

AMERICAN SAFETY INSURANCE HOLDINGS LTD

Form 10-Q

May 09, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission File Number: 1-14795

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

| | |
|--|--|
| Bermuda (State of incorporation or organization) | 30-0666089 (I.R.S. Employer Identification No.) |
| 31 Queen Street 2nd Floor | |
| Hamilton, Bermuda (Address of principal executive offices) | HM 11 (Zip Code) |
| Registrant's telephone number: (441) 296-8560 | |

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The aggregate number of shares outstanding of Registrant's common stock, \$0.01 par value, on May 1, 2012, was 10,256,555.

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AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

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

American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands except share data)

| | March 31, 2012 (Unaudited) | December 31, 2011 |
|--|----------------------------------|---------------------|
| Assets | | |
| Investments available-for-sale: | | |
| Fixed maturity securities, at fair value (including \$4,531 and \$4,623 from VIE) | \$ 787,768 | \$ 815,999 |
| Common stock, at fair value | 6,751 | 6,751 |
| Preferred stock, at fair value | 3,041 | 2,932 |
| Short-term investments, at fair value (including \$3,892 and \$3,723 from VIE) | 99,644 | 57,417 |
| Total investments | 897,204 | 883,099 |
| Cash and cash equivalents (including \$974 and \$2,268 from VIE) | 45,518 | 43,481 |
| Accrued investment income (including \$36 and \$45 from VIE) | 6,392 | 6,598 |
| Premiums receivable (including \$1,040 and \$629 from VIE) | 34,279 | 33,458 |
| Ceded unearned premium (including \$421 and \$166 from VIE) | 22,643 | 22,710 |
| Reinsurance recoverable (including \$2,404 and \$3,055 from VIE) | 171,367 | 173,982 |
| Deferred income taxes | | 1,877 |
| Deferred policy acquisition costs (including \$1,282 and \$(454) from VIE) | 23,947 | 24,421 |
| Property, plant and equipment, net | 12,797 | 13,110 |
| Goodwill | 9,317 | 9,317 |
| Other assets (including \$9,766 and \$1,042 from VIE) | 75,509 | 74,479 |
| Total assets | \$ 1,298,973 | \$ 1,286,532 |
| Liabilities and Shareholders' Equity | | |
| Liabilities: | | |
| Unpaid losses and loss adjustment expenses (including \$12,041 and \$7,412 from VIE) | \$ 685,690 | \$ 680,201 |
| Unearned premiums (including \$5,109 and \$623 from VIE) | 134,432 | 135,059 |
| Ceded premiums payable (including \$649 and \$296 from VIE) | 8,966 | 11,425 |
| Funds held (including \$143 and \$174 from VIE) | 74,120 | 71,955 |
| Other liabilities (including \$0 and \$0 from VIE) | 12,393 | 14,029 |
| Deferred income taxes (including \$374 and \$0 from VIE) | 1,770 | |
| Loans payable | 39,183 | 39,183 |
| Total liabilities | \$ 956,554 | \$ 951,852 |
| Shareholders' equity: | | |
| Preferred stock, \$0.01 par value; authorized 5,000,000 shares; no shares issued and outstanding | \$ | \$ |
| Common stock, \$0.01 par value; authorized 30,000,000 shares; issued and outstanding at March 31, 2012, 10,255,649 shares and at December 31, 2011, 10,209,419 shares | 103 | 102 |
| Additional paid-in capital | 98,656 | 98,394 |
| Retained earnings | 189,231 | 185,176 |

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| | | |
|---|--------------|--------------|
| Accumulated other comprehensive income, net | 47,651 | 44,416 |
| Total American Safety Insurance Holdings, Ltd. shareholders' equity | 335,641 | 328,088 |
| Equity in non-controlling interests | 6,778 | 6,592 |
| Total equity | 342,419 | 334,680 |
| Total liabilities and equity | \$ 1,298,973 | \$ 1,286,532 |

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

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American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Statements of Operations

(Unaudited)

(dollars in thousands except per share data)

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| | 2012 | 2011 |
| Revenues: | | |
| Direct earned premiums | \$ 60,528 | \$ 57,656 |
| Assumed earned premiums | 13,865 | 11,283 |
| Ceded earned premiums | (12,980) | (14,571) |
| Net earned premiums | 61,413 | 54,368 |
| Net investment income | 7,811 | 7,437 |
| Realized gains | 53 | 11,107 |
| Fee income | 668 | 865 |
| Other income | 12 | 11 |
| Total revenues | \$ 69,957 | \$ 73,788 |
| Expenses: | | |
| Losses and loss adjustment expenses | 37,281 | 42,260 |
| Acquisition expenses | 14,744 | 11,755 |
| Other underwriting expenses | 10,752 | 10,199 |
| Interest expense | 417 | 386 |
| Corporate and other expenses | 1,256 | 826 |
| Total expenses | \$ 64,450 | \$ 65,426 |
| Earnings before income taxes | 5,507 | 8,362 |
| Income tax expense (benefit) (including \$175 and \$0 from VIE) | 1,106 | (32) |
| Net earnings | \$ 4,401 | \$ 8,394 |
| Less: Net earnings attributable to the non-controlling interest | 345 | 493 |
| Net earnings attributable to American Safety Insurance Holdings, Ltd. | \$ 4,056 | \$ 7,901 |
| Net earnings per share: | | |
| Basic | \$ 0.40 | \$ 0.76 |
| Diluted | \$ 0.39 | \$ 0.73 |
| Weighted average number of shares outstanding: | | |
| Basic | 10,220,700 | 10,444,325 |
| Diluted | 10,533,732 | 10,788,117 |

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

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American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Statements of Comprehensive Earnings (Loss)

(Unaudited)

(dollars in thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2012 | 2011 |
| Net earnings | \$ 4,401 | \$ 8,394 |
| Other comprehensive income before income taxes: | | |
| Unrealized gains (losses) on securities available-for-sale | 3,442 | (1,929) |
| Reclassification adjustment for realized gains included in net earnings | (53) | (11,107) |
| Total other comprehensive income (loss) before income taxes | 3,389 | (13,036) |
| Income tax expense (benefit) related to items of other comprehensive income | 313 | (437) |
| Other comprehensive income (loss) net of income taxes | 3,076 | (12,599) |
| Comprehensive income (loss) | \$ 7,477 | \$ (4,205) |
| Less: Comprehensive income attributable to the non-controlling interest | 186 | 462 |
| Comprehensive income (loss) attributable to American Safety Insurance Holdings, Ltd. | \$ 7,291 | \$ (4,667) |

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

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American Safety Insurance Holdings, Ltd. and Subsidiaries

Consolidated Statements of Cash Flow

(Unaudited) (dollars in thousands)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2012 | 2011 |
| Cash flow from operating activities: | | |
| Net earnings | \$ 4,401 | \$ 8,394 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Realized gains on investments | (53) | (11,107) |
| Depreciation expense | 734 | 624 |
| Stock based compensation expense | 604 | 608 |
| Amortization of deferred acquisition costs, net | 474 | (952) |
| Amortization of investment premium | 826 | 969 |
| Deferred income taxes | 3,500 | (345) |
| Change in operating assets and liabilities: | | |
| Accrued investment income | 206 | 906 |
| Premiums receivable | (821) | 1,956 |
| Reinsurance recoverable | 2,615 | 1,654 |
| Ceded unearned premiums | 67 | 236 |
| Funds held | 2,165 | (1,446) |
| Unpaid losses and loss adjustment expenses | 5,489 | 18,084 |
| Unearned premiums | (627) | 5,419 |
| Ceded premiums payable | (2,459) | 2,833 |
| Other liabilities | (1,636) | (3,425) |
| Other assets, net | (1,148) | 2,073 |
| Net cash provided by operating activities | 14,337 | 26,481 |
| Cash flow from investing activities: | | |
| Purchase of fixed maturities | (975) | (146,021) |
| Purchase of equity securities | | (2,500) |
| Proceeds from sales and maturities of fixed maturities | 31,566 | 111,202 |
| Proceeds from sales of equity securities | | 656 |
| Increase in short term investments | (42,227) | 7,217 |
| Purchases of fixed assets | (324) | (651) |
| Net cash used in investing activities | (11,960) | (30,097) |
| Cash flow from financing activities: | | |
| Shares repurchased to cover employment taxes | (292) | (289) |
| Proceeds from exercised stock options | 44 | 383 |
| Purchases of common stock pursuant to the Stock Repurchase Plan | (92) | (337) |
| Net cash used in financing activities | (340) | (243) |
| Net increase (decrease) in cash and cash equivalents | 2,037 | (3,859) |
| Cash and cash equivalents at beginning of period | 43,481 | 38,307 |
| Cash and cash equivalents at end of period | \$ 45,518 | \$ 34,448 |
| Supplemental disclosure of cash flow: | | |
| Income taxes paid | \$ 15 | \$ 35 |

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| | | | | |
|---------------|----|-----|----|-----|
| Interest paid | \$ | 420 | \$ | 400 |
|---------------|----|-----|----|-----|

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

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American Safety Insurance Holdings, Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2012

(Unaudited)

Note 1 Basis of Presentation

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

The results of operations for the three months ended March 31, 2012, may not be indicative of the results for the fiscal year ending December 31, 2012. 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, 2011.

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

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The amortized cost and estimated fair values of the Company's investments at March 31, 2012, and December 31, 2011, are as follows (dollars in thousands):

| | Amortized Cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| March 31, 2012 | | | | |
| Fixed maturity securities: | | | | |
| U.S. Treasury securities and other government corporations and agencies | \$ 50,350 | \$ 3,876 | \$ | \$ 54,226 |
| States of the U.S. and political subdivisions of the states | 27,668 | 4,808 | (57) | 32,419 |
| Corporate securities | 295,353 | 30,752 | (427) | 325,678 |
| Mortgage-backed securities | 245,818 | 12,553 | (49) | 258,322 |
| Commercial mortgage-backed securities | 58,369 | 4,733 | (29) | 63,073 |
| Asset-backed securities | 52,407 | 1,688 | (45) | 54,050 |
| Total fixed maturities | \$ 729,965 | \$ 58,410 | \$ (607) | \$ 787,768 |
| Common stock | \$ 6,926 | \$ | \$ (175) | \$ 6,751 |
| Preferred stock | \$ 2,789 | \$ 277 | \$ (25) | \$ 3,041 |
| December 31, 2011 | | | | |
| Fixed maturity securities: | | | | |
| U.S. Treasury securities and other government corporations and agencies | \$ 58,814 | \$ 4,315 | \$ (39) | \$ 63,090 |
| States of the U.S. and political subdivisions of the states | 27,676 | 4,581 | | 32,257 |
| Corporate securities | 298,452 | 29,601 | (1,127) | 326,926 |
| Mortgage-backed securities | 257,864 | 12,973 | (26) | 270,811 |
| Commercial mortgage-backed securities | 60,198 | 3,941 | (178) | 63,961 |
| Asset-backed securities | 58,437 | 666 | (149) | 58,954 |
| Total fixed maturities | \$ 761,441 | \$ 56,077 | \$ (1,519) | \$ 815,999 |
| Common stock | \$ 6,926 | \$ | \$ (175) | \$ 6,751 |
| Preferred stock | \$ 2,789 | \$ 212 | \$ (69) | \$ 2,932 |

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During the three months ended March 31, 2012 and 2011, available-for-sale fixed maturity securities were sold for total proceeds of \$5.2 million and \$81.6 million, respectively, resulting in gross realized gains to the Company. The gross realized gains on these sales totaled \$0.1 million and \$11.1 million in 2012 and 2011 respectively. For the purpose of determining gross realized gains, the cost of securities sold is based on specific identification.

The amortized cost and estimated fair value of fixed maturity securities at March 31, 2012, is shown below by contractual maturity.

| | Amortized cost (dollars in thousands) | Estimated fair value |
|--|---|-------------------------|
| Due in one year or less | \$ 28,698 | \$ 29,188 |
| Due after one year through five years | 106,401 | 113,742 |
| Due after five years through ten years | 164,239 | 180,237 |
| Due after ten years | 74,033 | 89,156 |
| Mortgage and asset-backed securities | 356,594 | 375,445 |
| Total | \$ 729,965 | \$ 787,768 |

The following tables summarize the gross unrealized losses of the Company's investment portfolio as of March 31, 2012 and December 31, 2011, by category and length of time that the securities have been in an unrealized loss position.

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---------------------|----------------------|---------------------|----------------------|------------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| March 31, 2012 | | | | | | |
| Fixed maturity securities: | | | | | | |
| U.S. Treasury securities and other government corporations and agencies | \$ | \$ | \$ | \$ | \$ | \$ |
| States of the U.S. and political subdivisions of the states | 1,053 | (57) | | | 1,053 | (57) |
| Corporate securities | 9,647 | (427) | | | 9,647 | (427) |
| Mortgage-backed securities | 12,691 | (49) | | | 12,691 | (49) |
| Commercial mortgage-backed securities | 4,906 | (29) | | | 4,906 | (29) |
| Asset-backed securities | 1,683 | (45) | | | 1,683 | (45) |
| Subtotal fixed maturity securities | 29,980 | (607) | | | 29,980 | (607) |
| Common stock | 6,751 | (175) | | | 6,751 | (175) |
| Preferred stock | 994 | (25) | | | 994 | (25) |
| Total temporarily impaired securities | \$ 37,725 | \$ (807) | \$ | \$ | \$ 37,725 | \$ (807) |

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| December 31, 2011 | Less than 12 months | | 12 months or longer | | Total | |
|---|---------------------|-------------------|---------------------|-------------------|------------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| (dollars in thousands) | | | | | | |
| Fixed maturity securities: | | | | | | |
| U.S. Treasury securities and other government corporations and agencies | \$ 3,749 | \$ (39) | \$ | \$ | \$ 3,749 | \$ (39) |
| States of the U.S. and political subdivisions of the states | | | | | | |
| Corporate securities | 31,808 | (1,127) | | | 31,808 | (1,127) |
| Mortgage-backed securities | 6,574 | (26) | | | 6,574 | (26) |
| Commercial mortgage-backed securities | 13,401 | (135) | 5,432 | (43) | 18,833 | (178) |
| Asset-backed-securities | 15,537 | (149) | | | 15,537 | (149) |
| Subtotal, fixed maturity securities | 71,069 | (1,476) | 5,432 | (43) | 76,501 | (1,519) |
| Common stock | 6,751 | (175) | | | 6,751 | (175) |
| Preferred stock | 1,436 | (50) | 509 | (19) | 1,945 | (69) |
| Total temporarily impaired securities | \$ 79,256 | \$ (1,701) | \$ 5,941 | \$ (62) | \$ 85,197 | \$ (1,763) |

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

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

recoverability of principal and interest;

market conditions;

ability and intent to hold the investment to recovery;

a pattern of continuing operating losses of the issuer;

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

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

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

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

may not be appropriate. For the three months ended March 31, 2012 and 2011, the Company did not incur any OTTI losses.

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Note 3 Segment Information

We segregate our business into two segments: insurance operations and other. The insurance operations are further classified into three divisions: excess and surplus lines (E&S), alternative risk transfer (ART) and assumed reinsurance (Assumed Re). E&S consists of seven product lines: environmental, primary casualty, excess, property, surety, healthcare, and professional liability. ART consists of two product lines: specialty programs and fully funded. Assumed Re consists of property and casualty business assumed from unaffiliated specialty insurers and reinsurers. Other includes lines of business that we no longer underwrite (run-off) and other ancillary product lines. Prior year amounts have been reclassified to conform to the current year presentation.

Within E&S, our environmental insurance products provide general contractor pollution and/or professional liability coverage for contractors and consultants in the environmental remediation industry and property owners. Primary casualty provides general liability insurance for residential and commercial contractors as well as general liability and product liability for smaller manufacturers, distributors, non-habitational real estate and certain real property owner, landlord and tenant risks. Excess provides excess and umbrella liability coverages over our own and other carriers' primary casualty policies. Our property product encompasses surplus lines commercial property business and commercial multi-peril (CMP) policies. American Safety specializes in a full range of contract and commercial bonds for small to medium size surety businesses, including bonds for environmental contractors, consultants and other professionals. Healthcare provides customized liability insurance solutions primarily for long-term care facilities. Professional Liability provides miscellaneous liability and professional liability coverage on both a primary and excess basis. Professional liability coverage is provided to lawyers, insurance agents, and other businesses, while miscellaneous liability coverage is provided to private and not for profit entities and, to a lesser extent, public companies.

In our ART division, specialty programs provide insurance to homogeneous niche groups through third-party program managers. Our specialty programs consist primarily of property and liability insurance coverages for certain classes of specialty risks including, but not limited to general and trade contractors, pest control operators, tanning salons, auto dealers, pizza delivery operators and federal employees. Fully funded policies provide our insureds the ability to fund their liability exposure via a self-insurance vehicle for which we generate fee income. We write fully funded general and professional liability for businesses operating primarily in the healthcare and construction industries.

Our Assumed Reinsurance division offers property and casualty reinsurance products in the form of treaty and facultative contracts targeting specialty insurers, risk retention groups and captives. We provide this coverage on an excess of loss and, to a lesser extent, a quota share basis. We reinsure casualty business, which includes medical malpractice, general liability, commercial auto, professional liability and workers compensation. The assumed reinsurance division also participates in one property catastrophe treaty that provides a maximum of \$20 million of coverage over the treaty period. The treaty covers world-wide property catastrophe losses including hurricanes and earthquakes.

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

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

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The following table presents key financial data by segment for the three months ended March 31, 2012 and 2011, respectively (dollars in thousands):

| | Three Months Ended March 31, 2012 | | | | Total |
|---|-----------------------------------|------------------|-------------|------------------|-----------|
| | E&S | Insurance ART | Reinsurance | Other Run-off | |
| Gross written premiums | \$ 38,611 | \$ 21,178 | \$ 13,976 | \$ | \$ 73,765 |
| Net written premiums | 30,733 | 16,143 | 13,976 | | 60,852 |
| Net earned premiums | 31,150 | 16,344 | 13,919 | | 61,413 |
| Fee & other income | | 663 | | 17 | 680 |
| Losses & loss adjustment expenses | 18,917 | 9,987 | 8,349 | 28 | 37,281 |
| Acquisition & other underwriting expenses | 14,190 | 6,485 | 4,343 | 478 | 25,496 |
| Underwriting profit (loss) | (1,957) | 535 | 1,227 | (489) | (684) |
| Net investment income | 4,625 | 1,429 | 1,621 | 136 | 7,811 |
| Pre-tax operating income (loss) | 2,668 | 1,964 | 2,848 | (353) | 7,127 |
| Net realized gains | | | | | 53 |
| Interest and corporate expenses | | | | | 1,673 |
| Earnings before income taxes | | | | | 5,507 |
| Income tax expense | | | | | 1,106 |
| Net earnings | | | | | \$ 4,401 |
| Less: Net earnings attributable to the non - controlling interest | | | | | 345 |
| Net earnings attributable to ASIH, Ltd. | | | | | \$ 4,056 |
| Loss ratio | 60.7% | 61.1% | 60.0% | *NM | 60.7% |
| Expense ratio | 45.6% | 35.6% | 31.2% | NM | 40.4% |
| Combined ratio** | 106.3% | 96.7% | 91.2% | NM | 101.1% |

| | Three Months Ended March 31, 2011 | | | | Total |
|---|-----------------------------------|------------------|-------------|------------------|-----------|
| | E&S | Insurance ART | Reinsurance | Other Run-off | |
| Gross written premiums | \$ 35,995 | \$ 21,878 | \$ 16,472 | \$ | \$ 74,345 |
| Net written premiums | 29,602 | 14,906 | 15,502 | | 60,010 |
| Net earned premiums | 27,994 | 14,355 | 12,019 | | 54,368 |
| Fee & other income | 5 | 860 | | 11 | 876 |
| Losses & loss adjustment expenses | 17,753 | 9,014 | 15,494 | (1) | 42,260 |
| Acquisition & other underwriting expenses | 13,013 | 6,313 | 2,911 | (283) | 21,954 |
| Underwriting profit (loss) | (2,767) | (112) | (6,386) | 295 | (8,970) |
| Net investment income | 4,815 | 1,121 | 1,349 | 152 | 7,437 |
| Pre-tax operating income | 2,048 | 1,009 | (5,037) | 447 | (1,533) |
| Net realized gains | | | | | 11,107 |
| Interest and corporate expenses | | | | | 1,212 |
| Earnings before income taxes | | | | | 8,362 |

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| | | | | | |
|---|--------|--------|--------|-----|----------|
| Income tax benefit | | | | | (32) |
| Net earnings | | | | | \$ 8,394 |
| Less: Net earnings attributable to the non-controlling interest | | | | | 493 |
| Net earnings attributable to ASIH, Ltd. | | | | | \$ 7,901 |
| Loss ratio | 63.4% | 62.8% | 128.9% | *NM | 77.7% |
| Expense ratio | 46.5% | 38.0% | 24.2% | NM | 38.8% |
| Combined ratio** | 109.9% | 100.8% | 153.1% | NM | 116.5% |

* NM = Ratio is not meaningful

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

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

The following table provides financial data about the geographic locations for the three months ended March 31, 2012 and 2011 (dollars in thousands):

| | United States | Bermuda | Total |
|---|---------------|------------|--------------|
| March 31, 2012 | | | |
| Income tax expense | \$ 1,106 | \$ | \$ 1,106 |
| Net earnings attributable to American Safety Insurance Holdings, Ltd. | \$ 1,539 | \$ 2,517 | \$ 4,056 |
| Assets | \$ 687,542 | \$ 611,431 | \$ 1,298,973 |
| Equity | \$ 108,689 | \$ 233,730 | \$ 342,419 |
| March 31, 2011 | | | |
| Income tax benefit | \$ (32) | \$ | \$ (32) |
| Net earnings attributable to American Safety Insurance Holdings, Ltd. | \$ (120) | \$ 8,021 | \$ 7,901 |
| Assets | \$ 658,064 | \$ 580,832 | \$ 1,238,896 |
| Equity | \$ 102,154 | \$ 212,557 | \$ 314,712 |

Note 4 Income Taxes

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

| | Three Months Ended March 31, | |
|--------------|---------------------------------|----------------|
| | 2012 | 2011 |
| Current | \$ (2,394) | \$ 313 |
| Deferred | 3,500 | (345) |
| Total | \$ 1,106 | \$ (32) |

Income tax expense for the periods ended March 31, 2012 and 2011, differed from the amount computed by applying the United States Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following (dollars in thousands):

| | Three Months Ended March 31, | |
|--|---------------------------------|----------------|
| | 2012 | 2011 |
| Expected income tax expense | \$ 1,872 | \$ 2,675 |
| Foreign earned income not subject to U.S. taxation | (855) | (2,727) |
| Change in valuation allowance | | |
| Tax-exempt interest | (3) | (3) |
| State taxes and other | 92 | 23 |
| Total | \$ 1,106 | \$ (32) |

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Note 5 Equity Based Compensation

The Company's incentive stock plan grants incentive stock options to employees. The majority of the options outstanding under the plan vest evenly over a three year period and have a term of 10 years. The Company uses the Black-Scholes option pricing model to value stock options. The Company's methodology for valuing stock options has not changed from December 31, 2011. During the first three months of 2012 and 2011, the Company did not grant any stock options. Stock based compensation expense related to outstanding stock options was \$118 and \$189 for the three months ended March 31, 2012 and 2011, respectively, and is reflected in net earnings as part of other underwriting expenses.

In addition to stock options discussed above, the Company may grant restricted shares to employees under the incentive stock plan. During the first three months of 2012, the Company granted 91,330 shares of restricted stock compared to 38,681 for the same period in 2011. All shares vest on the grant date anniversary ratably over three years at 25%, 25%, and 50%, respectively. Stock based compensation expense related to the restricted shares was \$404 and \$349 for the three months ended March 31, 2012 and 2011, respectively, and is reflected in net earnings as part of other underwriting expenses. Additionally, the Company recorded \$82 and \$70 in expense for the first three months ended March 31, 2012 and 2011, respectively, related to stock awards made as a portion of Director compensation.

Note 6 Fair Value Measurements

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

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

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

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

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

The Company receives fair value prices from its third-party investment managers who use an independent pricing service. These prices are determined using observable market information such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other things. The Company has reviewed the processes used by the third party providers for pricing the securities, and has determined that these processes result in fair values consistent with the GAAP requirements. In addition, the Company reviews these prices for reasonableness and has not adjusted any prices received from the third-party providers as of March 31, 2012.

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

As of March 31, 2012

Fair Value Measurements Using

(dollars in thousands)

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|---|--|---|--|-------------------|
| Fixed Maturities: | | | | |
| U.S. Treasury securities and other government corporations and agencies | \$ 23,161 | \$ 31,065 | \$ | \$ 54,226 |
| States of the U.S. and political subdivisions of the states | | 32,419 | | 32,419 |
| Corporate securities | | 325,678 | | 325,678 |
| Mortgage-backed securities | | 258,322 | | 258,322 |
| Commercial mortgage-backed Securities | | 63,073 | | 63,073 |
| Asset-backed securities | | 54,050 | | 54,050 |
| Total fixed maturities | 23,161 | 764,607 | | 787,768 |
| Equities securities | 3,041 | | 6,751 | 9,792 |
| Short term investments | 99,644 | | | 99,644 |
| Total | \$ 125,846 | \$ 764,607 | \$ 6,751 | \$ 897,204 |

Fair Value Measurements

Using Significant Unobservable
Inputs (Level 3)

(dollars in thousands)
Equities

| | |
|--|-----------------|
| Level 3 Financial Instruments | |
| Balance at December 31, 2011 | \$ 6,751 |
| Total gains(losses) realized (unrealized): | |
| Included in earnings | |
| Included in other comprehensive income | |
| Net purchases, sales & distributions | |
| Net transfers in (out of) Level 3 | |
| Balance at March 31, 2012 | \$ 6,751 |
| Change in net unrealized gains relating to assets still held at reporting date | \$ |

There were no transfers in and out of Level 1 and 2 categories during the first three months of 2012.

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

Fixed maturities (Available for Sale) Levels 1 and 2

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

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

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

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

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

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

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

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

Equity securities (Level 3) Includes private equity investments which are carried at the Company's equity in the estimated net assets of the investments based on valuations provided by the investee or other relevant market data. We assess the reasonableness of those fair values by evaluating the fund's financial statements and discussions with the fund manager. Due to the delay of reported information, our estimates are based on the most recent available information. These inputs are considered unobservable and therefore the private equity investments are being classified as Level 3 measurements.

As management is ultimately responsible for determining the fair value measurements for all securities, we validate prices received from our investment advisor by comparing the fair value estimates to our knowledge of the current market and investigate any prices deemed not to be representative of fair value. We review fair values for significant changes in a one-month period and security values that change in value contrary to general market movements.

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

The investments classified as Level 3 in the above table consist of \$6.7 million related to investments in privately-held companies. This entire amount was comprised of investments for which there is no readily available independent market price. Material assumptions and factors utilized in pricing these investments including future cash flows, market activity and evaluation of the overall stability of the privately held companies.

Cash and cash equivalents The carrying amounts approximate fair value because of the short-term maturity of those instruments.

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

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

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

Note 7 Credit Facility

The Company has an unsecured line of credit facility for \$20 million that expires August 20, 2013. The principal amount outstanding under the credit facility provides for interest at Libor plus 200 basis points with a 3% floor. In addition, the credit facility provides for an unused facility fee of 15 basis points payable monthly. The line of credit facility contains certain covenants and at March 31, 2012, the Company was in compliance with all covenants. The Company has no outstanding borrowings at March 31, 2012.

Note 8 Loans Payable

Trust Preferred Offerings

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

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

The balance of loans payable at March 31, 2012, was \$39.2 million.

Note 9 Variable Interest Entity

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

American Safety RRG is a variable interest entity ("VIE") which is consolidated in our financial statements in accordance with ASC 810-10-5, as through the contractual relationships, the Company has the power to direct the activities of American Safety RRG that most significantly impact its economic performance and the right to receive benefits from American Safety RRG that could be significant to American Safety RRG. Due to these criteria being met, American Safety is the primary beneficiary of the variability of the underwriting profits of American Safety RRG. The liabilities of American Safety RRG consolidated by the Company do not represent additional claims on the Company's general assets; rather, they represent claims against the specific assets of American Safety RRG. Similarly, the assets of American Safety RRG consolidated by the Company do not represent additional assets available to satisfy claims against the Company's general assets. The creditors of American Safety RRG do not have recourse to the Company for the obligations outside of obligations that exist due to contractual loss sharing or reinsurance arrangements that exist between American Safety RRG and other entities under common control in the ordinary course of the business. The equity of American Safety RRG is for the benefit of the policyholders and is considered a non-controlling interest in the shareholder's equity section of the Company's consolidated balance sheet. Should RRG incur net losses and the equity of RRG decline below regulatory minimum capital levels or result in a deficit, there is no legal obligation of the Company to fund those losses or contribute capital to the VIE. The profit and loss of the VIE increases or decreases the value of the non-controlling interest on the balance sheet of the Company and does not contribute to earnings or equity attributable to American Safety Insurance Holdings, Ltd.

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

| | 3/31/2012 | 12/31/2011 |
|--|------------------|------------------|
| Investments | \$ 8,423 | \$ 8,346 |
| Cash and equivalents | 974 | 2,268 |
| Accrued investment income | 36 | 45 |
| Premiums receivable | 1,040 | 629 |
| Ceded unearned premiums | 421 | 166 |
| Reinsurance recoverables | 2,404 | 3,055 |
| Deferred acquisition costs | 1,282 | (454) |
| Deferred income tax | 374 | |
| Other assets | 9,766 | 1,042 |
| Total Assets | \$ 24,720 | \$ 15,097 |
| Unpaid losses and loss adjustment expenses | \$ 12,041 | \$ 7,412 |
| Unearned premium | 5,109 | 623 |
| Ceded premiums payable | 649 | 296 |
| Funds held | 143 | 174 |
| Total Liabilities | \$ 17,942 | \$ 8,505 |

Note 10 Commitments and Contingencies

At March 31, 2012, the Company had aggregate outstanding irrevocable letters of credit which had not been drawn amounting to \$5.9 million. Those letters of credit included \$2.5 million for the benefit of the Vermont Department of Banking, Insurance, Securities and Health Care Administration, as well as \$2.5 million issued pursuant to a contingent payment obligation, and \$0.9 million issued to various other parties.

American Safety Reinsurance, Ltd., (ASRe), our reinsurance subsidiary, provides reinsurance protection for risk retention groups, captives and insurance companies and may be required to provide letters of credit to collateralize a portion of the reinsurance protection. In the normal course of business they may provide letters of credit to the companies that they reinsure. As of March 31, 2012, ASRe had \$70.3 million in letters of credit issued and outstanding.

Litigation Contingencies

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

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

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Note 11 Accounting Pronouncements

In October 2010, the FASB issued Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts (ASC 944-10) to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The amendments specify that certain costs incurred in the successful acquisition of new and renewal contracts should be capitalized. Those costs include incremental direct costs of contract acquisition that result directly from and are essential to the contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. Effective January 1, 2012, the Company adopted this guidance with no impact on our results of operations, financial condition or liquidity.

In May 2011, the FASB issued Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This guidance did not have a material impact on U.S. GAAP but did clarify some existing rules. Effective January 1, 2012, we prospectively adopted this amended guidance. The adoption of this guidance did not impact our results of operations, financial condition or liquidity. The additional disclosures are provided in Note 6 Fair Value Measurements.

Note 12 Subsequent Events

On April 30, 2012, American Safety Holdings Corp. (ASHC), a Georgia corporation and a wholly-owned subsidiary of the Registrant, entered into a definitive Stock Purchase Agreement with Pearlstein Associates, LLC., a South Carolina limited liability company (Seller), and Bluestone Agency, Inc., an Arizona corporation (Bluestone), a specialty provider of commercial and contract surety bonds. Pursuant to the terms of the Agreement, ASHC will purchase from Seller 100% of the issued and outstanding capital stock of Bluestone and its subsidiary, Bluestone Surety, Ltd., a Cayman Island captive insurer. The purchase price will be paid by ASHC out of existing funds and a portion of the purchase price is subject to future performance. The transaction is expected to close at the end of the second quarter and is subject to regulatory approval and other standard conditions.

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

We segregate our business into two segments: insurance operations and other. The insurance operations are further classified into three divisions: excess and surplus lines (E&S), alternative risk transfer (ART) and assumed reinsurance (Assumed Re). E&S consists of seven product lines: environmental, primary casualty, excess, property, surety, healthcare, and professional liability. ART consists of two product lines: specialty programs and fully funded. Assumed Re consists of property and casualty business assumed from unaffiliated specialty insurers and reinsurers. Other includes lines of business that we no longer underwrite (run-off) and other ancillary product lines. Prior year amounts have been reclassified to conform to the current year presentation.

Within E&S, our environmental insurance products provide general contractor pollution and/or professional liability coverage for contractors and consultants in the environmental remediation industry and property owners. Primary casualty provides general liability insurance for residential and commercial contractors as well as general liability and product liability for smaller manufacturers, distributors, non-habitational real estate and certain real property owner, landlord and tenant risks. Excess provides excess and umbrella liability coverages over our own and other carriers' primary casualty policies. Our property product encompasses surplus lines commercial property business and commercial multi-peril (CMP) policies. American Safety specializes in a full range of contract and commercial bonds for small to medium size surety businesses, including bonds for environmental contractors, consultants and other professionals. Healthcare provides customized liability insurance solutions primarily for long-term care facilities. Professional Liability provides miscellaneous liability and professional liability coverage on both a primary and excess basis. Professional liability coverage is provided to lawyers, insurance agents, and other businesses, while miscellaneous liability coverage is provided to private and not for profit entities and, to a lesser extent, public companies.

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In our ART division, specialty programs provide insurance to homogeneous niche groups through third-party program managers. Our specialty programs consist primarily of property and liability insurance coverages for certain classes of specialty risks including, but not limited to general and trade contractors, pest control operators, tanning salons, auto dealers, pizza delivery operators and federal employees. Fully funded policies provide our insureds the ability to fund their liability exposure via a self-insurance vehicle for which we generate fee income. We write fully funded general and professional liability for businesses operating primarily in the healthcare and construction industries.

Our Assumed Reinsurance division offers property and casualty reinsurance products in the form of treaty and facultative contracts targeting specialty insurers, risk retention groups and captives. We provide this coverage on an excess of loss and, to a lesser extent, a quota share basis. We reinsure casualty business, which includes medical malpractice, general liability, commercial auto, professional liability and workers compensation. The assumed reinsurance division also participates in one property catastrophe treaty that provides a maximum of \$20 million of coverage over the treaty period. The treaty covers world-wide property catastrophe losses including hurricanes and earthquakes.

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

The Company measures segments using net income, total assets and total equity. The reportable insurance divisions are measured based on underwriting profit (loss) and pre-tax operating income (loss).

The following information is presented on the basis of accounting principles generally accepted in the United States of America (GAAP).

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The following table presents key financial data by segment for the three months ended March 31, 2012 and 2011, respectively (dollars in thousands):

| | Three Months Ended March 31, 2012 | | | | Total |
|---|-----------------------------------|------------------|-------------|------------------|-----------|
| | E&S | Insurance ART | Reinsurance | Other Run-off | |
| Gross written premiums | \$ 38,611 | \$ 21,178 | \$ 13,976 | \$ | \$ 73,765 |
| Net written premiums | 30,733 | 16,143 | 13,976 | | 60,852 |
| Net earned premiums | 31,150 | 16,344 | 13,919 | | 61,413 |
| Fee & other income (loss) | | 663 | | 17 | 680 |
| Losses & loss adjustment expenses | 18,917 | 9,987 | 8,349 | 28 | 37,281 |
| Acquisition & other underwriting expenses | 14,190 | 6,485 | 4,343 | 478 | 25,496 |
| Underwriting profit (loss) | (1,957) | 535 | 1,227 | (489) | (684) |
| Net investment income | 4,625 | 1,429 | 1,621 | 136 | 7,811 |
| Pre-tax operating income (loss) | 2,668 | 1,964 | 2,848 | (353) | 7,127 |
| Net realized gains | | | | | 53 |
| Interest and corporate expenses | | | | | 1,673 |
| Earnings before income taxes | | | | | 5,507 |
| Income tax benefit | | | | | 1,106 |
| Net earnings | | | | | \$ 4,401 |
| Less: Net earnings attributable to the non-controlling interest | | | | | 345 |
| Net earnings attributable to ASIH, Ltd. | | | | | \$ 4,056 |
| Loss ratio | 60.7% | 61.1% | 60.0% | *NM | 60.7% |
| Expense ratio | 45.6% | 35.6% | 31.2% | NM | 40.4% |
| Combined ratio** | 106.3% | 96.7% | 91.2% | NM | 101.1% |

| | Three Months Ended March 31, 2011 | | | | Total |
|---|-----------------------------------|------------------|-------------|------------------|-----------|
| | E&S | Insurance ART | Reinsurance | Other Run-off | |
| Gross written premiums | \$ 35,995 | \$ 21,878 | \$ 16,472 | \$ | \$ 74,345 |
| Net written premiums | 29,602 | 14,906 | 15,502 | | 60,010 |
| Net earned premiums | 27,994 | 14,355 | 12,019 | | 54,368 |
| Fee & other income | 5 | 860 | | 11 | 876 |
| Losses & loss adjustment expenses | 17,753 | 9,014 | 15,494 | (1) | 42,260 |
| Acquisition & other underwriting expenses | 13,013 | 6,313 | 2,911 | (283) | 21,954 |
| Underwriting profit (loss) | (2,767) | (112) | (6,386) | 295 | (8,970) |
| Net investment income | 4,815 | 1,121 | 1,349 | 152 | 7,437 |
| Pre-tax operating income | 2,048 | 1,009 | (5,037) | 447 | (1,533) |
| Net realized gains | | | | | 11,107 |
| Interest and corporate expenses | | | | | 1,212 |
| Earnings before income taxes | | | | | 8,362 |
| Income tax benefit | | | | | (32) |

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| | | | | | |
|---|--------|--------|--------|-----|----------|
| Net earnings | | | | | \$ 8,394 |
| Less: Net earnings attributable to the non-controlling interest | | | | | 493 |
| Net earnings attributable to ASIH, Ltd. | | | | | \$ 7,901 |
| Loss ratio | 63.4% | 62.8% | 128.9% | *NM | 77.7% |
| Expense ratio | 46.5% | 38.0% | 24.2% | NM | 38.8% |
| Combined ratio** | 109.9% | 100.8% | 153.1% | NM | 116.5% |

* NM = Ratio is not meaningful

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

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Three Months Ended March 31, 2012, compared to

Three Months Ended March 31, 2011

Net Earnings

Net earnings attributable to ASIH were \$4.1 million, or \$0.39 per diluted share, for the three months ended March 31, 2012, compared to \$7.9 million, or \$0.73 per diluted share, for the same period of 2011. While underwriting results improved significantly (see discussion below), the decrease was driven by a decline in net realized gains to \$0.1 million compared to \$11.1 million in 2011 more than offsetting the improved underwriting results.

Combined Ratio

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

The combined ratio was 101.1%, composed of a loss ratio of 60.7% and an expense ratio of 40.4%. The loss ratio improved to 60.7% from 77.7% for the same quarter in 2011. In the first quarter 2011, the loss ratio included property catastrophe losses of \$5.8 million and casualty reserve strengthening of \$4.6 million which in the aggregate added 19 points to the loss ratio. The expense ratio for the first quarter of 2011 reflected lower acquisition costs due to the reduction of profit commissions in the Assumed Reinsurance division as a result of property catastrophe losses.

Gross Written Premiums

Gross written premiums decreased slightly to \$73.8 million from \$74.3 million for the three months ended March 31, 2012 and 2011, respectively. E&S gross written premiums increased 7% to \$38.6 million, ART gross written premiums declined 3% to \$21.2 million and Assumed Reinsurance gross written premiums declined 15% to 14.0 million. E&S gross written premiums increased in the environmental, professional liability and surety product lines. ART gross written premiums declined due to certain non-renewed programs during 2011 and are expected to decline throughout 2012. Assumed Reinsurance gross written premiums declined primarily due to the commutation of two treaties in 2012.

Net Earned Premiums

Net earned premiums increased 13% to \$61.4 million for the three months ended March 31, 2012, compared to \$54.4 million for the same period of 2011 primarily due to growth in gross written premium in 2011. All three divisions experienced increases in net earned premiums.

Net Investment Income

Net investment income is derived from the investment portfolio net of investment expenses. Net investment income increased to \$7.8 million for the three months ended March 31, 2012, compared to \$7.4 million for the same period of 2011 due to higher invested assets. Invested assets grew from \$845.0 million to \$897.2 million at March 31, 2011 and 2012, respectively.

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Acquisition Expenses and Other Underwriting Expenses

Acquisition expenses are commissions paid to producers that are partially offset by ceding commissions or fronting fees. Acquisition expenses also include premium taxes paid to states in which we are admitted to conduct business. Policy acquisition expenses were \$14.7 million, or 24.0% of earned premium for the three months ended March 31, 2012, as compared to \$11.9 million, or 21.8% of earned premium for the same period of 2011. The increase in acquisition expenses as a percentage of earned premium, is primarily due to estimated profit commissions associated with the property catastrophe retrocessional treaty in the Assumed Reinsurance division. Property catastrophe losses in the first quarter of 2011 reduced such commissions for the 2011 treaty year.

Other underwriting expenses were \$10.7 million for the three months ended March 31, 2012, compared to \$10.2 million for the same 2011 period. As a percentage of earned premiums, other underwriting expenses decreased to 17.5% from 18.7% for the same three months of 2011. The improvement is the result of economies of scale generated from increased net earned premiums.

Income Taxes

The income tax expense for the three months ended March 31, 2012, was \$1.1 million compared to a \$0.03 million tax benefit for the same period of 2011. The increase is due to higher U.S. earnings in 2012 as compared to 2011.

Liquidity and Capital Resources

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

The Company has a line of credit facility of \$20 million. The facility is unsecured and expires August 20, 2013. At March 31, 2012, the Company had not drawn on the facility.

Net cash provided by operations was \$14.3 million for the three months ended March 31, 2012, compared to net cash provided by operations of \$26.5 million for the same period of 2011. The decrease in cash flow from operations is primarily attributable to higher paid losses of \$26.9 million in 2012 compared to \$20.3 million in 2011.

On January 24, 2012, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of common stock. Pursuant to this authorization, the Company repurchased a total of 5,000 shares of common stock at a cost of approximately \$0.1 million during the first quarter of 2012.

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 places limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of insurers. Given the capital requirements associated with our business plan, we do not anticipate paying dividends on the common shares in the near future.

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Forward Looking Statements

This report contains forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and financial performance, including insurance market conditions, premium growth, acquisitions and new products, and the impact of new accounting standards. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, including competitive conditions in the insurance industry, levels of new and renewal insurance business, developments in loss trends, adequacy and changes in loss reserves and actuarial assumptions, timing or collectability of reinsurance recoverables, market acceptance of new coverages and enhancements, changes in reinsurance costs and availability, potential adverse decisions in court and arbitration proceedings, the integration and other challenges attendant to acquisitions, and changes in levels of general business activity and economic conditions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For an in-depth discussion of the Company's market risks, see Management's Discussion and Analysis of Quantitative and Qualitative Disclosures about Market Risk in Item 7A of the Company's Form 10-K for the year ended December 31, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control

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

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For an in-depth discussion of risk factors affecting the Company, see Part I, Item 1A. Risk Factors of the Company's Form 10-K for the year ended December 31, 2011.

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

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Reserved

Item 5. Other Information

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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 to § 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 |

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 10th day of May, 2012.

American Safety Insurance Holdings, Ltd.

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

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