AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form S-1/A
June 05, 2006

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As filed with the Securities and Exchange Commission on June 5, 2006.
Subject to Amendment.

Registration No. 333-133557

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
PRE-EFFECTIVE AMENDMENT NO. 1 TO
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
American Safety Insurance Holdings, Ltd.
(Exact name of each registrant as specified in its charter)

Bermuda	**6411**	**Not applicable**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

American Safety Insurance Holdings, Ltd.
44 Church Street
P.O. Box HM2064
Hamilton HM HX, Bermuda
(441) 296-8560
(Address, Including Zip Code, and Telephone Number, Including Area Code of Each Registrant s Principal Executive Offices)
Steven B. Mathis
American Safety Holdings Corp.
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With Copies to:

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Subject to Completion, dated June 5, 2006

PROSPECTUS

4,953,087 Shares
AMERICAN SAFETY INSURANCE HOLDINGS, LTD.
Common Shares

American Safety Insurance Holdings, Ltd. is offering 4,013,761 Common Shares, $.01 par value, and the selling shareholders are offering 939,326 Common Shares. We will not receive any proceeds from the sale of the Common Shares by the selling shareholders.

The Common Shares are quoted on the New York Stock Exchange under the symbol ASI. On June 2, 2006, the last reported sale price of the Common Shares was $16.39 per share.

You should carefully review the Risk Factors section beginning on page 10 in connection with this offering and an investment in the Common Shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts and Commissions(1)	Proceeds to American Safety Insurance(2)	Proceeds to Selling Shareholders
Per Share	$	$	$	$
Total(3)	$	$	$	$

(1) American Safety Insurance and the selling shareholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See Underwriting.

(2) Before deducting expenses of this offering payable by us estimated at $600,000.

(3) This is a firm commitment underwriting. The selling shareholders have granted the underwriters the right to purchase up to an additional 742,963 Common Shares to cover over-allotments. The underwriters expect to deliver the shares to purchasers on or about . For further discussion, see Underwriting.

Keefe, Bruyette & Woods

Raymond James

BB&T Capital Markets
a division of Scott & Stringfellow, Inc.

The date of this prospectus is , 2006

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PROSPECTUS SUMMARY

This summary highlights information from this prospectus that we believe is the most important regarding this offering. It may not contain all of the information that is important to you. You should read the entire prospectus carefully before investing in the Common Shares.

The terms we, our, us, Company and American Safety Insurance refer to American Safety Insurance Holding Ltd. and, unless the context requires otherwise, include our subsidiaries.

Who We Are

We are a specialty insurance company that provides customized insurance products and solutions to small and medium-sized businesses in industries that we believe are underserved by the standard insurance market. For twenty years, we have developed specialized insurance coverages and alternative risk transfer products not generally available to our customers in the standard insurance market because of the unique characteristics of the risks involved and the associated needs of the insureds. We specialize in underwriting these products for insureds with environmental risks and construction risks as well as in developing programs for other specialty classes of risks.

We were formed in 1986 as an insurance company in Bermuda and began our operations providing insurance solutions to environmental remediation businesses in the U.S. at a time when insurance coverage for these risks was virtually unavailable. Since then, we have continued to identify opportunities in other industry sectors underserved by standard insurance carriers where we believe we can achieve strong and consistent returns on equity. We capitalize on these opportunities by (i) leveraging our strong relationships with agents and brokers, which we refer to as producers, among whom we believe we have a recognized commitment to the specialty insurance market, (ii) charging a higher premium for the risks we underwrite and the services we offer due to the limited availability of insurance coverages for these risks and (iii) mitigating our loss exposure through customized policy terms, specialized underwriting and proactive loss control and claims management.

For the year ended December 31, 2005, our net earnings from insurance operations were $13.6 million, a 219.5% increase over 2004. For the same period, our net earnings were $14.7 million, or $2.05 per diluted share, compared to $14.8 million, or $2.01 per diluted share, for 2004. For the year ended December 31, 2005, our gross premiums written were $237.9 million, a 7.4% increase over 2004. At December 31, 2005, we had total assets of $697.1 million and shareholders equity of $118.4 million, or $17.54 per share.

For the three months ended March 31, 2006, our net earnings were $4.1 million, or $0.57 per diluted share, compared to $3.6 million, or $0.50 per diluted share, for the same period of 2005. For the three months ended March 31, 2006, our gross premiums written were $53.2 million, a 17.2% decrease over the same period of 2005. At March 31, 2006, we had total assets of $709.6 million and shareholders equity of $119.7 million, or $17.66 per share.

Our Products

Our core product segments include excess and surplus lines (E&S) and alternative risk transfer (ART).

Excess and Surplus Lines. Excess and surplus lines insurers provide coverage for difficult to place risks that do not fit the underwriting criteria of insurance companies operating in the standard insurance market. We focus our excess and surplus lines segment on small to medium-sized businesses in industries such as environmental and construction because we believe that, due to the complex risk profile of those businesses and their smaller account sizes, there is less competition to underwrite these risks. We provide the following excess and surplus lines products:

Environmental. We underwrite various types of environmental risks, including contractors pollution liability, environmental consultants professional liability and environmental impairment liability. We do not provide coverage for manufacturers or installers of products containing asbestos

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that have been the subject of class action lawsuits, but instead insure the contractors who remediate asbestos.

Construction. We underwrite various types of residential and commercial construction risks. Our construction insurance coverages consist mostly of primary general and excess general liability coverages for insureds primarily located in the western U.S. Also included in our construction business line are other insurance coverages for underserved markets, including general liability for building owners and equipment dealers and products liability for product manufacturers and distributors.

Surety. We are listed as an acceptable surety on federal bonds, commonly known as a Treasury-listed or T listed surety, primarily providing contract performance and payment bonds to environmental contractors and general construction contractors in 47 states and the District of Columbia.

Alternative Risk Transfer. In the alternative risk transfer market, companies provide insurance and risk management products for insureds who want more control over the claims administration process and who pay very high insurance premiums or are unable to find adequate insurance coverage. We provide the following alternative risk transfer products:

Specialty Programs. Working with third party program managers, reinsurance intermediaries and reinsurers, we target small and medium-sized businesses with homogenous groups of specialty risks where the principal insurance requirements are general, professional or pollution liability. We outsource the underwriting and administration duties for these programs to program managers with established underwriting expertise in the specialty program area. Our specialty programs consist primarily of casualty insurance coverages for construction contractors, pest control operators, small auto dealers, real estate brokers, apartment owners, restaurant owners, tavern owners, bail bondsmen and Hawaii taxicab operators.

Fully-Funded. Fully-funded policies allow us to meet the needs of insureds that, due to the nature of their businesses, pay very high insurance premiums or are unable to find adequate insurance coverage. Typically, our insureds are required to maintain insurance coverage to operate their businesses and the fully-funded product allows these insureds to provide evidence of insurance, yet at the same time maintain more control over insurance costs and handling of claims. We do not assume underwriting risk on these polices, but instead earn fees for providing the policies, which are recorded as premiums. We write fully-funded general and professional liability policies for businesses operating primarily in the healthcare and construction industries.

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The following table sets forth our of gross premiums written (in thousands) by business line and the allocation of those premiums for the years ended December 31, 2003, 2004 and 2005 and the three months ended March 31, 2005 and 2006:

	Gross Premiums Written					Percentage of Total Gross Premiums Written				
	Year Ended December 31,			Three Months Ended March 31,		Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006
E&S										
Environmental	$ 34,603	$ 44,157	$ 51,014	$ 13,594	$ 12,641	16.3%	19.9%	21.4%	21.2%	23.8%
Construction	85,793	96,905	95,406	27,053	23,064	40.3	43.7	40.1	42.1	43.4
Surety	737	1,725	2,581	497	870	0.3	0.8	1.1	0.8	1.6
Total	121,133	142,787	149,001	41,144	36,575	56.9	64.4	62.6	64.1	68.8
ART										
Specialty Programs	73,152	76,264	85,138	22,743	16,345	34.4	34.4	35.8	35.4	30.7
Fully-Funded	538	1,281	3,822	317	263	0.3	0.6	1.6	0.5	0.5
Total	73,690	77,545	88,960	23,060	16,608	34.7	35.0	37.4	35.9	31.2
Runoff	17,844	1,243	(81) [1]	7		8.4	0.6			
Total	$ 212,667	$ 221,575	$ 237,880	$ 64,211	$ 53,183	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Represents premiums returned to insureds by us.

The following table sets forth our net premiums written (in thousands) by business line and the allocation of those premiums for the years ended December 31, 2003, 2004 and 2005 and the three months ended March 31, 2005 and 2006:

	Net Premiums Written					Percentage of Total Net Premiums Written				
	Year Ended December 31,			Three Months Ended March 31,		Year Ended December 31,			Three Months Ended March 31,	
	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006
E&S										
Environmental	$ 27,233	$ 35,024	$ 41,477	$ 10,967	$ 8,071	20.7%	26.5%	29.5%	29.8%	24.0%

Construction	73,572	77,894	78,026	22,185	20,353	55.9	59.0	55.5	60.3	60.6
Surety	734	1,174	1,345	250	440	0.6	0.9	1.0	0.7	1.3
Total	101,539	114,092	120,848	33,402	28,864	77.2	86.4	86.0	90.8	85.9
ART										
Specialty Programs	15,152	17,273	19,712	3,270	4,526	11.5	13.1	14.0	8.9	13.5
Fully-Funded		257	2,037	133	188		0.2	1.4	0.3	0.6
Total	15,152	17,530	21,749	3,403	4,714	11.5	13.3	15.5	9.2	14.1
Runoff	14,787	299	(2,045) [1]	(35) [1]		11.3	0.3	(1.5)		
Total	$ 131,478	$ 131,921	$ 140,552	$ 36,770	$ 33,578	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Represents premiums returned to insureds by us.

Our Competitive Strengths

We believe that certain aspects of our business model support our competitive position in the specialty insurance market, including:

Focus on underserved insurance markets. We focus on providing insurance products and solutions to niche, underserved markets which exhibit less competition than the standard insurance market and where we have specialized expertise. The coverages we provide are typically nondiscretionary for the insurance buyer, where the purchase of the insurance coverage is required for the continued operation of the insured s business. We believe that we have developed an effective approach to identifying voids in the insurance market where we have more flexibility over the premiums we can charge and the terms and conditions we can offer for our policies.

Versatile organizational structure. Unlike many of our specialty market competitors, our structure includes both Bermuda-domiciled reinsurance and captive companies and U.S.-domiciled admitted and non-admitted insurance companies and a non-affiliated risk retention group. This structure gives us the flexibility to utilize our U.S.-domiciled insurance companies to write admitted and non-admitted policies, our Bermuda reinsurance companies to act as a reinsurer of those policies, our Bermuda captive to serve as a risk sharing vehicle for program managers and insureds and our risk retention group to write policies without having to qualify to do so in each state. Our organizational structure allows us to effectively respond to market trends and to meet the needs of our producers and insureds.

Commitment to underwriting discipline. Our assessment of our ability to produce an underwriting profit is a driving factor in deciding whether or not to expand our business or, conversely, to contract our capacity in the markets we serve. Our loss ratio, as compared to the property and casualty industry average, is a testament to our underwriting discipline. According to Best s Aggregates and Averages for Property and Casualty Insurers published by A.M. Best Company (A.M. Best), from 1998 through 2004 the average net loss ratio for the property and casualty industry was 79.2%, while our average net loss ratio over the same time period was 58.2%.

Proactive claims management and loss control practices. We emphasize a fair but firm claims handling philosophy. Our adjusters promptly and thoroughly investigate claims and strictly adhere to the terms and conditions of our policies. We also employ loss control practices designed to monitor and improve our insureds safety and quality control procedures. Claims management and loss control play an important part in our underwriting process by enhancing our underwriters awareness of emerging issues.

Valuable distribution relationships. We utilize the services of producers to attract new business and to retain existing clients. During our twenty-year history, we have developed strong relationships with producers who we believe consider us to be a preferred source for insurance solutions for unique or difficult to place risks. We currently market our products through over 230 producers in all 50 states and the District of Columbia.

Strong financial strength rating. We are rated A (Excellent), with a negative outlook, and have been assigned a financial size category of VIII by A.M. Best. We believe our rating from A.M. Best is important to our producers and insureds because it instills confidence in our capital strength and ability to pay claims. A.M. Best assigned a negative outlook to the rating in September 2004 in response to our reserve strengthening in the second quarter of 2004 because of a concern by A.M. Best with the underwriting results from our core business lines and the potential for further reserve strengthening in the future. A.M. Best reaffirmed this rating and outlook in November 2005. A.M. Best s rating and outlook should not be considered as an investment recommendation. For additional information on our A.M. Best rating, see Risk Factors and Business Rating.

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Our Strategy

We intend to support the managed growth of our business and enhance shareholder value as follows:

Increase our retention of the business we currently write. In the past, we have relied heavily on reinsurance due to capital and rating agency considerations. In July 2005, however, we ceased purchasing reinsurance on the primary general liability portion of our construction business line. We made this decision after performing a loss cost and dynamic financial analysis and concluding that our reinsurance purchases were uneconomical. We believe retaining this exposure will enhance our financial results and returns on capital. We also plan to reduce our dependence on reinsurance and increase our retention of the business that we write in other areas such as specialty programs, environmental and surety.

Grow opportunistically our core business lines. We plan to grow opportunistically our business in markets where we have specialized expertise to control risk and maximize underwriting profits, both by expanding premium writings in existing products and by expanding in geographic areas where we have less market presence.

In our environmental business line, approximately 4.0% of our gross premiums written were generated from our environmental impairment liability product for the three months ended March 31, 2006. We plan to expand writings in this product and have recently added underwriting expertise necessary to support this growth. We also intend to contribute to the expansion of the environmental business line by increasing our web-based distribution capabilities.

In our construction business line, 93.0% of our gross premiums written were generated from policies written in the western U.S., primarily California, for the three months ended March 31, 2006. We plan to expand geographically in response to decreasing availability of general liability insurance for residential contractors in other areas of the U.S.

In our alternative risk transfer segment, we plan to expand writings of our fully-funded product by increasing our distribution sources. A significant portion of our fully-funded fees are generated through five producers. We also plan to expand our specialty program business line by adding new programs as well as increasing our capacity in existing programs. For example, in January 2006 we implemented a new program providing general liability coverage for owners of senior habitational facilities.

Grow into new product lines. In the past, we have identified profitable opportunities in underserved sectors of the insurance industry to expand our business lines and products. We plan opportunistically to develop new insurance products outside our core business lines for customers in underserved markets. As an example, in 2004 we introduced our fully-funded business line, which reflected our ability to expand our product offerings to meet the specific insurance needs of our customers.

Pursue potential acquisitions on a selective basis. We continually pursue opportunities to acquire managing general agents, program managers, specialty books of business and experienced underwriting teams with a demonstrated history of profitable underwriting in specialty business lines. The acquisition of managing general agents and program managers would present an opportunity to grow our specialty program business, and the acquisition of specialty books of business and experienced underwriting teams would provide an opportunity to expand our product offerings. Historically, acquisitions have not played a large role in our business, but we expect them to be an important part of our strategy in the future.

Leverage our investments in information technology and enhance operational efficiencies. We have worked extensively to increase the efficiency and decrease the cost of processing the business we produce. We believe our technology is scalable and can be modified at minimal cost to accommodate our growth. We expect that our investments in information technology and improved operational efficiency will contribute to a lower expense ratio as we achieve premium growth over

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time. For more information on the investments we have made in information technology, see Business Technology.

Actively manage our capital. The level of capital that we maintain, and how we deploy that capital, is an important factor in maintaining our A (Excellent) financial strength rating from A.M. Best. In evaluating our strategic initiatives, we actively consider the associated impact that these initiatives may have on our capital requirements. We believe our rating from A.M. Best is a competitive advantage to us and maintaining it will be a principal consideration in our decisions regarding growth and capital management.

Our Challenges

As part of the evaluation of our business, you should consider the challenges we face in implementing our business strategy, including but not limited to the following:

A downgrade in our A.M. Best rating or increased capital requirements could impair our ability to sell insurance policies.

The risks we underwrite are concentrated in relatively few industries.

Our actual incurred losses may be greater than our reserves for losses and loss adjustment expenses.

We may be unable to recover amounts due from our reinsurers.

We are subject to risks related to litigation.

Policy pricing in our industry is cyclical, and our financial results are impacted by that cyclicality.

Our industry is subject to significant and increasing regulatory scrutiny.

For further discussion of these and other risks we face, see Risk Factors.

Our Offices

Our office is located at 44 Church Street, Hamilton, Bermuda, and the telephone number is (441) 296-8560. The corporate offices of our U.S. subsidiaries are located at 1845 The Exchange, Atlanta, Georgia 30339, and the telephone number is (770) 916-1908.

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The Offering

Shares of Common Stock offered by us	4,013,761 shares
Shares of Common Stock offered by selling shareholders	939,326 shares[1]
Price	$ per share
Shares of Common Stock to be issued and outstanding after the offering	10,843,926 shares[2]
Use of proceeds	See Use of Proceeds.
NYSE market symbol	ASI
Risk factors	See Risk Factors.

(1) This number does not include the 742,963 shares that the underwriters have the option to purchase to cover over-allotments.

(2) Excludes 858,999 Common Shares that are subject to stock options (including 232,000 Common Shares subject to the underwriters over-allotment option).

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Summary Financial Data

The following consolidated financial data presented below, as of or for each of the years ended December 31, 2003, December 31, 2004 and December 31, 2005, are derived from our audited consolidated financial statements. The following consolidated data presented below, as and for each of the three month periods ended March 31, 2005 and 2006, are derived from our unaudited consolidated financial statements. This data is qualified in its entirety by reference to and, therefore, should be read together with, the detailed information and financial statements appearing elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2003	**2004**	**2005**	**2005**	**2006**
	(In thousands, except per share data and ratios)				
Statement of Operations Data:					
Gross premiums written	$ 212,667	$ 221,576	$ 237,880	$ 64,211	$ 53,183
Net premiums written	131,478	131,921	140,552	36,770	33,578
109,334 Net premiums earned	136,391	138,536	34,621	35,057	
Net investment income	5,801	9,773	14,316	3,156	4,544
Net realized gains (losses)	3,139	208	(54)	52	363
Real estate sales	57,555	67,967	3,000	2,309	
Total revenue	175,991	214,656	155,874	40,140	40,028
65,834 Losses and loss adjustment expenses incurred	93,503	84,406	20,781	22,155	
Acquisition expenses	21,818	26,529	28,512	7,126	6,977
Real estate expenses	53,999	55,480	2,439	2,265	67
10,090 Earnings before income taxes	18,453	16,048	3,897	4,117	
Net earnings	7,414	14,757	14,656	3,646	4,101
Net earnings per share:					
Basic	$ 1.45	$ 2.15	$ 2.18	$ 0.54	$ 0.61
Diluted	$ 1.42	$ 2.01	$ 2.05	$ 0.50	$ 0.57
Common shares and common share equivalents used in computing net basic earnings per share	5,106	6,864	6,737	6,791	6,763
Common shares and common share equivalents used in computing net diluted earnings per share	5,234	7,343	7,164	7,266	7,164
Balance Sheet Data (at end of period):					
Total investments, excluding real estate	$ 222,418	$ 327,037	$ 415,497	$ 339,951	$ 421,544
Total assets	514,260	584,160	697,135	609,382	709,575
Unpaid losses and loss adjustment expenses	230,104	321,624	394,873	336,843	403,197
Unearned premiums	99,939	93,798	100,241	102,757	96,828
Loans payable	30,441	13,019	37,810	12,637	37,794
Total liabilities	418,916	475,380	578,700	500,321	589,867
Total shareholders equity	95,344	108,780	118,435	109,061	119,707
GAAP Underwriting Ratios:					
Losses and loss adjustment expenses ratio[1]	60.2%	68.6%	60.9%	60.0%	63.2%

Expense ratio(2)	36.6%	34.1%	36.9%	34.5%	36.4%
Combined ratio(3)	96.8%	102.7%	97.8%	94.5%	99.6%
Other Data:					
Return on average shareholders equity(4)	6.9%	14.6%	13.0%	11.4%	12.5%
Debt to total capitalization(5)	24.2%	10.7%	24.2%	10.4%	24.0%
Net premiums written to equity	1.4x	1.2x	1.2x	1.3x	1.1x

(1) *Losses and loss adjustment expenses ratio:* The losses and loss adjustment expenses ratio is the ratio, expressed as a percentage, of losses and loss adjustment expenses to net premiums earned, net of the effects of reinsurance.

(2) *Expense ratio:* The expense ratio is the ratio, expressed as a percentage, of acquisition and other operating expenses to net premiums earned. Our reported expense ratio excludes certain holding company expenses such as interest expense as well as real estate and rescission expenses.

(3) *Combined ratio:* The combined ratio is the sum of the losses and loss adjustment expenses ratio and the expense ratio.

(4) *Return on average shareholders equity:* Return on average shareholders equity is the ratio, expressed as a percentage, of net earnings to the average of the beginning of period and end of period total shareholders equity.

(5) *Debt to total capitalization ratio:* The debt to total capitalization ratio is the ratio, expressed as a percentage, of total debt to the sum of total debt and shareholders equity. The Company s total debt consists solely of loans payable.

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RISK FACTORS

An investment in the Common Shares involves a number of risks, some of which relate to American Safety Insurance and its business, some of which relate to the property and casualty insurance industry generally and some of which relate to the Common Shares. You should carefully review the following information about these risks together with other information contained in this prospectus before purchasing any Common Shares.

Risk Factors Relating to American Safety Insurance

A downgrade in our A.M. Best rating or increased capital requirements could impair our ability to sell insurance policies.

Some policyholders are required to obtain insurance coverage from insurance companies that have an A- (Excellent) rating or higher from A.M. Best, the most widely recognized insurance company rating agency. Additionally, many producers are prohibited by their internal guidelines from representing insurance companies that are rated below A- (Excellent) by A.M. Best. In November 2005, A.M. Best reaffirmed its rating of A (Excellent), with a negative outlook on a group basis of American Safety Insurance, including our two U.S. insurance subsidiaries, our Bermuda reinsurance subsidiary and our U.S. non-subsidiary risk retention group affiliate. An A (Excellent) rating is assigned to companies that have, in the opinion of A.M. Best, an excellent ability to meet their ongoing obligations to policyholders. A.M. Best assigned a negative outlook to the rating in September 2004 in response to our reserve strengthening in the second quarter of 2004 because of a concern by A.M. Best with the underwriting results from our core business lines and the potential for further reserve strengthening in the future. A.M. Best reaffirmed this rating and outlook in November 2005. If A.M. Best requires us to increase our capital in order to maintain our rating and we are unable to raise the required amount of capital to be contributed to our insurance subsidiaries, A.M. Best may downgrade us.

A.M. Best assigns ratings that represent an independent opinion of an insurer s ability to meet its obligations to policyholders that is of concern primarily to policyholders, insurance brokers and agents and its rating and outlook should not be considered an investment recommendation. Because A.M. Best continually monitors companies with regard to their ratings, our ratings could change at any time, and any downgrade of our current rating could impair our ability to sell insurance policies and, ultimately, our financial condition and operating results.

The exclusions and limitations in our policies may not be enforceable.

We draft the terms and conditions of our excess and surplus lines policies to manage our exposure to expanding theories of legal liability in business lines such as asbestos abatement, construction defect, environmental and professional liability. Many of the policies we issue include exclusions or other conditions that define and limit coverage. In addition, many of our policies limit the period during which a policyholder may bring a claim under the policy, which period in many cases is shorter than the statutory period under which these claims can be brought against our policyholders. While these exclusions and limitations help us assess and control our loss exposure, it is possible that a court or regulatory authority could nullify or void an exclusion or limitation, or legislation could be enacted modifying or barring the use of these exclusions and limitations, particularly with respect to evolving business lines such as construction defect. This could result in higher than anticipated losses and loss adjustment expenses by extending coverage beyond our underwriting intent or increasing the number or size of claims, which could have a material adverse effect on our operating results. In some instances, these changes may not become apparent until some time after we have issued the insurance policies that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a policy is issued.

The risks we underwrite are concentrated in relatively few industries.

We focus much of our underwriting on specialty risks in the construction and environmental remediation industries. For the year ended December 31, 2005, approximately 61.6% of our gross premiums written were in these two industries. In addition, we plan to use a portion of the net proceeds from this offering to increase our retention in certain business lines that we currently write, increasing our exposure to unfavorable changes in these industries. Accordingly, our operating results could be more exposed than our more diversified competitors to unfavorable changes in business, economic or regulatory conditions, changes in federal, state or local environmental standards and establishment of legal precedents affecting these industries. Similarly, a significant incident impacting one of these industries that has the effect of increasing claims generally (or their settlement value) could negatively impact our financial condition and operating results.

We may respond to market trends by expanding or contracting our underwriting activities, which may cause our financial results to be volatile.

Although we perform substantial due diligence and risk analysis before entering into a new business line or insuring a new type of risk, and carefully assess the impact of exiting a business line, changing business lines inherently has more risk than remaining in the same business lines over a period of time. Because we actively seek to expand or contract our capacity in the markets we serve in response to factors such as loss experience and premium production, our operating results may experience material fluctuations.

Our industry is highly competitive and we may lack the financial resources to compete effectively.

We believe that competition in the specialty insurance markets that we target is fragmented and not dominated by one or more competitors. We face competition from several companies, such as insurance companies, reinsurance companies, underwriting agencies, program managers and captive insurance companies. Many of our competitors are significantly larger and possess greater financial, marketing and management resources than we do. We compete on the basis of many factors, including coverage availability, claims management, payment terms, premium rates, policy terms, types of insurance offered, overall financial strength, financial strength ratings and reputation. If any of our competitors offers premium rates, policy terms or types of insurance that are more competitive than ours, we could lose business. If we are unable to compete effectively in the markets in which we operate or to establish a competitive position in new markets, our financial condition and operating results would be adversely impacted.

Our actual incurred losses may be greater than reserves for our losses and loss adjustment expenses.

Insurance companies are required to maintain reserves to cover their estimated liability for losses and loss adjustment expenses with respect to both reported and incurred but not reported (IBNR) claims. Reserves are estimates at a given time involving actuarial and statistical projections of what we expect to be the cost of the ultimate resolution and administration of claims. These estimates are based on facts and circumstances then known, predictions of future events, estimates of future trends, projected claims frequency and severity, potential judicial expansion of liability precedents, legislative activity and other factors, such as inflation. A full actuarial analysis of our reserves is performed on an annual basis, which may include reserve studies, rate studies and regulatory opinions.

Notwithstanding these efforts, the establishment of appropriate reserves for losses and loss adjustment expenses is an inherently uncertain process, particularly in the environmental remediation industry, construction industry and some of the other industries for which we write policies where extensive historical data may not exist or where the risks insured are long-tail in nature, in that claims that have occurred may not be reported to us for long periods of time. For instance, there is little empirical data for residential construction defect claims and hence, traditional actuarial analysis may be inapplicable or less reliable, which may cause our reserve estimates for this business line to be more volatile. Due to these

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uncertainties, our ultimate losses could materially exceed our reserves for losses and loss adjustment expenses, especially in business lines where we intend to increase our risk retention. For example, during the last two years, we increased our loss reserves as a result of litigation matters specifically related to our construction lines policies and policies written on runoff lines, which lowered our net earnings and shareholders equity during these periods.

To the extent that reserves for losses or loss adjustment expenses are estimated in the future to be inadequate, we would have to increase our reserves and incur charges to earnings in the periods in which the reserves are increased. In addition, increases in reserves may also cause additional reinsurance premiums to be payable to our reinsurers in the form of reinstatement premiums. These increases in reserves and reinstatement premiums would adversely impact our financial condition and operating results. To the extent any individual case reserves prove to be inadequate, our financial condition and operating results would be adversely affected. For more information on our losses and loss adjustment expenses, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

If we are unable to obtain reinsurance on favorable terms, our ability to write new polices would be adversely affected.

Reinsurance is a contractual arrangement under which one insurer (the ceding company) transfers to another insurer (the reinsurer) a portion of the liabilities that the ceding company has assumed under an insurance policy it has issued. Our business continues to involve ceding portions of the risks that we underwrite to reinsurers. The availability and cost of reinsurance are subject to prevailing market conditions that are beyond our control and are factors that could materially impact our financial condition and operating results. There is no certainty that reinsurance will continue to be available in the form or in the amount that we require or, if available, at an affordable cost. The availability of reinsurance is dependent not only on reinsurers reactions to the specific risks that we underwrite, but also events that impact the overall reinsurance industry, such as the recent hurricanes in 2005. If we are unable to maintain or replace our reinsurance, our total loss exposure would increase and, if we were unwilling or unable to assume that increase in exposure, we would be required to mitigate the increase in exposure by writing fewer policies or writing policies with lower limits or different coverage.

We may be unable to recover amounts due from our reinsurers.

While reinsurance contractually obligates the reinsurer to reimburse us for a portion of our losses, it does not relieve us of our primary financial liability to our insureds. If our reinsurers are either unwilling or unable to pay some or all of the claims made by us on a timely basis, we bear the financial exposure. As a result, we are subject to credit risk with respect to our reinsurers. The total amount of reinsurance recoverables at December 31, 2005 was $203.4 million, or 171.7% of shareholders equity. Of this amount, $72.2 million, or approximately 35.5% of the total amount recoverable was collateralized by cash, irrevocable letters of credit or other acceptable forms of collateral posted by the reinsurer.

We purchase reinsurance from reinsurers we believe to be financially sound. We have written reinsurance security procedures that establish financial requirements for reinsurance companies that must be met prior to reinsuring any of the business we write. Among these requirements is a stipulation that reinsurance companies must have an A.M. Best rating of at least A- (Excellent) and a financial size category of Class VIII or greater at the time of writing any reinsurance unless sufficient collateral has been provided at the time we enter into our reinsurance agreement. A financial size category of Class VIII is assigned by A.M. Best to companies with adjusted policyholder surplus of $100 million to $250 million, which, on a statutory basis of accounting, is the amount remaining after all liabilities, including loss reserves, are subtracted from all admitted assets. We have also established an internal reinsurance security committee, consisting of members of senior management, which meets quarterly to discuss and approve reinsurance security. To protect against our reinsurers inability to satisfy their contractual obligations to us, our reinsurance contracts stipulate a collateral requirement for reinsurance companies that do not meet the financial strength and size requirements described above. These collateral requirements can be met through the issuance of unconditional letters of credit, the establishment and funding of escrow accounts for our benefit or cash advances paid into a segregated account. In the event collateral is not sufficient, there is no certainty that these reinsurers will be able to provide additional capital.

We are unable to ensure the credit worthiness of our reinsurers. For example, in 2005 and 2006, as a result of significant adverse loss reserve development, A.M. Best and Standard and Poor s, a division of The McGraw-Hill Companies, Inc. (S&P), downgraded the financial strength ratings of the insurance and reinsurance operating subsidiaries of Alea Group Holdings (Bermuda) Ltd. (Alea) several times. Subsequently, Alea requested that A.M. Best withdraw all ratings of Alea. A.M. Best currently has assigned an NR-4 (Company Request) to Alea. As of December 31, 2005, our unsecured estimated net exposure to Alea was approximately $8.8 million, primarily related to our specialty programs business line. This estimate was based upon our estimates of losses and will not reflect our exposure if our actual losses differ from those estimates. While Alea continues to indemnify us under our reinsurance agreements, we are in the process of removing Alea as one of our reinsurers.

We are subject to risks related to litigation.

From time to time, we are subject to lawsuits and other claims arising out of our insurance and real estate operations. We have responded to the lawsuits we face and, although the outcome of these lawsuits cannot be predicted, we believe that there are meritorious defenses and intend to vigorously contest these claims. Adverse judgments in one or more of these lawsuits could require us to change aspects of our operations in addition to paying significant damage amounts. In addition, the expenses related to these lawsuits may be significant. Lawsuits can have a material adverse effect on our business and operating results, particularly where we have not established an accrual, or a sufficient accrual, for damages or expenses. For information on the material litigation in which we are involved, see Management s Discussion and Analysis of Financial Condition and Results of Operations Legal Proceedings.

We rely on independent insurance agents and brokers to market our products.

We market most of our insurance products through approximately 230 independent insurance agents and brokers, which we refer to as producers. These producers are not obligated to promote our products and may sell competitors products. Our profitability depends, in part, on the marketing efforts of these producers and on our ability to offer insurance products and services while maintaining financial strength ratings that meet the requirements of our producers and their customers. The failure or inability of producers to market our insurance products successfully would have a material adverse effect on our business and operating results. Furthermore, as of December 31, 2005, approximately 45.0% of our gross premiums written for our excess and surplus lines segment (or approximately 28.2% of our aggregate gross premiums written) were produced through two producers (who focus on our construction business line). The loss of one or more of these producers could have a material adverse effect on our operating results.

We are subject to credit risk in connection with producers that market our products.

In accordance with industry practice, when the insured pays premiums for our policies to producers for payment over to us, these premiums are considered to have been paid and, in most cases, the insured is no longer liable to us for those amounts, whether or not we actually have received the premiums. Consequently, we assume a degree of credit risk associated with the producers with whom we choose to do business. To date, we have not experienced any material losses related to these credit risks.

Our growth strategy is dependent on several factors, the failure to achieve any one of which may impair our ability to expand our operations or may prevent us from operating profitably.

Our growth strategy includes expanding in our existing markets, entering new geographic markets, creating relationships with new producers and developing new insurance products. In order to generate this growth, we are subject to various risks, including risks associated with our ability to:

- identify insurable risks not adequately served by the standard insurance market;
- maintain adequate levels of capital;
- obtain reinsurance on favorable terms;
- obtain necessary regulatory approvals when writing on an admitted basis;
- attract and retain qualified personnel to manage our expanded operations; and
- maintain our financial strength ratings.

Our inability to achieve any of the above objectives could affect our growth strategy and may cause our business and operating results to suffer.

If we lose key personnel or are unable to recruit qualified personnel, our ability to implement our business strategies could be delayed or hindered.

Our future success will depend, in part, upon the efforts of our executive officers and other key personnel. Our ability to recruit and retain key personnel will depend upon a number of factors, such as our results of operations, business prospects and the level of competition then prevailing in the market for qualified personnel. The loss of any of these officers or other key personnel or our inability to recruit key personnel could prevent us from fully implementing our business strategies and could materially adversely affect our business, financial condition and operating results.

We routinely evaluate opportunities to expand our business through acquisitions of other companies or business lines. There are many risks associated with acquisitions that we may be unable to control.

We evaluate potential acquisition opportunities as a means to grow our business. There are a number of risks attendant to any acquisition. These risks include, among others, the difficulty in integrating the operations and personnel of an acquired company; potential disruption of our ongoing business; inability to successfully integrate acquired systems and insurance programs into our operations; maintenance of uniform standards, controls and procedures; possible impairment of relationships with employees and insureds of an acquired business as a result of changes in management; and that the acquired business may not produce the level of expected profitability. As a result, the impact of any acquisition on our future performance may not be consistent with original expectations, and may impair our business, financial condition and operating results.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write profitable new business, retain existing customers and establish premium rates and reserves at levels sufficient to cover losses and related expenses. To the extent that the net proceeds from this offering are insufficient to fund future operating costs and potential losses and loss adjustment expenses, we may need to raise additional funds through financings or curtail our growth. Many factors will affect our capital needs and their amount and timing, including our growth and profitability, our claims experience and the availability of reinsurance, as well as possible acquisition opportunities, market disruptions and other unforeseeable developments. If we have to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are unfavorable to us. In the case of equity financings, dilution to our shareholders could result. In any case, those securities may have rights, preferences and privileges that are

senior to those of the Common Shares offered hereby. In the case of debt financings, we may be subject to covenants that restrict our ability to freely operate our business. If we cannot obtain adequate capital on favorable terms or at all, we may not have sufficient funds to implement our operating plans and our business, financial condition and operating results could be adversely affected.

Changes in the value of our investment portfolio may have a material impact on our operating results.

We derive a significant portion of our net income from our invested assets. As a result, our operating results depend in part on the performance of our investment portfolio. As of, and for the year ended December 31, 2005, the fair value of our investment portfolio was $415.5 million and our income derived from these assets was $14.3 million, or 89.2%, of our pre-tax earnings. As of, and for the three months ended March 31, 2006, the fair value of our investment portfolio was $421.5 million and our income derived from these assets was $4.5 million, or 110.4%, of our pre-tax earnings. Our investment portfolio is subject to various risks, including:

- credit risk, which is the risk that our invested assets will decrease in value due to unfavorable changes in the financial prospects or a downgrade in the credit rating of an entity in which we have invested;

- interest rate risk, which is the risk that our invested assets may decrease due to changes in interest rates;

- equity price risk, which is the risk that we will incur economic loss due to a decline in equity prices; and

- duration risk, which is the risk that our invested assets may not adequately match the duration of our insurance liabilities.

Our investment portfolio is comprised mostly of fixed-income securities. We do not hedge our investments against interest rate risk and, accordingly, changes in interest rates may result in fluctuations in the value of these investments.

Our investment portfolio is managed by a professional investment management firm in accordance with detailed investment guidelines established by our Board of Directors that stress diversification of risks, conservation of principal and liquidity. If our investment portfolio is not appropriately matched with our insurance and reinsurance liabilities, we may be forced to liquidate investments prior to their maturity at a significant loss in order to cover these liabilities. This might occur, for instance, in the event of a large or unexpected claim or series of claims. Large investment losses could significantly decrease our asset base, thereby affecting our ability to underwrite new business. For more information about our investment portfolio, see Business Investments.

We rely upon the successful and uninterrupted functioning of our information technology, information processing and telecommunication systems.

Our business is highly dependent upon the successful and uninterrupted functioning of our information technology, information processing and telecommunications systems. We rely on these systems to support our marketing operations, process new and renewal business, provide customer service, make claims payments and facilitate premium collections and policy cancellations. These systems also enable us to perform actuarial and other modeling functions necessary for underwriting and rate development. We have a highly trained staff that is committed to the development and maintenance of these systems. However, the failure of these systems could interrupt our operations or materially impact our ability to evaluate and write new business. Because our information technology, information processing and telecommunications systems interface with and depend on third party systems, we could experience service denials if demand for this service exceeds capacity or if the third party systems fail or experience interruptions. If sustained or repeated, a system failure or service denial could result in a deterioration of our ability to write and process new and renewal business and provide customer service or compromise our ability to pay claims in a timely manner. There can be no guarantee that these systems can effectively support our continued

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growth. Additionally, some of our systems are not fully redundant, and our disaster recovery planning does not account for all eventualities, which could adversely affect our business.

Risk Factors Related to Taxation

Our Bermuda operations may be subject to U.S. tax.

American Safety Insurance, its reinsurance subsidiary, American Safety Reinsurance (American Safety Re), and its segregated account captive, American Safety Assurance Ltd. (American Safety Assurance), are organized in Bermuda. American Safety Insurance, American Safety Re and American Safety Assurance are operated in a manner such that none should be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income) because none of these companies should be treated as engaged in a trade or business within the U.S. (and, in the case of American Safety Re and American Safety Assurance, to be doing business through a permanent establishment within the U.S.). However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the U.S. (and what constitutes a permanent establishment under the income tax treaty between the U.S. and Bermuda (the Bermuda Treaty) as well as the entitlement of American Safety Re and American Safety Assurance to treaty benefits), there can be no assurances that the U.S. Internal Revenue Service (the IRS) will not contend successfully that American Safety Insurance, American Safety Re and/or American Safety Assurance is engaged in a trade or business in the U.S. (or that American Safety Re or American Safety Assurance is carrying on business through a permanent establishment in the U.S.). If any of American Safety Insurance, American Safety Re or American Safety Assurance were considered to be engaged in a trade or business in the U.S., it could be subject to U.S. corporate income taxes and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case its operating results could be materially adversely affected. See Certain Tax Considerations Certain U.S. Federal Tax Considerations U.S. Taxation of American Safety Insurance and its Bermuda Subsidiaries.

If you acquire 10% or more of the Common Shares, you may be subject to taxation under the controlled foreign corporation (CFC) rules.

Under certain circumstances, a U.S. 10% shareholder (as defined in Certain Tax Considerations Certain U.S. Federal Income Tax Considerations Tax Treatment of Shareholders Classification as a Controlled Foreign Corporation) of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year must include in gross income for U.S. federal income tax purposes that U.S. 10% shareholder s Subpart F Income, even if the Subpart F Income is not distributed to that U.S. 10% shareholder. Subpart F Income of a foreign insurance corporation typically includes foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income) attributable to the insurance of risks situated outside the CFC s country of incorporation.

We believe that because of the dispersion of our Common Share ownership, provisions in our organizational documents that limit voting power and other factors, no U.S. person who acquires Common Shares directly or indirectly through one or more foreign entities should be required to include our Subpart F Income in income under the CFC rules of the Internal Revenue Code of 1986, as amended (the Code). It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain that challenge, in which case your investment could be materially adversely affected.

U.S. persons who hold Common Shares may be subject to U.S. federal income taxation at ordinary income rates on their proportionate share of our related party insurance income (RPII).

If the RPII of American Safety Re or American Safety Assurance were to equal or exceed 20% of its gross insurance income in any taxable year and direct or indirect insureds (and persons related to those insureds) own directly or indirectly through entities 20% or more of the voting power or value of American Safety Re or American Safety Assurance, then a U.S. person who owns any Common Shares (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in its income for U.S. federal income tax purposes that person s pro rata share of that company s RPII for the entire taxable year, determined as if that RPII were distributed proportionately only to U.S. persons at that date regardless of whether that income is distributed. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. Neither American Safety Re nor American Safety Assurance expects gross RPII to equal or exceed 20% of its gross income for 2005 or subsequent years, and neither expects its direct or indirect insureds (including related persons) to directly or indirectly hold 20% or more of its voting power or value, but we cannot be certain that this will be the case because some of the factors which determine the extent of RPII may be beyond our control. If these thresholds are met or exceeded, and if you are an affected U.S. person, your investment could be materially adversely affected. The RPII provisions, however, have never been interpreted by the courts or the U.S. Treasury Department (the Treasury Department) in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any of those changes, as well as any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. The Treasury Department has authority to impose, among other things, additional reporting requirements with respect to RPII. Accordingly, the meaning of the RPII provisions and the application thereof to us is uncertain. See Certain Tax Considerations Certain U.S. Federal Tax Considerations Tax Treatment of Shareholders Related Person Insurance Income.

U.S. persons who dispose of Common Shares may be subject to U.S. federal income taxation at the rates applicable to dividends on a portion of their gain, if any.

Section 1248 of the Code provides that if a U.S. person sells or exchanges stock of a foreign corporation and that person owned, directly, indirectly through certain foreign entities or constructively, 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of that person s share of the CFC s earnings and profits (determined under U.S. federal income tax principles) during the period that person held the shares and while the corporation was a CFC (with certain adjustments). We believe that because of the dispersion of our Common Share ownership, provisions in our organizational documents that limit voting power and other factors, no U.S. shareholder of American Safety Insurance, other than Frederick C. Treadway or Treadway Associates, L.P., or their successors, heirs or assigns, should be treated as owning (directly, indirectly through foreign entities or constructively) 10% or more of the total voting power of American Safety Insurance. As a result, American Safety Insurance should not be a CFC and Section 1248 of the Code, as applicable under the general CFC rules, should not apply to dispositions of our shares. It is possible, however, that the IRS could challenge these provisions in our organizational documents and that a court could sustain that challenge. To the extent American Safety Insurance is a CFC, a 10% U.S. Shareholder may in certain circumstances be required to report a disposition of Common Shares by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs.

For purposes of Section 1248 of the Code and the requirement to file Form 5471, special rules apply with respect to a U.S. person s disposition of shares of a foreign insurance company that has RPII during the five-year period ending on the date of the disposition. In general, if a U.S. person disposes of shares in a foreign insurance corporation in which U.S. persons own 25% or more of the shares (even if the amount of gross RPII is less than 20% of the corporation s gross insurance income and the ownership of its shares by direct or indirect insureds and related persons is less than the 20% threshold), any gain from the disposition will generally be treated as a dividend to the extent of that person s shares of the corporation s undistributed earnings and profits that were accumulated during the period that person owned the shares (whether or not those earnings and profits are attributable to RPII). As a result of the special rules and

proposed Treasury Department regulations, the IRS may assert that Section 1248 of the Code and the requirements to file Form 5471 apply to dispositions of Common Shares because American Safety Insurance is engaged in the insurance business indirectly through subsidiaries. See Certain Tax Considerations Certain U.S. Federal Income Tax Considerations Tax Treatment of Shareholders Dispositions of Shares in a CFC or RPII CFC.

U.S. persons who hold Common Shares will be subject to adverse tax consequences if American Safety Insurance is considered to be a Passive Foreign Investment Company (a PFIC) for U.S. federal income tax purposes.

If American Safety Insurance is considered a PFIC for U.S. federal income tax purposes, a U.S. person who owns Common Shares will be subject to adverse tax consequences, including subjecting the investor to a greater tax liability than might otherwise apply and subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed, in which case your investment could be materially adversely affected. In addition, if American Safety Insurance were considered a PFIC, upon the death of any U.S. individual owning Common Shares, that individual s heirs or estate would not be entitled to a step-up in the basis of the shares which might otherwise be available under U.S. federal income tax laws. American Safety Insurance does not believe that it is, and does not expect to become, a PFIC for U.S. federal income tax purposes. No assurance can be given, however, that American Safety Insurance will not be deemed a PFIC by the IRS. If American Safety Insurance were considered a PFIC, it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, that guidance would have on an investor that is subject to U.S. federal income taxation. See Certain Tax Considerations Certain U.S. Federal Income Tax Considerations Tax Treatment of Shareholders Passive Foreign Investment Company.

American Safety Insurance, American Safety Re and American Safety Assurance may become subject to Bermuda taxes in the future.

Bermuda currently imposes no income tax on corporations. American Safety Insurance, American Safety Re and American Safety Assurance have received an assurance from the Bermuda Minister of Finance, under The Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended (the Tax Protection Act), that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of that tax will not be applicable to American Safety Insurance, American Safety Re or American Safety Assurance until March 28, 2016. No assurance can be given that American Safety Insurance, American Safety Re or American Safety Assurance will not be subject to any Bermuda tax after that date.

The impact of Bermuda s letter of commitment to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect American Safety Insurance s, American Safety Re s and American Safety Assurance s tax status in Bermuda.

The Organization for Economic Cooperation and Development (the OECD) has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD s report dated April 18, 2002 and updated as of June 2004, Bermuda was not listed as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether these changes will subject us to additional taxes.

Risk Factors Relating to the Property and Casualty Insurance Industry

Policy pricing in our industry is cyclical, and our financial results are impacted by that cyclicality.

The property and casualty insurance industry has historically been a cyclical industry consisting of both soft market periods and hard market periods. During soft market periods, insurers tend to be more aggressive in writing policies and competitive in the pricing of those policies. Hard market periods are characterized by shortages of underwriting capacity and high premium rates. Beginning in 2000, we believe our industry experienced a hardening market, reflected by increasing rates and more restrictive coverage terms. These trends appeared to have started slowing in 2004. We believe the industry is now experiencing a softening market, where pricing generally has become more competitive and policy terms and conditions have become less restrictive. Therefore, we may not be able to achieve our growth and profitability goals. Because this cyclicality is due in large part to the economy, the particular needs of insureds and the actions of our competitors, we cannot predict the timing or duration of changes in the insurance market cycle.

Our industry is subject to significant and increasing regulatory scrutiny.

Recently, the insurance industry has been subject to a significant and increasing level of scrutiny by various regulatory bodies, including state attorneys general and insurance departments, concerning certain practices within the insurance industry. These practices include the receipt of contingent commissions by insurance brokers and agents from insurance companies and the extent to which this compensation has been disclosed, bid rigging and related matters. As a result of these and related matters, there have been a number of recent revisions to existing, or proposals to modify or enact new, laws and regulations regarding the relationship between insurance companies and producers. Any changes or further requirements that are adopted by federal, state or local governments could adversely affect our business and operating results.

We operate in a heavily regulated industry, and existing and future regulations may constrain how we conduct our business and could impose liabilities and other obligations upon us.

Insurance Regulation. Our primary insurance and reinsurance subsidiaries, as well as our non-subsidiary risk retention group affiliate, are subject to regulation under applicable insurance statutes of the jurisdictions in which they are domiciled or licensed and write insurance. This regulation may limit our ability to, or speed with which we can, effectively respond to market opportunities and may require us to incur significant annual regulatory compliance expenditures. Insurance regulation is intended to provide safeguards for policyholders rather than to protect shareholders of our insurance companies. Insurance regulation relates to authorized business lines, capital and surplus requirements, types and amounts of investments, underwriting limitations, trade practices, policy forms, claims practices, mandated participation in shared markets, loss reserve adequacy, insurer solvency, transactions with related parties, changes in control, payment of dividends and a variety of other financial and nonfinancial components of an insurance company s business. For instance, our insurance subsidiaries are subject to risk-based capital, or RBC, restrictions. RBC is a method of measuring the amount of capital appropriate for an insurance company to support its overall business in light of its size and risk profile. The ratio of a company s actual policyholder surplus to its minimum capital requirements will determine whether any state regulatory action is required. State regulatory authorities use the RBC formula to identify insurance companies which may be undercapitalized and may require further regulatory attention. Each of our domestic insurance subsidiaries satisfies its minimum capital requirements and none of them has been identified by any regulatory authority as being undercapitalized or requiring further regulatory attention. A number of legislative initiatives currently are under consideration by Congress. Any changes in insurance laws and regulations could materially adversely affect our operating results. We are unable to predict what additional laws and regulations, if any, affecting our business may be promulgated in the future or how they might be interpreted.

Dividend Regulation. Like other insurance holding companies, American Safety Insurance Holdings, Ltd. relies on dividends from its insurance subsidiaries to be able to pay dividends and fulfill its other

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financial obligations. The payment of dividends by these subsidiaries and other intercompany transactions are subject to regulatory restrictions and will depend on the surplus and earnings of these subsidiaries. As a result, insurance holding companies may not be able to receive dividends from their subsidiaries at times and in amounts sufficient to pay dividends and fulfill their other financial obligations. Additionally, as a Bermuda holding company, American Safety Insurance Holdings, Ltd. is subject to Bermuda regulatory constraints that will affect its ability to pay dividends on the Common Shares and to make other payments. Under the Companies Act, 1981 of Bermuda (the Companies Act), insurance holding companies may declare or pay a dividend out of distributable reserves only if it has reasonable grounds to believe that it is, and would after the payment be, able to pay liabilities as they become due and if the realizable value of its assets would thereby not be less than the aggregate of its liabilities and issued share capital and share premium accounts. We do not anticipate paying cash dividends on the Common Shares in the near future.

Environmental Regulation. Environmental remediation activities and other environmental risks are heavily regulated by both federal and state governments. Environmental regulation is continually evolving, and changes in the regulatory patterns at federal and state levels may have a significant effect upon potential claims against our insureds and us. These changes also may affect the demand for the types of insurance offered by and through us and the availability or cost to us of reinsurance. We are unable to predict what additional laws and regulations, if any, affecting environmental remediation activities and other environmental risks may be promulgated in the future, how they might be applied, and what their impact might be.

Risk Factors Relating to the Common Shares

Our stock price may be subject to significant fluctuations.

The stock price for the Common Shares may fluctuate in response to a number of factors, including:

- quarterly variations in our operating results;
- changes in expectations about our future operating results;
- changes in financial estimates and recommendations by securities analysts concerning us or the insurance industry generally;
- operating and stock price performance of other companies that investors may deem comparable;
- news reports relating to our business and trends in our markets;
- changes in the laws and regulations affecting our business;
- acquisitions and financings by us or others in the insurance industry; and
- sales, or the possibility of future sales, of substantial amounts of Common Shares by our executive officers, directors or principal shareholders, or the perception that these sales will or could occur.

Common Shares held by our executive officers and directors, as well as any Common Shares held by the selling shareholders not subject to this offering, are subject to lock-up agreements for a period of 90 days after the date of the underwriting agreement. See Underwriting.

The trading market for the Common Shares is thin, which could result in illiquidity of an investment in the Common Shares.

The Common Shares trade on the New York Stock Exchange. The average daily trading volume of the 52 weeks ended June 2, 2006 was approximately 13,000 shares. While the Common Shares to be sold in this offering will increase the number of shares available for trading, a more active trading market may not develop and, if it does develop, it may not be sustained, which could result in illiquidity of an investment in the Common Shares.

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Limitations on share ownership and voting rights might prevent a third party from acquiring us.

Our Bye-Laws provide that no shareholder may vote more than 9.5% of the outstanding Common Shares, regardless of the percentage of the Common Shares a shareholder owns. This restriction does not apply to Frederick C. Treadway (one of our founders) or Treadway Associates, L.P., a limited partnership owned by Mr. Treadway and his children, including their respective heirs, successors and assigns. Additionally, this provision may only be amended with the consent of Mr. Treadway or Treadway Associates, L.P.

Our Bye-Laws contain other provisions that may be viewed as preventing a third party from acquiring us. Specifically, our Bye-Laws prohibit an interested shareholder of American Safety Insurance from either directly or indirectly being a party to or taking any action in connection with any business combination with American Safety Insurance for a period of five years following the date that person first became an interested shareholder, unless (a) the business combination was approved by a prior resolution of the continuing directors of our Board of Directors or (b) the business combination was approved by a prior resolution of at least 66 2/3% of the outstanding voting shares of American Safety Insurance other than those voting shares beneficially held by an interested shareholder. Under these provisions, Mr. Treadway and Treadway Associates L.P., and their respective heirs, successors and assigns, are not interested shareholders. Our Bye-Laws require the affirmative vote of at least 66 2/3 % of the outstanding voting shares to amend, repeal or adopt any provision inconsistent with the foregoing provision. In addition, our Bye-Laws provide for a classified or staggered Board of Directors.

These provisions could have the effect of discouraging a prospective acquirer from making a tender offer or otherwise attempting to acquire us. To the extent that these provisions discourage takeover attempts, they could deprive shareholders of opportunities to realize takeover premiums for their shares or could depress the market price of the Common Shares. Further, any acquisition of us would require the prior approval of the Bermuda Monetary Authority. In addition, under Delaware and Oklahoma law, as a result of our ownership of American Safety Casualty Insurance Company and American Safety Indemnity Company, respectively, no person may obtain 10% or more of our voting shares without the prior approval of the insurance departments of those states. For more information on the limitations on our share ownership and the ability to exercise voting power on our shares, see Description of the Common Shares.

* * * * * *

The risk factors presented above are all of the ones we consider material as of the date of this prospectus. However, they are not the only risks facing our company. Additional risks not presently known to us, or which we consider immaterial, may also adversely affect us. There may be risks that a particular investor views differently from us, and our analysis may be incorrect. If any of the risks that we face actually occurs, our business, financial condition and operating results could be materially adversely affected and could differ materially from any possible results suggested by any forward-looking statements that we have made or might make. In that case, the trading price of the Common Shares could decline, and you could lose part or all of your investment. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are forward-looking statements within the meaning of U.S. securities laws. You can generally identify these statements by the use of forward-looking terminology, such as may, will, expect, estimate, anticipate, believe, target, plan, project or continue or the negatives or other variations or similar terminology. Forward-looking statements relate to, among other things:

- general economic conditions and other factors, including prevailing interest rate levels and stock market performance, which may affect our ability to sell our insurance products and services, the market value of our investments and the lapse rate and profitability of our policies;
- the availability and terms of future strategic acquisitions;
- changes in the federal income tax laws and regulations which may affect the relative tax advantages of some of our products;
- legal or regulatory changes or actions, including those relating to the underwriting of insurance products, regulation of the sale, underwriting and pricing of insurance products and services;
- our ability to maintain or improve our current rating by A.M. Best;
- expectations regarding the adequacy of our reserves for losses and loss adjustment expenses;
- our ability to leverage our relationships with producers;
- our areas of projected growth, growth opportunities and growth strategy;
- our ability to expand our information technology capabilities;
- the diversification of our insurance risk portfolio; and
- our future liquidity requirements.

Actual results may differ materially from the results suggested by the forward-looking statements for a number of reasons, including the risks described under the caption Risk Factors beginning on page 10. We have made these statements based on our plans and analyses of our company, our business and the insurance industry as a whole. Although we believe 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 prospectus will themselves prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives will be achieved. We expressly disclaim any obligation to update any forward-looking statement unless required by law.

You may rely on the information contained in this prospectus. We have not authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus nor the sale of the Common Shares means that information contained in this prospectus is correct after the date of this prospectus and, except to the extent required by law, we expressly disclaim any obligation to update the information. This prospectus is not an offer to sell or solicitation of an offer to buy the Common Shares in any circumstances under which the offer or solicitation is unlawful.

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USE OF PROCEEDS

The net proceeds of this offering to the Company are expected to be $61,567,338, assuming a public offering price of $16.39 per share and after deducting underwriting discounts and commissions and estimated offering expenses. We intend to use the net proceeds from the sale of the Common Shares in this offering to implement our business and growth strategy by (i) increasing the capital and surplus base of our insurance subsidiaries in order to expand in the markets where we currently operate and to retain additional premium on the policies we currently underwrite and (ii) use the balance of the net proceeds for general corporate purposes, including potential acquisitions. The precise amounts and timing of expenditures of the net proceeds will depend on our funding requirements and the availability of other capital resources.

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SELLING SHAREHOLDERS

The following table sets forth certain information regarding the ownership, as of June 2, 2006, of the Common Shares by each selling shareholder offering to sell Common Shares in this offering assuming both no exercise and full exercise of the underwriters over-allotment option. For more information concerning certain of the selling shareholders, see Principal Shareholders.

Selling Shareholder	Number of Shares Owned Prior to Offering	Percent of Total Outstanding Shares	Number of Shares to be Sold in Offering	Number of Shares Owned After Offering	Percent of Outstanding Shares After Offering	Number of Shares to be Sold in Over-allotment	Number of Shares Owned After Offering and Over-allotment	Percent of Outstanding Shares After Offering and Over-allotment
Treadway Associates, L.P.[1]	644,027	9.12%	595,614	48,413	0.69%	48,413		0.00%
Frederick C. Treadway[2]	422,689	5.99%		422,689	5.99%	422,689		0.00%
Vertecs Corporation[3]	291,218	4.26%	55,836	235,382	2.17%	44,164	191,218	1.73%
Walsh R.E., Ltd.[4]	270,005	3.95%	150,760	119,245	1.10%	119,245		0.00%
Mader Construction[5]	139,000	2.04%	30,710	108,290	1.00%	24,290	84,000	0.76%
Timothy E. Walsh[4][6]	68,554	1.00%	38,278	30,276	0.28%	30,276		0.00%
Dennis N. Walsh[4][7]	60,335	0.88%	25,137	35,198	0.32%	19,882	15,316	0.14%
Leslie G. Walsh[4][8]	25,384	0.37%	14,173	11,211	0.10%	11,211		0.00%
Kevin M. Walsh[4][9]	24,742	0.36%	13,815	10,927	0.10%	10,927		0.00%
Norman E. Walsh, Sr.[4][10]	16,600	0.24%	9,269	7,331	0.07%	7,331		0.00%
Beth A. Walsh[4]	6,639	0.10%	3,707	2,932	0.03%	2,932		0.00%
Norman E. Walsh, Jr.[4][11]	3,630	0.05%	2,027	1,603	0.01%	1,603		0.00%

(1) Treadway Associates, L.P. is a limited partnership owned by Mr. Treadway and his children.

(2) Includes 232,000 Common Shares purchasable by Mr. Treadway pursuant to currently exercisable stock options.

(3) Represents Common Shares held of record by Vertecs Corporation of which David V. Brueggen is the Chief Financial Officer. Mr. Brueggen is a director of the Company.

(4) Represents either individuals within the Walsh family or entities owned by those individuals.

(5) Mader Construction is owned by a founder of the Company, James Biddle, who is no longer affiliated with the Company. Includes 5,000 Common Shares attributable to an IRA owned by James Biddle.

(6) Includes 7,399 Common Shares attributable to IRAs owned by Timothy E. Walsh.

(7) Includes 14,419 Common Shares attributable to IRAs owned by Dennis N. Walsh.

(8) Includes 25,184 Common Shares attributable to IRAs owned by Leslie G. Walsh.

(9) Includes 24,742 Common Shares attributable to IRAs owned by Kevin M. Walsh.

(10) Includes 9,600 Common Shares attributable to the Norman E. Walsh, Sr. Irrevocable Trust, for which Dennis N. Walsh and Norman E. Walsh, Jr. are Trustees and 7,000 Common Shares attributable to the Norman E. Walsh, Sr. Irrevocable Trust, for which Dennis N. Walsh is Trustee.

(11) Common Shares attributable to an IRA owned by Norman E. Walsh, Jr.

We will not receive any proceeds from the sale of the Common Shares by the selling shareholders. All net proceeds from the sale of the Common Shares by selling shareholders will go to the selling shareholders that offered and sold their shares.

DIVIDEND POLICY

We do not anticipate paying cash dividends on the Common Shares in the near future. In the past, we have paid dividends on the Common Shares. In June 2003, our Board of Directors decided to suspend paying dividends on the Common Shares so that we could retain the capital to support our growth. As an insurance holding company, our ability to pay cash dividends to our shareholders depends on the ability of our insurance subsidiaries to pay cash dividends to us. The jurisdictions in which we and our insurance subsidiaries are domiciled place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of the insurers. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, Business Regulatory Environment and Note 7 to our consolidated financial statements (audited) herein regarding the limitations on our regulated insurance subsidiaries with respect to the payment of dividends.

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CAPITALIZATION

The following table shows the consolidated capitalization of American Safety Insurance at March 31, 2006, and as adjusted to give effect to the receipt and application of the estimated net proceeds from this offering specified under Use of Proceeds.

	As of March 31, 2006	As Adjusted for this Offering
	(In thousands)	
Short-term debt	$	$
Long-term debt	37,794	37,794
Total debt	37,794	37,794
Shareholders equity		
Preferred stock, $.01 par value; authorized 5,000,000 shares; no shares issued and outstanding		
Common stock, $.01 par value; authorized 15,000,000 shares; 6,779,031 shares issued and outstanding at March 31, 2006 and 10,843,926 shares issued and outstanding as adjusted for this Offering	68	108
Additional paid-in capital	49,787	111,314
Accumulated other comprehensive income loss	(4,706)	(4,706)
Retained earnings	74,558	74,558
Total shareholders equity	119,707	181,274
Total capitalization	$ 157,501	$ 219,068

For additional information regarding our capital resources, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

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MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Shares are listed and traded on the New York Stock Exchange under the symbol ASI. As of June 2, 2006, there were approximately 2,800 record holders of the Common Shares.

The following table sets forth the high, low and closing prices per share of the Common Shares for the periods indicated.

Fiscal Year Ended December 31, 2003	**High**	**Low**	**Close**
First Quarter	$ 7.33	6.69	$ 6.95
Second Quarter	9.15	6.18	8.98
Third Quarter	13.60	9.03	12.35
Fourth Quarter	14.00	11.85	13.11

Fiscal Year Ended December 31, 2004	**High**	**Low**	**Close**
First Quarter	$16.00	$13.00	$14.56
Second Quarter	18.30	13.50	15.01
Third Quarter	15.21	9.94	13.70
Fourth Quarter	16.45	12.83	16.34

Fiscal Year Ended December 31, 2005	**High**	**Low**	**Close**
First Quarter	$ 16.24	$ 14.27	$ 14.90
Second Quarter	15.75	14.20	15.28
Third Quarter	17.98	15.17	17.24
Fourth Quarter	18.00	16.01	16.74

Fiscal Year Ended December 31, 2006	**High**	**Low**	**Close**
First Quarter	$ 16.97	$ 15.60	$ 16.71
Second Quarter (through June 2, 2006)	$ 17.58	$ 15.30	$ 16.39

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SELECTED FINANCIAL DATA

The following consolidated financial data presented below, as of or for each of the years in the five-year period ended December 31, 2005, are derived from our audited consolidated financial statements. The following consolidated financial data presented below, as of or for each of the three month periods ended March 31, 2005 and 2006, are derived from our unaudited consolidated financial statements. This data is qualified in its entirety by reference to and, therefore, should be read together with, the detailed information and financial statements appearing elsewhere in this prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	2001	**2002**	**2003**	**2004**	**2005**	**2005**	**2006**
	(In thousands, except per share data and ratios)						
Statement of Operations Data:							
Gross premiums written	$ 163,018	$ 159,290	$ 212,667	$ 221,576	$ 237,880	$ 64,211	$ 53,183
Net premiums written	87,958	86,922	131,478	131,921	140,552	36,770	33,578
Net premiums earned	73,311	73,582	109,334	136,391	138,536	34,621	35,057
Net investment income	4,064	4,388	5,801	9,773	14,316	3,156	4,544
Net realized gains (losses)	752	685	3,139	208	(54)	52	363
Real estate sales	27,561	51,780	57,555	67,967	3,000	2,309	
Total revenue	108,418	130,663	175,991	214,656	155,874	40,140	40,028
Losses and loss adjustment expenses incurred	45,585	42,031	65,834	93,503	84,406	20,781	22,155
Acquisition expenses	15,859	14,507	21,818	26,529	28,512	7,126	6,977
Real estate expenses	25,126	48,527	53,999	55,480	2,439	2,265	67
Earnings before income taxes	5,304	3,403	10,090	18,453	16,048	3,897	4,117
Net earnings	4,154	2,484	7,414	14,757	14,656	3,646	4,101
Net earnings per share:							
Basic	$ 0.87	$ 0.52	$ 1.45	$ 2.15	$ 2.18	$ 0.54	$ 0.61
Diluted	$ 0.84	$ 0.51	$ 1.42	$ 2.01	$ 2.05	$ 0.50	$ 0.57
Common shares and common share equivalents used in computing net basic earnings per share	4,797	4,736	5,106	6,864	6,737	6,791	6,763
Common shares and common share equivalents used in computing net diluted earnings per share	4,933	4,871	5,234	7,343	7,164	7,266	7,164
Balance Sheet Data (at end of period):							
Total investments, excluding real estate	$ 90,078	$ 111,926	$ 222,418	$ 327,037	$ 415,497	$ 339,951	$ 421,544

Total assets	322,520	389,342	514,260	584,160	697,135	609,382	709,575
Unpaid losses and loss adjustment expenses	137,391	179,164	230,104	321,624	394,873	336,843	403,197
Unearned premiums	59,768	71,675	99,939	93,798	100,241	102,757	96,828
Loans payable	16,403	22,182	30,441	13,019	37,810	12,637	37,794
Total liabilities	262,540	326,890	418,916	475,380	578,700	500,321	589,867
Total shareholders equity	59,980	62,452	95,344	108,780	118,455	109,061	119,707

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	Year Ended December 31,					Three Months Ended March 31,	
	2001	2002	2003	2004	2005	2005	2006
	(In thousands, except per share data and ratios)						
GAAP Underwriting Ratios:							
Losses and loss adjustment expenses ratio[1]	62.1%	57.1%	60.2%	68.6%	60.9%	60.0%	63.2%
Expense ratio[2]	40.8%	44.2%	36.6%	34.1%	36.9%	34.5%	36.4%
Combined ratio[3]	102.9%	101.3%	96.8%	102.7%	97.8%	94.5%	99.6%
Other Data:							
Return on average shareholders equity[4]	6.3%	3.3%	6.9%	14.6%	13.0%	11.4%	12.5%
Debt to total capitalization [5]	21.5%	26.2%	24.2%	10.7%	24.2%	10.4%	24.0%
Net premiums written to equity	1.4x	1.4x	1.4x	1.2x	1.2x	1.3x	1.1x

(1) *Losses and loss adjustment expenses ratio:* The losses and loss adjustment expenses ratio is the ratio, expressed as a percentage, of losses and loss adjustment expenses to net premiums earned, net of the effects of reinsurance.

(2) *Expense ratio:* The expense ratio is the ratio, expressed as a percentage, of acquisition and other operating expenses to net premiums earned. Our reported expense ratio excludes certain holding company expenses such as interest expense as well as real estate and rescission expenses.

(3) *Combined ratio:* The combined ratio is the sum of the losses and loss adjustment expenses ratio and the expense ratio.

(4) *Return on average shareholders equity:* Return on average shareholders equity is the ratio, expressed as a percentage, of net earnings to the average of the beginning of period and end of period total shareholders equity.

(5) *Debt to total capitalization ratio:* The debt to total capitalization ratio is the ratio, expressed as a percentage, of total debt to the sum of total debt and shareholders equity. The Company s total debt consists solely of loans payable.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a specialty insurance company that provides customized insurance products and solutions to small and medium-sized businesses in industries that we believe are underserved by the standard insurance market. For twenty years, we have developed specialized insurance coverages and alternative risk transfer products not generally available to our customers in the standard insurance market because of the unique characteristics of the risks involved and the associated needs of the insureds. We specialize in underwriting these products for insureds with environmental risks and construction risks as well as in developing programs for other specialty classes of risks.

During 2005, we changed our segment reporting to coincide with our strategic direction. In our segment reporting for periods prior to the year ended December 31, 2005, we segregated our business into real estate operations, insurance operations and other (which included realized gains and losses on investments and rescission expenses). As described in this prospectus, we continue to segregate our business into real estate operations, insurance operations and other, but the insurance operations segment is further classified into three additional segments: excess and surplus lines; alternative risk transfer; and runoff. The excess and surplus lines segment is then further classified into three business lines: environmental; construction; and surety. The alternative risk transfer segment is further classified into two business lines: specialty programs; and fully-funded. Prior year amounts have been reclassified to conform to the current year presentation. Our real estate operations consist solely of our development of the Harbour Village property as described below under Business Harbour Village Development. See Note 10 to our consolidated financial statements for more information on our segment reporting.

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 Risk Factors, Business, Selected Financial Data and our consolidated financial statements and the related notes included elsewhere in this prospectus. All amounts and percentages are rounded.

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

	Year Ended December 31,			Three Months Ended March 31,		Year Ended December 31,		Three Months Ended March 31,
	2003	2004	2005	2005	2006	2003 to 2004	2004 to 2005	2005 to 2006
	(In thousands)							
Net premiums written:								