

AMERICAN SAFETY INSURANCE HOLDINGS LTD

Form 10-Q

May 10, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number: 1-14795

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Bermuda (State of incorporation or organization) 31 Queen Street 2nd Floor Hamilton, Bermuda (Address of principal executive offices)	30-0666089 (I.R.S. Employer Identification No.) HM 11 (Zip Code)
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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, 2013, was 9,598,808.

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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, 2013 (unaudited)	December 31, 2012
Assets		
Investments:		
Fixed maturity securities, at fair value (including \$10,616 and \$9,499 from VIE)	\$ 817,957	\$ 829,577
Common stock, at fair value	11,481	8,776
Preferred stock, at fair value	3,151	3,081
Short-term investments, at fair value (including \$1,514 and \$2,645 from VIE)	81,101	76,502
Trading securities, at fair value	13,127	12,712
Total investments	926,817	930,648
Cash and cash equivalents (including \$1,397 and \$507 from VIE)	32,800	20,224
Accrued investment income (including \$55 and \$52 from VIE)	6,179	6,387
Premiums receivable (including \$737 and \$498 from VIE)	28,404	32,559
Ceded unearned premium (including \$323 and \$351 from VIE)	30,375	29,821
Reinsurance recoverable (including \$4,940 and \$5,039 from VIE)	184,909	183,562
Deferred acquisition costs (including \$1,043 and \$1,100 from VIE)	26,602	26,182
Property, plant and equipment, net	12,012	12,082
Goodwill	20,843	20,843
Funds on deposit (including \$98 and \$231 from VIE)	30,221	42,088
Accrued premium (including \$0 and \$0 from VIE)	45,894	42,886
Other assets (including \$0 and \$1,255 from VIE)	25,819	25,849
Total assets	\$ 1,370,875	\$ 1,373,131
Liabilities and Shareholders' Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses (including \$8,920 and \$8,900 from VIE)	\$ 726,566	\$ 725,244
Unearned premiums (including \$4,086 and \$4,325 from VIE)	148,795	146,096
Ceded premiums payable (including (\$200) and \$67 from VIE)	17,694	13,386
Funds held (including \$85 and \$113 from VIE)	71,815	76,806
Other liabilities (including \$0 and \$0 from VIE)	16,660	18,601
Deferred income taxes (including \$55 and \$30 from VIE)	7,137	8,767
Loans payable	39,183	39,183
Total liabilities	\$ 1,027,850	\$ 1,028,083
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, 2013, 9,486,086 shares and at December 31, 2012, 9,505,906 shares	95	95
Additional paid-in capital	84,221	86,568
Retained earnings	202,517	197,015

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Accumulated other comprehensive income, net	48,415	53,628
Total American Safety Insurance Holdings, Ltd. shareholders' equity	335,248	337,306
Equity in non-controlling interests	7,777	7,742
Total equity	343,025	345,048
Total liabilities and equity	\$ 1,370,875	\$ 1,373,131

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

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American Safety Insurance Holdings, Ltd. And Subsidiaries

Consolidated Statements of Operations

(Unaudited)

(dollars in thousands except per share data)

	Three Months Ended March 31,	
	2013	2012
Revenues:		
Direct earned premiums	\$ 63,571	\$ 60,528
Assumed earned premiums	14,929	13,865
Ceded earned premiums	(16,576)	(12,980)
Net earned premiums	61,924	61,413
Net investment income	7,632	7,811
Realized gains	1,454	53
Fee income	1,228	668
Other income	12	12
Total revenues	\$ 72,250	\$ 69,957
Expenses:		
Losses and loss adjustment expenses	37,964	37,281
Acquisition expenses	14,752	14,744
Other underwriting expenses	12,141	10,752
Interest expense	354	417
Corporate and other expenses	781	1,256
Total expenses	\$ 65,992	\$ 64,450
Earnings before income taxes	6,258	5,507
Income tax expense	677	1,106
Net earnings	\$ 5,581	\$ 4,401
Less: Net earnings attributable to the non-controlling interest	88	345
Net earnings attributable to American Safety Insurance Holdings, Ltd.	\$ 5,493	\$ 4,056
Net earnings per share:		
Basic	\$ 0.58	\$ 0.40
Diluted	\$ 0.56	\$ 0.39
Weighted average number of shares outstanding:		
Basic	9,441,533	10,220,700
Diluted	9,749,263	10,533,732

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

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American Safety Insurance Holdings, Ltd. And Subsidiaries

Consolidated Statements of Comprehensive Earnings

(Unaudited)

(dollars in thousands)

	Three Months Ended March 31,	
	2013	2012
Net earnings	\$ 5,581	\$ 4,401
Other comprehensive income before income taxes:		
Unrealized gains (losses) on securities available-for-sale	(5,313)	3,442
Amortization of (gain) on hedging transactions	(21)	
Reclassification adjustment for realized (gains) included in net earnings	(1,454)	(53)
Total other comprehensive income (loss) before income taxes	(6,788)	3,389
Income tax expense (benefit) related to items of other comprehensive income (loss)	(1,521)	313
Other comprehensive income (loss) net of income taxes	(5,267)	3,076
Comprehensive income	\$ 314	\$ 7,477
Less: Comprehensive income attributable to the non-controlling interest	34	186
Comprehensive income attributable to American Safety Insurance Holdings, Ltd.	\$ 280	\$ 7,291

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,	
	2013	2012
Cash flow from operating activities:		
Net earnings	\$ 5,581	\$ 4,401
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Realized gains on sale of investments	(1,454)	(53)
Depreciation expense	917	734
Stock based compensation expense	612	604
Amortization of deferred acquisition costs, net	(420)	474
Amortization of investment premium	182	826
Deferred income taxes	(116)	3,500
Change in operating assets and liabilities:		
Accrued investment income	208	206
Premiums receivable	4,155	(821)
Reinsurance recoverable	(1,347)	2,615
Ceded unearned premium	(554)	67
Funds held	(4,991)	2,165
Unpaid losses and loss adjustment expenses	1,322	5,489
Unearned premiums	2,699	(627)
Ceded premiums payable	4,308	(2,459)
Other liabilities	(1,941)	(1,636)
Funds on deposit	11,867	4,966
Accrued premium	(3,008)	(3,657)
Other assets, net	(197)	(2,457)
Net cash provided by operating activities	17,823	14,337
Cash flow from investing activities:		
Purchases of fixed maturities	(48,001)	(975)
Proceeds from sales and maturities of fixed maturities	53,496	31,566
Purchases of equity securities	(3,285)	
Increase in short-term investments	(3,876)	(42,227)
Purchases of fixed assets	(622)	(324)
Net cash used in investing activities	(2,288)	(11,960)
Cash flow from financing activities:		
Shares repurchased to cover employment taxes	(339)	(292)
Proceeds from exercised stock options	103	44
Purchases of common stock pursuant to the Stock Repurchase Plan	(2,723)	(92)
Net cash used in financing activities	(2,959)	(340)
Net increase in cash and cash equivalents	12,576	2,037
Cash and cash equivalents at beginning of period	20,224	43,481
Cash and cash equivalents at end of period	\$ 32,800	\$ 45,518

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Supplemental disclosure of cash flow:

Income taxes paid (including \$33 and \$0 from VIE)	\$	41	\$	15
Interest paid	\$	300	\$	420

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, 2013

(Unaudited)

Note 1 Basis of Presentation

The accompanying consolidated financial statements of American Safety Insurance Holdings, Ltd. (American Safety Insurance) and its subsidiaries and American Safety Risk Retention Group, Inc. (American Safety RRG), a non-subsidiary 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 Company accounts for business combinations using the acquisition method, which requires an allocation of the purchase price of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the net tangible and intangible assets acquired. In the event the net assets acquired exceed the purchase price, the Company will recognize a gain on bargain purchase.

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

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

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Note 2 Investments

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

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
March 31, 2013				
Fixed maturity securities:				
U.S. Treasury securities and other government corporations and agencies	\$ 58,673	\$ 2,754	\$ (18)	\$ 61,409
States of the U.S. and political subdivisions of the states	38,580	6,115		44,695
Corporate securities	303,535	33,029	(267)	336,297
Mortgage-backed securities	229,013	9,241	(687)	237,567
Commercial mortgage-backed securities	53,533	4,116	(113)	57,536
Asset-backed securities	76,827	3,876	(250)	80,453
Total fixed maturities	\$ 760,161	\$ 59,131	\$ (1,335)	\$ 817,957
Common stock	\$ 12,124	\$ 226	\$ (869)	\$ 11,481
Preferred stock	\$ 2,789	\$ 382	\$ (20)	\$ 3,151
December 31, 2012				
Fixed maturity securities:				
U.S. Treasury securities and other government corporations and agencies	\$ 53,591	\$ 2,961	\$ (11)	\$ 56,541
States of the U.S. and political subdivisions of the states	40,100	6,064		46,164
Corporate securities	304,725	36,089	(85)	340,729
Mortgage-backed securities	237,653	11,088	(501)	248,240
Commercial mortgage-backed securities	57,521	5,694		63,215
Asset-backed securities	71,769	3,138	(219)	74,688
Total fixed maturities	\$ 765,359	\$ 65,034	\$ (816)	\$ 829,577
Common stock	\$ 9,004	\$ 6	\$ (234)	\$ 8,776
Preferred stock	\$ 2,789	\$ 317	\$ (25)	\$ 3,081

During the three months ended March 31, 2013 and 2012, available for sale fixed maturity securities were sold for total proceeds of \$11.2 million and \$5.2 million, respectively, resulting in gross realized gains to the Company. The gross realized gains on these sales totaled \$1.1 million and \$0.1 million in 2013 and 2012, respectively. For the purpose of determining gross realized gains, the cost of securities sold is based on specific identification.

Trading securities are reported at fair value, with unrealized holding gains and losses reported as part of net earnings. Net unrealized holding gains from trading securities totaled \$0.4 million for the three months ended March 31, 2013. These holding gains are included in net realized gains and losses for the period. There were no trading securities within the portfolio as of March 31, 2012.

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The amortized cost and estimated fair value of fixed maturity securities at March 31, 2013, is shown below by contractual maturity.

	Amortized cost (dollars in thousands)	Estimated fair value
Due in one year or less	\$ 30,684	\$ 31,163
Due after one year through five years	104,517	112,750
Due after five years through ten years	196,764	213,185
Due after ten years	68,823	85,303
Mortgage and asset-backed securities	359,373	375,556
Total	\$ 760,161	\$ 817,957

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

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2013	(dollars in thousands)					
Fixed maturity securities:						
U.S. Treasury securities and other government corporations and agencies	\$ 5,426	\$ (18)	\$	\$	\$ 5,426	\$ (18)
States of the U.S. and political subdivisions of the states						
Corporate securities	24,527	(267)			24,527	(267)
Mortgage-backed securities	57,730	(685)	257	(2)	57,987	(687)
Commercial mortgage-backed securities	12,275	(113)			12,275	(113)
Asset-backed securities	13,250	(235)	51	(15)	13,301	(250)
Subtotal, fixed maturity securities	113,208	(1,318)	308	(17)	113,516	(1,335)
Common stock	1,163	(16)	3,573	(853)	4,736	(869)
Preferred stock			507	(20)	507	(20)
Total temporarily impaired securities	\$ 114,371	\$ (1,334)	\$ 4,388	\$ (890)	\$ 118,759	\$ (2,224)

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December 31, 2012	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	\$ 4,985	\$ (11)	\$	\$	\$ 4,985	\$ (11)
States of the U.S. and political subdivisions of the states						
Corporate securities	24,489	(85)			24,489	(85)
Mortgage-backed securities	36,345	(336)	3,751	(165)	40,096	(501)
Commercial mortgage-backed securities						
Asset-backed securities	7,536	(210)	59	(9)	7,595	(219)
Subtotal, fixed maturity securities	73,355	(642)	3,810	(174)	77,165	(816)
Common stock	1,067	(14)	4,206	(220)	5,273	(234)
Preferred stock	490	(2)	504	(23)	994	(25)
Total temporarily impaired securities	\$ 74,912	\$ (658)	\$ 8,520	\$ (417)	\$ 83,432	\$ (1,075)

We hold a total of 1,322 available-for sale securities, of which 100 were in an unrealized loss position for less than twelve months and four were in an unrealized loss position for a period of twelve months or greater as of March 31, 2013. Unrealized losses greater than twelve months on fixed maturities were the result of increased credit spreads and higher market yields relative to the date the securities were purchased. We do not consider these investments to be other-than-temporary impaired at March 31, 2013.

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

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

recoverability of principal and interest;

market conditions;

ability and intent to hold the investment to recovery;

a pattern of continuing operating losses of the issuer;

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

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

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

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Additionally, credit analysis and/or credit rating issues related to specific investments may trigger more intensive monitoring to determine if a decline in market value is other than temporary (OTTI). For investments with a market value below cost, the process includes evaluating the length of time and the extent to which cost exceeds market value, the prospects and financial condition of the issuer, and evaluation for a potential recovery in market value, among other factors. This process is not exact and further requires consideration of risks such as credit risk and interest rate risk. Therefore, if an investment's cost exceeds its market value solely due to changes in interest rates, recognizing impairment may not be appropriate. For the three months ended March 31, 2013 and 2012, the Company did not incur any OTTI losses.

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Note 3 Segment Information

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

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

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

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

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

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, 2013 and 2012, respectively (dollars in thousands):

	Three Months Ended March 31, 2013				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	\$ 47,953	\$ 16,602	\$ 16,644	\$	\$ 81,199
Net written premiums	37,546	9,879	16,644		64,069
Net earned premiums	36,541	11,162	14,221		61,924
Fee & other income	332	771		137	1,240
Losses & loss adjustment expenses	22,028	7,393	8,543		37,964
Acquisition & other underwriting expenses	16,595	4,830	4,648	820	26,893
Underwriting profit (loss)	(1,750)	(290)	1,030	(683)	(1,693)
Net investment income	4,598	1,230	1,670	134	7,632
Pre-tax operating income (loss)	2,848	940	2,700	(549)	5,939
Net realized gains					1,454
Interest and corporate expenses					1,135
Earnings before income taxes					6,258
Income tax expense					677
Net earnings					\$ 5,581
Less: Net earnings attributable to the non-controlling interest					88
Net earnings attributable to ASIH, Ltd.					\$ 5,493
Loss ratio	60.3%	66.2%	60.1%	NM	61.3%
Expense ratio	44.5%	36.4%	32.7%	NM	41.4%
Combined ratio ⁽²⁾	104.8%	102.6%	92.8%	⁽¹⁾ NM	102.7%

	Three Months Ended March 31, 2012				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
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	13,916	6,388	4,330	862	25,496
Underwriting profit (loss)	(1,683)	632	1,240	(873)	(684)
Net investment income	4,625	1,429	1,621	136	7,811
Pre-tax operating income (loss)	2,942	2,061	2,861	(737)	7,127
Net realized gains					53
Interest and corporate expenses					1,673
Earnings before income taxes					5,507

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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	44.7%	35.0%	31.1%	NM	40.4%
Combined ratio ⁽²⁾	105.4%	96.1%	91.1%	⁽¹⁾ NM	101.1%

(1) NM = Ratio is not meaningful

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

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The 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, 2013 and 2012 (dollars in thousands):

	United States	Bermuda	Total
March 31, 2013			
Income tax expense	\$ 677	\$	\$ 677
Net earnings attributable to American Safety Insurance Holdings, Ltd.	\$ 944	\$ 4,549	\$ 5,493
Assets	\$ 677,289	\$ 693,586	\$ 1,370,875
Equity	\$ 138,318	\$ 204,707	\$ 343,025
	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

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,	
	2013	2012
Current	\$ 793	\$ (2,394)
Deferred	(116)	3,500
Total	\$ 677	\$ 1,106

Income tax expense for the periods ended March 31, 2013 and 2012, differed from the amount computed by applying the United States Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following (dollars in thousands):

	Three Months Ended March 31,	
	2013	2012
Expected income tax expense	\$ 2,128	\$ 1,872
Foreign earned income not subject to U.S. taxation	(1,546)	(855)
Tax-exempt interest	(3)	(3)
State taxes and other	98	92
Total	\$ 677	\$ 1,106

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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, 2012. During the first three months of 2013 and 2012, the Company did not grant any stock options. Stock based compensation expense related to outstanding stock options was \$85 and \$118 for the three months ended March 31, 2013 and 2012, respectively, and is reflected in the Consolidated Statement of Operations in other underwriting expenses.

In addition to stock options discussed above, the Company may grant restricted shares to employees under the incentive stock plan. During the first three months of 2013, the Company granted 380,839 shares of restricted stock compared to 91,330 for the same period in 2012. Of the shares granted, 79,339 shares vest on the grant date anniversary ratably over three years at 25%, 25%, and 50%, respectively. The remaining 301,500 shares vest pursuant to a vesting schedule based on certain performance criteria. Stock based compensation expense related to the restricted shares was \$444 and \$404 for the three months ended March 31, 2013 and 2012, respectively, and is reflected in the Consolidated Statement of Operations in other underwriting expenses. Additionally, the Company recorded \$83 and \$82 in expense for the first three months ended March 31, 2013 and 2012, respectively, related to stock awards issued to its Board of Directors.

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, 2013.

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

As of March 31, 2013

Fair Value Measurements Using

(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 36,161	\$ 25,248	\$	\$ 61,409
States of the U.S. and political subdivisions of the states		44,695		44,695
Corporate securities		336,297		336,297
Mortgage-backed securities		237,567		237,567
Commercial mortgage-backed securities		57,536		57,536
Asset-backed securities		80,453		80,453
Total fixed maturity securities	36,161	781,796		817,957
Equity securities	8,559		6,073	14,632
Short term investments	81,101			81,101
Trading securities	266	12,861		13,127
Total	\$ 126,087	\$ 794,657	\$ 6,073	\$ 926,817

As of December 31, 2012

Fair Value Measurements Using

(dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed maturity securities:				
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 31,032	\$ 25,509	\$	\$ 56,541
States of the U.S. and political subdivisions of the states		46,164		46,164
Corporate securities		340,729		340,729
Mortgage-backed securities		248,240		248,240
Commercial mortgage-backed securities		63,215		63,215
Asset-backed securities		74,688		74,688

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Total fixed maturity securities	31,032	798,545		829,577
Equity securities	5,151		6,706	11,857
Short term investments	76,502			76,502
Trading securities	990	11,722		12,712
Total	\$ 113,675	\$ 810,267	\$ 6,706	\$ 930,648

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

	As of March 31, 2013 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	(dollars in thousands)
	Equity Securities
Balance at December 31, 2012	\$ 6,706
Total gains(losses) realized (unrealized):	
Included in earnings	
Included in other comprehensive income	(633)
Purchases	
Sales	
Issuance and settlements	
Net transfers in (out of) Level 3	
Balance at March 31, 2013	\$ 6,073
Change in net unrealized losses relating to assets still held at reporting date	\$ (633)
	As of December 31, 2012 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	(dollars in thousands)
	Equity Securities
Balance at December 31, 2011	\$ 6,751
Total gains(losses) realized (unrealized):	
Included in earnings	
Included in other comprehensive income	(45)
Purchases	
Sales	
Issuance and settlements	
Net transfers in (out of) Level 3	
Balance at December 31, 2012	\$ 6,706
Change in net unrealized losses relating to assets still held at reporting date	\$ (45)

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

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

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

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

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

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

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

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

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

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

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

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

		March 31, 2013		December 31, 2012	
	Level in Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:					
Cash and cash equivalents	Level 1	\$ 32,800	\$ 32,800	\$ 20,224	\$ 20,224
Fixed maturities	*	\$ 817,957	\$ 817,957	\$ 829,577	\$ 829,577
Equity securities	*	\$ 14,632	\$ 14,632	\$ 11,857	\$ 11,857
Short-term investments	*	\$ 81,101	\$ 81,101	\$ 76,502	\$ 76,502
Trading securities	*	\$ 13,127	\$ 13,127	\$ 12,712	\$ 12,712
Premiums receivable	Level 2	\$ 28,404	\$ 28,404	\$ 32,559	\$ 32,559
Reinsurance recoverable	Level 2	\$ 184,909	\$ 184,909	\$ 183,562	\$ 183,562
Liabilities:					
Loans payable	Level 2	\$ 39,183	\$ 39,183	\$ 39,183	\$ 39,183

* See investment assets measured at fair value on a recurring basis summary within this note for disclosure of levels for classes of these financial assets.

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

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

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

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

Note 7 Credit Facility

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

Note 8 Loans Payable

Trust Preferred Offerings

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

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

The balance of loans payable at March 31, 2013, was \$39.2 million.

Note 9 Variable Interest Entity

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

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

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

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

	March 31, 2013	December 31, 2012
Investments	\$ 12,130	\$ 12,144
Cash and cash equivalents	1,397	507
Accrued investment income	55	52
Premiums receivable	737	498
Ceded unearned premium	323	351
Reinsurance recoverable	4,940	5,039
Deferred acquisition costs	1,043	1,100
Funds on deposit	98	231
Other assets		1,255
Total Assets	\$ 20,723	\$ 21,177
Unpaid losses and loss adjustment expenses	8,920	8,900
Unearned premiums	4,086	4,325
Ceded premiums payable	(200)	67
Funds held	85	113
Deferred income taxes	55	30
Total Liabilities	\$ 12,946	\$ 13,435

Note 10 Commitments and Contingencies

At March 31, 2013, the Company had aggregate outstanding irrevocable letters of credit which had not been drawn amounting to \$4.3 million. Those letters of credit included \$1.0 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 \$0.8 million issued to various other parties.

American Safety Reinsurance, Ltd., (ASRe), our reinsurance subsidiary, provides reinsurance protection for risk retention groups, captives and insurance companies and may be required to provide letters of credit to collateralize a portion of the reinsurance protection. In the normal course of business they may provide letters of credit to the companies that they reinsure. As of March 31, 2013, ASRe had \$84.5 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.

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

Note 11 Business Acquisition

On July 2, 2012, American Safety Holdings Corp., a wholly-owned subsidiary of the Registrant, acquired the 100% voting equity of Bluestone Agency, Inc., an Arizona corporation, and its wholly-owned subsidiary, Bluestone Surety, Ltd., an exempted company incorporated under the laws of the Cayman Islands. Bluestone Agency and Bluestone Surety are referred to collectively as "Bluestone". All issued and outstanding capital stock of Bluestone was purchased from Pearlstein Associates, LLP, a South Carolina limited liability company, for a purchase price of \$20.0 million. The purchase price includes an earnout provision consisting of a payout of up to \$6.0 million. The cash paid at closing was \$14.0 million. The earnout provision is contingent upon the future performance of Bluestone.

Bluestone primarily offers transactional commercial surety products. In 2011, Bluestone wrote approximately \$16 million in premium, primarily composed of low limit transactional commercial surety bonds. The purchase was accounted for under the guidance of ASC 805-10 as a business combination under the acquisition method. All identifiable assets and liabilities acquired were recognized using fair value measurement. Pursuant to fair value measurement, the earnout provision was valued at \$4.0 million. Under ASC 805-10 utilizing the acquisition method, the purchase price was valued at \$18.0 million.

The following table summarizes the Company's fair value of the assets acquired, identifiable intangible assets acquired and liabilities assumed at July 2, 2012 (in thousands):

Assets:	
Short-term investments, at fair value	\$ 3,541
Cash and cash equivalents	3,176
Premiums receivable	2,698
Deferred acquisition costs	1,186
Goodwill	11,526
Intangibles and other assets	9,784
Total Assets	\$ 31,911
Liabilities:	
Unpaid losses and loss adjustment expenses	\$ (2,135)
Unearned premiums	(2,358)
Ceded premiums payable	(1,797)
Funds held	(3,504)
Other Liabilities	(1,057)
Deferred income taxes	(3,060)
Total Liabilities	\$ (13,911)

For the three months ended March 31, 2013, the effects of this acquisition were not material to the Company's consolidated financial statements and basic and diluted earnings per share and, as such, pro forma information has not been presented.

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Note 12 Accounting Pronouncements

In February 2013, the FASB issued an accounting update to improve the reporting of reclassifications out of accumulated other comprehensive income. An entity is required to report the effect of significant reclassifications, by component, out of accumulated other comprehensive income on the respective line items in net income if the item is required under GAAP to be reclassified in its entirety in the same reporting period.

The required disclosures of the update are allowed either in the Statement of Operations or in the notes. The amendments in the update are effective for reporting periods beginning after December 15, 2012. This update did not have an impact on our financial disclosures.

Note 13 Subsequent Events

None.

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

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

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

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

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

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

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The 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).

American Safety Insurance Holdings, Ltd. and Subsidiaries

Segment Data

(Unaudited) (Dollars in thousands)

		Three Months Ended March 31, 2013			
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	\$ 47,953	\$ 16,602	\$ 16,644	\$	\$ 81,199
Net written premiums	37,546	9,879	16,644		64,069
Net earned premiums	36,541	11,162	14,221		61,924
Fee & other income	332	771		137	1,240
Losses & loss adjustment expenses	22,028	7,393	8,543		37,964
Acquisition & other underwriting expenses	16,595	4,830	4,648	820	26,893
Underwriting profit (loss)	(1,750)	(290)	1,030	(683)	(1,693)
Net investment income	4,598	1,230	1,670	134	7,632
Pre-tax operating income (loss)	2,848	940	2,700	(549)	5,939
Net realized gains					1,454
Interest and corporate expenses					1,135
Earnings before income taxes					6,258
Income tax expense					677
Net earnings					\$ 5,581
Less: Net earnings attributable to the non-controlling interest					88
Net earnings attributable to ASIH, Ltd.					\$ 5,493
Loss ratio	60.3%	66.2%	60.1%	NM	61.3%
Expense ratio	44.5%	36.4%	32.7%	NM	41.4%
Combined ratio ⁽²⁾	104.8%	102.6%	92.8%	⁽¹⁾ NM	102.7%

		Three Months Ended March 31, 2012			
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
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	13,916	6,388	4,330	862	25,496

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Underwriting profit (loss)	(1,683)	632	1,240	(873)	(684)
Net investment income	4,625	1,429	1,621	136	7,811
Pre-tax operating income (loss)	2,942	2,061	2,861	(737)	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	44.7%	35.0%	31.1%	NM	40.4%
Combined ratio ⁽²⁾	105.4%	96.1%	91.1%	⁽¹⁾ NM	101.1%

(1) NM = Ratio is not meaningful

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

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Three Months Ended March 31, 2013, compared to Three Months Ended March 31, 2012

Net Earnings

Net earnings attributable to ASIH were \$5.5 million, or \$0.56 per diluted share, for the three months ended March 31, 2013, compared to \$4.1 million, or \$0.39 per diluted share, for the same period of 2012. While underwriting results remained stable (see discussion below), the increase was driven by net realized gains of \$1.5 million compared to \$0.1 million for the same quarter in 2012, and increased fee income of \$1.2 million compared to \$0.7 million in 2012 attributable to the purchase of Bluestone Agency effective July 1, 2012.

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 102.7%, composed of a loss ratio of 61.3% and an expense ratio of 41.4%. The loss ratio increased slightly from 60.7% for the same quarter in 2012 to 61.3%. The increase in the loss ratio is attributable primarily to the products primary casualty and specialty programs product lines based on historical loss trends and pricing. The 2013 expense ratio increased to 41.4% compared to 40.4% in 2012 due primarily to newly acquired underwriting units and the Bluestone acquisition.

Gross Written Premiums

Gross written premiums increased to \$81.2 million from \$73.8 million for the three months ended March 31, 2013 and 2012, respectively. E&S gross written premiums increased 24.2% to \$48.0 million, ART gross written premiums declined 21.6% to \$16.6 million and Reinsurance gross written premiums increased 19.1% to \$16.6 million. E&S gross written premiums increased in the environmental, professional liability and surety product lines. ART gross written premiums declined due to the de-emphasis of the specialty program business. The increase in the Reinsurance gross written premiums was attributable primarily to new business generated from the London marketing office.

Net Earned Premiums

Net earned premiums increased 0.8% to \$61.9 million for the three months ended March 31, 2013, compared to \$61.4 million for the same period of 2012. Net earned premiums increased in the E&S and Reinsurance divisions reflective of the gross written premium growth which was offset by a reduction in ART net earned premiums (see discussion above).

Net Investment Income

Net investment income is derived from the investment portfolio net of investment expenses. Net investment income decreased slightly to \$7.6 million for the three months ended March 31, 2013, compared to \$7.8 million for the same period of 2012 due to higher invested assets invested at lower yields. Invested assets grew from \$897.2 million to \$926.8 million at March 31, 2012 and 2013, respectively. While the gross yield decreased in the 2013 period to 3.5% from 3.8% in the first quarter 2012, the duration increased to 4.45 from 3.74.

Fee Income

Fee income increased for the quarter to \$1.2 million for 2013 compared to \$0.7 million for 2012 primarily due to the acquisition of Bluestone Agency.

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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 \$14.8 million, or 23.8% of earned premium for the three months ended March 31, 2013, as compared to \$14.7 million, or 24.0% of earned premium for the same period of 2012. Other underwriting expenses were \$12.1 million for the three months ended March 31, 2013, compared to \$10.7 million for the same 2012 period. As a percentage of earned premiums, other underwriting expenses increased to 19.6% from 17.5% for the same three months of 2012. The increase is attributable to the Bluestone Agency acquisition and new underwriting teams.

Corporate and Other Expenses

During the 2013 quarter, corporate and other expenses are down to \$0.8 million compared to \$1.3 million in 2012 due to lower federal excise taxes for the 2013 period.

Income Taxes

The income tax expense for the three months ended March 31, 2013, was \$0.7 million compared to a \$1.1 million tax expense for the same period of 2012. The decrease is due to lower U.S. earnings in 2013 as compared to 2012.

Liquidity and Capital Resources

The Company meets its cash requirements and finances its growth principally through cash flows generated from operations. 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, 2013, the Company had not drawn on the facility.

Net cash provided by operations was \$17.8 million for the three months ended March 31, 2013, compared to net cash provided by operations of \$14.3 million for the same period of 2012. The increase in cash flow from operations is primarily attributable to liquidity resulting from premium collections and return of funds on deposit.

During 2012, the Company Board of Directors authorized the purchase of 1,000,000 shares of common stock. The Company purchased, pursuant to that authorization, 136,968 shares at a cost of \$2.7 million or \$19.89 per share during the 2013 quarter.

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, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control

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

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

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

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

On January 24, 2012 and subsequently on October 23, 2012, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of common stock with a total authorized repurchase of 1,000,000 shares. Pursuant to this authorization, the Company had repurchased a total of 916,002 shares of common stock as of March 31, 2013, at an average cost of \$18.03 per share or approximately \$16.5 million during 2012 and 2013.

During the quarter, 136,968 shares were purchased at an average cost of \$19.89 per share.

The following table provides information with respect to shares of our common stock that were repurchased or surrendered during the three months ended March 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program
January 1, 2013 through January 31, 2013	96,060	\$ 19.86	96,060	124,906
February 1, 2013 through February 28, 2013	40,908	\$ 19.96	40,908	83,998
March 1, 2013 through March 31, 2013		\$		83,998
Total	136,968	\$ 19.89	136,968	

Item 3. Defaults Under Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

The following exhibits are filed as part of this report:

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
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Label Linkbase Document.
101.PRE*	XBRL Taxonomy Presentation Linkbase Document.

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

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 10th day of May, 2013.

American Safety Insurance Holdings, Ltd.

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

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