494</u>
Total reinsurance	<u>5,491</u>	<u>3,451</u>	<u>10,910</u>	<u>6,494</u>
Primary insurance:				
Commercial Line	1,262	251	2,033	793
Workers' compensation	1,488	2,059	2,127	4,361
Surety	2,444	246	4,469	652
General liability	3,953	7,291	6,922	13,791
Program business	<u>2,399</u>	<u>2,163</u>	<u>3,945</u>	<u>3,969</u>
Total primary insurance	<u>11,546</u>	<u>12,010</u>	<u>19,496</u>	<u>23,566</u>
Total net premiums earned	<u>17,037</u>	<u>15,461</u>	<u>30,406</u>	<u>30,060</u>
Net investment income	905	899	1,763	1,875
Interest on notes receivable	283	-	559	-
Commission and fee income:				
Brokerage commission income	508	38	999	103
Management fees from affiliate	<u>367</u>	<u>76</u>	<u>731</u>	<u>493</u>
Total commission and fee income	<u>875</u>	<u>114</u>	<u>1,730</u>	<u>596</u>
Net realized gains (losses)	175	(548)	415	(466)
Real estate income	-	14,897	-	33,936
Other income	<u>190</u>	<u>37</u>	<u>850</u>	<u>89</u>
Total Revenues	<u>\$19,465</u>	<u>\$30,860</u>	<u>\$35,723</u>	<u>\$66,090</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		Six months ended	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Insurance operations:				
Loss and loss adjustment expense ratio	63.2%	55.4%	62.0%	58.3%
Expense ratio	<u>23.2</u>	<u>28.2</u>	<u>26.4</u>	<u>27.0</u>
Combined ratio	<u>86.4%</u>	<u>83.6%</u>	<u>88.4%</u>	<u>85.3%</u>

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

Net Premiums Earned. Net premiums earned decreased 9.3% to \$15.5 million in the quarter ended June 30, 2002 from \$17.0 million in the quarter ended June 30, 2001. The principal factors accounting for the decrease were a \$1.0 million decrease in primary commercial lines premiums, a \$2.2 million decrease in primary surety premiums, and a \$2.4 million decrease in total workers' compensation premiums, while general liability premiums increased \$4.2 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 decreased to \$899,000 in the quarter ended June 30, 2002 from \$905,000 in the quarter ended June 30, 2001. The average pre-tax yield on investments was 5.2% in the quarter ended June 30, 2001 and 4.4% in the quarter ended June 30, 2002. The average after-tax yield on investments was 3.8% in the quarter ended June 30, 2001 and 3.2% in the quarter ended June 30, 2002.

Interest from Notes Receivable. Interest from notes receivable decreased 100.0% from \$283,000 in the quarter ended June 30, 2001 to \$0 in the quarter ended June 30, 2002 due to repayment of various loans. Average notes receivable decreased to \$8.0 million in the quarter ended June 30, 2002 from \$9.1 million in the quarter ended June 30, 2001. During 2001, the Company ceased accruing interest on two impaired loans with one borrower in accordance with its accounting policies. However, the appraised value of the collateral securing these loans is in excess of the balances owed.

Brokerage Commission Income. Income from insurance brokerage operations decreased 92.5% from \$508,000 in the quarter ended June 30, 2001 to \$38,000 in the quarter ended June 30, 2002 as a result of lower levels of premiums produced by the Company's risk retention group affiliate, American Safety Risk Retention Group, Inc.

Management Fees. Management fees decreased 79.3 from \$367,000 in the quarter ended June 30, 2001 to \$76,000 in the quarter ended June 30, 2002. These fees are derived from services provided by the Company to its risk retention group affiliate.

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Net Realized Gains and Losses. Net realized gains and losses decreased from a gain of \$175,000 in the quarter ended June 30, 2001 to a loss of \$548,000 for the quarter ended June 30, 2002 due to the sale of bonds in the Company's investment portfolio, primarily WorldCom bonds.

Real Estate Income. Real estate sales at the Harbour Village project were \$14.9 million in the quarter ended June 30, 2002. These sales were realized from the closing of 49 residential condominium units and 20 boat slips. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Other Income. Other income decreased 80.5% from \$190,000 in the quarter ended June 30, 2001 to \$37,000 for the quarter ended June 30, 2002 as a result of reduced fees generated 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 20.5% from \$10.8 million in the quarter ended June 30, 2001 to \$8.6 million in the quarter ended June 30, 2002, as a result of decreased earned premiums in commercial lines, surety and workers' compensation lines of insurance business. As a result, the loss ratio has decreased to 55% in the quarter ended June 30, 2002 from 63% in the quarter ended June 30, 2001.

Acquisition Expenses. Policy acquisition expenses remained at \$3.2 million for both periods despite the fact that net premiums earned decreased 9.3%. This is due to higher volumes of general liability premiums, which carry higher acquisition costs and increased this component of the expense ratio by 3.1%. Premium tax expense also decreased to \$597,000 from \$763,000 due to lower volumes of direct premiums earned.

Payroll and Other Expenses. Payroll and other expenses increased 10.8% from \$3.4 million in the quarter ended June 30, 2001 to \$3.8 million in the quarter ended June 30, 2002 due to higher payroll and legal expenses during the quarter.

Real Estate Expenses. Real estate expenses associated with Harbour Village increased from \$365,000 in the quarter ended June 30, 2001 to \$12.5 million in the quarter ended June 30, 2002. Of the \$12.5 million of costs recognized during the year, \$11.6 million were previously capitalized variable costs related to the sale of condominium units and boat slips, and the remaining \$850,000 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.

Income Taxes. Federal and state income taxes increased from \$220,000 in the quarter ended June 30, 2001 to \$882,000 in the quarter ended June 30, 2002 due to higher levels of income in the Company's U.S. insurance and real estate subsidiaries.

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Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

Net Premiums Earned. Net premiums earned decreased 1.1% from \$30.4 million in the six months ended June 30, 2001 to \$30.1 million in the six months ended June 30, 2002. The principal factors accounting for the decrease were a decrease of \$1.2 million in primary commercial lines premiums, a decrease of \$3.8 million in primary surety premiums, a decrease of \$3.4 million in workers' compensation premiums, while general liability premiums increased \$8.1. 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 6.4% from \$1.8 million in the six months ended June 30, 2001 to \$1.9 million in the six months ended June 30, 2002 due to higher levels of invested assets generated from positive cash flows from operations. The average pre-tax yield on investments was 5.2% in the six months ended June 30, 2001 and 4.5% in the six months ended June 30, 2002. The average after-tax yield on investments was 3.9% in the six months ended June 30, 2001 and 3.3% in the six months ended June 30, 2002.

Interest from Notes Receivable. Interest from notes receivable decreased 100% from \$559,000 in the six months ended June 30, 2001 to \$0 in the six months ended June 30, 2002 due to repayment of various loans. Average notes receivable decreased to \$8.0 million from \$9.0 million for the six months. During 2001, the Company ceased accruing interest on two impaired loans with one borrower in accordance with its accounting policies. However, the appraised value of the collateral securing these loans is in excess of the balances owed.

Brokerage Commission Income. Income from insurance brokerage operations decreased 89.7% from \$999,000 in the six months ended June 30, 2001 to \$103,000 in the six months ended June 30, 2002 due to lower levels of premiums produced by the Company's risk retention group affiliate, American Safety Risk Retention Group, Inc.

Management Fees. Management fees were \$731,000 in the six months ended June 30, 2001 and \$493,000 in the six months ended June 30, 2002. These fees are derived from services provided by the Company to its risk retention group affiliate.

Net Realized Gains and Losses. Net realized gains and losses decreased from a gain of \$415,000 in the six months ended June 30, 2001 to a loss of \$466,000 for the six months ended June 30, 2002 due to the sale of bonds in the Company's investment portfolio, primarily WorldCom bonds.

Real Estate Income. Real estate sales at the Harbour Village project were \$33.9 million for the six months ended June 30, 2002. These sales were realized from the closing of 115 residential condominium units and 55 boat slips. See Exhibit 99 included in this Report for further information regarding Harbour Village.

Other Income. Other income decreased from \$850,000 in the six months ended June 30, 2001 to \$89,000 for the six months ended June 30, 2002 as a result of lower fees generated 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 7.1% from \$18.9 million in the six months ended June 30, 2001 to \$17.5 million in the six months ended June 30, 2002, as a result of decreased

net premiums earned in commercial lines, surety and workers' compensation lines of insurance business.

Acquisition Expenses. Policy acquisition expenses increased .9% from \$6.2 million in the six months ended June 30, 2001 to \$6.3 million in the six months ended June 30, 2002 as a result of increased net earned premiums in the general liability line of insurance business. Premium tax expense also increased to \$1.7 million from \$1.5 million due to higher volumes of direct premiums earned.

Payroll and Other Expenses. Payroll and other expenses increased 3.5% from \$6.8 million in the six months ended June 30, 2001 to \$7.0 million in the six months ended June 30, 2002, due to higher payroll and legal expenses during the period.

Real Estate Expenses. Real estate expenses associated with Harbour Village increased from \$751,000 in the six months ended June 30, 2001 to \$29.2 million in the six months ended June 30, 2002. Of the \$29.2 million of costs recognized during the year, 27.5 million were previously capitalized variable costs related to the sale of condominium units and boat slips, and the remaining \$1.7 million 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.

Income Taxes. Federal and state income taxes increased from \$259,000 in the six months ended June 30, 2001 to \$1.9 million in the six months ended June 30, 2002 due to higher levels of income in the Company's U.S. insurance and real estate subsidiaries.

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 earned, investment income, income from real estate development sales, commission income and management fees. The Company's short-term cash requirements are primarily for claims payments, reinsurance premiums, commissions, salaries, employee benefits, real estate development expenses, and 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

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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 June 30, 2002, unreimbursed paid claims totaled \$12.5 million and additional ceded case and incurred but not reported reserves totaled approximately \$21 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. 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 \$13.6 million for the six months ended June 30, 2001 and \$6.2 million for the six months ended June 30, 2002. The positive cash flows for said periods were primarily attributable to net premiums written and net earnings. Because workers' compensation and general liability claims may be paid over an extended period of time, the Company has established loss reserves for such lines of business. The assets supporting the Company's reserves continue to earn investment income until claims payments are made.

Total assets increased from \$297.3 million at December 31, 2001 to \$311.7 million at June 30, 2002 primarily due to increases in reinsurance recoverables. Cash, invested assets and notes receivable decreased from \$139.6 million at December 31, 2001 to \$137.6 million at June 30, 2002, as a result of decreases in real estate and short term investments. At June 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

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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 July 31, 2002, the Company's marketing efforts had generated over \$152 million of pre-sales of condominium units and boat slips.

Management anticipates that Harbour Village will be developed in three Phases through 2004- 2005, depending on future sales activities and economic conditions that may impact the marketing of the condominium units. In July 2000, the Company initially closed a \$37 million acquisition, development and construction loan facility in order to commence construction of Phase 1 of the project, which loan facility was increased in July 2001. Through June 30, 2002, the Company has outstanding borrowings of \$10.2 million from this loan facility. The estimated construction and development cost for the entire Harbour Village project is approximately \$200 million. Phase 1 of the development, which is nearing completion, consists of site work, a 142-boat slip marina, 294 residential units, and related amenities. Phase 2 of the development currently under constructions consists of site work, eight buildings with 376 residential units, a par 3 golf course and related amenities. 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 the Company's marketing efforts for the development of the Harbour Village project.

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

Village.

Income Taxes

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

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Impact of Inflation

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

Combined Ratio

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

Reserves

Certain of the Company's insurance policies and reinsurance assumed, including general and pollution liability policies covering environmental remediation, excess and surplus, and workers' compensation risks, may be subject to claims brought years after an incident has occurred or the policy period has ended. The Company is required to maintain reserves to cover its estimated liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred. The Company engages an independent internationally recognized actuarial consulting firm to provide reserve studies, rate studies, and opinions. Reserves are estimates at a given time, which are established from actuarial and statistical projections by the Company of the ultimate settlement and administration costs of claims occurring on or prior to such time, including claims that have not yet been reported to the insurer. The establishment of appropriate loss reserves is an inherently uncertain process, and there can be no assurance that the ultimate payments will not materially exceed the Company's reserves.

Forward Looking Statements

This Report contains 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 and estimated profits from Harbour Village 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.

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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, collectibility of reinsurance receivables, market acceptance of new coverages and enhancements, changes in reinsurance costs and availability, 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.

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.

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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.

The Annual General Meeting of Shareholders of the Company was held on June 21, 2002 in Hamilton, Bermuda. Proxies for the Annual General Meeting were solicited by the Board of Directors pursuant to applicable Bermuda law. The Company's shareholders elected Stephen R. Crim and David V. Brueggen as directors to serve three year terms expiring at the Annual General Meeting of Shareholders in 2005. The votes for the directors totaled 3,362,528 and 350,121 votes withheld authority to elect the directors. In addition, the Company's shareholders ratified the appointment of KPMG as the independent public accountants for the Company's fiscal year ending December 31, 2002. The votes for such ratification totaled 3,652,716, with 36,863 votes against and 23,070 votes abstaining.

Item 5. Other Information.

None.

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

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

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

(b) Reports on Form 8-K.

None.

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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 August 2002.

American Safety Insurance Group, Ltd.

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

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

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Exhibit 11

American Safety Insurance Group, Ltd. and subsidiaries

Computation of Earnings Per Share

	<u>Three Months Ended</u>		<u>Six Months</u>
	June 30, <u>2001</u>	June 30, <u>2002</u>	June 30, <u>2001</u>
Basic:			
Earnings (loss) available to common shareholders.....	\$1,585,668 =====	\$1,853,396 =====	\$2,847,444 =====
Weighted average common shares outstanding.....	4,799,206	4,743,803	4,840,561
Basic earnings (loss) per common shares	\$.33 =====	\$.39 =====	\$.59 =====
Diluted:			
Earnings (loss) available to common shareholders.....	\$1,585,668 =====	\$1,853,396 =====	\$2,819,957 =====
Weighted average common shares outstanding.....	4,799,206	4,743,803	4,840,561
Weighted average common shares equivalents associated with options....	184,879	139,096	109,019
Total weighted average common shares.....	4,984,085 =====	4,882,899 =====	4,949,580 =====
Diluted earnings (loss) per common shares.....	\$.32 =====	\$.38 =====	\$.58 =====

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Exhibit 99

Harbour Village Development Status

(000)s except references to Condo Units

(unaudited)

Harbour Village Development Status (000)s except references to Condo Units	<u>Phase 1</u>			<u>Phase 2</u>	
	<u>Townhouses</u>			The	Th
	Marina	Oak	Riverwalk	Links	Lin
<u>6/30/2002</u>	<u>Condos</u>	<u>Hammock</u>	<u>Riverwalk</u>	<u>North</u>	<u>South</u>
Planned Number of Condo Units and Boat Slips	248	18	28	188	
Condo Units and Boat Slips under Contract	246	15	28	162	
Number of Closed Units	217	-	-	-	
Value of Pre-sale Contracts (Note 1)	62,292	7,140	10,664	40,274	1,
Number of Buildings	8	4	6	4	

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Number of Buildings Complete by Task				
Building Foundation	8	4	5	2
Vertical Building Completed	8	3	2	-
Interior Finish Completed	8	-	-	-
Certificate of Occupancy Received	8	-	-	-
<u>Outlook For 3rd Quarter of 2002</u>				
Units Closed	29	5	10	-
Sales Value of Closed Units	8,221	2,617	3,415	-
Revenue Recognized	7,958	2,486	3,244	-
Other Revenue				
Total Revenue				
Gross Profit Recognized	1,185	37	(33)	-
Other Expense (Income) Items				
Pre-Tax Profit				
<u>2nd Quarter Actual</u>				
Units Closed	49	-	-	-
Sales Value of Closed Units	12,939	-	-	-
Revenue Recognized	13,158	-	-	-
Other Revenue	-	-	-	-
Total Revenue				
Gross Profit Recognized	2,587	-	-	-
Other Expense (Income) Items				
Pre-Tax Profit				

Note 1 - No assurance can be given that purchasers under binding pre-sale contracts with deposits will close each contemplated transaction.

Note 2 - Other includes net brokerage commissions, advertising, promotion, and other general and administrative costs. These items are not allocated to specific buildings.

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