AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10 Q

Ö QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2009

"OR"

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO .

Commission File Number 1-14795

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

Bermuda (State or other jurisdiction of incorporation)	Not Applicable (I.R.S. Employer Identification No.)

The Boyle Building, 2nd Floor
31 Queen Street
Hamilton, HM 11, 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 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.
_X_ Yes ___ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ____ No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer _____ Accelerated filer __X__
Non-accelerated filer ______ Smaller reporting company ______

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
____ Yes _X_ No

The aggregate number of shares outstanding of Registrant’s common stock, $0.01 par value, on November 2, 2009 was 10,349,381.

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands except per share data)

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 675,699	$ 569,910
Common stock, at fair value	15,892	20,537
Preferred stock, at fair value	3,278	3,287
Short-term investments, at fair value	44,805	80,005
Total investments	739,674	673,739
Cash and cash equivalents	21,450	12,898
Accrued investment income	6,247	6,214
Premiums receivable	19,112	19,917
Ceded unearned premiums	54,873	36,118
Reinsurance recoverable	206,172	199,455
Deferred income taxes	4,867	11,784
Deferred acquisition costs	15,570	18,171
Property, plant and equipment, net	10,715	10,976
Goodwill	11,128	9,696
Other assets	45,317	27,396
Total assets	$ 1,135,125	$ 1,026,364
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 618,869	$ 586,647
Unearned premiums	135,646	122,259
Ceded premiums payable	15,086	20,732
Deferred revenues	1,668	1,770
Accounts payable and accrued expenses	13,388	8,586
Deferred rent	1,332	1,626
Funds held	38,567	25,684
Loans payable	38,937	38,932
Total liabilities	863,493	806,236

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	September 30, 2009 (Unaudited)	December 31, 2008
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 30,000,000 shares; issued and outstanding at September 30, 2009, 10,304,737 shares, and December 31, 2008, 10,274,368 shares	103	103
Additional paid-in capital	102,045	100,645
Retained earnings	136,909	119,491
Accumulated other comprehensive income (loss), net	28,597	(3,209)
Total American Safety Insurance Holdings shareholders’ equity	267,654	217,030
Equity in non-controlling interest	3,978	3,098
Total shareholders' equity	271,632	220,128
Total liabilities and shareholders’ equity	$ 1,135,125	$ 1,026,364

See accompanying notes to consolidated interim financial statements (unaudited).

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues:				
Direct premiums earned	$58,877	$53,786	$160,057	$148,057
Assumed premiums earned	6,895	13,107	26,991	35,220
Ceded premiums earned	(25,791)	(25,201)	(60,798)	(55,394)
Net premiums earned	39,981	41,692	126,250	127,883
Net investment income	7,331	7,497	22,850	22,141
Net realized gains (losses)	61	(9,153)	298	(8,358)
Fee income	1,250	499	3,368	2,017
Other income (loss)	(41)	(37)	44	(7)
Total revenues	48,582	40,498	152,810	143,676
Expenses:				
Losses and loss adjustment expenses	23,074	25,059	74,322	77,468
Acquisition expenses	7,844	9,685	26,920	30,723
Payroll and related expenses	5,321	5,538	16,843	15,397
Other underwriting expenses	5,055	3,233	10,839	9,552
Interest expense	828	715	2,379	2,370
Corporate and other expenses	639	696	2,076	(612)
Total expenses	42,761	44,926	133,379	134,898
Earnings (loss) before income taxes	5,821	(4,428)	19,431	8,778
Income tax expense	446	179	1,420	422
Net earnings (loss)	$5,375	$(4,607)	$18,011	$8,356
Less: Net earnings (loss) attributable to the Non-controlling interest	421	(312)	593	(160)
Net earnings (loss) attributable to American Safety Insurance Holdings, Ltd.	$4,954	$(4,295)	$17,418	$8,516
Net earnings (loss) per share:				
Basic	$0.48	$(0.42)	$1.69	$0.81
Diluted	$0.47	$(0.42)	$1.65	$0.79
Weighted average number of shares outstanding:				
Basic	10,303,121	10,326,661	10,297,303	10,521,209
Diluted	10,608,138	10,326,661	10,536,027	10,782,741

See accompanying notes to consolidated interim financial statements (unaudited).

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

	Nine Months Ended September 30, 2009	2008
Cash flow from operating activities:		
Net earnings	$18,011	$8,356
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net realized (gains) losses on sale of investments	(298)	8,358
Depreciation expense	2,923	3,002
Stock based compensation expense	1,405	884
Amortization of deferred acquisition costs, net	2,659	(1,762)
Amortization of premiums on investments	634	387
Deferred income taxes	806	(1,111)
Change in operating assets and liabilities:		
Accrued investment income	(22)	(527)
Premiums receivable	1,300	(6,469)
Reinsurance recoverable	(6,717)	114
Ceded unearned premiums	(18,754)	(9,765)
Funds held	12,883	(2,638)
Unpaid losses and loss adjustment expenses	31,302	46,008
Unearned premiums	13,078	18,387
Ceded premiums payable	(5,646)	16,469
Deferred revenues	(102)	(24)
Accounts payable and accrued expenses	4,338	(1,064)
Deferred rent expense	(294)	(114)
Other assets , net	(17,287)	(8,308)
Net cash provided by operating activities	$40,219	$70,183
Cash flow from investing activities:		
Purchases of fixed maturities	$(225,056)	$(146,241)
Purchases of common stock	(183)	(2,812)
Proceeds from sale of fixed maturities	154,216	117,932
Proceeds from sale of common stock	7,699	362
Proceeds from sale of preferred stock	511	-
Consideration paid for acquired companies, net	(3,688)	(8,927)
Decrease (increase) in short-term investments	37,287	(21,516)
Purchase of fixed assets, net	(2,460)	(4,228)
Net cash used in investing activities	$(31,674)	$(65,430)

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	Nine Months Ended September 30, 2009	2008
Cash flow from financing activities:		
Repurchase of common stock	$(430)	$(7,565)
Proceeds from exercised stock options	437	705
Net cash provided by (used in) financing activities	7	(6,860)
Net increase (decrease) in cash and cash equivalents	8,552	(2,107)
Cash and cash equivalents at beginning of period	12,898	12,860
Cash and cash equivalents at end of period	$21,450	$10,753
Supplemental disclosure of cash flow information:		
Income taxes paid	$2,420	$115
Interest paid	$2,374	$1,563

See accompanying notes to consolidated interim financial statements (unaudited).

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net earnings (loss)	$5,375	$(4,607)	$18,011	$8,356
Other comprehensive income before income taxes:				
Unrealized gains (losses) on securities available-for-sale	21,707	(24,298)	38,323	(35,254)
Unrealized gains (losses) on hedging transactions	(1,425)	11	92	(93)
Reclassification adjustment for realized losses (gains) included in net earnings	(61)	9,153	(298)	8,358
Total other comprehensive income (loss) before taxes	20,221	(15,134)	38,117	(26,989)
Income tax (benefit) expense related to items of other comprehensive income	2,927	(2,906)	6,025	(4,769)
Other comprehensive income (loss) net of income taxes	17,294	(12,226)	32,092	(22,220)
Comprehensive income (loss)	$22,669	$(16,833)	$50,103	$(13,864)
Less: Comprehensive income (loss) attributable to the non-controlling interest	614	(454)	879	(370)
Comprehensive income (loss) attributable to American Safety Insurance Holdings, Ltd.	$22,055	$(16,379)	$49,224	$(13,494)

See accompanying notes to consolidated interim financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements

September 30, 2009
(Unaudited)

Note 1 - Basis of Presentation

The accompanying consolidated financial statements of American Safety Insurance Holdings, Ltd. (“American Safety Insurance”) and its subsidiaries and American Safety Risk Retention Group, Inc. (“American Safety RRG”), a non-subsidiary risk retention group affiliate (collectively, the “Company”), are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in conformity with GAAP 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/or actuarial determinations subject to future changes are the Company’s invested assets, deferred income taxes, reinsurance recoverables, goodwill and the 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 these estimates are adequate, such estimates may change in the future.

The results of operations for the nine months ended September 30, 2009 may not be indicative of the results that may be expected for the fiscal year ending December 31, 2009. 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 on Form 10-K of the Company for the fiscal year ended December 31, 2008.

The unaudited interim consolidated financial statements include the accounts of American Safety Insurance, each of its subsidiaries and American Safety RRG. All significant intercompany balances as well as normal recurring adjustments have been eliminated. Unless otherwise noted, all numbers are presented in thousands.

Certain balance sheet and statement of operations items have been reclassified for the 2008 periods. The presentation is consistent with the presentation for the three and nine months ended September 30, 2009 and did not result in any impact to net earnings or shareholders’ equity.

Note 2 - Nature of Operations

We are a Bermuda-based specialty insurance and reinsurance company that provides customized products and solutions to small and medium-sized businesses in industries that we believe are underserved by the standard market. We have developed specialized coverages and alternative risk transfer products not generally available to our customers in the standard market because of the unique characteristics of the risks involved and the associated needs of the insureds. We specialize in underwriting products for insureds with certain environmental, products liability, construction, healthcare and property needs, as well as developing programs for other specialty lines of business and providing third party reinsurance. See Part II – Other Information, Item 1A for risks facing the Company.

Note 3 - Investments

The amortized cost and estimated fair values of the Company's investments at September 30, 2009 and December 31, 2008 are as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
September 30, 2009				
Securities available for sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$107,411	$3,074	$(31)	$110,454
States of the U.S. and political subdivisions of the states	38,492	3,276	(103)	41,665
Corporate securities	251,287	17,016	(326)	267,977
Mortgage-backed securities	190,782	8,798	(15)	199,565
Commercial mortgage-backed securities	28,729	5,045	(23)	33,751
Asset-backed securities	21,668	675	(56)	22,287
Total fixed maturities	$638,369	$37,884	$(554)	$675,699
Common stock	$18,095	$326	$(2,529)	$15,892
Preferred stock	$3,273	$191	$(186)	$3,278
December 31, 2008:				
Securities available for sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$57,335	$4,874	$-	$62,209
States of the U.S. and political subdivisions of the states	41,804	479	(692)	41,591
Corporate securities	256,141	6,467	(10,669)	251,939
Mortgage-backed securities	181,032	5,126	-	186,158
Commercial mortgage-backed securities	14,097	-	(2,179)	11,918
Asset-backed securities	17,006	3	(914)	16,095
Total fixed maturities	$567,415	$16,949	$(14,454)	$569,910
Common stock	$25,425	$975	$(5,863)	$20,537
Preferred stock	$3,785	$11	$(509)	$3,287

Note 4 - Segment Information

We segregate our business into insurance operations and other, with the insurance operations segment being further classified into three lines of operation: excess and surplus lines (E&S), alternative risk transfer (ART) and assumed reinsurance (Assumed Re). E&S consists of seven business lines: property, environmental, construction, products liability, excess, surety and healthcare. ART consists of two business lines: specialty programs and fully funded. Assumed Re consists of specialty property and casualty business assumed from unaffiliated specialty insurers and reinsurers. Other includes lines of business that we no longer write (run-off) as well as real estate and other ancillary product lines. Prior year amounts have been reclassified to conform to the current year presentation.

Within the E&S segment we provide property and general liability coverage across specialty classes of business. The classes of business include environmental, construction, products liability, excess casualty, surety and healthcare. Our environmental business provides general, professional and pollution liability to contractors, consultants and property owners. Construction provides commercial general liability insurance coverages for residential and commercial contractors. Products liability offers general liability and product liability coverages for smaller manufacturers and distributors, non-habitational real estate and certain real property owner, landlord and tenant risks. Excess provides excess and umbrella liability coverages over our own and other carriers' primary casualty policies, with a focus on construction risks. Surety provides payment and performance bonds primarily to the environmental remediation and construction industries. Healthcare provides customized liability insurance solutions primarily for long-term care facilities.

In our ART segment, specialty programs facilitate the offering of insurance to homogeneous niche groups through third party program managers. Our fully funded business provides insureds to self-insure their risks while posting collateral, for which we are paid a fee.

In our Assumed Re segment, the Company provides traditional specialty property and casualty reinsurance for unaffiliated specialty insurers and reinsurers with a focus on small specialty insurers, risk retention groups and captives.

The Other segment consists of amounts associated with the Company's investment in real estate which was essentially completed in 2005, and lines of business that we have placed in run-off, such as workers' compensation, excess liability insurance for municipalities plus certain commercial lines.

The Company measures all segments using net earnings. The reportable insurance operations segments are measured by net premiums earned, incurred losses and loss adjustment expenses and acquisition expenses. Assets are not allocated to the reportable insurance operations segments.

The following table presents key financial data by segment for the three months ended September 30, 2009 and September 30, 2008 (dollars in thousands):

September 30, 2009	Insurance											
	Property	Environmental	Construction	E & S Products Liability	Excess	Surety	Healthcare	Assumed Reinsurance	ART Specialty Programs	Fully Funded	Other	Total
Gross premiums written	$2,141	$9,406	$5,811	$1,484	$1,118	$4,021	$2,929	$7,100	$58,593	-	-	$ 92,603
Net premiums written	1,260	7,325	4,836	1,251	177	2,914	1,904	7,134	11,262	-	-	38,063
Net premiums earned	1,636	8,804	5,350	1,528	215	2,473	2,019	6,695	11,261	-	-	39,981
Fee income earned	-	-	-	-	-	-	-	-	-	964	286	1,250
Losses & loss adjustment expenses	1,005	5,611	2,977	843	139	930	1,050	4,485	6,034	-	-	23,074
Acquisition expenses	373	2,139	1,159	315	(142)	740	269	1,041	1,950	-	-	7,844
Gross underwriting profit	258	1,054	1,214	370	218	803	700	1,169	3,277	964	286	10,313
Income tax expense	$ 376										70	446
Net arnings	$ 5,159										$216	$5,375

September 30, 2008	Insurance											
	Property	Environmental	Construction	E & S Products Liability	Excess	Surety	Healthcare	Assumed Reinsurance	ART Specialty Programs	Fully Funded	Other	
Gross premiums written	$1,415	$11,345	$8,183	$1,385	$1,544	$3,561	$3,121	$13,828	$30,088	$-	$ -	$
Net premiums written	1,351	9,048	7,019	1,134	935	2,506	2,028	5,975	10,551	-	-	
Net premiums earned	1,622	8,576	8,550	1,280	550	1,907	1,060	7,908	10,239	-	-	
Fee income earned	-	-	-	-	-	-	-	-	-	352	147	
Losses & loss adjustment expenses	1,027	4,898	5,138	764	329	655	551	5,514	6,183	-	-	
Acquisition expenses	326	2,410	1,897	263	58	537	64	1,965	2,165	-	-	

Gross underwriting profit (loss)	269	1,268	1,515	253	163	715	445	429	1,891	352	147
Income tax expense (benefit)	$ 253										$(74)
Net earnings (loss)	$ 4,473										$(9,080)

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The following table presents key financial data by segment for the nine months ended September 30, 2009 and September 30, 2008 (dollars in thousands):

September 30, 2009	Insurance								ART		Other	Total
	Property	Environmental	Construction	E & S Products Liability	Excess	Surety	Healthcare	Assumed Reinsurance	Specialty Programs	Fully Funded		
Gross premiums written	$7,328	$32,224	$16,653	$5,700	$4,426	$9,776	$9,313	$25,327	$89,477	-	-	$ 200,22
Net premiums written	5,471	26,149	13,814	4,781	676	6,982	6,054	25,776	30,995	-	-	120,69
Net premiums earned	4,769	27,204	17,946	4,391	856	6,707	6,578	26,041	31,758	-	-	126,25
Fee income earned	-	-	-	-	-	-	-	-	-	2,445	923	3,368
Losses & loss adjustment expenses	2,936	17,842	9,986	2,417	556	2,624	3,421	17,786	16,754	-	-	74,322
Acquisition expenses	1,073	6,806	4,504	909	(447)	1,885	657	5,344	6,189	-	-	26,920
Gross underwriting profit	760	2,556	3,456	1,065	747	2,198	2,500	2,911	8,815	2,445	923	28,376
Income tax expense	$ 1,211										$209	$1,420
Net earnings	$17,297										$714	$18,011

September 30, 2008	Insurance								ART		Other	To
	Property	Environmental	Construction	E & S Products Liability	Excess	Surety	Healthcare	Assumed Reinsurance	Specialty Programs	Fully Funded		
Gross premiums written	$5,705	$37,677	$28,253	$4,498	$5,874	$8,180	$8,224	$42,456	$60,586	$ -	$ -	$ 201
Net premiums written	4,363	27,669	21,921	3,625	1,566	6,183	5,345	34,603	31,020	-	-	136
Net premiums	3,377	26,404	29,239	3,463	913	5,259	1,781	30,020	27,427	-	-	127

earned												
Fee income earned	-	-	-	-	-	-	-	-	-	1,242	775	2,0
Losses & loss adjustment expenses	2,138	16,520	17,572	2,068	546	1,815	926	20,405	15,476	-	2	77,
Acquisition expenses	738	7,106	6,467	636	(302)	1,428	167	8,438	6,045	-	-	30,
Gross underwriting profit	501	2,778	5,200	759	669	2,016	688	1,177	5,906	1,242	773	21,
Income tax expense	$ 422										$-	$422
Net earnings (loss)	$13,966										$(5,610)	$8,3

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The following table reconciles gross underwriting profit as shown above to our consolidated earnings before income taxes:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Gross underwriting profit before operating expenses	$10,313	$7,447	$28,376	$21,709
Plus revenue not included in gross underwriting profit:				
Net investment income	7,331	7,497	22,850	22,141
Net realized gains	61	(9,153)	298	(8,358)
Other (expense) income	(41)	(37)	44	(7)
Less expenses not included in underwriting profit:				
Payroll and related expenses	5,321	5,538	16,843	15,397
Other underwriting expenses	5,055	3,233	10,839	9,552
Interest expense	828	715	2,379	2,370
Corporate and other expenses	639	696	2,076	(612)
Earnings (loss) before income taxes	$5,821	$(4,428)	$19,431	$8,778

Additionally, the Company conducts business in two geographic segments: the United States and Bermuda. Significant differences exist in the regulatory environment in each country. Those differences include laws regarding measurable information about the insurance operations by geographic segments. The following table provides key financial data about the geographic segments for the three months ended September 30, 2009 and September 30, 2008 (dollars in thousands):

September 30, 2009	United States	Bermuda	Total
Income tax	$ 446	$ -	$ 446
Net earnings	$ 1,269	$ 4,106	$ 5,375

September 30, 2008	United States	Bermuda	Total
Income tax	$ 179	$ -	$ 179
Net earnings (loss)	$ (4,804)	$ 197	$ (4,607)

The following table provides key financial data about the geographic segments for the nine months ended September 30, 2009 and September 30, 2008 (dollars in thousands):

September 30, 2009	United States	Bermuda	Total
Income tax	$ 1,420	$ -	$ 1,420
Net earnings	$ 4,454	$ 13,557	$ 18,011
Assets	$ 645,965	$ 489,160	$ 1,135,125
Equity	$ 95,918	$ 175,714	$ 271,632

September 30, 2008	United States	Bermuda	Total
Income tax	$ 422	$ -	$ 422
Net earnings (loss)	$ (3,705)	$ 12,061	$ 8,356

Assets	$	566,325	$	425,192	$	991,517
Equity	$	69,115	$	141,801	$	210,916

Note 5 - Income Taxes

Total income tax expense for the periods ended September 30, 2009 and 2008 was allocated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Tax expense attributable to:	2009	2008	2009	2008
Income from operations	$446	$179	$1,420	$422
Change in unrealized gain (loss) on hedging transactions	(484)	4	32	(51)
Change in unrealized gain (loss) on securities available for sale	3,492	(2,918)	6,079	(4,666)
Total	$3,454	$(2,735)	$7,531	$(4,295)

United States federal and state income tax expense (benefit) from operations consists of the following components

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Current	$(918)	$1,557	$614	$1,394
Deferred	1,110	(2,899)	201	(2,452)
Change in valuation allowance	254	1,521	605	1,480
Total	$446	$179	$1,420	$422

The state income tax expense provided for was $17 and $43 for the three months ended September 30, 2009 and 2008 respectively, and $94 and $121 for the nine months ended September 30, 2009 and 2008, respectively, and is included in the current provision.

Income tax expense for the periods ended September 30, 2009 and 2008 differed from the amount computed by applying the United States Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Expected income tax expense (benefit)	$1,980	$(1,505)	$6,607	$2,984
Foreign earned income not subject to U.S. taxation	(1,395)	(67)	(4,609)	(4,101)
Change in valuation allowance	(254)	1,521	(605)	1,480
Tax-exempt interest	(44)	(81)	(179)	(180)
State taxes and other	159	311	206	239
Total	$446	$179	$1,420	$422

Note 6 - Employee Stock Options

The Company's incentive stock plan grants incentive stock options to employees. The majority of the options outstanding under the plan vest evenly over a three year period and have a term of 10 years. The Company uses the Black-Scholes option pricing model to value stock options. The Company's methodology for valuing options has not changed from December 31, 2008. During the first nine months of 2009, the Company granted 155,576 options compared to 136,302 for the same period of 2008. The Company granted 20,000 options for the three months ended September 30, 2009 and none for the three months ended September 30, 2008. Stock based compensation expense related to outstanding options was $155 for the three months ended September 30, 2009 and $194 for 2008. Stock based compensation expense related to outstanding options was $644 and $580, respectively, for the nine months ended September 30, 2009 and 2008 and is reflected in net earnings under payroll and related expenses.

In addition to stock options discussed above, the Company may grant restricted shares to employees under the incentive stock plan. During the first nine months of 2009, the Company granted 90,224 shares of restricted stock. The restricted shares vest on the grant date anniversary ratably over three years at 25%, 25% and 50%, respectively. Stock based compensation expense related to the restricted shares was $256 and $760 for the three and nine months ended September 30, 2009 respectively. For the three and nine months ended September 30, 2008, $173 and $303, respectively, was recorded.

Note 7 – Acquisition of Victore Insurance Company, Victore Enterprises, Inc. and Agency Bonding Company, Inc.

On June 30, 2009, American Safety Casualty Insurance Company (ASCIC), a wholly owned subsidiary of American Safety Insurance Holdings, Ltd., acquired 100% voting equity of Victore Insurance Company (VIC), an Oklahoma domiciled admitted insurance company based in Oklahoma City, Victore Enterprises, Inc., an Oklahoma based holding company and Agency Bonding Company, Inc., an Oklahoma based insurance agency, for a purchase price of $4.7 million. The three companies together are referred to as The Victore Companies.

The purchase was accounted for under the guidance of ASC 805-10 as a business combination under the acquisition method. All identifiable assets and liabilities acquired were recognized using fair value measurement.

The assets and liabilities acquired were valued as follows (dollars in thousands):

Cash	$1,002
Bonds	405
Stocks	167
Short-term investments	2,088
Accounts Receivable	508
Intangible asset	325
Other assets	451
Unpaid losses	(920)
Unearned premium	(308)
Other liabilities	(460)
Goodwill	1,432

Pursuant to the purchase agreement, an Escrow Fund Holdback of $704 was established to reimburse the purchaser for any aggregate net claims or losses incurred by VIC from any bonds written by VIC prior to the "Closing Date" which, in the net aggregate, exceeded the total loss reserves as reflected in the purchase price. For a period of eighteen (18) months after the Closing Date (the "Loss Holdback Period"), if the aggregate net claims incurred by VIC for bonds written prior to the Closing Date exceed the amount of total reserves purchased, the purchaser will be reimbursed from the Escrow Fund. A “Indemnification Holdback” was also established to reimburse the purchaser for loss, cost and expense related to any breach of representations, warranties or covenants made by the sellers in the purchase agreements. At the end of the 18 month Loss Holdback Period, any remaining balances in the Funds will be disbursed to the seller. The Company believes that the reserves established at the date of acquisition were adequate to cover the losses that might be incurred for bonds written prior to the Closing Date.

The goodwill is attributable to the revenue stream in place currently and expected to continue to generate cash flow in the future. The Company will perform impairment testing each year at December 31 to determine whether there has been impairment of the asset on an ongoing basis.

Note 8 – Fair Value Measurements

Effective January 1, 2008 on a prospective basis, we determined the fair values of certain financial instruments based on the fair value hierarchy established in ASC 820-10-15. ASC 820-10-15 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1: quoted price (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.

Level 2: inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, or for which significant inputs are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3: inputs to the valuation methodology are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect our own assumptions that market participants might use.

ASC 820-10-15 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

To measure fair value, we obtain quoted market prices for our available-for-sale securities.

Assets measured at fair value on a recurring basis are summarized below:

As of September 30, 2009 Fair Value Measurements Using (dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed maturities	$28,224	$647,475	$ -	$675,699
Equities securities	14,088	-	5,082	19,170
Short term investments	44,805	-	-	44,805
Total	$87,117	$647,475	$ 5,082	$739,674

Level 3 Financial Instruments	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (dollars in thousands) Fixed Maturities	Equities
Balance at December 31, 2008	$7,407	$5,082
Total gains(losses) realized (unrealized):		
Included in earnings	-	-
Included in other comprehensive income	-	-
Net purchases, sales & distributions	(7,407)	-
Net transfers in (out of) Level 3	-	-
Balance at September 30, 2009	$-	$5,082
Change in net unrealized gains relating to assets still held at reporting date	$-	$-

On a quarterly basis, we evaluate whether the fair values of the Company's individual securities are other-than-temporarily impaired when the fair value is below amortized cost. To make this assessment we consider several factors including (i) our intent and ability to hold the security, (ii) the potential for the security to recover in value, (iii) an analysis of the financial condition of the issuer, (iv) an analysis of the collateral structure and credit support of the security, if applicable, (v) the time during which there has been a decline below cost, and (vi) the extent of the decline below cost. If we conclude a security is other-than-temporarily impaired, we write down the amortized cost of the security to fair value, with a charge to net realized investment losses in the Consolidated Statements of Operations. There were no other-than-temporary-impairments recorded for the three and nine months ended

September 30, 2009. During the nine months ended September 30, 2008, the Company recorded an other-than-temporary impairment charge of $7.7 million related to debt and equity securities.

In addition to the fair value estimates on our investments, the Company uses the following methods and assumptions to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

- Cash and cash equivalents – The carrying amounts approximate fair value because of the short-term maturity of those instruments.
- Premiums receivable – The carrying value of premiums receivable approximates fair value due to the short-term nature.
- Long-term debt – The carrying value of those notes is a reasonable estimate of fair value.

Note 9 – Credit Facilities

On July 31, 2009 the Company entered into a line of credit facility with Regions Bank for $15 million. The facility is unsecured with a term ending July 31, 2010.

The principal amount outstanding under the credit facility provides for interest at Libor plus 200 basis points with a 3% floor. In addition, the credit facility provides for an unused facility fee of 15 basis points payable monthly. Under the line of credit facility, certain covenants are required. At September 30, 2009, the Company is in compliance with all covenants. The Company has no outstanding borrowings at September 30, 2009.

Note 10 – Loans Payable

Trust Preferred Offerings

In 2003, American Safety Capital and American Safety Capital II, both non-consolidated, wholly-owned subsidiaries of the American Safety Holdings Corp. issued $8 million and $5 million, respectively, of variable rate 30-year trust preferred securities. The securities require interest payments on a quarterly basis calculated at a floating rate of LIBOR + 4.2% and LIBOR + 3.95% for American Safety Capital and American Safety Capital II, respectively. The securities can be redeemed at the Company's option commencing five years from the date of original issuance.

In 2005, the American Safety Capital Trust III, a non-consolidated wholly-owned subsidiary of American Safety Holdings Corp. issued a 30-year trust preferred obligation in the amount of $25 million. This obligation bears a fixed interest rate of 8.31% for the first five years and LIBOR + 3.4% thereafter. Interest is payable on a quarterly basis and the securities may be redeemed at the Company's option commencing five years from the date of original issuance.

The underlying debt obligations between the Company and American Safety Capital, American Safety Capital II and American Safety Capital III expose the Company to variability in interest payments due to changes in interest rates. Management entered into interest rate swaps for these trust preferred offerings to hedge that variability. Under each interest rate swap, the Company receives variable interest payments and makes fixed interest rate payments to the applicable capital trust entity, thereby creating fixed rate long-term debt. The overall effective fixed rate expense as a result of this hedge is 7.32% and 7.1% for American Safety Capital and American Safety Capital II, respectively, over the remaining term of the obligation. With an effective date of December, 2010, the swap on American Safety Capital III will result in a fixed rate of 7.50% over the remaining life of the obligation.

During May 2009 the Company terminated an interest rate swap entered in January 2009 on the American Safety Capital III. Because the swap was not designated as a hedge transaction at the time of termination, the transaction resulted in a $2.3 million realized gain during the second quarter ended June 30, 2009.

Changes in fair value of the interest rate swaps designated as hedging instruments of the variability of cash flow associated with a floating rate, long-term debt obligation are reported in accumulated other comprehensive income. The gross unrealized gains and losses on the interest rate swaps at September 30, 2009 were $122, $81 and $(110) for American Safety Capital, American Safety Capital II and American Safety Capital III, respectively.

Note 11 – Subsequent Events

The Company evaluated subsequent events through the filing date of this Form 10Q quarterly filing, which was November 9, 2009, and determined there were none that required disclosure.

Note 12 - Accounting Pronouncements

The FASB has issued FASB Statement No. 168, The "FASB Accounting Standards Codification©" and the "Hierarchy of Generally Accepted Accounting Principles". Statement 168 establishes the FASB Accounting Standards Codification© (Codification or ASC) as the single source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification will become non-authoritative.

Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates, which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

GAAP is not intended to be changed as a result of the FASB's Codification project, but it will change the way the guidance is organized and presented. As a result, these changes will have a significant impact on how companies reference GAAP in their financial statements and in their accounting policies for financial statements issued for interim and annual periods ending after September 15, 2009. The Company has begun the process of implementing the Codification in this quarterly report by providing references to the Codification topics alongside references to the existing standards.

During the last two years, the Financial Accounting Standard Board (FASB) has issued a number of accounting pronouncements with various future effective dates.

On June 30, 2009, the Company adopted FAS 165, "Subsequent Events" (ASC 855-10), which provides guidance to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855-10 also requires disclosure of the date through which subsequent events were evaluated as well as the rationale for why that date was selected. The adoption of ASC 855-10 did not have an impact on the Company’s financial position or results of operations. See Note 11.

In December 2007, the FASB issued SFAS 141(R), “Business Combinations” ("ASC 805-10"). ASC 805-10 expands on the guidance by extending its applicability to all transactions and other events in which an entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed and interests transferred as a result of business combinations. ASC 805-10 expands on required disclosures to improve the statement users’ abilities to evaluate the nature and financial effects of business combinations. ASC 805-10 establishes principles and

requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including non-controlling interest, contingent consideration and certain acquired contingencies. ASC 805-10 also requires acquisition-related transaction expenses and restructuring cost be expensed as incurred rather than capitalized as a component of the business combination. ASC 805-10 is effective for any acquisitions made on or after January 1, 2009. On June 30, 2009, the Company acquired Victore Insurance Company. The Company accounted for the acquisition in accordance with ASC 805-10 accounting, "Business Combinations".

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, “Effective Date of FASB Statement No. 157” ("ASC 820-10-15"), which delays the effective date of ASC 820-10-15 for non-financial assets and non-financial liabilities to fiscal years beginning after November 15, 2008. The Company has fully adopted this guidance including ASC 820-10-15 effective January 1, 2009 and will be using the guidance and measuring the impact on our non-financial assets as a part of impairment testing.

In March 2008, the FASB issued SFAS No. 161 ("ASC 815-10"), “Disclosures About Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133”. ASC 815-10 enhances the disclosure requirements of SFAS No. 133 ("ASC 815-10"), “Accounting for Derivative Instruments and Hedging Activities”, regarding an entity’s derivative instruments and hedging activities. ASC 815-10 is effective for the Company’s fiscal year beginning January 1, 2009 and has been adopted by the Company.

On October 10, 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active ("ASC 820-10-15"). ASC 820-10-15 clarifies the application of FAS 157 in a market that is not active and illustrates key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. ASC 820-10-15 was effective upon issuance, including prior periods for which financial statements have not been issued. Revisions resulting from a change in the valuation technique or its application should be accounted for as a change in accounting estimate. The disclosure provisions of SFAS No. 154 ("ASC 250-10-05"), “Accounting Changes and Error Corrections” for a change in accounting estimate are not required for revisions resulting from a change in valuation technique or its application. The adoption of ASC 820-10-15 did not have a material impact on the Company’s results of operations, financial condition, or cash flows.

In April 2009, the FASB issued FSP FAS 157-4 “Determining Whether a Market is Not Active and a Transaction Is Not Distressed (“ASC 820-10-65-4”). ASC 820-10-65-4 provides additional guidance on factors to consider in estimating fair value when there has been a significant decrease in market activity for a financial asset. ASC 820-10-65-4 is effective for interim and annual periods ending after June 15, 2009. The implementation of this standard did not have a material impact on our consolidated financial position and results of operations.

FSP 107-1 and APB 28-1 ("ASC 825-10-65-1") amends FAS No. 107, “Disclosures about Fair Value of Financial Instruments”, to require disclosures in the body or in the accompanying notes to financial statements for interim reporting periods and in financial statements for annual reporting periods for the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the balance sheet. This FSP also amends APB opinion No. 28, “Interim Financial Reporting”, to require entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and describe changes in methods and significant assumptions in both interim and annual financial statements. ASC 825-10-65-1 is effective for interim reporting periods ending after June 15, 2009. The Company adopted this guidance for the quarter ended June 30, 2009 and there has been no material impact as a result of adoption.

The objective of FSP 115-2 and 124-2 ("ASC 320-10-65-1"), which amends existing other-than-temporary impairment guidance for debt securities, is to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Specifically, the recognition guidance contained in ASC 320-10-65-1 applies to debt securities classified as available-for-sale and held-to-maturity that are subject to other-than-temporary impairment guidance.

Among other provisions, ASC 320-10-65-1 requires entities to: (1) split other-than-temporary impairment charges between credit losses (i.e., the loss based on the entity's estimate of the decrease in cash flows, including those that result from expected voluntary prepayments), which are charged to earnings, and the remainder of the impairment charge (non-credit component) to other comprehensive income, net of applicable income taxes; (2) disclose information for interim and annual periods that enables financial statement users to understand the types of available-for-sale and held-to-maturity debt and equity securities held, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized, and (3) disclose for interim and annual periods information that enables users of financial statements to understand the reasons that a portion of an other-than-temporary impairment of a debt security was not recognized in earnings and the methodology and significant inputs used to calculate the portion of the total other-than-temporary impairment that was recognized in earnings.

ASC 320-10-65-1 is effective for interim reporting periods ending after June 15, 2009. For debt securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income and the impact of adoption accounted for as a change in accounting principles, with applicable disclosure provided. The Company adopted ASC 320-10-65-1 during the quarter ended June 30, 2009 and this adoption did not have an impact on any of the Other-Than-Temporary charges to date.

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

We are a Bermuda-based specialty insurance and reinsurance company that provides customized products and solutions to small and medium-sized businesses in industries that we believe are underserved by the standard market. We have developed specialized coverages and alternative risk transfer products not generally available to our customers in the standard market because of the unique characteristics of the risks involved and the associated needs of the insureds. We specialize in underwriting products for insureds with certain environmental, products liability, construction, healthcare and property needs, as well as developing programs for other specialty lines of business and providing third party reinsurance.

Our business segments are classified into insurance operations and other, with the insurance operations consisting of three segments: excess and surplus lines (E&S), alternative risk transfer (ART) and assumed reinsurance (Assumed Re). E&S includes seven business lines: environmental, construction, products liability, excess, property, surety and healthcare. ART includes two business lines: specialty programs and fully funded. In our Assumed Re segment, the Company assumes specialty property and casualty business from unaffiliated insurers and reinsurers.

Within the E&S segment, our environmental insurance products provide general pollution and professional liability coverage for contractors and consultants in the environmental remediation industry and property owners. Construction provides general liability insurance for residential and commercial contractors. Products liability provides general liability and product liability coverages for smaller manufacturers and distributors, non-habitational real estate and certain real property owner, landlord and tenant risks. Excess provides excess and umbrella liability coverages over our own and other carriers' primary casualty polices, with a focus on construction risks. Our property coverage encompasses surplus lines commercial property business and commercial multi-peril (CMP) policies. Surety provides payment and performance bonds primarily to the environmental remediation and construction industries. Healthcare provides customized liability insurance solutions primarily for long-term care facilities.

In our ART segment, specialty programs provide insurance to homogeneous niche groups through third party program managers. Our specialty programs consist primarily of property and casualty insurance coverages for certain classes of specialty risks including, but not limited to, construction contractors, pest control operators, small auto dealers, real estate brokers, consultants, restaurant and tavern owners, bail bondsmen and parent/teacher associations. Fully funded policies give our insureds the ability to fund their liability exposure via a self-insurance vehicle. We write fully funded general and professional liability for businesses operating primarily in the healthcare and construction industries.

Our assumed reinsurance segment offers property and casualty reinsurance products in the form of treaty and facultative contracts. We provide this coverage on an excess of loss and quota share basis. Our primary focus is casualty business, which includes general liability, commercial auto, professional liability and workers' compensation. The Company provides traditional reinsurance targeting small specialty insurers, risk retention groups and captives.

Our Other segment includes lines of business that we have placed in run-off, such as workers' compensation, excess liability insurance for municipalities, other commercial lines and real estate and other ancillary product lines.

The following information is presented on the basis of accounting principles generally accepted in the United States of America ("GAAP") and should be read in conjunction with our unaudited consolidated financial statements and the related notes included elsewhere in this report. All amounts and percentages are rounded.

The table below summarizes the Company's net premiums written and net premiums earned by business line, consolidated revenues and percentage change year over year:

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2009/2008		Nine Months Ended September 30, 2009/2008	
	2009	2008	2009	2008				
	(in thousands)		(in thousands)					
Net premiums written:								
Excess and Surplus Lines Segment								
Environmental	$7,325	$9,048	$26,149	$27,669	-19.0	%	-5.5	%
Construction	4,836	7,019	13,814	21,921	-31.1	%	-37.0	%
Products Liability	1,251	1,134	4,781	3,625	10.3	%	31.9	%
Excess	177	935	676	1,566	-81.1	%	-56.8	%
Property	1,260	1,351	5,471	4,363	-6.7	%	25.4	%
Surety	2,914	2,506	6,982	6,183	16.3	%	12.9	%
Healthcare	1,904	2,028	6,054	5,345	-6.1	%	13.3	%
Total Excess & Surplus Lines Segment	19,667	24,021	63,927	70,672	-18.1	%	-9.5	%
Alternative Risk Transfer Segment								
Specialty Programs	11,262	10,551	30,995	31,020	6.7	%	-0.1	%
Assumed Reinsurance Segment	7,134	5,975	25,776	34,603	19.4	%	-25.5	%
Total net premiums written	$38,063	$40,547	$120,698	$136,295	-6.1	%	-11.4	%
Net premiums earned:								
Excess and Surplus Lines Segment								
Environmental	$8,804	$8,576	$27,204	$26,404	2.7	%	3.0	%
Construction	5,350	8,550	17,946	29,239	-37.4	%	-38.6	%
Products Liability	1,528	1,280	4,391	3,463	19.4	%	26.8	%
Excess	215	550	856	913	-61.0	%	-6.8	%
Property	1,636	1,622	4,769	3,377	0.9	%	41.2	%
Surety	2,473	1,907	6,707	5,259	29.7	%	27.5	%
Healthcare	2,019	1,060	6,578	1,781	90.3	%	269.3	%
Total Excess & Surplus Lines Segment	22,025	23,545	68,451	70,436	-6.5	%	-2.8	%
Alternative Risk Transfer Segment								
Specialty Programs	11,261	10,239	31,758	27,427	10.0	%	15.8	%

Assumed Reinsurance Segment	6,695	7,908	26,041	30,020	-15.3