AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form 10-Q
May 15, 2006

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

FORM 10-Q

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

For the quarterly period ended March 31, 2006 Commission F

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

Bermuda
(State or other jurisdiction
of incorporation or
organization)

(
Ide

44 Church Street
P.O. Box HM2064
Hamilton HM HX, Bermuda
(Address, zip code of principal executive offices)

(441) 296-8560
(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Secti
Exchange Act of 1934 during the preceding 12 months (or such shorter period that registrant was r
(2) has been subject to such filing requirements for the past 90 days. X__ Yes _____ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer
definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act
Large accelerated filer ______ Accelerated filer ______ Non-accelerated filer X___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the

The aggregate number of shares outstanding of registrant's common stock, $.01 par value, on May 4

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Balance Sheets

	December 31, 2005	M
		(U
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value	$364,856,826	$ 37
Common stock, at fair value	21,706,103	2
Preferred stock, at fair value	3,607,000	
Short-term investments	25,326,648	2
Total investments	415,496,577	42
Cash and cash equivalents	23,289,927	2
Accrued investment income	4,037,573	
Premiums receivable	17,315,778	2
Ceded unearned premium	29,880,672	2

Reinsurance recoverable	173,490,056	17
Deferred income taxes	11,933,791	1
Deferred policy acquisition costs	10,628,874	1
Property, plant and equipment	4,489,608	
Other assets	6,572,007	
Total assets	$697,134,863	$70

	December 31, 2005	M (U
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses	$ 394,872,581	$ 40
Unearned premiums	100,241,061	9
Ceded premiums payable	16,505,732	2
Accounts payable and accrued expenses	13,066,758	1
Loans payable	37,810,099	3
Funds held	11,190,989	1
Minority interest	5,012,396	
Total liabilities	578,699,616	58
Shareholders' equity:		
Preferred stock, $0.01 par value; authorized 5,000,000 shares; no shares issued and outstanding	-	
Common stock, $0.01 par value; authorized 15,000,000 shares; issued and outstanding at December 31, 2005, 6,753,731 and March 31, 2006, 6,779,031 shares	67,537	
Additional paid-in capital	49,460,019	4
Retained earnings	70,457,352	7
Accumulated other comprehensive income, net	(1,549,661)	(
Total shareholders' equity	118,435,247	11
Total liabilities and shareholders' equity	$ 697,134,863	$70

See accompanying notes to consolidated financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended March 31,	
	2005	2
Revenues:		
Direct premiums earned	$55,245,400	$ 56,

Assumed premiums earned	6,662	
Ceded premiums earned	(20,631,451)	(21,
Net premiums earned	34,620,611	35,
Net investment income	3,156,381	4,
Net realized gains	52,232	
Real estate income	2,309,000	
Other income	1,949	
Total revenues	40,140,173	40,
Expenses:		
Losses and loss adjustment expenses	20,781,044	22,
Acquisition expenses	7,126,379	6,
Payroll and related expenses	2,966,986	3,
Real estate expenses	2,264,529	
Other expenses	2,238,640	2,
Interest expense	266,679	
Minority interest	587,898	(
Expense due to rescission	10,868	
Total expenses	36,243,023	35,
Earnings before income taxes	3,897,150	4,
Income taxes	250,807	
Net earnings	$ 3,646,343	$ 4,
Net earnings per share:		
Basic	$ 0.54	
Diluted	$ 0.50	
Weighted Average number of shares outstanding		
Basic	6,791,476	6,
Diluted	7,265,523	7,

See accompanying notes to consolidated financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Statements of Cash Flow
(Unaudited)

	Three Month	
	March 3	
	2005	
Cash flow from operating activities:		
Net earnings	$3,646,343	
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Realized gains on investments	(52,232)	
Depreciation expense	218,597	
Stock option expense	-	
Amortization of deferred acquisition costs, net	392,121	
Amortization of premiums on investments	611,941	
Deferred income taxes	(324,115)	
Change in:		
Accrued investment and interest income	232,239	

Premiums receivable	(5,440,565)
Reinsurance recoverable, payable and ceded unearned premiums	(12,886,486)
Funds held	(402,513)
Unpaid losses and loss adjustment expenses	15,218,983
Unearned premiums	8,958,786
Ceded premiums payable	5,134,676
Accounts payable and accrued expenses	(535,618)
Other, net	3,071,437
Net cash provided by operating activities	17,843,594
Cash flow from investing activities:	
Purchases of fixed maturities	(42,342,488)
Purchases of common stock	(4,835,288)
Purchases of preferred stock	-
Proceeds from sale of fixed maturities	10,311,929
Proceeds from sale of common stock	802,383
Decrease in short-term investments	17,664,266
Decrease in real estate investment	1,514,652
Purchase of fixed assets, net	(268,867)
Net cash used in investing activities	(17,153,413)
Cash flow from financing activities:	
Proceeds from issuance of common stock	134,867
Repayment of loan payable	(382,873)
Net cash (used in) provided by financing activities	(248,006)
Net increase in cash and cash equivalents	442,175
Cash and cash equivalents at beginning of period	24,843,736
Cash and cash equivalents at end of period	$25,285,911
Supplemental disclosure of cash flow information:	
Income taxes paid	$ 264,810
Interest paid	$ 248,067

See accompanying notes to consolidated financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Earnings
(Unaudited)

	Three
	2005
Net earnings	$ 3,646,34
Other comprehensive earnings before income taxes:	
Unrealized losses on securities available-for-sale, net of minority interest of $(212,671) and $(239,276) for 2005 and 2006, respectively	(4,660,08
Unrealized gains on hedging transaction	280,78
Reclassification adjustment for realized gains included in net earnings	(52,23
Total other comprehensive loss before taxes	(4,431,53

Income tax benefit related to items of other comprehensive income, net of minority interest of $(1,363) and $(81,352) for March 31, 2005 and 2006 respectively.	(931,75
Other comprehensive loss net of income taxes	(3,499,77
Total comprehensive earnings	$ 146,56

See accompanying notes to consolidated financial statements (unaudited).

American Safety Insurance Holdings, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2006
(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements of American Safety Insurance Holdings, Ltd. (American Safety) and its subsidiaries and American Safety Risk Retention Group, Inc. (American Safety RRG), a non-subsidiary risk retention group affiliate (collectively, the Company) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates, based on the best information available, in recording transactions resulting from business operations. The balance sheet amounts that involve a greater extent of accounting estimates and/or actuarial determinations subject to future changes are the Company s invested assets, deferred income taxes, and the liabilities for unpaid losses and loss adjustment expenses. As additional information becomes available (or actual amounts are determinable), the recorded estimates may be revised and reflected in operating results. While management believes that these estimates are adequate, such estimates may change in the future.

The results of operations for the three months ended March 31, 2006 may not be indicative of the results that may be expected for the fiscal year ending December 31, 2006. 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, 2005.

The unaudited interim consolidated financial statements include the accounts of American Safety, each of its subsidiaries and American Safety RRG. All significant intercompany balances have been eliminated. In 2005, the Company changed its segment presentation. See Note 5 for additional information. Prior years have been reclassified to conform to current year presentation.

Note 2 Accounting Pronouncements

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

In November 2005, the FASB issued Staff Position Number FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1). FSP 115-1 addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in FSP 115-1 amends FASB Statement No. 115, Accounting for Certain

Investments in Debt and Equity Securities, and was effective January 1, 2006. The adoption of this pronouncement did not have a material impact on the Company s financial statement.

In April 2006, the FASB issued a Staff Position Number FIN 46(R)-6, Determining the Variability to be Considered in Applying FASB Interpretation No. 46(R) (FSP 46R-6). FSP 46R-6 responds to the need for guidance on the relevant risks and rewards that must be identified and evaluated in order to apply FIN 46R, and is effective for fiscal periods beginning after June 15, 2006. This pronouncement will have no impact on the Company as it already consolidates its non-subsidiary affiliate American Safety RRG.

Note 3 Nature of Operations

The following is a description of certain risks facing the Company:

Legal/Regulatory Risk is the risk that changes in the legal or regulatory environment in which an insurer operates will create additional expenses not anticipated by the Company in pricing its products and beyond those recorded in the financial statements. That is, regulatory initiatives designed to reduce insurer profits or otherwise affecting the industry in which the insurer operates, new legal theories or insurance company insolvencies through guaranty fund assessments may create costs for the insurer beyond those recorded in the financial statements. The Company attempts to mitigate this risk by writing insurance business in several states, thereby spreading this risk over a large geographic area.

The Potential Risk of United States Taxation of Bermuda Operations. Under current Bermuda law, American Safety is not required to pay any taxes in Bermuda on either income or capital gains. American Safety has received an undertaking from the Minister of Finance in Bermuda that will exempt American Safety from taxation until the year 2016 in the event of any such taxes being imposed. Whether a foreign corporation is engaged in a United States trade or business or is carrying on an insurance business in the United States that would subject it to United States taxation depends upon the level of activities conducted in the United States. If the activities of a foreign company are continuous, regular, and considerable, the foreign company will be deemed to be engaged in a United States trade or business. Management believes that American Safety and its Bermuda subsidiaries have been operated and in the future will continue to be operated in a manner that will not cause any of them to be treated as being engaged in a U.S. trade or business.

However, because the Internal Revenue Code of 1986, as amended, Treasury Regulations and court decisions do not definitively identify activities that constitute being engaged in a United States trade or business, and because of the factual nature of the determination, there can be no assurance that the Internal Revenue Service will not contend that American Safety and/or its Bermuda subsidiaries are engaged in a United States trade or business. In general, if American Safety or its Bermuda subsidiaries were engaged in a United States trade or business, each could be subject to (i) United States Federal income tax on income effectively connected with that trade or business and (ii) United States branch profits tax. Certain subsidiaries of American Safety are, however, subject to United States federal and state income tax as they are domiciled and conduct business in the United States.

Credit Risk is the risk that issuers of securities owned by the insurer or secured notes receivable will default or that other parties, including reinsurers that have obligations to the insurer, will not pay or perform. The Company attempts to mitigate this risk by adhering to a conservative investment strategy, by obtaining sufficient collateral for secured note obligations and by maintaining sound reinsurance, credit and collection policies.

Interest Rate Risk is the risk that interest rates may change and cause a decrease in the value of an insurer s investments.

The Company s fixed maturity holdings are invested predominantly in high quality corporate, government and municipal bonds with relatively short durations. The fixed maturity portfolio is exposed to interest rate fluctuations; as interest rates rise, their fair values decline and as interest rates fall, their fair values rise. The changes in the fair market value of the fixed maturity portfolio are presented as a component of shareholders equity in accumulated other comprehensive income, net of taxes.

We work to manage the impact of interest rate fluctuations on our fixed maturity portfolio. The effective duration of the fixed maturity portfolio is managed with consideration given to the estimated payout timing of our liabilities. We have investment policies which limit the maximum duration and maturity of individual securities within the portfolio and set target levels for average duration and maturity of the entire portfolio.

Note 4 Investments

The amortized cost and estimated fair values of the Company s investments at December 31, 2005 and March 31, 2006 are as follows:

	Amortized Cost	Gross unrealized gains	Gross unrealized losses
December 31, 2005:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 86,740,033	$ 547,669	$ 1,311,628
States of the U.S. and political subdivisions of the states	64,740,408	386,303	498,465
Corporate securities	84,763,525	618,765	1,598,413
Mortgage-backed securities	132,992,335	56,265	2,579,971
Total fixed maturities	$369,283,174	1,609,002	5,988,477
Common Stock	$ 19,983,174	$ 2,721,304	$ 998,374
Preferred Stock	$ 3,500,900	$ 106,100	$ -
March 31, 2006:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 84,432,281	$ 204,267	$ 2,086,039
States of the U.S. and political subdivisions of the states	66,966,030	80,675	1,331,072
Corporate securities	83,214,382	288,511	2,161,799
Mortgage-backed securities	145,216,025	474	4,282,784
Total fixed maturities	$379,828,718	$ 573,927	$ 9,861,694
Common stock	$ 22,179,120	$ 3,282,358	$ 948,042
Preferred stock	$ 4,991,650	$ 74,450	$ 15,900

Note 5 Segment Information

The Company initially segregates its business into the following segments: Real Estate Operations, Insurance Operations, and Other. The Insurance Operations segment is further classified into three additional lines: Excess and Surplus Lines (E&S), Alternative Risk Transfer (ART), and Runoff lines. The E&S lines is then further classified into three reportable lines of business: Environmental Specialty (Env.), Construction (Const.), and Surety. ART is then further classified into two reportable lines of business: Specialty Programs (Programs) and Fully-Funded (FF).

Real estate consists of the Harbour Village project in Ponce Inlet, Florida.

In our E&S line, Environmental Specialty writes insurance coverages for the environmental remediation industry. Construction provides commercial casualty insurance coverages, generally in the area of construction and products liability. Surety provides payment and performance bonds to the environmental remediation industry.

In our ART line, Specialty Programs facilitates the offering of insurance to homogeneous niche groups of risks. Fully-funded provides a mechanism for insureds to post collateral and self-insure their risks. The Company is paid a fee for arranging this type of transaction.

The Other segment consists of amounts associated with realized gains and losses on investments.

The Company measures all segments using net earnings, total assets and total equity. The Reportable Insurance Operations segments are measured by net premiums earned, incurred losses and loss adjustment expenses and acquisition expenses. Assets are not allocated to the Reportable Insurance Operations segments. The following table presents key financial data by segment for the three months ended March 31, 2005 and March 31, 2006 (in thousands):

March 31, 2005	Real Estate	Insurance					
		E&S			ART		Ru
		Env.	Const.	Surety	Specialty Programs	FF	
Gross premiums written	$ –	$13,594	$27,053	497	$22,743	$317	
Net premiums written	–	10,967	22,185	250	3,270	133	
Net premiums earned	–	8,745	21,104	219	4,309	89	
Losses & loss adjustment expenses	–	4,809	12,888	377	2,448	5	
Acquisition expenses	–	2,393	4,546	47	211	(71)	
Underwriting profit (loss)	$ –	$ 1,543	$3,670	$(205)	$1,650	$155	
Income tax expense (benefit)	$16			$ 222			
Net earnings	$28			$ 3,604			
Assets	$3,439			$ 605,940			
Equity	$2,575			$ 106,585			

March 31, 2006	Real Estate	Insurance					
		E&S			ART		Runof
		Env.	Const.	Surety	Programs	FF	
Gross premiums written	$ –	$12,641	$23,064	$870	$16,345	$263	$ –
Net premiums written	–	8,071	20,353	440	4,526	188	–
Net premiums earned	–	8,320	21,035	353	4,981	368	–
Losses & loss adjustment expenses	–	5,695	13,558	125	3,077	–	(300
Acquisition expenses	–	2,641	4,142	88	184	(78)	–
Underwriting profit (loss)	$ –	$(16)	$3,335	$140	$1,720	$446	$300
Income tax expense							

(benefit)	$ (25)	$ (41)
Net earnings	$ (42)	$ 3,863
Assets	$2,468	$707,107
Equity	$ 715	$119,095

The Company conducts business in the following geographic segments: United States and Bermuda. Significant differences exist in the regulatory environment in each country, which requires the Company to set forth operations by those geographic segments. The table below describes the Company s operations by geographic segment for the three months ended March 31, 2005 and March 31, 2006 (in thousands):

March 31, 2005	United States	Bermuda	
Income tax	$ 251	$ -	$
Net earnings	$ 1,593	$ 2,053	$
Assets	$ 471,346	$ 138,036	$
Equity	$ 55,927	$ 53,134	$
March 31, 2006	**United States**	**Bermuda**	
Income tax	$ 16	$ -	$
Net earnings	$ 1,046	$ 3,055	$
Assets	$ 537,187	$ 172,388	$
Equity	$ 58,348	$ 61,359	$

Note 6 Income Taxes

Total income tax expense (benefit) for the periods ended March 31, 2005 and 2006 was allocated as follows:

	Three Months Ended March 31,	
	2005	2006
Tax expense (benefit) attributable to:		
Income from continuing operations	$ 250,807	$ 16,200
Change in unrealized gains (losses) on hedging transactions	95,467	24,717
Change in unrealized gains (losses) on available for sale securities	(1,028,588)	(981,869)
Total	$ (682,314)	$(940,952)

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

	Three Months Ended March 31,	
	2005	2006
Current	$ 574,926	$(123,162)
Deferred	(324,119)	(139,362)
Total	$ 250,807	$ 16,200

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The state income tax expense aggregated $42,226 and $15,168 for the three months ended March 31, 2005 and 2006, respectively, and is included in the current provision.

Income tax expense from continuing operations for the periods ended March 31, 2005 and 2006 differed from the amount computed by applying the U.S. Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following:

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2006
Expected income tax expense	$ 1,325,031	$1,399,848
Foreign earned income not subject to direct taxation	(698,292)	(1,038,762)
Valuation allowance	(554,515)	-
State taxes and other	178,583	(344,886)
Total income tax	$ 250,807	$ 16,200
	===========	==========

Deferred income taxes are based upon temporary differences between the financial statement and tax bases of assets and liabilities. The following deferred taxes are recorded:

	December 31, 2005	March 31 2006
Deferred tax assets:		
Loss reserve discounting	$ 9,288,244	$ 9,472,99
Unearned premium reserves	3,118,965	3,015,08
Unrealized loss on securities	667,159	1,649,02
Other	502,989	495,79
Gross deferred tax assets	13,577,357	14,632,90
Deferred tax liabilities:		
Deferred acquisition costs	1,477,230	1,690,27
Unrealized gains on hedging transaction	166,336	191,05
Gross Deferred tax liabilities	1,643,566	1,881,32
Net deferred tax asset	$11,933,791	$12,751,58
	===========	==========

Note 7 Employee Stock Options

The Company s stock option plan grants incentive stock options to employees. The majority of the options outstanding under the plan generally 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 applied the recognition and measurement principles of SFAS No. 123R, Share Based Payment in the first quarter of 2006. Compensation expense of $140,556 is reflected in net earnings for the first quarter of 2006.

The following table illustrates the effect on earnings and earnings per share, assuming we had applied the fair value recognition provisions of SFAS No. 123R Accounting for Share Based Payments for the three months ended March 31, 2005.

Three Months Ending
March 31,2005

	(In thousands, except per share amounts)
Net earnings:	
As reported	$ 3,646
Effect of stock options	(487)
Pro forma net earnings	$ 3,159
Net earnings per share	
Basic - as reported	$ 0.54
Basic - pro forma	$ 0.47
Diluted - as reported	$ 0.50
Diluted - pro forma	$ 0.43

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

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). 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 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. See Note 5 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 our consolidated financial statements and the related notes included elsewhere in this report. All amounts and percentages are rounded.

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

	Quarter Ended March 31,		2
	2005	2006	2
	(in thousands)		
Net premiums written:			
Excess and Surplus Lines			
Environmental	$10,967	$8,071	(2
Construction	22,185	20,353	(
Surety	250	440	7
Total	33,402	28,864	(1
Alternative Risk Transfer			
Specialty Programs	3,270	4,526	3
Fully-Funded	133	188	4
Total	3,403	4,714	3
Runoff	(35)	-	(10
Total net premiums written	$36,770	$33,578	(

Net premiums earned:			
Excess and Surplus Lines			
Environmental	$8,745	$8,320	(4
Construction	21,104	21,035	(0
Surety	219	353	61
Total	30,068	29,708	(1
Alternative Risk Transfer			
Specialty Programs	4,309	4,981	15
Fully-Funded	89	368	313
Total	4,398	5,349	21
Runoff	155	-	(100
Total net premiums earned	34,621	35,057	1
Net investment income	3,156	4,544	44
Net realized gains	52	363	598
Real estate income	2,309	-	(100
Other income	2	64	3,100
Total Revenues	$40,140	$40,028	(0
	=======	=======	

The following table sets forth the components of our GAAP combined ratio for the period indicated:

	Quarter ended March 31,	
	2005	2006
Insurance operations		
Loss & loss adjustment expense ratio	60.0%	63.2%
Expense ratio	34.5	36.4
Combined ratio	94.5%	99.6%
	====	=====

Three Months ended March 31, 2005 Compared to Three Months ended March 31, 2006

Net earnings for the three months ended March 31, 2006 increased 12.5% to $4.1 million, or $0.57 per diluted share, compared to $3.6 million, or $0.50 per diluted share, for the same period in 2005.

Financial highlights in the quarter included:

- Book value increased to $17.66 per outstanding share and $16.65 per diluted share.
- Net investment income increased 44.0% to $4.5 million.
- Net premiums written decreased 8.7% to $33.6 million.
- Net premiums earned increased 1.3% to $35.1 million.
- The combined ratio increased to 99.6% from 94.5%

The 2006 first quarter results include a $2.8 million charge (which included $764,000 for American Safety RRG) related to the settlement of a prior year claim, which primarily arose from our runoff workers compensation business line. The claim, which occurred in New York, also triggered coverage on certain environmental policies due to the state labor laws in New York. The Company does not expect a recurrence of this type of claim in the future. The settlement reduced net premiums earned by $1.8 million due to reinsurance reinstatement premiums, and increased losses and loss adjustment expenses by $1.0 million. Net of $1.3 million in minority interest and taxes, the impact of the settlement of the claim on net earnings was $1.5 million. The Company previously reported a charge in the third quarter of 2005 of $2.3 million for reinsurance reinstatement premiums associated with this claim after an increase in the case reserves based on the input from an outside law firm and an independent consultant. The Company elected to settle the case in late March 2006 for an amount exceeding the established reserve as a result of additional information received during a mediation process, creating the earnings charge in the first quarter. The combined ratio for the first quarter increased to 99.6%, comprised of a loss ratio of 63.2% and an expense ratio of 36.4%. The claim settlement increased the loss ratio

by 5.7 percentage points and the expense ratio by 1.8 percentage points. The 2005 first quarter combined ratio was 94.5%, comprised of a loss ratio of 60.0% and expense ratio of 34.5%.

Revenues for the quarter totaled $40.0 million compared to 40.1 million in 2005 as increased premiums earned, investment income and realized gains on investments offset the non-recurring real estate income generated during the first quarter of 2005. Net premiums written for the quarter decreased 8.7% to $33.6 million. Included in this decrease are the reinstatement premiums discussed above, which represent 4.9 percentage points of this decrease. Net premiums earned increased 1.3% to $35.1 million. Included in this increase are the reinstatement premiums discussed above, which reduced the increase by 5.1 percentage points. The decrease in net premiums written was driven primarily by decreased premium writings in our construction business line. The increase in net premiums earned was primarily the result of higher earned premiums in the specialty programs and environmental business lines.

The Company s book value per outstanding share increased to $17.66 from $17.54 at December 31, 2005 due to net earnings of $4.1 million, partially offset by an increase in unrealized losses on investments due to changes in market interest rates.

Net Premiums Earned

Excess and Surplus Lines

Environmental. Net premiums earned decreased 4.9% to $8.3 million for the three months ended March 31, 2006 compared to $8.7 million for the same period of 2005. Net premiums written decreased 26.4% to $8.1 million for the three months ended March 31, 2006 compared to $11.0 million for the same period of 2005. The decline in premium writings was due primarily to three factors: (i) $1.8 million of reinstatement reinsurance premiums resulting from the settlement of a prior year claim which primarily arose from the Company s runoff workers compensation business line; (ii) a decline in the Company s middle-market business, which includes environmental accounts with insureds with greater than $3.0 million in annual revenue, due to increased competition and the overall changing pricing conditions in the market place; and (iii) an expected decline in the Company s book of environmental contractor and consultant premiums in the State of New York as a result of changes in the underwriting process, which the Company believes will improve the ultimate profitability of the environmental business line. The Company expects the decline in New York business to be complete by the end of the second quarter of 2006. These decreases were offset, in part, by strong growth in business submitted through the Company s ProStar online rating and quoting system (ProStar) and business from the Company s environmental impairment liability products, which increased 30.8% and 19.7% respectively, compared to the same period of 2005. The Company intends to focus its efforts on expanding ProStar s capabilities and increasing its market share of insuring environmental risks of small and medium-sized businesses.

The Company renewed its environmental reinsurance treaty effective April 1, 2006. The Company maintained the same reinsurance structure as the expiring treaty but increased its maximum exposure on a per occurrence basis from $500,000 to $800,000. The balance of the risk, up to $10.2 million in excess of the Company s retention, is ceded to unaffiliated reinsurers.

Construction. Net premiums earned decreased 0.3% to $21.0 million for the three months ended March 31, 2006 compared to $21.1 million for the same period of 2005. Net premiums written decreased 8.3% to $20.4 million for the three months ended March 31, 2006 compared to $22.2 million for the same period of 2005. The decline in premium writings was attributable to a reduction in the Company s renewal retention rate as the Company shifted its renewal book of commercial construction business toward the Company s targeted smaller account profile. In addition, increased competition and a general softening of premium rates contributed to the decline in premium writings. New business volume for the quarter remained consistent with 2005 levels as a result of increased premiums from the Company s geographic diversification efforts and from the Company s excess liability product. Effective July 1, 2005, the Company discontinued purchasing reinsurance on the primary general liability portion of this business line. The Company made this decision after performing a loss cost and dynamic financial analysis and concluding that its reinsurance purchases were uneconomical. The Company believes retaining this exposure will enhance its financial results and returns on capital.

Surety. Surety is a contract under which an insurer guarantees certain obligations of a second party to a third party. The Company is listed as an acceptable surety on federal bonds, commonly known as a Treasury-listed or T-listed surety. The Company primarily provides contract performance and payment bonds to environmental contractors and general construction contractors in 47 states and the District of Columbia. Net premiums earned increased 61.2% to $353,000 for the three months ended March 31, 2006 compared to $219,000 for the same period of 2005. Net premiums written increased 76.0% to $440,000 for the three months ended March 31, 2006 compared to $250,000 for the same period of 2005. These increases were attributable to the Company s effort to modestly expand its surety business as a supporting business line due to what the Company believes is the lack of surety capacity serving this area of the market.

Alternative Risk Transfer

Specialty Programs. Net premiums earned increased 15.6% to $5.0 million for the three months ended March 31, 2006 compared to $4.3 million for the same period of 2005. Net premiums written increased 38.4% to $4.5 million for the three months ended March 31, 2006 compared to $3.3 million for the same period of 2005. These increases were attributable to increased retention levels on this business line. Despite increases in net premiums earned and net premiums written, gross premiums written for the quarter decreased 28.1% to $16.3 million from $22.7 million for the same period of 2005. The decrease primarily was attributable to the non-renewal of one professional liability program in the fourth quarter of 2005 and a reduction in writings in one of the Company s construction programs due to a delay in writings that the Company expected for the first quarter of 2006. The Company added one new program in January 2006, a general liability program coverage for owners of senior habitational facilities.

Fully-Funded. Net premiums earned increased 313.5% to $368,000 for the three months ended March 31, 2006 compared to $89,000 for the same period of 2005. Net premiums written increased 41.4% to $188,000 for the three months ended March 31, 2006 compared to $133,000 for the same period of 2005. Fee income earned in the quarter increased to$492,000 from $160,000 for the same period of 2005. These increases primarily were attributable to the healthcare and residential construction industries. The Company expects continued growth in this business line for the remainder of 2006 in the healthcare and residential construction industries and new growth in the product manufacturing industry.

Runoff.

Both net premiums earned and net premiums written decreased to zero for the three months ended March 31, 2006 compared to $155,000 and negative $35,000 for the same period of 2005, respectively. The decreases in runoff net premiums earned and net premiums written were attributable to the Company s exit from its assumed liability program and workers compensation business. These businesses were put into runoff in 2004 because they did not meet the Company s profit or production expectations.

Net Investment Income

Net investment income increased 44.0% to $4.5 million for the three months ended March 31, 2006 from $3.2 million for the same period of 2005 due to an increase in the Company s invested assets and higher investment yields. Average invested assets increased to $418.5 million for the three months ended March 31, 2006 from $333.5 million for the same period of 2005, reflecting $64.8 million of cash flows from operations from the second quarter of 2005 through the first quarter of 2006 and $24.4 million in net proceeds from the issuance of trust preferred securities in November 2005. The average pre-tax and after tax investment yields were 4.3% and 3.6% compared to 3.8% and 3.1% for the three months ended March 31, 2006 and 2005, respectively. The increase in yields was consistent with overall market rate increases.

Net Realized Gains

Net realized gains and losses from the sale of investments increased to $363,000 for the three months ended March 31, 2006 from $52,000 for the same period of 2005. Sales of investments are generally the result of implementing investment strategies to maximize investment income. In the first quarter of 2006, the Company rebalanced its common stock investment portfolio, in accordance with its investment policies, which resulted in $215,000 of net realized gains. The remainder of net realized gains were from sales of fixed income securities.

Real Estate Income

The Company did not have any real estate income in the first quarter of 2006 compared to $2.3 million in the first quarter of 2005. The reduction in real estate income was due to the substantial completion of the Harbour Village project. The final condominium units at Harbour Village were sold and closed in the second quarter of 2005.

The Company does not engage in any real estate activities, except for in connection with the completion of the remainder of the Harbour Village project, which includes the construction of a beach club and the management of remaining warranty claims on closed condominium units. The Company does not expect to engage in any real estate activities in the future. The earnings and funds generated from Harbour Village have been invested into the Company s insurance operations.

Losses and Loss Adjustment Expenses

The Company s losses and loss adjustment expenses ratio increased by 3.2 percentage points to 63.2% for the three months ended March 31, 2006 from 60.0% for the same period of 2005. The increase was attributable to the Company experiencing total reserve strengthening of

$688,000 for the three months ended March 31, 2006 compared to no reserve strengthening for the same period of 2005. This reserve strengthening primarily was related to the settlement of the previously discussed prior year New York claim which required $1.0 million of reserve strengthening, offset in part by favorable development in the Company s environmental business line.

Acquisition Expenses

Policy acquisition expenses are amounts that are paid to producers for the production of premium for the Company offset by the ceding commissions the Company retains from its reinsurers. For the Company s specialty program business, fees typically are earned through ceding commissions and have the effect of lowering its policy acquisition expenses. Policy acquisition expenses also include amounts paid for premium taxes to the states where the Company does business on an admitted basis. Policy acquisition expenses decreased 2.8% to $6.9 million for the three months ended March 31, 2006 compared to $7.1 million for the same period of 2005. Policy acquisition expenses as a percentage of net premiums earned were 19.9% for the three months ended March 31, 2006 and 20.6% for the same period of 2005. This decrease was primarily the result of the Company s increased retention on its construction business line.

Real Estate Expenses

Real estate expenses associated with the Harbour Village project decreased to $67,000 for the three months ended March 31, 2006 from $2.3 million for the same period of 2005. The reduction in real estate expenses was due to the substantial completion of the Harbour Village project. The final condominium units were sold and closed in the second quarter of 2005.

Minority Interest Expense

Minority interest expense is associated with our non-subsidiary affiliate, American Safety RRG. In the past, given the historical loss position of American Safety RRG, a valuation allowance on its net deferred tax assets had been established. In the first quarter of 2005, American Safety RRG included in income the reduction of its $554,000 valuation allowance as judgment about the realizability of American Safety RRG s deferred tax assets changed due to its profitability. As a result, the Company s minority interest expense for the three months ended March 31, 2005 was $588,000. In the first quarter of 2006, American Safety RRG included in expense $764,000 related to the settlement of the previously discussed prior year New York claim. Net of taxes, the claim affected American Safety RRG s net earnings by $505,000. As a result, minority interest expense for the three months ended March 31, 2006 was a benefit of $472,000.

Payroll and Other Expenses

Payroll and other expenses increased 30.9% to $7.2 million for the three months ended March 31, 2006 compared to $5.5 million for the same period of 2005. The change is primarily due to increased interest costs of $636,000 resulting from the issuance of trust preferred securities in November 2005, an increase in professional services of $196,000, an increase in depreciation of $161,000 and increases in payroll and related expenses of $444,000 due to increased staff.

Income Taxes

Income tax expense for the first quarter of 2006 was $16,000, or less than 1% of pretax income, compared to $251,000, or 6.4% of pretax income, for the same period of 2005. The primary reason for the lower tax rate in the first quarter of 2006 was due to the settlement of the previously discussed prior year New York claim, which resulted in a $2.8 million pretax charge. The majority of this settlement was incurred by the Company s U.S. subsidiaries. For the three months ended March 31, 2006, earnings in Bermuda were 74.2% of the Company s total pre-tax earnings, and earnings in the U.S. were 25.8% of the Company s total pre-tax earnings. The Company s effective tax rate was 0.4% for the first quarter of 2006. Included in this rate was the impact of the settlement, which reduced the rate by 11.3 percentage points.

Operations by Geographic Segment

The Company conducts business in the U.S. and Bermuda. Significant differences exist in the regulatory environment in each country, which requires the Company to set forth operations by those geographic settlements. The table below describes the Company s operations by geographic segment for the three months ended March 31, 2005 and 2006 (in thousands):

March 31, 2005	U.S.	Bermuda
Income Tax	$ 251	$ -
Net earnings	$1,593	$2,053

March 31, 2006	U.S.	Bermuda
Income Tax	$ 16	$ -
Net earnings	$1,046	$3,055

Net earnings. Net earnings from Bermuda operations increased to $3.1 million for the three months ended March 31, 2006 compared to $2.1 million for the same period of 2005. Net earnings from Bermuda operations increased in 2006 due to improved underwriting results in the Company s insurance operations. Net earnings from U.S. operations decreased to $1.0 million for the three months ended March 31, 2006 compared to $1.6 million for 2005. This decrease is due to the settlement of the previously discussed prior year New York claim.

Assets from Bermuda operations increased to $172.4 million at the end of the first quarter of 2006 compared to $167.4 million at the end of 2005. Assets from U.S. operations increased to $537.2 million at the end of the first quarter of 2006 compared to $529.8 million at the end of 2005 Equity of the Bermuda operations increased to $61.4 million at the end of the first quarter of 2006 compared to $59.4 million at the end of 2005 . Equity of the U.S. operations decreased to $58.3 million at the end of the first quarter of 2006 compared to $59.0 million at the end of 2005

Liquidity and Capital Resources

We meet our cash requirements and finance our growth principally through cash flows generated from operations. From 2000 until 2004, we operated in a hardening market with increased insurance premium rates for general liability coverages and increased fees for specialty program business opportunities. During 2004 and 2005 and the first quarter of 2006, we began to experience a leveling of premium rates due to the entrance of new insurance competitors and overall market conditions. Our 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, our future liquidity requirements may vary; therefore, we have structured our investment portfolio maturities to help mitigate the variations in those factors. We believe our current cash flows are sufficient for the short-term needs of our business and its invested assets are sufficient for the long-term needs of our insurance business. However, we do expect to grow our business, in which event, we will need to raise additional capital. On April 26, 2006, we filed a registration statement with the Securities and Exchange Commission registering shares of our common stock that we expect to offer in a fully underwritten public offering.

Net cash provided from operations was $12.3 million for the three months ended March 31, 2006 and $17.8 million for the same period of 2005. This decrease primarily was caused by increased loss payments, which increased to $14.8 million for the three months ended March 31, 2006 from $11.7 million for the same period of 2005.

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 our expected growth and the capital requirements associated with that growth, we do not anticipate paying dividends on our common shares in the near future.

We substantially completed the Harbour Village project in 2005. The estimated completion cost for the remainder of the Harbour Village project is approximately $1.4 million and represents amounts needed to construct a beach club and manage remaining warranty claims on closed condominium units. An accrual of this amount has been established. Management believes that cash on hand will meet the remaining liquidity needs of Harbour Village.

Income Taxes

We are incorporated under the laws of Bermuda and, under current Bermuda law, are not obligated to pay any taxes in Bermuda based upon income or capital gains. We have received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of The Exempted Undertakings Tax Protection Act 1966, which exempts us and our shareholders, other than shareholders ordinarily resident in Bermuda, from any Bermuda taxes computed on profits, income or any capital asset, gain or appreciation, or any tax in the nature of estate, duty or inheritance

until March 28, 2016. We, exclusive of our United States subsidiaries, do not consider ourselves to be engaged in a trade or business in the United States and accordingly do not expect to be subject to direct United States income taxation. Our U.S. subsidiaries are subject to taxation in the United States.

Combined Ratio

The combined ratio of an insurance company measures only the underwriting results of insurance operations and not the profitability of the overall company. Our reported combined ratio for our insurance operations may not provide an accurate indication of our overall profitability. For instance, depending on our mix of business, the combined ratio may fluctuate from time to time and may not reflect the overall profitability of our insurance operations. Our combined ratio excludes certain holding company expenses as well as real estate and rescission expenses.

Forward-Looking Statements

Certain statements in this report 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, p 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 product and services, the market value of our investments and the lapse rate and profitability o 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
- legal or regulatory changes or actions, including those relating to the underwriting the sale, underwriting and pricing of insurance products and services;
- our ability to maintain or improve our current rating by A.M. Best Company ("A.M. Best")
- expectations regarding the adequacy of our reserves for losses and loss adjustment expen
- 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. 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 report 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.

See Part II-Item 1A- Risk Factors for additional information on risks faced by us.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company s market risk has not changed materially since December 31, 2005.

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 the Securities 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 has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We, through our subsidiaries, are routinely a party to pending or threatened litigation or arbitration disputes in the normal course of or related to our business. Based upon information presently available, in view of 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, except for the matters discussed in Legal Proceedings in Item 3 of our Form 10-K for the fiscal year ended December 31, 2005 and as discussed herein.

Assumed Reinsurance Litigation. We are a defendant in several cases, liquidation actions and reinsurance claims, collectively identified as the National Warranty issue. American Safety Reinsurance, Ltd. (American Safety Re) was an excess of loss reinsurer through a reinsurance treaty with National Warranty Risk Retention Group (National Warranty) that, in turn, provided insurance coverage to automobile dealerships and other providers that became obligors pursuant to extended automobile warranty contracts they sold to consumers. National Warranty filed for liquidation in the Cayman Islands (the location of its legal creation). This liquidation had a cascading effect, including the subsequent filing of bankruptcy by various obligors of vehicle service contracts insured by National Warranty. As a result, there are potentially over one million vehicle service contracts that are not being honored by the obligors.

The liquidators of National Warranty have made claims in excess of $25.0 million pursuant to two reinsurance contracts issued by American Safety Re to National Warranty in 2002 and 2003. In addition, purchasers of vehicle service contracts have made claims against American Safety Re, including a claim by one purchaser group for $10.0 million. This case has been certified as a class action, although we are appealing that determination. Lastly, claims have been made by sellers/obligors of the vehicle service contracts who were insured by National Warranty. There are nine cases against us and other professional services providers, including other reinsurers, relating to National Warranty, with claims in excess of $2.6 million. All of these claims are based on fraud and/or theories of contractual violations. We continue to believe that American Safety Re has valid defenses to the claims including, among others, that it had commuted its obligations under reinsurance treaties, its liability is limited to the amount of coverage provided under the policies, which varies based on premium and loss ratios, and that most of the claimants cannot make claims directly against it. We have an accrual in place that we believe will be sufficient to satisfy any potential liability relating to the outcome of these matters.

Griggs et al. v. American Safety Reinsurance, Ltd. et al., Case No. 2003-31509, Circuit Court, Seventh Judicial District, Volusia County, Florida. Seven plaintiffs filed suit against us and three of our subsidiaries seeking to recover a $2.1 million loan made by the plaintiffs in 1986 to Ponce Marina, Inc., the former owner of the Harbour Village property. The plaintiffs claimed that we were responsible for the repayment of the

loan, with interest. The plaintiffs propounded four theories of liability and the court granted judgment for us on three of the theories. However, the court entered judgment on August 10, 2005 against us for approximately $3.4 million, which includes interest, on the remaining theory. The court held that we, as a condition of our loan, required Ponce Marina, Inc. to demand that the plaintiffs enter into an agreement with Ponce Marina, Inc., to the detriment of their loans and to our benefit, and thus, we had entered into a quasi-contract with the plaintiffs to repay their loan with interest.

We filed an appeal in December 2005. Based on the merits of the case and likelihood of ultimate payment, we have not established an accrual for the decision.

Sizemore v. American Safety Insurance Services, Inc. et al., Case No 2005-31704, Circuit Court, Seventh Judicial District, Volusia County, Florida. American Safety Insurance Services, Inc., its parents and a number of its affiliates are defendants in a suit brought by an individual who contends that defendants are liable to him for a debt owed to him by Ponce Marina, Inc. in the amount of $400,000 plus interest and costs. The plaintiff also intends to seek class certification on behalf of himself and 21 other unnamed plaintiffs for the case on these claims in excess of $1.7 million plus interest and costs. On January 27, 2006, the trial court dismissed the case. The plaintiff was permitted to file an amended complaint on or before March 6, 2006. The plaintiff filed an amended complaint on March 7, 2006, alleging various theories of recovery, some of which were also alleged in the *Griggs* case. On May 4, 2006, the trial court dismissed the case and gave the plaintiff 20 days to file an amended complaint. We continue to vigorously defend this case, as we believe that the case is without merit. Based on the merits of the case and the likelihood of ultimate payment, we have not established an accrual for the decision.

Item 1A. Risk Factors

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. We plan to increase our retention of risk in these areas. 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 reserves 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 area 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 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 reaction 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 is 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), one of our reinsurers, 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.

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 ouroperations 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 bedelayed 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. 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 our common shares. 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 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:

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

o     interest rate risk, which is the risk that our invested assets may decrease due to changes

o     equity price risk, which is the risk that we will incur economic loss due to a decline in e

o     duration risk, which is the risk that our invested assets may not adequately match the dura
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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.

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 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 Holdings, Ltd. (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.

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

Under certain circumstances, a U.S. 10% shareholder (defined as any U.S. person who owns directly, indirectly through foreign entities or constructively by applying the constructive ownership rules of section 958(b) of the Internal Revenue Code of 1986, as amended (the Code), 10% or more of the total combined voting power of all classes of stock of the 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 our 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 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 our common shares may be subject to U.S. federal income taxation at ordinary income rates on theirproportionate 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 of our 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.

U.S. persons who dispose of our common shares may be subject to U.S. federal income taxation at the rates applicable to dividends ona 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 our 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 our common shares because American Safety Insurance is engaged in the insurance business indirectly through subsidiaries.

U.S. persons who hold our common shares will be subject to adverse tax consequences if American Safety Insurance is considered to bea 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 our 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 our 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.

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 couldimpose
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 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 its 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 our 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.

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The risk factors presented above are all of the ones we consider material as of the date of this report. 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. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit No.	Description
11	Computation of Earnings Per Share
31.1	Certification Pursuant toss.302 of the Sarba
31.2	Certification Pursuant toss.302 of the Sarba
32.1	Certification Pursuant toss.906 of the Sarba
32.2	Certification Pursuant toss.906 of the Sarba

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 15th day of May 2006.

American Safety Insurance Holdings, Ltd.

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

By: /s/ William C. Tepe
William C. Tepe
Chief Financial Officer
(Principal Financial Officer

Exhibit 11

American Safety Insurance Holdings, Ltd. and subsidiaries
Computation of Earnings Per Share

	Three Months Ended	
	March 31, 2005	March 31, 2006
Basic:		
Earnings available to common shareholders........................	$3,646,343	$ 4,100,999
Weighted average common shares outstanding........................	6,791,476	6,762,687
Basic earnings per common shares ...	$ 0.54	$ 0.61
Diluted:		
Earnings available to common shareholders..........................	$3,646,343	$ 4,100,999
Weighted average common shares outstanding...........................	6,791,476	6,762,687
Weighted average common shares equivalents associated with options....	474,047	401,557

Total weighted average common shares................................	7,265,523	7,164,244
Diluted earnings per common shares............................	$ 0.50	$ 0.57

Certification Pursuant toss.302 of the Sarbanes-Oxley Act of 2

I, Stephen R. Crim, certify that:

1) I have reviewed this report on Form 10-Q of American Safety Insurance Holdings, Ltd.;

2) Based on my knowledge, this report does not contain any untrue statement of a material necessary to make the statements made, in light of the circumstances under w misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information incl all material respects the financial condition, results of operations and cash f the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the regis

(a) Designed such disclosure controls and procedures, or caused such disclosure controls a supervision, to ensure that material information relating to the reg subsidiaries, is made known to us by others within those entities, partic report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedur conclusions about the effectiveness of the disclosure controls and pr covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financi registrant's most recent fiscal quarter (the registrant's fourth fi report) that has materially affected, or is reasonably likely to material control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most over financial reporting, to the registrant's auditors and the audit committee o (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of inter which are reasonably likely to adversely affect the registrant's ability to report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have registrant's internal control over financial reporting.

Date: May 15, 2006

/s/ Stephen R. Crim
Stephen R. Crim
Chief Executive Officer an

Certification Pursuant toss.302 of the Sarbanes-Oxley Act of 2002

I, William C. Tepe, certify that:

1) I have reviewed this report on Form 10-Q of American Safety Insurance Holdings, Ltd.;

2) Based on my knowledge, this report does not contain any untrue statement of a material necessary to make the statements made, in light of the circumstances under w misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information incl all material respects the financial condition, results of operations and cash f the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the regis

(a) Designed such disclosure controls and procedures, or caused such disclosure controls a supervision, to ensure that material information relating to the reg subsidiaries, is made known to us by others within those entities, partic report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedur conclusions about the effectiveness of the disclosure controls and pr covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financi registrant's most recent fiscal quarter (the registrant's fourth fi report) that has materially affected, or is reasonably likely to material control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most over financial reporting, to the registrant's auditors and the audit committee o (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of inter which are reasonably likely to adversely affect the registrant's ability to report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have registrant's internal controls over financial reporting.

Date: May 15, 2006

/s/William C. Tepe
William C. Tepe
Chief Financial Officer

Certification Pursuant toss.906 of the

Sarbanes-Oxley Act of 2002

The undersigned, as the Chief Executive Officer of American Safety Insurance Group, Ltd knowledge and belief, the Quarterly Report on Form 10-Q for the period ended March 31, 2006, w fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 periodic report fairly presents, in all material respects, the financial condition and res Insurance Group, Ltd. at the dates and for the periods indicated. The foregoing certificat Sarbanes-Oxley Act of 2003 (18 U.S.C.ss.1350) and shall not be relied upon for any other purpose.

Date: May 15, 2006

/s/ Stephen R. Crim
Stephen R. Crim
Chief Executive Officer

A signed original of this written statement required byss.906, or other document authent adopting the signature that appears in typed form within the electronic version of this written provided to American Safety Insurance Holdings, Ltd. and will be retained by American Safety In to the Securities and Exchange Commission or its staff upon request.

The information in this Exhibit 32.1 shall not be deemed "filed" for purposes of Secti of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the S be expressly set forth by specific reference in such filing.

Certification Pursuant toss.906 of the Sarbanes-Oxley Act of 2002

The undersigned, as the Chief Financial Officer of American Safety Insurance Group, Ltd knowledge and belief, the Quarterly Report on Form 10-Q for the period ended March 31, 2006, w fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 periodic report fairly presents, in all material respects, the financial condition and res Insurance Group, Ltd. at the dates and for the periods indicated. The foregoing certificat Sarbanes-Oxley Act of 2003 (18 U.S.C.ss.1350) and shall not be relied upon for any other purpose.

Date: May 15, 2006

/s/ William C. Tepe
William C. Tepe
Chief Financial Officer

A signed original of this written statement required by § 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by § 906, has been provided to American Safety Insurance Holdings, Ltd. and will be retained by American Safety Insurance Holdings, Ltd. and furnished to the Securities and Exchange Commission or its staff upon request.

The information in this Exhibit 32.1 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.