AMERICAN SAFETY INSURANCE HOLDINGS LTD
Form 10-Q
November 09, 2011

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

FORM 10 Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011
OR

o **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	30-0666089
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)

The Boyle Building, 2nd Floor
31 Queen Street
Hamilton, HM 11, Bermuda
(Address, zip code of principal executive offices)
(441) 296-8560
(Registrant s telephone number, including area code)

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

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 o No þ

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o

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

The aggregate number of shares outstanding of Registrant s common stock, $0.01 par value, on November 3, 2011, was 10,381,424.

AMERICAN SAFETY INSURANCE HOLDINGS, LTD.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

American Safety Insurance Holdings, Ltd. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands except share data)

	September 30, 2011 (Unaudited)	December 31, 2010
Assets		
Investments available-for-sale:		
Fixed maturity securities at fair value (including $5,971 and $5,419 from VIE)	$ 832,643	$ 750,250
Common stock, at fair value	6,926	5,082
Preferred stock, at fair value	2,913	2,911
Short-term investments, at fair value (including $2,323 and $3,083 from VIE)	38,606	60,207
Total investments	881,088	818,450
Cash and cash equivalents (including $1,260 and $759 from VIE)	38,199	38,307
Accrued investment income (including $52 and $54 from VIE)	6,668	7,174
Premiums receivable (including $881 and $1,116 from VIE)	35,566	32,470
Ceded unearned premiums (including $201 and $286 from VIE)	22,337	24,380
Reinsurance recoverables (including $478 and $4,291 from VIE)	185,097	198,014
Deferred income taxes	3,159	5,922
Deferred acquisition costs (including $(496) and $(38) from VIE)	25,556	22,142
Property, plant and equipment, net	13,886	13,013
Goodwill	9,317	9,317
Other assets (including $331 and $0 from VIE)	56,526	52,064
Total assets	$ 1,277,399	$ 1,221,253
Liabilities and Shareholders Equity		
Liabilities:		
Unpaid losses and loss adjustment expenses (including $5,992 and $9,710 from VIE)	$ 666,392	$ 649,641
Unearned premiums (including $747 and $945 from VIE)	141,083	128,981
Ceded premiums payable (including $327 and $434 from VIE)	12,689	11,496
Funds held (including $167 and $248 from VIE)	63,101	55,917
Other liabilities (including $0 and $427 from VIE)	15,002	17,501
Loans payable	39,183	39,183
Total liabilities	937,450	902,719

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 September 30, 2011, 10,375,259 and December 31, 2010, 10,386,519		104		104
Additional paid-in capital		102,153		102,768
Retained earnings		192,095		174,328
Accumulated other comprehensive income, net		41,829		38,128
Total American Safety Insurance Holdings, Ltd. shareholders equity		336,181		315,328
Equity in non-controlling interest		3,768		3,206
Total equity		339,949		318,534
Total liabilities and equity	$	1,277,399	$	1,221,253

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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
INCOME STATEMENT DATA:				
Revenues:				
Direct earned premiums	$ 62,498	$ 55,941	$ 180,955	$ 172,659
Assumed earned premiums	12,287	10,861	37,422	29,151
Ceded earned premiums	(15,793)	(13,582)	(45,866)	(58,382)
Net earned premiums	58,992	53,220	172,511	143,428
Net investment income	8,196	8,265	23,682	24,099
Net realized gains	10	560	11,311	2,080
Fee income	843	1,474	2,494	3,722
Other income	12	(260)	35	(230)
Total revenues	68,053	63,259	210,033	173,099
Expenses:				
Losses and loss adjustment expenses	35,867	31,378	117,997	86,030
Acquisition expenses	13,800	12,393	39,008	31,218
Other underwriting expenses	10,941	9,996	31,309	29,672
Interest expense	375	586	1,116	2,030
Corporate and other expenses	173	965	1,811	2,431
Total expenses	61,156	55,318	191,241	151,381
Earnings before income taxes	6,897	7,941	18,792	21,718
Income tax expense	1,169	635	588	1,486
Net earnings	5,728	7,306	18,204	20,232
Less: Net (loss) earnings attributable to the non-controlling interest	(69)	104	454	360
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 5,797	$ 7,202	$ 17,750	$ 19,872

Net earnings per share:				
Basic	$ 0.56	$ 0.70	$ 1.70	$ 1.93
Diluted	$ 0.54	$ 0.68	$ 1.65	$ 1.87
Weighted average number of shares outstanding:				
Basic	10,377,890	10,271,184	10,416,979	10,282,976
Diluted	10,701,959	10,612,281	10,751,312	10,615,548

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)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash flow from operating activities:		
Net earnings	$ 18,204	$ 20,232
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Realized gains on sale of investments	(11,311)	(2,080)
Depreciation and amortization expense	2,033	2,073
Stock based compensation expense	1,712	1,778
Amortization of deferred acquisition costs, net	(3,414)	(5,728)
Amortization of premiums on investments	3,054	1,007
Deferred income taxes	(916)	(431)
Change in operating assets and liabilities:		
Accrued investment income	506	(468)
Premiums receivable	(3,096)	(8,350)
Reinsurance recoverable	12,917	(11,786)
Ceded unearned premiums	2,043	17,838
Funds held	7,184	4,147
Unpaid loss and loss adjustment expenses	16,751	32,508
Unearned premiums	12,102	1,885
Ceded premiums payable	1,193	4,073
Other liabilities	(2,500)	(491)
Other assets, net	(4,653)	(3,941)
Net cash provided by operating activities	51,809	52,266
Cash flow from investing activities:		
Purchases of fixed maturities	(309,591)	(222,594)
Purchase of common stock	(2,500)	
Proceeds from sales and maturities of fixed maturities	242,959	148,168
Proceeds from sale of equity securities	656	
Decrease in short-term investments	21,601	34,069
Purchase of fixed assets, net	(2,714)	(3,577)
Net cash used in investing activities	(49,589)	(43,934)
Cash flow from financing activities:		
Stock repurchase payments	(2,793)	(2,883)
Proceeds from exercised stock options	465	442
Proceeds from termination of interest rate swaps		2,055
Net cash used in financing activities	(2,328)	(386)

Net (decrease) increase in cash and cash equivalents		(108)		7,946
Cash and cash equivalents at beginning of period		38,307		34,756
Cash and cash equivalents at end of period	$	38,199	$	42,702
Supplemental disclosure of cash flow information:				
Income taxes paid	$	95	$	30
Interest paid	$	1,102	$	1,820

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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net earnings	$ 5,728	$ 7,306	$ 18,204	$ 20,232
Other comprehensive income before income taxes:				
Unrealized gains, net, on securities available-for-sale	12,725	12,518	18,801	34,982
Amortization of gain and unrealized losses on hedging transactions	(20)	(19)	(59)	(722)
Reclassification adjustment for realized gains included in net earnings	(9)	(560)	(11,311)	(2,080)
Total other comprehensive income before taxes	12,696	11,939	7,431	32,180
Income tax expense related to items of other comprehensive income	2,776	1,989	3,622	4,851
Other comprehensive income net of income taxes	9,920	9,950	3,809	27,329
Comprehensive income	$ 15,648	$ 17,256	$ 22,013	$ 47,561
Less: Comprehensive income attributable to the non-controlling interest	159	162	696	549
Comprehensive income attributable to American Safety Insurance Holdings, Ltd.	$ 15,489	$ 17,094	$ 21,317	$ 47,012

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
September 30, 2011
(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 results of operations for the three and nine months ended September 30, 2011, may not be indicative of the results for the fiscal year ending December 31, 2011. 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, 2010.

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 September 30, 2011 and December 31, 2010, are as follows (dollars in thousands):

	Amortized Cost	Gross unrealized Gains	Gross Unrealized Losses	Estimated fair value
September 30, 2011				
Securities available for sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 61,854	$ 4,346	$	$ 66,200
States of the U.S. and political subdivisions of the states	27,685	4,379		32,064
Corporate securities	316,921	27,184	(1,372)	342,733
Mortgage-backed securities	287,348	13,511	(91)	300,768
Commercial mortgage-backed securities	60,688	3,762	(916)	63,534
Asset-backed securities	26,805	551	(12)	27,344
Total fixed maturities	$ 781,301	$ 53,733	$ (2,391)	$ 832,643
Common stock	$ 6,926	$	$	$ 6,926
Preferred stock	$ 2,790	$ 214	$ (91)	$ 2,913

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated fair value
December 31, 2010				
Securities available for sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 70,796	$ 3,014	$ (36)	$ 73,774
States of the U.S. and political subdivisions of the states	23,463	816	(253)	24,026
Corporate securities	314,995	25,023	(459)	339,559
Mortgage-backed securities	234,137	8,990	(408)	242,719
Commercial mortgage-backed securities	29,123	6,438		35,561
Asset-backed securities	33,884	796	(69)	34,611
Total fixed maturities	$ 706,398	$ 45,077	$ (1,225)	$ 750,250

Common stock	$	5,082	$		$		$	5,082
Preferred stock	$	2,789	$	198	$	(76)	$	2,911

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The amortized cost and estimated fair value at September 30, 2011 are shown below by contractual maturity.

	Amortized cost	Estimated fair value
Due in one year or less	$ 16,392	$ 16,594
Due after one year through five years	130,297	136,414
Due after five years through ten years	184,203	197,690
Due after ten years	75,569	90,299
Mortgage and asset-backed securities	374,840	391,646
Total	$ 781,301	$ 832,643

The following tables summarize the gross unrealized losses of the Company s investment portfolio as of September 30, 2011 and December 31, 2010, 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**	
September 30, 2011	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Fixed Maturities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$	$	$	$	$	$
States of the U.S. & other political subdivisions of the states						
Corporate securities	61,139	(1,372)			61,139	(1,372)
Mortgage- backed securities	14,456	(91)			14,456	(91)
Commercial mortgage- backed securities	35,475	(916)			35,475	(916)
Asset- backed securities	960	(12)			960	(12)
Total fixed maturities	112,030	(2,391)			112,030	(2,391)
Common stock						
Preferred stock	1,424	(63)	499	(28)	1,923	(91)
Total temporarily impaired	$ 113,454	$ (2,454)	$ 499	$ (28)	$ 113,953	$ (2,482)

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December 31, 2010	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 months or longer Fair Value	12 months or longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Fixed Maturities:						
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 8,615	$ (36)	$	$	$ 8,615	$ (36)
States of the U.S. & other political subdivisions of the states	7,071	(194)	1,060	(59)	8,131	(253)
Corporate securities	21,321	(459)			21,321	(459)
Mortgage- backed securities	29,274	(408)			29,274	(408)
Commercial mortgage- backed securities						
Asset- backed securities	6,903	(69)			6,903	(69)
Total fixed maturities	73,184	(1,166)	1,060	(59)	74,244	(1,225)
Common stock						
Preferred stock	966	(29)	972	(47)	1,938	(76)
Total temporarily impaired	$ 74,150	$ (1,195)	$ 2,032	$ (106)	$ 76,182	$ (1,301)

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;

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 nine months ended September 30, 2011 and 2010, the Company did not incur any OTTI losses.

During the nine months ended September 30, 2011 and 2010, available-for-sale fixed maturity securities were sold for total proceeds of $213.4 million and $126.9 million, respectively, resulting in net realized gains to the Company totaling $11.3 million and $2.1 million in 2011 and 2010, respectively. For the purpose of determining net realized gains, the cost of securities sold is based on specific identification.

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 polices. Our property product 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 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 casualty insurance coverages for certain classes of specialty risks including, but not limited to, construction contractors, pest control operators, auto dealers, real estate brokers, consultants, and restaurant and tavern owners. 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 $15 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).

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The following table presents key financial data by segment for the three months ended September 30, 2011 and 2010, respectively (dollars in thousands):

	Three Months Ended September 30, 2011				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	$ 39,782	$ 18,952	$ 14,512	$	$ 73,246
Net written premiums	31,621	14,040	14,559		60,220
Net earned premiums	30,752	15,552	12,688		58,992
Fee & other income	(8)	806		57	855
Losses & loss adjustment expenses	19,019	8,466	8,382		35,867
Acquisition & other underwriting expenses	13,326	6,610	4,517	288	24,741
Underwriting profit (loss)	(1,601)	1,282	(211)	(231)	(761)
Net investment income	5,280	1,186	1,593	137	8,196
Pre-tax operating income (loss)	3,679	2,468	1,382	(94)	7,435
Net realized gains					10
Interest and corporate expenses					548
Earnings before income taxes					6,897
Income tax expense					1,169
Net earnings					$ 5,728
Less: Net earnings attributable to the non- controlling interest					(69)
Net earnings attributable to ASIH, Ltd.					$ 5,797
Loss ratio	61.8%	54.4%	66.1%	*NM	60.8%
Expense ratio	43.4%	37.3%	35.6%	NM	40.5%
Combined ratio**	105.2%	91.8%	101.6%	NM	101.3%

	Three Months Ended September 30, 2010				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	$ 34,121	$ 24,847	$ 12,971	$ (6)	$ 71,933
Net written premiums	27,423	17,063	12,258	(6)	56,738
Net earned premiums	26,347	15,114	11,765	(6)	53,220
Fee & other income	43	1,150	57	(36)	1,214
Losses & loss adjustment expenses	15,094	8,033	8,258	(7)	31,378

Acquisition & other underwriting expenses	12,414	6,345	3,326	304		22,389
Underwriting profit (loss)	(1,118)	1,886	238	(339)		667
Net investment income	5,286	1,366	1,488	125		8,265
Pre-tax operating income (loss)	4,168	3,252	1,726	(214)		8,932
Net realized gains						560
Interest and corporate expenses						1,551
Earnings before income taxes						7,941
Income tax expense						635
Net earnings					$	7,306
Less: Net earnings attributable to the non- controlling interest						104
Net earnings attributable to ASIH, Ltd.					$	7,202
Loss ratio	57.3%	53.1%	70.2%	*NM		59.0%
Expense ratio	46.1%	34.4%	27.7%	NM		39.3%
Combined ratio**	103.4%	87.5%	97.9%	NM		98.3%

* NM = Ratio is not meaningful

** The 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 following table presents key financial data by segment for the nine months ended September 30, 2011 and 2010, respectively (dollars in thousands):

	Nine Months Ended September 30, 2011				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	$ 119,706	$ 64,753	$ 46,012	$ (1)	$ 230,470
Net written premiums	95,636	46,086	44,925	(1)	186,646
Net earned premiums	87,831	45,523	39,158	(1)	172,511
Fee & other income	(8)	2,436		101	2,529
Losses & loss adjustment expenses	54,657	30,310	33,030		117,997
Acquisition & other underwriting expenses	39,652	19,071	11,726	(132)	70,317
Underwriting profit (loss)	(6,486)	(1,422)	(5,598)	232	(13,274)
Net investment income	15,176	3,538	4,528	440	23,682
Pre-tax operating income (loss)	8,690	2,116	(1,070)	672	10,408
Net realized gains					11,311
Interest and corporate expenses					2,927
Earnings before income taxes					18,792
Income tax expense					588
Net earnings					$ 18,204
Less: Net earnings attributable to the non- controlling interest					454
Net earnings attributable to ASIH, Ltd.					$ 17,750
Loss ratio	62.2%	66.6%	84.4%	*NM	68.4%
Expense ratio	45.2%	36.5%	29.9%	NM	39.3%
Combined ratio**	107.4%	103.1%	114.3%	NM	107.7%

	Nine Months Ended September 30, 2010				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	$ 100,227	$ 66,966	$ 36,641	$ (6)	$ 203,828
Net written premiums	81,251	48,501	33,539	(6)	163,285
Net earned premiums	72,741	39,178	31,515	(6)	143,428
Fee & other income	392	2,854	228	18	3,492
Losses & loss adjustment expenses	41,977	22,927	21,132	(6)	86,030

Acquisition & other underwriting expenses	35,842	14,769	9,297	982		60,890
Underwriting profit (loss)	(4,686)	4,336	1,314	(964)		
Net investment income	16,120	3,634	3,753	592		24,099
Pre-tax operating income	11,434	7,970	5,067	(372)		24,099
Net realized gains						2,080
Interest and corporate expenses						4,461
Earnings before income taxes						21,718
Income tax expense						1,486
Net earnings					$	20,232
Less: Net earnings attributable to the non- controlling interest						360
Net earnings attributable to ASIH, Ltd.					$	19,872
Loss ratio	57.7%	58.5%	67.1%	*NM		60.0%
Expense ratio	48.4%	30.4%	28.8%	NM		39.8%
Combined ratio**	106.1%	88.9%	95.9%	NM		99.8%

* NM = Ratio is not meaningful

** The 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 the United States and Bermuda. The following table provides financial data attributable to the geographic locations for the three months ended September 30, 2011 and 2010 (dollars in thousands):

	United States	Bermuda	Total
September 30, 2011			
Income tax expense	$ 1,169	$	$ 1,169
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 2,198	$ 3,599	$ 5,797

	United States	Bermuda	Total
September 30, 2010			
Income tax expense	$ 635	$	$ 635
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 1,117	$ 6,085	$ 7,202

The following table provides financial data attributable to the geographic locations for the nine months ended September 30, 2011 and 2010 (dollars in thousands):

	United States	Bermuda	Total
September 30, 2011			
Income tax expense	$ 588	$	$ 588
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 799	$ 16,951	$ 17,750
Assets	$ 664,526	$ 612,873	$ 1,277,399
Equity	$ 111,130	$ 228,819	$ 339,949

	United States	Bermuda	Total
September 30, 2010			
Income tax expense	$ 1,486	$	$ 1,486
Net earnings attributable to American Safety Insurance Holdings, Ltd.	$ 3,331	$ 16,541	$ 19,872
Assets	$ 658,436	$ 562,276	$ 1,220,712
Equity	$ 111,390	$ 211,008	$ 322,398

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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Current	$ 848	$ 179	$ 1,504	$ 2,171
Deferred	321	456	(916)	(431)
Change in valuation allowance				(254)
Total	$ 1,169	$ 635	$ 588	$ 1,486

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Income tax (benefit) expense for the periods ended September 30, 2011 and 2010 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Expected income tax expense	$ 2,368	$ 2,665	$ 6,235	$ 7,262
Foreign earned income not subject to U.S. taxation	(1,224)	(2,069)	(5,763)	(5,624)
Change in valuation allowance				(254)
Tax-exempt interest	(4)	(3)	(10)	(24)
State taxes and other	29	42	126	126
Total	$ 1,169	$ 635	$ 588	$ 1,486

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, 2010. During the first nine months of 2011, the Company did not grant any stock options compared to 78,775 for the same period of 2010. Stock based compensation expense related to outstanding stock options was $87 and $267 for the three months ended September 30, 2011 and 2010, respectively and $416 and $709 for the nine months ended September 30, 2011 and 2010, respectively, and is reflected in the Consolidated Statement of Operations in other underwriting expenses.

In addition to stock options discussed above, the Company grants restricted shares to employees under the incentive stock plan. During the three months ended September 30, 2011, the company granted 212,862 shares of stock compared to no shares granted for the three month period 2010. During the first nine months of 2011, the Company granted 251,543 shares of restricted stock compared to 209,254 for the same period in 2010. Of the 2011 shares, 43,681 shares granted vest on the grant date anniversary ratably over three years at 25%, 25%, and 50%, respectively. During the period 205,000 shares were granted pursuant to performance goal attainment with a five year vest. Additionally, 5,000 shares were granted with a five year cliff vest. Stock based compensation expense related to the restricted shares was $394 and $312 for the three months ended September 30, 2011 and 2010, respectively, and is reflected in the Consolidated Statement of Operations in other underwriting expenses. For the nine months ended September 30, 2011 and 2010, $1,077 and $829 were recorded as compensation expense, respectively, and is reflected in the Consolidated Statement of Operations in other underwriting expenses. Additionally, the Company expensed $83 and $80 in expense for the three months ended September 30, 2011 and 2010, respectively, related to stock awards related to Director compensation. For the nine months ended September 30, the company expensed $219 and $240 in 2011 and 2010, respectively, related to 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. The Company receives one quote per instrument for Level 2 inputs.

Our Level 3 inputs are valuations based on inputs that are unobservable. Unobservable inputs reflect the Company s own assumptions about the assumptions that we believe 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 September 30, 2011.

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

As of September 30, 2011
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 obligations of U.S. government corporations and agencies	$ 24,160	$ 42,040	$	$ 66,200
States of the U.S. and political subdivisions of the states		32,064		32,064
Corporate securities		342,733		342,733
Mortgage-backed securities		300,768		300,768
Commercial mortgage-backed Securities		63,534		63,534
Asset-backed securities		27,344		27,344
Total fixed maturities	24,160	808,483		832,643
Equity securities	2,913		6,926	9,839
Short term investments	38,606			38,606
Total	$ 65,679	$ 808,483	$ 6,926	$ 881,088

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Level 3 Financial Instruments	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (dollars in thousands) Equities	
Balance at December 31, 2010	$	5,082
Total gains (losses) realized (unrealized):		
Included in earnings		
Included in other comprehensive income		
Net purchases, sales & distributions	$	1,844
Net transfers in (out of) Level 3		
Balance at September 30, 2011	$	6,926
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 nine months of 2011.
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) For these equity funds, the Company was unable to use observable market inputs and management used assumptions that market participants might use.

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.

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

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

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

Loans payable The carrying value of those notes is a reasonable estimate of fair value. Due to the variable interest rate of these instruments, carrying value approximates market value. Changes in credit spreads for the Company or the industry sector could change this assessment in the future.

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 September 30, 2011, the Company was in compliance with all covenants. The Company has no outstanding borrowings at September 30, 2011.

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 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 30-year trust preferred securities in the amount of $25 million. The securities require interest payments quarterly of 8.31% for the first five years and LIBOR plus 3.4% thereafter. 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 September 30, 2011 was $39.2 million.

Note 9 Variable Interest Entity

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

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

The creditors of American Safety RRG do not have recourse to the Company for the obligations outside of obligations that exist due to contractual loss sharing or reinsurance arrangements that exist between American Safety RRG and other entities under common control in the ordinary course of the business. The equity of American Safety RRG is for the benefit of the policyholders and is considered a non-controlling interest in the shareholders equity section of the Company s Consolidated Balance Sheet. Should the 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):

	9/30/2011	12/31/2010
Investments	$ 8,294	$ 8,502
Cash and equivalents	1,260	759
Accrued investment income	52	54
Premiums receivable	881	1,116
Ceded unearned premiums	201	286
Reinsurance recoverables	478	4,291
Other assets	331	
Total Assets	$ 11,497	$ 15,008
Unpaid losses and loss adjustment expenses	$ 5,992	$ 9,710
Unearned premium	747	945
Ceded premiums payable	327	434
Deferred acquisition costs, net	496	38
Funds held	167	248
Other liabilities		427
Total Liabilities	$ 7,729	$ 11,802

Note 10 Commitments and Contingencies

At September 30, 2011, 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 $.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 they reinsure. As of September 30, 2011, ASRe had $57.3 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.

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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 Accounting Pronouncements

In September 2011, the FASB issued ASC, 2011-08-Intangibles -Goodwill and Other: Testing Goodwill for Impairment. The updates objective is to simplify the manner in which entities test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two step impairment test described in topic 350,ASC, Intangiles-Goodwill and Other. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15th, 2011. Management believes that once effective for the Company s next fiscal year that it could simplify the testing process and have no impact on the consolidated financial statements.

Note 12 Subsequent Events

The Company evaluated subsequent events through the date of this 10Q filing and determined there were no events requiring additional disclosure.

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, 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 polices. Our property product 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 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 casualty insurance coverages for certain classes of specialty risks including, but not limited to, construction contractors, pest control operators, auto dealers, real estate brokers, consultants, and restaurant and tavern owners. 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.

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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 $15 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 September 30, 2011 and 2010, respectively (dollars in thousands):

	Three Months Ended September 30, 2011				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	$ 39,782	$ 18,952	$ 14,512	$	$ 73,246
Net written premiums	31,621	14,040	14,559		60,220
Net earned premiums	30,752	15,552	12,688		58,992
Fee & other income	(8)	806		57	855
Losses & loss adjustment expenses	19,019	8,466	8,382		35,867
Acquisition & other underwriting expenses	13,326	6,610	4,517	288	24,741
Underwriting profit (loss)	(1,601)	1,282	(211)	(231)	(761)
Net investment income	5,280	1,186	1,593	137	8,196
Pre-tax operating income (loss)	3,679	2,468	1,382	(94)	7,435
Net realized gains					10
Interest and corporate expenses					548
Earnings before income taxes					6,897
Income tax expense					1,169
Net earnings					$ 5,728
Less: Net earnings attributable to the non- controlling interest					(69)
Net earnings attributable to ASIH, Ltd.					$ 5,797
Loss ratio	61.8%	54.4%	66.1%	*NM	60.8%
Expense ratio	43.4%	37.3%	35.6%	NM	40.5%
Combined ratio**	105.2%	91.8%	101.6%	NM	101.3%

	Three Months Ended September 30, 2010				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	$ 34,121	$ 24,847	$ 12,971	$ (6)	$ 71,933
Net written premiums	27,423	17,063	12,258	(6)	56,738
Net earned premiums	26,347	15,114	11,765	(6)	53,220
Fee & other income	43	1,150	57	(36)	1,214
Losses & loss adjustment expenses	15,094	8,033	8,258	(7)	31,378

Acquisition & other underwriting expenses	12,414	6,345	3,326	304		22,389
Underwriting profit (loss)	(1,118)	1,886	238	(339)		667
Net investment income	5,286	1,366	1,488	127		8,265
Pre-tax operating income (loss)	4,168	3,252	1,726	(213)		8,932
Net realized gains						560
Interest and corporate expenses						1,551
Earnings before income taxes						7,941
Income tax expense						635
Net earnings					$	7,306
Less: Net earnings attributable to the non- controlling interest						104
Net earnings attributable to ASIH, Ltd.					$	7,202
Loss ratio	57.3%	53.1%	70.2%	*NM		59.0%
Expense ratio	46.1%	34.4%	27.7%	NM		39.3%
Combined ratio**	103.4%	87.5%	97.9%	NM		98.3%

* NM = Ratio is not meaningful

** The 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 September 30, 2011, compared to
Three Months Ended September 30, 2010

Net Earnings

Net earnings attributable to ASIH were $5.8 million, or $0.54 per diluted share, for the three months ended September 30, 2011, compared to $7.2 million, or $0.68 per diluted share, for the same period of 2010.

Combined Ratio

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

The combined ratio of 101.3% consists of a loss ratio of 60.8% and an expense ratio of 40.5%, compared to 59.0% and 39.3%, respectively, for the same quarter of 2010. The loss ratio increased due primarily to market conditions. Catastrophe losses during the quarter associated with the Company s property lines of business were insignificant and therefore did not impact the loss ratio. The increase in the expense ratio was due primarily to the impact of technology investments placed in service during the quarter and lower fee income.

Gross Written Premiums

Gross written premiums increased 2% to $73.2 million from $71.9 million for the three months ended September 30, 2011 and 2010, respectively. The growth in the E&S division to $39.8 million from $34.1 million was attributable to increased production across all product lines but driven primarily by newer products such as excess, professional liability, property and healthcare. The ART division s gross written premiums declined by $5.9 million due to the non-renewal of programs as a result of not meeting profitability or production targets or program managers decision to move business to other carriers. The growth in Assumed Reinsurance from $13.0 million to $14.5 million was a result of growth in targeted classes of business.

Net Earned Premiums

Net earned premiums increased 10.9% to $59.0 million for the three months ended September 30, 2011, compared to $53.2 million for the same period of 2010. Net earned premiums increased due to growth in gross written premiums during 2010 and the first six months of 2011.

Net Investment Income

Net investment income is derived from the income of the investment portfolio net of investment expenses. Net investment income was $8.2 million for the three months ended September 30, 2011, compared to $8.3 million for the same period of 2010. Average invested assets increased to $872.1 million at September 30, 2011, as compared to $792.3 million for the same period of 2010. The pretax investment yield for the three months was 3.8% and 4.2%, respectively, for 2011 and 2010.

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Acquisition Expenses

Acquisition expenses are commissions paid to producers that are partially offset by ceding commissions or fronting fees. Acquisition expenses also include premium taxes paid to states in which we are admitted to conduct business. Acquisition expenses were $13.8 million or 23.4% of earned premium for the three months ended September 30, 2011, as compared to $12.4 million, or 23.3% of earned premium for the same period of 2010.

Other Underwriting Expenses

Other underwriting expenses were $10.9 million for the three months ended September 30, 2011, compared to $10.0 million for the same 2010 period. As a percentage of net earned premiums, other underwriting expenses decreased to 18.5% from 18.8% for the same three months of 2010. The percentage decrease is attributable to economies of scale related to increased net earned premiums.

Income Taxes

Income tax expense for the three months ended September 30, 2011, was $1.2 million compared to $0.6 million of expenses for the same period of 2010. The increase in expense is due to the distribution of earnings between the United States and Bermuda. For the three months ended September 30, 2011 the U.S. operations generated a higher proportion of earnings as compared the same quarter in 2010.

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The following table presents key financial data by segment for the nine months ended September 30, 2011 and 2010, respectively (dollars in thousands):

	Nine Months Ended September 30, 2011				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	$ 119,706	$ 64,753	$ 46,012	$ (1)	$ 230,470
Net written premiums	95,636	46,086	44,925	(1)	186,646
Net earned premiums	87,831	45,523	39,158	(1)	172,511
Fee & other income	(8)	2,436		101	2,529
Losses & loss adjustment expenses	54,657	30,310	33,030		117,997
Acquisition & other underwriting expenses	39,652	19,071	11,726	(132)	70,317
Underwriting profit (loss)	(6,486)	(1,422)	(5,598)	232	(13,274)
Net investment income	15,176	3,538	4,528	440	23,682
Pre-tax operating income (loss)	8,690	2,116	(1,070)	672	10,408
Net realized gains					11,311
Interest and corporate expenses					2,927
Earnings before income taxes					18,792
Income tax expense					588
Net earnings					$ 18,204
Less: Net earnings attributable to the non- controlling interest					454
Net earnings attributable to ASIH, Ltd.					$ 17,750
Loss ratio	62.2%	66.6%	84.4%	*NM	68.4%
Expense ratio	45.2%	36.5%	29.9%	NM	39.3%
Combined ratio**	107.4%	103.1%	114.3%	NM	107.7%

	Nine Months Ended September 30, 2010				
	E&S	Insurance ART	Reinsurance	Other Run-off	Total
Gross written premiums	$ 100,227	$ 66,966	$ 36,641	$ (6)	$ 203,828
Net written premiums	81,251	48,501	33,539	(6)	163,285
Net earned premiums	72,741	39,178	31,515	(6)	143,428
Fee & other income	392	2,854	228	18	3,492
Losses & loss adjustment expenses	41,977	22,927	21,132	(6)	86,030

Acquisition & other underwriting expenses	35,842	14,769	9,297	982		60,890
Underwriting profit (loss)	(4,686)	4,336	1,314	(964)		
Net investment income	16,120	3,634	3,753	592		24,099
Pre-tax operating income (loss)	11,434	7,970	5,067	(372)		24,099
Net realized gains						2,080
Interest and corporate expenses						4,461
Earnings before income taxes						21,718
Income tax expense						1,486
Net earnings					$	20,232
Less: Net earnings attributable to the non- controlling interest						360
Net earnings attributable to ASIH, Ltd.					$	19,872
Loss ratio	57.7%	58.5%	67.1%	*NM		60.0%
Expense ratio	48.4%	30.4%	28.8%	NM		39.8%
Combined ratio**	106.1%	88.9%	95.9%	NM		99.8%

* NM = Ratio is not meaningful

** The 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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Nine Months Ended September 30, 2011, compared to
Nine Months Ended September 30, 2010

Net Earnings

Net earnings attributable to ASIH were $17.8 million, or $1.65 per diluted share, for the nine months ended September 30, 2011, compared to $19.9 million, or $1.87 per diluted share, for the same period of 2010.

Combined Ratio

The combined ratio was 107.7%, composed of a loss ratio of 68.4% and an expense ratio of 39.3%. The increase in the loss ratio to 68.4% from 60.0% for the 2010 period is primarily due to $10.1 million of catastrophe and weather related losses that occurred in the first six months of 2011. The improvement in the expense ratio from 39.8% to 39.3% is primarily as a result of economies of scale associated with increased net earned premiums.

Gross Written Premiums

Gross written premiums increased 13.1% to $230.5 million from $203.8 million for the nine months ended September 30, 2011 and 2010, respectively. The growth in the E&S division to $119.7 million from $100.2 million was attributable to increased production across all product lines but driven primarily by newer products such as excess, professional liability, property and healthcare. The ART division s gross written premiums declined by $2.2 million due to the non-renewal of programs as a result of not meeting profitability or production targets or program managers decision to move business to other carriers. The growth in Assumed Reinsurance from $36.6 million to $46.0 million was due to increases in targeted classes of business.

Net Earned Premiums

Net earned premiums increased 20.3% to $172.5 million for the nine months ended September 30, 2011, compared to $143.4 million for the same period of 2010 as a result of increased written premiums during 2010 and 2011 across newer product lines attributable to the company s diversification strategy initiated in 2006 adding shorter tailed products to the E&S platform.

Net Investment Income

Net investment income is derived from the earnings of the investment portfolio net of investment expenses. Net investment income was $23.7 million for the nine months ended September 30, 2011, compared to $24.1 million for the same period of 2010 decreasing slightly as a result of lower yields. Average invested assets increased to $849.8 million at September 30, 2011, as compared to $778.2 million for the same period of 2010. The pretax investment yield for the nine months was 3.7% and 4.1% respectively for 2011 and 2010.

Acquisition 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 $39.0 million or 22.6% of earned premium for the nine months ended September 30, 2011, as compared to $31.2 million or 21.8% of earned premium for the same period of 2010. The increase in acquisition expenses, on a percentage basis, relates to business mix in the ART division.

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Other Underwriting Expenses

Other underwriting expenses were $31.3 million for the nine months ended September 30, 2011, compared to $29.7 million for the same 2010 period. As a percentage of net earned premiums, other underwriting expenses decreased to 18.1% from 20.7% for the same nine months of 2010 due to economies of scale related to increased earned premiums.

Income Taxes

The income tax expense for the nine months ended September 30, 2011, was $.6 million compared to $1.5 million of expense for the same period of 2010 due to the distribution of earnings between the U.S. and Bermuda.

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 September 30, 2011, the Company had not drawn on the facility.

On March 2, 2010, the Company s Board of Directors authorized the repurchase of up to 500,000 shares of common stock. Pursuant to this authorization, the Company has repurchased a total of 155,700 shares of common stock at a cost of approximately $2.6 million during 2010 and repurchased 132,661 shares at a cost of $2.5 million through the end of the third quarter 2011. There are 211,639 shares remaining under the current repurchase authorization.

On October 1, 2011, the Company renewed its Casualty treaty at substantially the same retentions and terms as the treaty expiring September 30, 2011.

Our ability to pay future dividends to shareholders will depend, to a significant degree, on the ability of our subsidiaries to generate earnings from which to pay dividends. The jurisdictions in which we and our insurance and reinsurance subsidiaries are domiciled place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of insurers. 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, 2010.

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, 2010.

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

Not applicable.

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 9Th day of November, 2011.

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

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