

AMERICAN SAFETY INSURANCE HOLDINGS LTD  
Form 10-Q  
August 08, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2013

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-14795

**AMERICAN SAFETY INSURANCE HOLDINGS, LTD.**

(Exact name of registrant as specified in its charter)

**Bermuda**  
(State of incorporation

or organization)

**31 Queen Street**

**2<sup>nd</sup> Floor**

**Hamilton, Bermuda**  
(Address of principal executive offices)

**Registrant's telephone number: (441) 296-8560**

**30-0666089**  
(I.R.S. Employer  
Identification No.)

**HM 11**  
(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The aggregate number of shares outstanding of Registrant's common stock, \$0.01 par value, on August 1, 2013, was 9,641,731.

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**FORM 10-Q**

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**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

(dollars in thousands except share data)

	June 30, 2013 (unaudited)	December 31, 2012
<b>Assets</b>		
Investments:		
Fixed maturity securities, at fair value (including \$9,846 and \$9,499 from VIE)	\$ 311,309	\$ 829,577
Common stock, at fair value	6,073	8,776
Preferred stock, at fair value	39	3,081
Short-term investments, at fair value (including \$1,952 and \$2,645 from VIE)	611,267	76,502
Trading securities, at fair value		12,712
Total investments	928,688	930,648
Cash and cash equivalents (including \$439 and \$507 from VIE)	18,567	20,224
Accrued investment income (including \$56 and \$52 from VIE)	1,693	6,387
Premiums receivable (including \$383 and \$498 from VIE)	29,249	32,559
Ceded unearned premium (including \$218 and \$351 from VIE)	35,200	29,821
Reinsurance recoverable (including \$4,659 and \$5,039 from VIE)	185,644	183,562
Deferred income taxes (including \$121 and \$0 from VIE)	2,797	
Deferred acquisition costs (including \$715 and \$1,100 from VIE)	25,213	26,182
Property, plant and equipment, net	11,942	12,082
Goodwill	20,843	20,843
Funds on deposit (including \$114 and \$231 from VIE)	36,915	42,088
Accrued premium (including \$0 and \$0 from VIE)	35,980	42,886
Other assets (including \$724 and \$1,255 from VIE)	18,431	25,849
Total assets	\$ 1,351,162	\$ 1,373,131
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses (including \$8,398 and \$8,900 from VIE)	\$ 727,278	\$ 725,244
Unearned premiums (including \$2,878 and \$4,325 from VIE)	151,738	146,096
Ceded premiums payable (including \$326 and \$67 from VIE)	22,291	13,386
Funds held (including \$99 and \$113 from VIE)	61,642	76,806
Other liabilities (including \$0 and \$0 from VIE)	14,967	18,601
Deferred income taxes (including \$0 and \$30 from VIE)		8,767
Loans payable	39,183	39,183
Total liabilities	\$ 1,017,099	\$ 1,028,083
Shareholders' equity:		
Preferred stock, \$0.01 par value; authorized 5,000,000 shares; no shares issued and outstanding	\$	\$

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Common stock, \$0.01 par value; authorized 30,000,000 shares; issued and outstanding at June 30, 2013, 9,623,413 shares and at December 31, 2012, 9,505,906 shares	96	95
Additional paid-in capital	85,385	86,568
Retained earnings	237,327	197,015
Accumulated other comprehensive income, net	3,729	53,628
Total American Safety Insurance Holdings, Ltd. shareholders' equity	326,537	337,306
Equity in non-controlling interests	7,526	7,742
Total equity	334,063	345,048
Total liabilities and equity	\$ 1,351,162	\$ 1,373,131

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

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## American Safety Insurance Holdings, Ltd. and Subsidiaries

## Consolidated Statements of Operations

(Unaudited)

(dollars in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Direct earned premiums	\$ 65,122	\$ 60,595	\$ 128,693	\$ 121,123
Assumed earned premiums	15,795	15,259	30,724	29,124
Ceded earned premiums	(18,725)	(13,837)	(35,301)	(26,818)
<b>Net earned premiums</b>	<b>62,192</b>	<b>62,017</b>	<b>124,116</b>	<b>123,429</b>
Net investment income	5,582	7,402	13,214	15,214
Realized gains (losses)	37,482	(13)	38,936	39
Fee income	335	717	1,563	1,385
Other income	12	12	24	25
<b>Total revenues</b>	<b>\$ 105,603</b>	<b>\$ 70,135</b>	<b>\$ 177,853</b>	<b>\$ 140,092</b>
<b>Expenses:</b>				
Losses and loss adjustment expenses	37,673	40,819	75,636	78,100
Acquisition expenses	13,814	14,337	28,568	29,081
Other underwriting expenses	12,382	12,013	24,523	22,764
Interest expense	358	367	712	785
Corporate and other expenses	655	848	1,436	2,104
<b>Total expenses</b>	<b>\$ 64,882</b>	<b>\$ 68,384</b>	<b>\$ 130,875</b>	<b>\$ 132,834</b>
Earnings before income taxes	40,721	1,751	46,978	7,258
Income tax expense (benefit)	5,900	(234)	6,577	872
<b>Net earnings</b>	<b>\$ 34,821</b>	<b>\$ 1,985</b>	<b>\$ 40,401</b>	<b>\$ 6,386</b>
Less: Net earnings (loss) attributable to the non-controlling interest	10	(182)	98	163
Net earnings attributable to American Safety Insurance Holdings, Ltd.	\$ 34,811	\$ 2,167	\$ 40,303	\$ 6,223
<b>Net earnings per share:</b>				
Basic	\$ 3.65	\$ 0.21	\$ 4.25	\$ 0.61
Diluted	\$ 3.54	\$ 0.21	\$ 4.12	\$ 0.59
<b>Weighted average number of shares outstanding:</b>				
Basic	9,538,924	10,256,634	9,490,498	10,238,667
Diluted	9,824,228	10,555,222	9,786,953	10,544,627

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



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## American Safety Insurance Holdings, Ltd. and Subsidiaries

## Consolidated Statements of Comprehensive Earnings

(Unaudited)

(dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net earnings	\$ 34,821	\$ 1,985	\$ 40,401	\$ 6,386
Other comprehensive income before income taxes:				
Unrealized gains (losses) on securities available-for-sale	(17,295)	6,608	(22,609)	10,050
Amortization of (gain) on hedging transactions	(21)	(41)	(42)	(41)
Reclassification adjustment for realized (gains) losses included in net earnings	(37,482)	13	(38,936)	(39)
Total other comprehensive income (loss) before income taxes	(54,798)	6,580	(61,587)	9,970
Income tax expense (benefit) related to items of other comprehensive income (loss)	(9,852)	1,278	(11,373)	1,592
Other comprehensive income (loss) net of income taxes	(44,946)	5,302	(50,214)	8,378
Comprehensive (loss) income	\$ (10,125)	\$ 7,287	\$ (9,813)	\$ 14,764
Less: Comprehensive (loss) income attributable to the non-controlling interest	(251)	(151)	(218)	34
Comprehensive (loss) income attributable to American Safety Insurance Holdings, Ltd.	\$ (9,874)	\$ 7,438	\$ (9,595)	\$ 14,730

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

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American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Statements of Cash Flow

(Unaudited)

(dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
Cash flow from operating activities:		
Net earnings	\$ 40,401	\$ 6,386
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Realized gains on sale of investments	(38,936)	(39)
Depreciation expense	1,897	1,414
Stock based compensation expense	1,235	1,237
Amortization of deferred acquisition costs, net	969	(1,390)
Amortization of investment premium	588	2,030
Deferred income taxes	(205)	3,709
Change in operating assets and liabilities:		
Accrued investment income	4,694	168
Premiums receivable	3,310	(5,785)
Reinsurance recoverable	(2,082)	(4,084)
Ceded unearned premium	(5,379)	(3,676)
Funds held	(15,164)	(7,867)
Unpaid losses and loss adjustment expenses	2,034	18,264
Unearned premiums	5,642	11,067
Ceded premiums payable	8,905	2,691
Other liabilities	(3,634)	(1,796)
Funds on deposit	5,173	(2,328)
Accrued premium	6,906	(3,846)
Other assets, net	6,917	(2,426)
Net cash provided by operating activities	23,271	13,729
Cash flow from investing activities:		
Purchases of fixed maturities	(274,493)	(38,459)
Purchases of Common Stocks	(3,120)	
Proceeds from sales of Common Stocks	5,575	
Proceeds from sales of fixed maturities	778,947	62,311
Purchases of Preferred Stocks	(165)	(865)
Proceeds from sales of Preferred Stocks	5,773	
Purchase of other investments		(3,444)
Increase in short term investments	(533,775)	(40,458)
Purchase of fixed assets	(1,254)	(781)
Net cash used in investing activities	(22,512)	(21,696)
Cash flow from financing activities:		
Shares repurchased to cover employment taxes	(339)	(204)
Proceeds from exercised stock options	646	85
Purchases of common stock pursuant to the Stock Repurchase Plan	(2,723)	(200)
Net cash used in financing activities	(2,416)	(319)

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Net increase in cash and cash equivalents	(1,657)	(8,286)
Cash and cash equivalents at beginning of period	20,224	43,481
Cash and cash equivalents at end of period	\$ 18,567	\$ 35,195
Supplemental disclosure of cash flow:		
Income taxes paid (including \$120 and \$731 from VIE)	\$ 133	\$ 749
Interest paid	\$ 715	\$ 790

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

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American Safety Insurance Holdings, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2013

(Unaudited)

**Note 1 Basis of Presentation**

The accompanying consolidated financial statements of American Safety Insurance Holdings, Ltd. ( American Safety Insurance ) and its subsidiaries and American Safety Risk Retention Group, Inc. ( American Safety RRG ), a non-subsiary risk retention group affiliate (collectively, the Company ), are prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) as established by the FASB Accounting Standards Codification<sup>®</sup> ( Codification or ASC ). The preparation of financial statements in conformity with GAAP requires management to make estimates, based on the best information available, in recording transactions resulting from business operations. Certain balance sheet amounts involve accounting estimates and/or actuarial determinations and are therefore subject to change and include, but are not limited to, invested assets, deferred income taxes, reinsurance recoverables, goodwill and the liabilities for unpaid losses and loss adjustment expenses. As additional information becomes available (or actual amounts are determinable), the estimates may be revised and reflected in operating results. While management believes that these estimates are adequate, such estimates may change in the future.

The Company accounts for business combinations using the acquisition method, which requires an allocation of the purchase price of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the net tangible and intangible assets acquired. In the event the net assets acquired exceed the purchase price, the Company will recognize a gain on bargain purchase.

The results of operations for the three and six months ended June 30, 2013, may not be indicative of the results for the fiscal year ending December 31, 2013. These unaudited interim consolidated financial statements and notes should be read in conjunction with the financial statements and notes included in the audited consolidated financial statements on Form 10-K of the Company for the fiscal year ended December 31, 2012.

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

**Table of Contents****Note 2 Investments**

The amortized cost and estimated fair values of the Company's available for sale investments at June 30, 2013 and December 31, 2012, are as follows (dollars in thousands):

<b>June 30, 2013</b>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<b>Fixed maturity securities:</b>				
U.S. Treasury securities and other government corporations and agencies	\$ 258,887	\$ 2,017	\$ (3,951)	\$ 256,953
States of the U.S. and political subdivisions of the states	4,516	92	(183)	4,425
Corporate securities	30,401	5,074	(207)	35,268
Mortgage-backed securities	4,978	90	(202)	4,866
Commercial mortgage-backed securities	2,684	141		2,825
Asset-backed securities	6,304	686	(18)	6,972
<b>Total fixed maturities</b>	<b>\$ 307,770</b>	<b>\$ 8,100</b>	<b>\$ (4,561)</b>	<b>\$ 311,309</b>
<b>Common stock</b>	<b>\$ 6,926</b>	<b>\$</b>	<b>\$ (853)</b>	<b>\$ 6,073</b>
<b>Preferred stock</b>	<b>\$</b>	<b>\$ 39</b>	<b>\$</b>	<b>\$ 39</b>
<b>December 31, 2012</b>	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
<b>Fixed maturity securities:</b>				
U.S. Treasury securities and other government corporations and agencies	\$ 53,591	\$ 2,961	\$ (11)	\$ 56,541
States of the U.S. and political subdivisions of the states	40,100	6,064		46,164
Corporate securities	304,725	36,089	(85)	340,729
Mortgage-backed securities	237,653	11,088	(501)	248,240
Commercial mortgage-backed securities	57,521	5,694		63,215
Asset-backed securities	71,769	3,138	(219)	74,688
<b>Total fixed maturities</b>	<b>\$ 765,359</b>	<b>\$ 65,034</b>	<b>\$ (816)</b>	<b>\$ 829,577</b>
<b>Common stock</b>	<b>\$ 9,004</b>	<b>\$ 6</b>	<b>\$ (234)</b>	<b>\$ 8,776</b>
<b>Preferred stock</b>	<b>\$ 2,789</b>	<b>\$ 317</b>	<b>\$ (25)</b>	<b>\$ 3,081</b>

During the six months ended June 30, 2013 and 2012, available-for-sale and trading fixed maturity securities were sold for total proceeds of \$778.9 million and \$18.4 million, respectively, resulting in gross realized gains and losses to the Company. The gross realized gains on these sales totaled \$42.7 million and \$0.05 million in 2013 and 2012, respectively. The gross realized losses on these sales totaled \$4.9 million and \$0.01 million in 2013 and 2012, respectively. During the six months ended June 30, 2013, available-for-sale and trading equity securities were sold for total proceeds of \$11.3 million, compared to none in 2012, resulting in gross realized gains to the company of \$1.1 million and \$0.0 million. There were no gross realized losses tied to sales of equity securities in 2013 and 2012. Sales during the second quarter of 2013 were in compliance with the Merger Agreement. For the purpose of determining gross realized gains and losses, the cost of securities sold is based on specific identification.

Trading securities are reported at fair value, with unrealized holding gains and losses reported as part of net earnings. Net unrealized holding losses from trading securities totaled \$0.0 million and \$0.01 million for the six months ended June 30, 2013 and 2012. These holding losses are included in net realized gains and losses for the period.



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The amortized cost and estimated fair value of fixed maturity securities at June 30, 2013, is shown below by contractual maturity.

	Amortized cost (dollars in thousands)	Estimated fair value
Due in one year or less	\$ 4,026	\$ 4,056
Due after one year through five years	19,261	20,340
Due after five years through ten years	19,259	19,533
Due after ten years	251,258	252,717
Mortgage and asset-backed securities	13,966	14,663
 Total	 \$ 307,770	 \$ 311,309

The following tables summarize the gross unrealized losses of the Company's investment portfolio as of June 30, 2013 and December 31, 2012, by category and length of time that the securities have been in an unrealized loss position.

	Less than 12 months Unrealized		12 months or longer Unrealized		Total	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
<b>June 30, 2013</b>						
<b>Fixed maturity securities:</b>						
U.S. Treasury securities and other government corporations and agencies	\$ 185,593	\$ (3,951)	\$	\$	\$ 185,593	\$ (3,951)
States of the U.S. and political subdivisions of the states	3,247	(183)			3,247	(183)
Corporate securities	3,100	(207)			3,100	(207)
Mortgage-backed securities	3,266	(202)			3,266	(202)
Commercial mortgage-backed securities						
Asset-backed securities			48	(18)	48	(18)
 Subtotal, fixed maturity securities	 195,206	 (4,543)	 48	 (18)	 195,254	 (4,561)
Common stock			3,573	(853)	3,573	(853)
Preferred stock						
 Total temporarily impaired securities	 \$ 195,206	 \$ (4,543)	 \$ 3,621	 \$ (871)	 \$ 198,827	 \$ (5,414)

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	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
<b>December 31, 2012</b>						
Fixed maturity securities:						
U.S. Treasury securities and other government corporations and agencies	\$ 4,985	\$ (11)	\$	\$	\$ 4,985	\$ (11)
States of the U.S. and political subdivisions of the states						
Corporate securities	24,489	(85)			24,489	(85)
Mortgage-backed securities	36,345	(336)	3,751	(165)	40,096	(501)
Commercial mortgage-backed securities						
Asset-backed securities	7,536	(210)	59	(9)	7,595	(219)
Subtotal, fixed maturity securities	73,355	(642)	3,810	(174)	77,165	(816)
Common stock	1,067	(14)	4,206	(220)	5,273	(234)
Preferred stock	490	(2)	504	(23)	994	(25)
<b>Total temporarily impaired securities</b>	<b>\$ 74,912</b>	<b>\$ (658)</b>	<b>\$ 8,520</b>	<b>\$ (417)</b>	<b>\$ 83,432</b>	<b>\$ (1,075)</b>

We hold a total of 203 available-for sale securities, of which 67 were in an unrealized loss position for less than twelve months and two were in an unrealized loss position for a period of twelve months or greater as of June 30, 2013. Unrealized losses greater than twelve months on fixed maturities were the result of increased credit spreads and higher market yields relative to the date the securities were purchased. We do not consider these investments to be other-than-temporary impaired at June 30, 2013.

We routinely review our investments that have experienced declines in fair value to determine if the decline is other than temporary. These reviews are performed with consideration of the facts and circumstances of an issuer in accordance with the Securities and Exchange Commission ( SEC ), Accounting for Non-Current Marketable Equity Securities; ASC-320-10-05, Accounting for Certain Investments in Debt and Equity Securities, and related guidance. The identification of distressed investments and the assessment of whether a decline is other-than-temporary involve significant management judgment and require evaluation of factors including but not limited to:

percentage decline in value and the length of time during which the decline has occurred;

recoverability of principal and interest;

market conditions;

ability and intent to hold the investment to recovery;

a pattern of continuing operating losses of the issuer;

rating agency actions that affect the issuer's credit status;

adverse changes in the issuer's availability of production resources, revenue sources, technological conditions; and

adverse changes in the issuer's economic, regulatory, or political environment.

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Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in market value is other than temporary ( OTTI ). For investments with a market value below cost, the process includes evaluating the length of time and the extent to which cost exceeds market value, the prospects and financial condition of the issuer, and evaluation for a potential recovery in market value, among other factors. This process is not exact and further requires consideration of risks such as credit risk and interest rate risk. Therefore, if an investment's cost exceeds its market value solely due to changes in interest rates, recognizing impairment may not be appropriate. For the six months ended June 30, 2013 and 2012, the Company did not incur any OTTI losses.

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### **Note 3 Segment Information**

Our business is classified into insurance operations and other, with the insurance operations consisting of three divisions: E&S, ART and Reinsurance. E&S includes eight products: environmental, construction, products liability, excess, property, surety, healthcare, and professional liability. ART includes two business lines: specialty programs and fully funded. In our Assumed Re segment, the Company assumes specialty property and casualty business from unaffiliated insurers and reinsurers.

Within E&S, our environmental insurance products provide general contractor pollution and/or professional liability coverage for contractors and consultants in the environmental remediation industry and property owners. Construction provides general liability insurance for residential and commercial contractors. Products liability provides general liability and product liability coverages for smaller manufacturers and distributors, non-habitational real estate and certain real property owner, landlord and tenant risks. Excess provides excess and umbrella liability coverages over our own and other carriers' primary casualty policies, with a focus on construction risks. Our property coverage encompasses surplus lines commercial property business and commercial multi-peril (CMP) policies. Surety products provide payment and performance bonds primarily to the environmental remediation and construction industries. Healthcare provides customized liability insurance solutions primarily for long-term care facilities. Professional liability provides coverage for primary and following-form excess directors and officers liability for public, private and non-profit entities; standalone employment practices liability insurance (EPLI); and fiduciary liability. Primary and excess coverage for miscellaneous professional liability risks such as lawyers and insurance agents.

In our ART division, specialty programs provide insurance to homogeneous niche groups through third-party program managers. Our specialty programs consist primarily of property and casualty insurance coverages for certain classes of specialty risks. Fully funded policies provide our insureds the ability to fund their liability exposure via a self-insurance vehicle. Fully funded policies consist of general and professional liability for businesses operating primarily in the healthcare and construction industries.

Our Reinsurance division focuses on treaty reinsurance for captives, Risk Retention Groups and specialty insurance companies. Lines of business assumed include medical malpractice, general liability across multiple sectors, commercial automobile liability, professional liability, workers compensation and one property catastrophe treaty that provides a finite limit over the exposure period. Business is sourced from a combination of London, U.S. and Bermuda based reinsurance brokers. The portfolio is a spread of treaties across multiple lines of business written on both an excess of loss and quota share basis.

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

The reportable insurance divisions are measured based on underwriting profit (loss) and pre-tax operating income (loss).

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The following table presents key financial data by segment for the three months ended June 30, 2013 and 2012, respectively (dollars in thousands):

**American Safety Insurance Holdings, Ltd. and Subsidiaries****Segment Data****(Unaudited) (Dollars in thousands)**

	Three Months Ended June 30, 2013				Total
	E&S	Insurance ART	Reinsurance	Other Run-off	
Gross written premiums	\$ 52,063	\$ 16,156	\$ 15,641	\$	\$ 83,860
Net written premiums	41,669	3,000	15,641		60,310
Net earned premiums	38,844	8,093	15,255		62,192
Fee & other income	(362)	697		12	347
Losses & loss adjustment expenses	23,317	5,226	9,130		37,673
Acquisition & other underwriting expenses	17,275	3,528	4,623	770	26,196
Underwriting profit (loss)	(2,110)	36	1,502	(758)	(1,330)
Net investment income	3,380	815	1,304	83	5,582
Pre-tax operating income (loss)	1,270	851	2,806	(675)	4,252
Net realized gains					37,482
Interest and corporate expenses					1,013
Earnings before income taxes					40,721
Income tax expense					5,900
Net earnings					\$ 34,821
Less: Net earnings attributable to the non-controlling interest					10
Net earnings attributable to ASIH, Ltd.					\$ 34,811
Loss ratio	60.0%	64.6%	59.8%	NM	60.6%
Expense ratio	45.4%	35.0%	30.3%	NM	41.6%
Combined ratio <sup>(2)</sup>	105.4%	99.6%	90.1%	<sup>(1)</sup> NM	102.2%

	Three Months Ended June 30, 2012				Total
	E&S	Insurance ART	Reinsurance	Other Run-off	
Gross written premiums	\$ 50,448	\$ 21,498	\$ 15,603	\$	\$ 87,549
Net written premiums	39,735	14,579	15,603		69,917
Net earned premiums	33,600	13,157	15,260		62,017
Fee & other income		738		(9)	729
Losses & loss adjustment expenses	20,221	11,875	8,751	(28)	40,819
Acquisition & other underwriting expenses	15,140	5,865	4,471	874	26,350
Underwriting profit (loss)	(1,761)	(3,845)	2,038	(855)	(4,423)
Net investment income	4,285	1,348	1,595	174	7,402

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Pre-tax operating income (loss)	2,524	(2,497)	3,633	(681)	2,979
Net realized losses					(13)
Interest and corporate expenses					1,215
Earnings before income taxes					1,751
Income tax benefit					(234)
Net earnings					\$ 1,985
Less: Net loss attributable to the non-controlling interest					(182)
Net earnings attributable to ASIH, Ltd.					\$ 2,167
Loss ratio	60.2%	90.3%	57.3%	NM	65.8%
Expense ratio	45.1%	39.0%	29.3%	NM	41.3%
Combined ratio <sup>(2)</sup>	105.3%	129.3%	86.6%	<sup>(1)</sup> NM	107.1%

(1) NM = Ratio is not meaningful

(2) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of losses and loss adjustment expenses, acquisition and other underwriting expenses net of fee income to earned premiums.

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The following table presents key financial data by segment for the six months ended June 30, 2013 and 2012, respectively (dollars in thousands):

**American Safety Insurance Holdings, Ltd. and Subsidiaries****Segment Data****(Unaudited) (Dollars in thousands)**

	Six Months Ended June 30, 2013				Total
	E&S	Insurance ART	Reinsurance	Other Run-off	
Gross written premiums	\$ 100,016	\$ 32,758	\$ 32,285	\$	\$ 165,059
Net written premiums	79,215	12,879	32,285		124,379
Net earned premiums	75,385	19,255	29,476		124,116
Fee & other income	(30)	1,468		149	1,587
Losses & loss adjustment expenses	45,344	12,619	17,673		75,636
Acquisition & other underwriting expenses	33,871	8,358	9,272	1,590	53,091
Underwriting profit (loss)	(3,860)	(254)	2,531	(1,441)	(3,024)
Net investment income	7,978	2,045	2,974	217	13,214
Pre-tax operating income (loss)	4,118	1,791	5,505	(1,224)	10,190
Net realized gains					38,936
Interest and corporate expenses					2,148
Earnings before income taxes					46,978
Income tax expense					6,577
Net earnings					\$ 40,401
Less: Net earnings attributable to the non-controlling interest					98
Net earnings attributable to ASIH, Ltd.					\$ 40,303
Loss ratio	60.1%	65.5%	60.0%	NM	60.9%
Expense ratio	45.0%	35.8%	31.5%	NM	41.5%
Combined ratio <sup>(2)</sup>	105.1%	101.3%	91.5%	<sup>(1)</sup> NM	102.4%

	Six Months Ended June 30, 2012				Total
	E&S	Insurance ART	Reinsurance	Other Run-off	
Gross written premiums	\$ 89,059	\$ 42,676	\$ 29,579	\$	\$ 161,314
Net written premiums	70,468	30,722	29,579		130,769
Net earned premiums	64,750	29,501	29,178		123,429
Fee & other income		1,402		8	1,410
Losses & loss adjustment expenses	39,138	21,862	17,100		78,100
Acquisition & other underwriting expenses	29,057	12,253	8,801	1,734	51,845
Underwriting profit (loss)	(3,445)	(3,212)	3,277	(1,726)	(5,106)
Net investment income	8,910	2,778	3,216	310	15,214
Pre-tax operating income (loss)	5,465	(434)	6,493	(1,416)	10,108

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Net realized gains					39
Interest and corporate expenses					2,889
Earnings before income taxes					7,258
Income tax expense					872
Net earnings					\$ 6,386
Less: Net earnings attributable to the non-controlling interest					163
Net earnings attributable to ASIH, Ltd.					\$ 6,223
Loss ratio	60.4%	74.1%	58.6%	NM	63.3%
Expense ratio	44.9%	36.8%	30.2%	NM	40.9%
Combined ratio <sup>(2)</sup>	105.3%	110.9%	88.8%	<sup>(1)</sup> NM	104.2%

(1) NM = Ratio is not meaningful

(2) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of losses and loss adjustment expenses, acquisition and other underwriting expenses net of fee income to earned premiums.

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The Company conducts business in two geographic segments: the United States and Bermuda. Significant differences exist in the regulatory environment in each country.

The following table provides financial data about the geographic locations for the three months ended June 30, 2013 and 2012 (dollars in thousands):

	United States	Bermuda	Total
<b>June 30, 2013</b>			
Income tax expense	\$ 5,900	\$	\$ 5,900
Net earnings attributable to American Safety Insurance Holdings, Ltd.	\$ 11,483	\$ 23,328	\$ 34,811
<b>June 30, 2012</b>			
Income tax benefit	\$ (234)	\$	\$ (234)
Net earnings (loss) attributable to American Safety Insurance Holdings, Ltd.	\$ (273)	\$ 2,440	\$ 2,167

The following table provides financial data about the geographic locations for the six months ended June 30, 2013 and 2012 (dollars in thousands):

	United States	Bermuda	Total
<b>June 30, 2013</b>			
Income tax expense	\$ 6,577	\$	\$ 6,577
Net earnings attributable to American Safety Insurance Holdings, Ltd.	\$ 12,426	\$ 27,877	\$ 40,303
Assets	\$ 662,631	\$ 688,531	\$ 1,351,162
Equity	\$ 132,400	\$ 201,663	\$ 334,063
<b>June 30, 2012</b>			
Income tax expense	\$ 872	\$	\$ 872
Net earnings attributable to American Safety Insurance Holdings, Ltd.	\$ 1,266	\$ 4,957	\$ 6,223
Assets	\$ 690,251	\$ 637,806	\$ 1,328,057
Equity	\$ 144,004	\$ 206,370	\$ 350,374

**Note 4 Income Taxes**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Current	\$ 5,989	\$ (443)	\$ 6,782	\$ (2,837)
Deferred	(89)	209	(205)	3,709
<b>Total</b>	<b>\$ 5,900</b>	<b>\$ (234)</b>	<b>\$ 6,577</b>	<b>\$ 872</b>



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Income tax (benefit) expense for the periods ended June 30, 2013 and 2012 differed from the amount computed by applying the United States Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Expected income tax expense	\$ 13,845	\$ 596	\$ 15,972	\$ 2,468
Foreign earned income not subject to U.S. taxation	(7,932)	(830)	(9,478)	(1,685)
Tax-exempt interest	(4)	(3)	(7)	(6)
State taxes and other	(9)	3	90	95
<b>Total</b>	<b>\$ 5,900</b>	<b>\$ (234)</b>	<b>\$ 6,577</b>	<b>\$ 872</b>

**Note 5 Equity Based Compensation**

The Company's incentive stock plan grants incentive stock options to employees. The majority of the options outstanding under the plan vest evenly over a three year period and have a term of 10 years. The Company uses the Black-Scholes option pricing model to value stock options. The Company's methodology for valuing stock options has not changed from December 31, 2012. During the first six months of 2013 and 2012, the Company did not grant any stock options. Stock based compensation expense related to outstanding stock options was \$10 and \$69 for the three months ended June 30, 2013 and 2012, respectively and \$56 and \$187 for the six months ended June 30, 2013 and 2012, respectively, and is reflected in the Consolidated Statement of Operations in other underwriting expenses.

In addition to stock options discussed above, the Company grants restricted shares to employees under the incentive stock plan. During the three month period ended June 30, 2013, no restricted stock shares were granted compared to 5,000 in 2012. During the first six months of 2013, the Company granted 380,839 shares of restricted stock compared to 96,330 for the same period in 2012. Of the shares granted, 79,339 shares vest on the grant date anniversary ratably over three years at 25%, 25%, and 50%, respectively. The remaining 301,500 shares vest pursuant to a vesting schedule based on certain performance criteria. Stock based compensation expense related to the restricted shares was \$570 and \$481 for the three months ended June 30, 2013 and 2012, respectively and is reflected in the Consolidated Statement of Operations in other underwriting expenses. For the six months ended June 30, 2013 and 2012, \$1,014 and \$885 of compensation expense, respectively, is reflected in the Consolidated Statement of Operations in other underwriting expenses. Additionally, the Company expensed \$82 and \$83 in expense for the three months ended June 30, 2013 and 2012, respectively, related to stock awards related to Director compensation. For the six months ended June 30, the company expensed \$165 and \$165 in 2013 and 2012, respectively, related to stock awards made as a portion of Director compensation.

**Note 6 Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market. Market participants are buyers and sellers in the principal (or most advantageous) market that are independent, knowledgeable, able to transact for the asset or liability, and willing to transact for the asset or liability.

We determined the fair values of certain financial instruments based on the fair value hierarchy established in Fair Value Measurements, topic ASC 820-10-05. Valuation techniques consistent with the market approach, income approach and/or cost approach are used to measure fair value. The inputs of these valuation techniques are categorized into three levels. The guidance requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

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Our Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the reporting date. The Company receives one quote per instrument for Level 1 inputs.

Our Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These fair value measurements are provided by using quoted prices of securities with similar characteristics.

Our Level 3 inputs are valuations based on inputs that are unobservable. Unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The Company receives fair value prices from its third-party investment managers who use an independent pricing service. These prices are determined using observable market information such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other things. The Company has reviewed the processes used by the third party providers for pricing the securities, and has determined that these processes result in fair values consistent with the GAAP requirements. In addition, the Company reviews these prices for reasonableness and has not adjusted any prices received from the third-party providers as of June 30, 2013.

Assets measured at fair value on a recurring basis for June 30, 2013 and December 31, 2012 are summarized below:

As of June 30, 2013

Fair Value Measurements Using

(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Fixed maturity securities:</b>				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 242,555	\$ 14,398	\$	\$ 256,953
States of the U.S. and political subdivisions of the states		4,425		4,425
Corporate securities		35,268		35,268
Mortgage-backed securities		4,866		4,866
Commercial mortgage-backed securities		2,825		2,825
Asset-backed securities		6,972		6,972
<b>Total fixed maturity securities</b>	<b>242,555</b>	<b>68,754</b>		<b>311,309</b>
Equity securities		39	6,073	6,112
Short term investments	611,267			611,267
Trading securities				
<b>Total</b>	<b>\$ 853,822</b>	<b>\$ 68,793</b>	<b>\$ 6,073</b>	<b>\$ 928,688</b>

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As of December 31, 2012

Fair Value Measurements Using

(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Fixed maturity securities:</b>				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies States of the U.S. and political subdivisions of the states	\$ 31,032	\$ 25,509	\$	\$ 56,541
Corporate securities		46,164		46,164
Mortgage-backed securities		340,729		340,729
Commercial mortgage-backed securities		248,240		248,240
Asset-backed securities		63,215		63,215
		74,688		74,688
<b>Total fixed maturity securities</b>	<b>31,032</b>	<b>798,545</b>		<b>829,577</b>
Equity securities	5,151		6,706	11,857
Short term investments	76,502			76,502
Trading securities	990	11,722		12,712
<b>Total</b>	<b>\$ 113,675</b>	<b>\$ 810,267</b>	<b>\$ 6,706</b>	<b>\$ 930,648</b>

A reconciliation of the beginning and ending balances for the investments categorized as Level 3 at June 30, 2013 and December 31, 2012 are as follows:

	As of June 30, 2013 Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (dollars in thousands) Equity Securities
Balance at December 31, 2012	\$ 6,706
Total gains (losses) realized (unrealized):	
Included in earnings	
Included in other comprehensive income	(633)
Purchases	
Sales	
Issuance and settlements	
Net transfers in (out of) Level 3	
<b>Balance at June 30, 2013</b>	<b>\$ 6,073</b>
Change in net unrealized losses relating to assets still held at reporting date	\$ (633)



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	As of December 31, 2012 Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (dollars in thousands) Equity Securities
Balance at December 31, 2011	\$ 6,751
Total gains (losses) realized (unrealized):	
Included in earnings	
Included in other comprehensive income	(45)
Purchases	
Sales	
Issuance and settlements	
Net transfers in (out of) Level 3	
Balance at December 31, 2012	\$ 6,706
Change in net unrealized losses relating to assets still held at reporting date	\$ (45)

There were no transfers in and out of Level 1 and 2 categories during 2013 or 2012.

A description of the Company's inputs used to measure fair value is as follows:

Fixed maturities (Available-for-Sale and Trading) Levels 1 and 2

United States Treasury securities are valued using quoted (unadjusted) prices in active markets and are therefore shown as Level 1.

United States Government agencies are reported at fair value utilizing Level 2 inputs. These fair value measurements are provided by using quoted prices of securities with similar characteristics.

States of the U.S. and political subdivisions of the states are reported at fair value utilizing Level 2 inputs. These fair value measurements are provided by using quoted prices of securities with similar characteristics.

Corporate securities are reported at fair value utilizing Level 2 inputs. These fair value measurements are provided by using quoted prices of securities with similar characteristics.

Mortgage-backed securities are reported at fair value utilizing Level 2 inputs. These fair value measurements are provided by using quoted prices of securities with similar characteristics.

Commercial mortgage-backed securities are reported at fair value utilizing Level 2 inputs. These fair value measurements are provided by using quoted prices of securities with similar characteristics.

Asset-backed securities are reported at fair value utilizing Level 2 inputs. These fair value measurements are provided by using quoted prices of securities with similar characteristics.

Equity securities (Level 1) For these securities, fair values are based on quoted market prices (unadjusted) in active markets.

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Equity securities (Level 2) These fair value measurements are provided by using quoted prices of securities with similar characteristics.

Equity securities (Level 3) Includes private equity investments which are carried at the Company's equity in the estimated net assets of the investments based on valuations provided by the investee or other relevant market data.

We assess the reasonableness of those fair values by evaluating the financial statements and discussions with the investees. Due to the delay of reported information, our estimates are based on the most recent available information. These inputs are considered unobservable and therefore the private equity investments are being classified as Level 3 measurements.

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Short-term investments are reported at fair value using Level 1 inputs.

As management is ultimately responsible for determining the fair value measurements for all securities, we validate prices received from our investment advisor by comparing the fair value estimates to our knowledge of the current market and investigate any prices deemed not to be representative of fair value.

The following table sets forth the carrying amount, estimated fair value and level within the fair value hierarchy of financial instruments as of June 30, 2013 and December 31, 2012.

	Level in Fair Value Hierarchy	June 30, 2013		December 31, 2012	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Assets:</b>					
Cash and cash equivalents	Level 1	\$ 18,567	\$ 18,567	\$ 20,224	\$ 20,224
Fixed maturities	*	\$ 311,309	\$ 311,309	\$ 829,577	\$ 829,577
Equity securities	*	\$ 6,112	\$ 6,112	\$ 11,857	\$ 11,857
Short-term investments	*	\$ 611,267	\$ 611,267	\$ 76,502	\$ 76,502
Trading securities	*	\$	\$	\$ 12,712	\$ 12,712
Premiums receivable	Level 2	\$ 29,249	\$ 29,249	\$ 32,559	\$ 32,559
Reinsurance recoverable	Level 2	\$ 185,644	\$ 185,644	\$ 183,562	\$ 183,562
<b>Liabilities:</b>					
Loans payable	Level 2	\$ 39,183	\$ 39,183	\$ 39,183	\$ 39,183
Cash and cash equivalents	The carrying amounts approximate fair value because of the short-term maturity of those instruments.				

Premiums receivable The carrying value of premiums receivable approximate fair value due to its short-term nature.

Reinsurance recoverables The carrying value of reinsurance receivables approximate fair value. The Company has established an allowance for bad debts associated with reinsurance balances recoverable and is primarily related to specific counterparties.

Loans payable The carrying value of those notes is a reasonable estimate of fair value. Due to the variable interest rate of these instruments, carrying value approximates market value.

**Note 7 Credit Facility**

The Company has an unsecured line of credit facility for \$20 million that expires August 20, 2013. The principal amount outstanding under the credit facility provides for interest at LIBOR plus 200 basis points with a 3% floor. In addition, the credit facility provides for an unused facility fee of 15 basis points payable monthly. The line of credit facility contains certain covenants and at June 30, 2013, the Company was in compliance with all covenants. The Company has no outstanding borrowings at June 30, 2013.

**Table of Contents****Note 8 Loans Payable***Trust Preferred Offerings*

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

In 2005, the American Safety Capital Trust III, a non-consolidated wholly-owned subsidiary of the Company, issued a 30-year trust preferred securities in the amount of \$25 million. The securities require interest payments of LIBOR + 3.4%. The securities may be redeemed at any time.

The balance of loans payable at June 30, 2013 was \$39.2 million.

**Note 9 Variable Interest Entity**

The Risk Retention Act of 1986 (the Risk Retention Act) allowed companies with specialized liability insurance needs that could not be met in the standard insurance market to create a new type of insurance vehicle called a risk retention group. We assisted in the formation of American Safety RRG in 1988 in order to establish a U.S. insurance company to market and underwrite specialty environmental coverages.

American Safety RRG is a variable interest entity (VIE) which is consolidated in our financial statements in accordance with ASC 810-10-5, as through the contractual relationships, the Company has the power to direct the activities of American Safety RRG that most significantly impact its economic performance and the right to receive benefits from American Safety RRG that could be significant to American Safety RRG. Due to these criteria being met, American Safety is the primary beneficiary of the variability of the underwriting profits of American Safety RRG. The liabilities of American Safety RRG consolidated by the Company do not represent additional claims on the Company's general assets; rather, they represent claims against the specific assets of American Safety RRG. Similarly, the assets of American Safety RRG consolidated by the Company do not represent additional assets available to satisfy claims against the Company's general assets.

The creditors of American Safety RRG do not have recourse to the Company for the obligations outside of obligations that exist due to contractual loss sharing or reinsurance arrangements that exist between American Safety RRG and other entities under common control in the ordinary course of the business. The equity of American Safety RRG is for the benefit of the policyholders and is considered a non-controlling interest in the shareholders' equity section of the Company's Consolidated Balance Sheets. Should RRG incur net losses and the equity of RRG decline below regulatory minimum capital levels or result in a deficit, there is no legal obligation of the Company to fund those losses or contribute capital to the VIE. The profit and loss of the VIE increases or decreases the value of the non-controlling interest on the balance sheet of the Company and does not contribute to earnings or equity attributable to American Safety Insurance Holdings, Ltd.

Assets and Liabilities of the VIE as consolidated in the Consolidated Balance Sheets (dollars in thousands):

	June 30, 2013	December 31, 2012
Investments	\$ 11,798	\$ 12,144
Cash and cash equivalents	439	507
Accrued investment income	56	52
Premiums receivable	383	498
Ceded unearned premium	218	351
Reinsurance recoverable	4,659	5,039
Deferred income taxes	121	
Deferred acquisition costs	715	1,100
Funds on deposit	114	231
Other assets	724	1,255
<b>Total Assets</b>	<b>\$ 19,227</b>	<b>\$ 21,177</b>

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Unpaid losses and loss adjustment expenses	8,398	8,900
Unearned premiums	2,878	4,325
Ceded premiums payable	326	67
Funds held	99	113
Deferred income taxes		30
<b>Total Liabilities</b>	<b>\$ 11,701</b>	<b>\$ 13,435</b>

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### **Note 10 Commitments and Contingencies**

At June 30, 2013, the Company had aggregate outstanding irrevocable letters of credit which had not been drawn amounting to \$1.8 million. Those letters of credit included \$1.0 million for the benefit of the Vermont Department of Banking, and \$0.8 million issued to various other parties.

American Safety Reinsurance Ltd.(ASRe), our reinsurance subsidiary, provides reinsurance protection for risk retention groups, captives and insurance companies and may be required to provide letters of credit to collateralize a portion of the reinsurance protection. In the normal course of business they may provide letters of credit to the companies they reinsure. As of June 30, 2013, ASRe had \$84.4 million in letters of credit issued and outstanding, secured by pledged investment assets of \$89.4 million.

#### *Litigation Contingencies*

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed. Based on the information presently available, management does not believe that any pending or threatened litigation or arbitration disputes will have any material adverse effect on our final condition or operating results.

### **Note 11 Merger with Fairfax Financial Holdings Limited**

On June 2, 2013, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with Fairfax Financial Holdings Limited, a Canadian corporation (Fairfax), and Fairfax Bermuda Holdings Ltd., a Bermuda exempted company and an indirect wholly-owned Subsidiary of Fairfax.

At the effective time of the Merger (the Effective Time), each issued and outstanding common share of the Company (the Shares), owned by Fairfax, or any direct or indirect wholly-owned subsidiary of Fairfax, or owned by any shareholders who are entitled to and who properly exercise appraisal rights under Bermuda law, will be cancelled and converted into the right to receive \$29.25 in cash, without interest (the Merger Consideration). At the Effective Time, each outstanding option to purchase Shares granted under the Company's equity plans that is outstanding and unexercised as of immediately prior to the Effective Time, whether vested or unvested or exercisable, shall become fully vested and exercisable, and all restricted Shares granted under the Company's equity plans shall become fully vested and transferable and all restrictions on such restricted shares shall lapse. Each holder of an option that is outstanding and unexercised as of the Effective Time and has an exercise price per Share that is less than the per Share Merger Consideration shall be entitled to receive in exchange for the cancellation of such option an amount in cash equal to the product of (i) the difference between the per Share Merger Consideration and the applicable exercise price of such option and (ii) the aggregate number of Shares that remain issuable upon exercise of such option, subject to applicable withholding requirements.

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The Company has made customary representations, warranties and covenants in the Merger Agreement, which generally expire at the Effective Time. The Company has agreed not to (i) solicit, encourage or initiate any inquiries or the implementation or submission of any proposal that constitutes or could reasonably be expected to lead to, any Acquisition Proposal (as defined in the Merger Agreement), (ii) engage in, continue or otherwise participate in discussions or negotiations regarding, or furnish to any person any non-public information in connection with, any Acquisition Proposal, (iii) otherwise knowingly facilitate any effort or attempt to make an Acquisition Proposal or (iv) enter into any agreement with respect to any Acquisition Proposal.

The consummation of the Merger is subject to various conditions, including adoption of the Merger Agreement and approval of the Merger by the Company's shareholders, expiration or termination of applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, receipt of certain insurance regulatory approvals and other customary closing conditions. The consummation of the Merger is not subject to a financing condition. The companies expect to close the transaction during the fourth quarter of 2013.

The Merger Agreement contains termination rights for both the Company and Fairfax, including (i) the right of either party to terminate if the Effective Time has not occurred on or before the End Date (as defined in the Merger Agreement), provided that either party may extend such date by an additional three months under certain circumstances; (ii) the right of either party to terminate following certain breaches by the other party of its representations, warranties and covenants in the Merger Agreement and (iii) the right of the Company to enter into an agreement with respect to a Superior Proposal (as defined in the Merger Agreement) if the Company complies with certain notice and other requirements set forth in the Merger Agreement, including paying Fairfax a termination fee of \$9,186,000.

The Merger Agreement provides that upon termination of the Merger Agreement under certain specified circumstances, including the termination by Fairfax if the Company's Board of Directors changes its recommendation to the Company's shareholders that they adopt the Merger Agreement and approve the Merger, the Company will be required to pay Fairfax a termination fee of \$9,186,000. Upon the termination of the Merger Agreement under certain other circumstances, including if the Company's shareholders do not adopt the Merger Agreement and approve the Merger, the Company will be required to reimburse Fairfax for its transaction expenses up to a maximum amount of \$1.5 million.

The parties to the Merger Agreement are entitled to specific performance of the terms and provisions of the Merger Agreement, in addition to any other remedy to which they are otherwise entitled, including damages for any breach of the Merger Agreement by the other party.

### **Note 12 Accounting Pronouncements**

In February 2013, the FASB issued an accounting update to improve the reporting of reclassifications out of accumulated other comprehensive income. An entity is required to report the effect of significant reclassifications, by component, out of accumulated other comprehensive income on the respective line items in net income if the item is required under GAAP to be reclassified in its entirety in the same reporting period. The required disclosures of the update are allowed either in the Statement of Operations or in the notes. The amendments in the update are effective for reporting periods beginning after December 15, 2012. This update did not have an impact on our financial disclosures.

At June 30, 2013, there were no recently issued accounting pronouncements where our adoption of such guidance was pending.

### **Note 13 Subsequent Events**

On July 29, 2013, American Safety Insurance Holdings, Ltd. received an offer from Catalina Holdings (Bermuda) Ltd. (Catalina), outlining the acquisition of American Safety by Catalina Holdings (Bermuda) LTD. at a cash price of \$29.75. This offer was substantially the same terms as those contained in the initial proposed Merger Agreement with Fairfax Financial Holdings Limited.

On August 7th, 2013, Fairfax Financial Holdings Limited increased its offer to purchase American Safety to \$30.25 per share from the previously announced offer of \$29.25 per share.

The board of directors of American Safety approved an amendment to the Merger Agreement among American Safety, Fairfax and Fairfax Holdings Bermuda Ltd. reflecting the revised price and an increase in the termination fee to \$13.4 million from \$9.1 million. The transaction is subject to customary conditions, including approval of American Safety's shareholders and regulatory approvals.

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

Our business is classified into insurance operations and other, with the insurance operations consisting of three divisions: Excess and Surplus Lines ( E&S ), ART and Reinsurance. E&S includes eight products: environmental, construction, products liability, excess, property, surety, healthcare, and professional liability. ART includes two products: specialty programs and fully funded. In our Assumed Re segment, the Company assumes specialty property and casualty business from unaffiliated insurers and reinsurers.

Within E&S, our environmental insurance products provide general contractor pollution and/or professional liability coverage for contractors and consultants in the environmental remediation industry and property owners. Construction provides general liability insurance for residential and commercial contractors. Products liability provides general liability and product liability coverages for smaller manufacturers and distributors, non-habitational real estate and certain real property owner, landlord and tenant risks. Excess provides excess and umbrella liability coverages over our own and other carriers' primary casualty policies, with a focus on construction risks. Our property coverage encompasses surplus lines commercial property business and commercial multi-peril (CMP) policies. Surety products provide payment and performance bonds primarily to the environmental remediation and construction industries. Healthcare provides customized liability insurance solutions primarily for long-term care facilities. Professional liability provides coverage for primary and following-form excess directors and officers liability for public, private and non-profit entities; standalone employment practices liability insurance (EPLI); and fiduciary liability. Primary and excess coverage for miscellaneous professional liability risks such as lawyers and insurance agents.

In our ART division, specialty programs provide insurance to homogeneous niche groups through third-party program managers. Our specialty programs consist primarily of property and casualty insurance coverages for certain classes of specialty risks including. Fully funded policies provide our insureds the ability to fund their liability exposure via a self-insurance vehicle. We write fully funded policies consist of general and professional liability for businesses operating primarily in the healthcare and construction industries.

Our Reinsurance division focuses on treaty reinsurance for captives, Risk Retention Groups and specialty insurance companies. Lines of business written include medical malpractice, general liability, commercial automobile liability, professional liability, workers compensation and one property catastrophe treaty that provides a finite limit over the exposure period. Business is sourced from a combination of London, U.S. and Bermuda based reinsurance brokers. The portfolio is a spread of smaller treaties across multiple lines of business written on both an excess of loss and quota share basis.

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

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The following table presents key financial data by segment for the three months ended June 30, 2013 and 2012, respectively (dollars in thousands):

**American Safety Insurance Holdings, Ltd. and Subsidiaries****Segment Data****(Unaudited) (Dollars in thousands)**

	Three Months Ended June 30, 2013				Total
	E&S	Insurance ART	Reinsurance	Other Run-off	
Gross written premiums	\$ 52,063	\$ 16,156	\$ 15,641	\$	\$ 83,860
Net written premiums	41,669	3,000	15,641		60,310
Net earned premiums	38,844	8,093	15,255		62,192
Fee & other income	(362)	697		12	347
Losses & loss adjustment expenses	23,317	5,226	9,130		37,673
Acquisition & other underwriting expenses	17,275	3,528	4,623	770	26,196
Underwriting profit (loss)	(2,110)	36	1,502	(758)	(1,330)
Net investment income	3,380	815	1,304	83	5,582
Pre-tax operating income (loss)	1,270	851	2,806	(675)	4,252
Net realized gains					37,482
Interest and corporate expenses					1,013
Earnings before income taxes					40,721
Income tax expense					5,900
Net earnings					\$ 34,821
Less: Net earnings attributable to the non-controlling interest					10
Net earnings attributable to ASIH, Ltd.					\$ 34,811
Loss ratio	60.0%	64.6%	59.8%	NM	60.6%
Expense ratio	45.4%	35.0%	30.3%	NM	41.6%
Combined ratio <sup>(2)</sup>	105.4%	99.6%	90.1%	<sup>(1)</sup> NM	102.2%

	Three Months Ended June 30, 2012				Total
	E&S	Insurance ART	Reinsurance	Other Run-off	
Gross written premiums	\$ 50,448	\$ 21,498	\$ 15,603	\$	\$ 87,549
Net written premiums	39,735	14,579	15,603		69,917
Net earned premiums	33,600	13,157	15,260		62,017
Fee & other income		738		(9)	729
Losses & loss adjustment expenses	20,221	11,875	8,751	(28)	40,819
Acquisition & other underwriting expenses	15,140	5,865	4,471	874	26,350
Underwriting profit (loss)	(1,761)	(3,845)	2,038	(855)	(4,423)
Net investment income	4,285	1,348	1,595	174	7,402

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Pre-tax operating income (loss)	2,524	(2,497)	3,633	(681)	2,979
Net realized losses					(13)
Interest and corporate expenses					1,215
Earnings before income taxes					1,751
Income tax benefit					(234)
Net earnings					\$ 1,985
Less: Net loss attributable to the non-controlling interest					(182)
Net earnings attributable to ASIH, Ltd.					\$ 2,167
Loss ratio	60.2%	90.3%	57.3%	NM	65.8%
Expense ratio	45.1%	39.0%	29.3%	NM	41.3%
Combined ratio <sup>(2)</sup>	105.3%	129.3%	86.6%	<sup>(1)</sup> NM	107.1%

(1) NM = Ratio is not meaningful

(2) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of losses and loss adjustment expenses, acquisition and other underwriting expenses net of fee income to earned premiums.

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**Three Months Ended June 30, 2013, compared to**

**Three Months Ended June 30, 2012**

**Net Earnings**

Net earnings attributable to ASIH were \$34.8 million, or \$3.54 per diluted share, for the three months ended June 30, 2013, compared to \$2.2 million, or \$0.21 per diluted share, for the same period of 2012 due primarily to after tax net realized gains of \$31.4 million.

**Combined Ratio**

Our underwriting results are measured by the combined ratio, which is the sum of (a) the ratio of incurred losses and loss adjustment expenses to net earned premiums (loss ratio), and, (b) the ratio of acquisition expenses and other underwriting expenses, net of fee income, to net earned premiums (expense ratio). A combined ratio below 100% indicates that an insurer has an underwriting profit, and a combined ratio above 100% indicates that an insurer has an underwriting loss.

The combined ratio of 102.2% consists of a loss ratio of 60.6% and an expense ratio of 41.6%, compared to 65.8% and 41.3%, respectively, for the same quarter of 2012. The decrease in the loss ratio is primarily attributable to lower weather related losses experienced in the second quarter of 2013 as compared to the 2012 quarter. Net operating earnings for the quarter ended June 30, 2013 and 2012 were \$3.4 million and \$2.2 million, respectively. Operating earnings in the second quarter of 2012 includes \$3.0 million of weather related losses.

**Gross Written Premiums**

Gross written premiums decreased 4.2% to \$83.9 million from \$87.5 million for the three months ended June 30, 2013 and 2012, respectively. The growth in the E&S division to \$52.1 million from \$50.4 million was primarily attributable to increased production of the construction, surety and excess lines. Gross written premiums in Assumed Reinsurance were at \$15.6 million for both three months ended June 30, 2013 and 2012. The ART Division's gross written premium declined to \$16.2 million from \$21.5 million in 2012 due to the non-renewal of certain programs and the de-emphasis of the business.

**Net Investment Income**

Net investment income is derived from the investment portfolio net of investment expenses. Net investment income was \$5.6 million for the three months ended June 30, 2013, compared to \$7.4 million for the same period of 2012. Invested assets increased to \$928.7 million at June 30, 2013, as compared to \$908.6 million for the same period of 2012. Investment income decreased as a result of the sale of the majority of the fixed income and equity investment assets. During the quarter ended June 30, 2013 the Company sold \$778.9 million of its investment portfolio in compliance with the merger agreement with Fairfax Financial Holdings Limited. The decline in net investment income in the 2013 quarter was due to the liquidation of a substantial portion of the investment portfolio and subsequent reinvestment of the proceeds. The Company reinvested the proceeds in treasuries with a lower risk and yield.

**Acquisition Expenses and Other Underwriting Expenses**

Acquisition expenses are commissions paid to producers that are partially offset by ceding commissions or fronting fees. Acquisition expenses also include premium taxes paid to states in which we are admitted to conduct business. Policy acquisition expenses were \$13.8 million or 22.2% of earned premium for the three months ended June 30, 2013, as compared to \$14.3 million or 23.1% of earned premium for the same period of 2012. Acquisition expenses as a percentage of net earned premiums decreased primarily to increased ceding commissions in the ART division. Other underwriting expenses were \$12.4 million for the three months ended June 30, 2013, compared to \$12.0 million for the same 2012 period. As a percentage of net earned premiums, other underwriting expenses increased to 19.9% from 19.4% for the same three months of 2012. Other underwriting expenses increased due to the acquisition of underwriting teams and technology investments placed in service during the later part of 2012.

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**Income Taxes**

The income tax expense for the three months ended June 30, 2013, was \$5.9 million compared to a benefit of \$0.2 million for the same period of 2012. The increase is due to taxes on U.S. realized gains on sales of investments. Total realized gains for the quarter were \$37.5 million, of which \$17.8 million were in the U.S.

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The following table presents key financial data by segment for the six months ended June 30, 2013 and 2012, respectively (dollars in thousands):

**American Safety Insurance Holdings, Ltd. and Subsidiaries****Segment Data****(Unaudited) (Dollars in thousands)**

	Six Months Ended June 30, 2013				Total
	E&S	Insurance ART	Reinsurance	Other Run-off	
Gross written premiums	\$ 100,016	\$ 32,758	\$ 32,285	\$	\$ 165,059
Net written premiums	79,215	12,879	32,285		124,379
Net earned premiums	75,385	19,255	29,476		124,116
Fee & other income	(30)	1,468		149	1,587
Losses & loss adjustment expenses	45,344	12,619	17,673		75,636
Acquisition & other underwriting expenses	33,871	8,358	9,272	1,590	53,091
Underwriting profit (loss)	(3,860)	(254)	2,531	(1,441)	(3,024)
Net investment income	7,978	2,045	2,974	217	13,214
Pre-tax operating income (loss)	4,118	1,791	5,505	(1,224)	10,190
Net realized gains					38,936
Interest and corporate expenses					2,148
Earnings before income taxes					46,978
Income tax expense					6,577
Net earnings					\$ 40,401
Less: Net earnings attributable to the non-controlling interest					98
Net earnings attributable to ASIH, Ltd.					\$ 40,303
Loss ratio	60.1%	65.5%	60.0%	NM	60.9%
Expense ratio	45.0%	35.8%	31.5%	NM	41.5%
Combined ratio <sup>(2)</sup>	105.1%	101.3%	91.5%	<sup>(1)</sup> NM	102.4%

	Six Months Ended June 30, 2012				Total
	E&S	Insurance ART	Reinsurance	Other Run-off	
Gross written premiums	\$ 89,059	\$ 42,676	\$ 29,579	\$	\$ 161,314
Net written premiums	70,468	30,722	29,579		130,769
Net earned premiums	64,750	29,501	29,178		123,429
Fee & other income		1,402		8	1,410
Losses & loss adjustment expenses	39,138	21,862	17,100		78,100
Acquisition & other underwriting expenses	29,057	12,253	8,801	1,734	51,845
Underwriting profit (loss)	(3,445)	(3,212)	3,277	(1,726)	(5,106)
Net investment income	8,910	2,778	3,216	310	15,214

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Pre-tax operating income (loss)	5,465	(434)	6,493	(1,416)	10,108
Net realized gains					39
Interest and corporate expenses					2,889
Earnings before income taxes					7,258
Income tax expense					872
Net earnings					\$ 6,386
Less: Net earnings attributable to the non-controlling interest					163
Net earnings attributable to ASIH, Ltd.					\$ 6,223
Loss ratio	60.4%	74.1%	58.6%	NM	63.3%
Expense ratio	44.9%	36.8%	30.2%	NM	40.9%
Combined ratio <sup>(2)</sup>	105.3%	110.9%	88.8%	<sup>(1)</sup> NM	104.2%

(1) NM = Ratio is not meaningful

(2) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of losses and loss adjustment expenses, acquisition and other underwriting expenses net of fee income to earned premiums.

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### **Six Months Ended June 30, 2013, compared to**

### **Six Months Ended June 30, 2012**

#### **Net Earnings**

Net earnings for the six months ended June 30, 2013, were \$40.3 million, or \$4.12 per diluted share, compared to \$6.2 million, or \$0.59 per diluted share, for the same period in 2012 due primarily to after tax net realized gains of \$32.6 million, or \$3.33 per share. Net operating earnings, exclusive of weather related property losses, were \$7.7 million for the six months ended June 30, 2013 compared to \$9.2 million in the same period in 2012. The decrease in net operating earnings is primarily attributable to lower net investment income due to the sales of the investment portfolio noted in the quarterly results.

#### **Combined Ratio**

The combined ratio was 102.4% compared to 104.2%, composed of a loss ratio of 60.9% and an expense ratio of 41.5%, compared to 63.9% and 40.9%, respectively, in the prior year. Weather related losses during 2012 impacted the 2012 loss ratio by 2.9 points while for the six months ended June 30, 2013 weather related losses were minimal. The increase in expense ratio for the six months ended June 30, 2013 is primarily attributable to the July 1, 2012 acquisition of a surety managing general agency.

#### **Gross Written Premiums**

Gross written premiums increased 2.3% to \$165.1 million from \$161.3 million for the six months ended June 30, 2013 and 2012, respectively. The growth in the E&S division to \$100.0 million from \$89.1 million was primarily attributable to increased production of the construction, surety and excess lines. ART gross written premiums declined due to non-renewed programs during 2013 and the de-emphasis of the business. Gross written premiums in Assumed Reinsurance increased approximately \$2.7 million.

#### **Net Earned Premiums**

Net earned premiums increased 0.6% to \$124.1 million for the six months ended June 30, 2013, compared to \$123.4 million for the same period of 2012 as a result of increased E&S premium production offset for the most part by reduced gross written premiums in the ART division.

#### **Net Investment Income**

Net investment income is derived from the investment portfolio net of investment expenses. Net investment income was \$13.2 million for the six months ended June 30, 2013, compared to \$15.2 million for the same period of 2012 decreasing as a result of lower yields. These lower yields are attributable to the sales of the majority of the Fixed Income and Equity investments and reinvestment in lower yield, lower risk treasuries. Average invested assets increased to \$927.8 million at June 30, 2013, as compared to \$897.6 million for the same period of 2012. The book yield on the portfolio was 1.0% net of investment fees compared to 3.6% in 2012.

#### **Acquisition Expenses and Other Underwriting Expenses**

Acquisition expenses are commissions paid to producers that are partially offset by ceding commissions or fronting fees. Acquisition expenses also include premium taxes paid to states in which we are admitted to conduct business. Acquisition expenses were \$28.6 million or 23.0% of earned premium for the six months ended June 30, 2013, as compared to \$29.1 million or 23.6% of earned premium for the same period of 2012. The decrease is due to the increase in ceding commissions in the ART division. Other underwriting expenses were \$24.5 million for the six months ended June 30, 2013, compared to \$22.8 million for the same 2012 period. As a percentage of net earned premiums, other underwriting expenses increased to 19.8% from 18.4% for the same six months of 2012. Other underwriting expenses increased due to the acquisition of underwriting teams and technology investments.

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### **Income Taxes**

The income tax expense for the six months ended June 30, 2013, was \$6.6 million compared to \$0.9 million for the same period of 2012 due to increased earnings in the U.S. as a result of realized gains generated from the sale of investment assets. Total realized gains for the six months ended June 30, 2013 were \$38.9 million, of which \$18.7 million were in the U.S.

### **Liquidity and Capital Resources**

The Company meets its cash requirements and finances its growth principally through cash flows generated from operations. The Company has experienced a reduction in premium rates due to the entrance of new competitors and overall market conditions. The Company's primary sources of short-term cash flow are premium writings and investment income. Short-term cash requirements relate to claims payments, reinsurance premiums, commissions, salaries, employee benefits, and other operating expenses. Due to the uncertainty regarding the timing and amount of settlements of unpaid claims, the Company's future liquidity requirements may vary; therefore, the Company has structured its investment portfolio to mitigate those factors. The Company believes its current cash flows are sufficient for the short-term needs of its business and its invested assets are sufficient for the long-term needs of its insurance business.

The Company has a line of credit facility of \$20 million. The facility is unsecured and expires August 20, 2013. At June 30, 2013, the Company had not drawn on the facility.

Net cash provided by operations was \$23.3 million for the six months ended June 30, 2013, compared to net cash provided by operations of \$13.7 million for the same period of 2012. Cash provided increased primarily as a result of the collection of accrued premiums.

Our ability to pay future dividends to shareholders will depend, to a significant degree, on the ability of our subsidiaries to generate earnings from which to pay dividends. The jurisdictions in which we and our insurance and reinsurance subsidiaries are domiciled place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of insurers. Given the capital requirements associated with our business plan, we do not anticipate paying dividends on the common shares in the near future.

### **Forward Looking Statements**

This report contains forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and financial performance, including insurance market conditions, premium growth, acquisitions and new products, and the impact of new accounting standards. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, including competitive conditions in the insurance industry, levels of new and renewal insurance business, developments in loss trends, adequacy and changes in loss reserves and actuarial assumptions, timing or collectability of reinsurance recoverables, market acceptance of new coverages and enhancements, changes in reinsurance costs and availability, potential adverse decisions in court and arbitration proceedings, the integration and other challenges attendant to acquisitions, and changes in levels of general business activity and economic conditions. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of American Safety to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the timing and completion of the merger, the outcome of any legal proceedings relating to the merger, the effect on American Safety's customer relationships, operating results and business generally. Such factors also include, but are not limited to, the risks and uncertainties described in Fairfax's reports filed with the SEC and securities regulatory authorities in Canada, which are available at [www.sec.gov](http://www.sec.gov) and [www.sedar.com](http://www.sedar.com), and in American Safety's reports, including its Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC, which are available at [www.sec.gov](http://www.sec.gov). Fairfax and American Safety disclaim any intention or obligation to update or revise any forward-looking statements, except as required by law.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For an in-depth discussion of the Company's market risks, see Management's Discussion and Analysis of Quantitative and Qualitative Disclosures about Market Risk in Item 7A of the Company's Form 10-K for the year ended December 31, 2012.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Report, concluded that, as of such date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company (including consolidated subsidiaries) would be made known to them.

**Changes in Internal Control**

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation described above that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

The Company, through its subsidiaries, is routinely party to pending or threatened litigation or arbitration disputes in the normal course of or related to its business. Based upon information presently available, in view of reserve practices and legal and other defenses available to our subsidiaries, management does not believe that any pending or threatened litigation or arbitration disputes will have any material adverse effect on our financial condition or operating results.

**Item 1A. Risk Factors**

For an in-depth discussion of risk factors affecting the Company, see Part I, Item 1A. Risk Factors of the Company's Form 10-K for the year ended December 31, 2012.

The following are material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

**Failure to complete the pending merger with Fairfax could materially and adversely affect our results of operations and our stock price.**

On June 2, 2013, American Safety Insurance Holdings, Ltd., a Bermuda exempted company (the Company), entered into an Agreement and Plan of Merger (the Merger Agreement) with Fairfax Financial Holdings Limited, a Canadian corporation (Fairfax), and Fairfax Bermuda Holdings Ltd., a Bermuda exempted company and an indirect wholly-owned Subsidiary of Fairfax. Under the terms of the Merger Agreement, the Company will be an indirect wholly-owned subsidiary of Fairfax.

At the effective time of the Merger (the Effective Time), each issued and outstanding common share of the Company (the Shares), other than Shares held in the Company's treasury or owned by Fairfax, or any direct or indirect wholly-owned subsidiary of Fairfax, or owned by any shareholders who are entitled to and who properly exercise appraisal rights under Bermuda law, will be cancelled and converted into the right to receive \$29.25 in cash, without interest (the Merger Consideration). At the Effective Time, each outstanding option to purchase Shares granted under the Company's equity plans that is outstanding and unexercised as of immediately prior to the Effective Time, whether vested or unvested or exercisable, shall become fully vested and exercisable, and all restricted Shares granted under the Company's equity plans shall become fully vested and transferable and all restrictions on such restricted shares shall lapse. Each holder of an option that is outstanding and unexercised as of the Effective Time and has an exercise price per Share that is less than the per Share Merger Consideration shall be entitled to receive in exchange for the cancellation of such option an amount in cash equal to the product of (i) the difference between the per Share Merger Consideration and the applicable exercise price of such option and (ii) the aggregate number of Shares that remain issuable upon exercise of such option, subject to applicable withholding requirements.

In addition, the pendency of the Merger could adversely affect our operations because:

the attention of our management and our employees may be diverted from day-to-day operations as they focus on the Merger;

our insureds, distribution partners and other business partners may cease or delay conducting business with us as a result of the announcement of the Merger, which could cause our revenues to materially decline or any anticipated increases in revenues to be lower than expected;

our ability to attract new employees and retain our existing employees may be harmed by uncertainties associated with the Merger, and we may be required to incur substantial costs to recruit replacements for lost personnel or consultants; and

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stockholder lawsuits could be filed against us challenging the Merger. If this occurs, even if the lawsuits are groundless and we ultimately prevail, we may incur substantial legal fees and expenses defending these lawsuits, and the Merger could be prevented or delayed.

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The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations and our stock price. As a result of the occurrence of any of these events, if the Merger is not completed, our business and operating results could be materially adversely affected.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**  
**Issuer Purchase of Equity Securities**

On January 24, 2012 and subsequently on October 23, 2012, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of common stock with a total authorized repurchase of 1,000,000 shares. Pursuant to this authorization, the Company had repurchased a total of 916,002 shares of common stock as of June 30, 2013, at an average cost of \$18.51 per share or approximately \$17.8 million during 2012 and 2013.

During the quarter, 42,969 shares were purchased at an average cost of \$28.92 per share pursuant to the exercise of stock options.

The following table provides information with respect to shares of our common stock that were repurchased or surrendered during the three months ended June 30, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
April 1, 2013 through April 30, 2013	0	\$	0	83,998
May 1, 2013 through May31, 2013	0	\$	0	83,998
June 1, 2013 through June 30, 2013	42,969	\$ 28.92	0	83,998
Total	42,969	\$ 28.92	0	

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

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**Item 6. Exhibits**

The following exhibits are filed as part of this report:

<b>Exhibit No.</b>	<b>Description</b>
11	Computation of Earnings Per Share
31.1	Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Label Linkbase Document.
101.PRE*	XBRL Taxonomy Presentation Linkbase Document.

\* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 8th day of August, 2013.

American Safety Insurance Holdings, Ltd.

By: /s/ Stephen R. Crim  
 Stephen R. Crim  
 President and Chief Executive Officer

By: /s/ Mark W. Haushill  
 Mark W. Haushill  
 Chief Financial Officer