

AMERICAN SAFETY INSURANCE HOLDINGS LTD  
Form 10-Q  
November 15, 2004

**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004

Commission File Number 1-14795

**AMERICAN SAFETY INSURANCE HOLDINGS, LTD.**

(Exact name of Registrant as specified in its charter)

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

-----  
Bermuda  
(State or other jurisdiction  
of incorporation)

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

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

Indicate by check mark whether Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate number of shares outstanding of Registrant's common stock, \$.01 par value, on November 4, 2004 was 6,720,119.

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**AMERICAN SAFETY INSURANCE HOLDINGS, LTD.**

**FORM 10-Q**

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## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

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

	December 31, <u>2003</u>	September <u>2004</u> (Unaudit
<u>Assets</u>		
Investments:		
Fixed maturity securities available for sale	\$ 214,043,420	\$ 269,418,
Common stock	2,694,736	11,075,
Investment in real estate	37,855,549	7,164,
Short-term investments	<u>5,680,817</u>	<u>21,531,</u>
Total investments	260,274,522	309,189,
Cash and cash equivalents	32,153,379	22,854,
Restricted cash	1,767,614	536,
Accrued investment income	2,771,691	2,477,
Notes receivable	1,435,000	
Premiums receivable	27,944,508	15,303,
Ceded unearned premium	27,109,135	30,887,
Reinsurance recoverable	126,986,307	143,581,
Deferred income taxes	11,684,609	9,248,
Deferred policy acquisition costs	11,960,495	11,771,
Property, plant and equipment	4,094,763	4,478,
Other assets	<u>6,077,621</u>	<u>9,498,</u>
 Total assets	 \$ 514,259,644 =====	 \$ 559,827, =====

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Liabilities and Shareholders' Equity

Liabilities:

Unpaid losses and loss adjustment expenses	\$ 230,103,754	\$ 29
Unearned premiums	99,938,562	10
Reinsurance on paid losses and loss adjustment expenses	6,486,149	
Ceded premiums payable	17,722,931	
Escrow deposits	9,235,847	
Accounts payable and accrued expenses	14,260,809	1
Loan payable	30,441,348	1
Funds held	4,951,468	
Deferred revenue	1,817,775	
Minority Interest	<u>3,957,878</u>	
Total liabilities	418,916,521	45

Shareholders' equity:

Preferred stock, \$0.01 par value; authorized 5,000,000 shares; no shares issued and outstanding	-	
Common stock, \$0.01 par value; authorized 15,000,000 shares; issued and outstanding at December 31, 2003, 6,910,766 and September 30, 2004, 6,719,119 shares	69,108	
Additional paid-in capital	52,744,720	5
Retained earnings	41,043,967	5
Accumulated other comprehensive income, net	<u>1,485,328</u>	
Total shareholders' equity	<u>95,343,123</u>	10
Total liabilities and shareholders' equity	\$ 514,259,644	\$55
	=====	==

See accompanying notes to consolidated financial statements (unaudited).

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**American Safety Insurance Holdings, Ltd. and Subsidiaries**  
**Consolidated Statements of Earnings**  
**(Unaudited)**

	Three Months Ended September 30,		Nine Sep
	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenues:			
Direct premiums earned	\$ 43,888,563	\$ 58,181,446	\$ 123,958,08
Assumed premiums earned	2,093,393	400,237	5,974,65
Ceded premiums earned	<u>(18,546,047)</u>	<u>(24,000,183)</u>	<u>(55,196,01</u>
Net premiums earned	27,435,909	34,581,500	74,736,72
Net investment income	1,410,336	2,529,210	3,869,08
Net realized gains	13,748	99,567	3,115,74
Real estate income	16,280,674	19,938,557	38,877,89
Other income	<u>88,263</u>	<u>46,982</u>	<u>119,53</u>
Total revenues	45,228,930	57,195,816	120,718,98
Expenses:			
Losses and loss adjustment expenses	16,377,079	23,730,614	43,824,37
Acquisition expenses	5,340,796	6,954,856	14,823,23
Payroll and related expenses	2,339,400	2,433,557	6,660,65
Real estate expenses	14,400,544	16,605,783	37,277,17

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Other expenses	2,832,560	2,687,602	7,195,49
Minority interest	97,558	275,182	321,01
Expense due to rescission	<u>45,112</u>	<u>59,825</u>	<u>189,62</u>
Total expenses	<u>41,433,049</u>	<u>52,747,419</u>	<u>110,291,57</u>
Earnings before income taxes	3,795,881	4,448,397	10,427,40
Income taxes	<u>833,831</u>	<u>1,190,605</u>	<u>2,431,08</u>
Net earnings	\$ 2,962,050	\$ 3,257,792	\$ 7,996,31
	=====	=====	=====
Net earnings per share:			
Basic	\$ <u>0.62</u>	\$ <u>0.47</u>	\$ <u>1.6</u>
Diluted	\$ <u>0.58</u>	\$ <u>0.45</u>	\$ <u>1.6</u>
Average number of shares outstanding:			
Basic	4,749,266	6,876,380	4,743,04
	=====	=====	=====
Diluted	5,099,421	7,275,259	4,836,45
	=====	=====	=====

See accompanying notes to consolidated financial statements (unaudited).

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**American Safety Insurance Holdings, Ltd. and Subsidiaries**  
**Consolidated Statements of Cash Flow>**  
**(Unaudited)**

	Nine Months September
	<u>2003</u>
Cash flow from operating activities:	
Net earnings	\$7,996,319
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Realized gains on investments	(3,115,743)
Depreciation expense	244,887
Deferral of acquisition costs, net	(1,860,235)
Accretion of discount	740,752
Change in:	
Accrued investment income	199,306
Premiums receivable	(2,314,196)
Reinsurance recoverable and ceded unearned premiums	(915,765)
Funds held	(133,117)
Unpaid losses and loss adjustment expenses	36,101,515
Unearned premiums	20,008,675
Ceded premiums payable	5,180,572
Accounts payable and accrued expenses	(998,856)
Deferred revenue	790,873
Deferred income taxes	(9,773,188)
Other, net	<u>7,584,939</u>
Net cash provided by operating activities	59,736,738
Cash flow from investing activities:	
Purchases of fixed maturities	(123,917,429)
Purchases of equity securities	(1,476,227)
Proceeds from sale of fixed maturities	59,462,232
Proceeds from sale of equity investments	1,723
Decrease (increase) in short-term investments	12,594,523

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Decrease in notes receivable	982,518
(Increase) decrease of investment in real estate	(3,018,302)
Purchase of fixed assets, net	<u>(1,409,110)</u>
Net cash used in investing activities	(56,780,072)

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**American Safety Insurance Holdings, Ltd. and Subsidiaries**  
**Consolidated Statements of Cash Flow (Continued)**  
**(Unaudited)**

	Nine Months Ended <u>September 30,</u>	
	<u>2003</u>	
Cash flow from financing activities:		
Proceeds from stock issuance	81,999	
Stock repurchase program payments	-	
Proceeds from trust preferred offerings	12,554,713	
Repayment of loan payable	(2,966,481)	
Repayment of escrow deposits	(2,893,228)	
Withdrawals of restricted cash	4,053,547	
Dividends paid	<u>(570,113)</u>	
Net cash provided by (used in) financing activities	<u>10,260,437</u>	
Net increase (decrease) in cash and cash equivalents	13,217,103	
Cash and cash equivalents at beginning of period	<u>26,003,795</u>	
Cash and cash equivalents at end of period	\$39,220,898	
	=====	
Supplemental disclosure of cash flow:		
Income taxes paid	\$ 4,452,809	
	=====	
Interest paid	\$ 198,203	
	=====	

See accompanying notes to consolidated financial statements (unaudited).

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**American Safety Insurance Holdings, Ltd. and Subsidiaries**  
**Consolidated Statements of Comprehensive Earnings**  
**(Unaudited)**

	Three Months Ended September 30,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net earnings	\$ 2,962,050	\$ 3,257,792	\$ 7,996,000
Other comprehensive income (loss):			
Unrealized gains (losses) on securities available for sale, net of minority interest of \$(318,639) and \$227,614 for the three months ended September 30, 2003 and 2004, respectively, and \$(4,031) and \$(66,413) for the nine months ended September 30, 2003 and 2004, respectively.	(852,795)	4,590,502	2,092,000
Unrealized gains (losses) on hedging transactions	27,338	(241,743)	(73,000)

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Reclassification adjustment for realized (gains) losses included in net earnings, net of minority interest of \$(13,713) and \$(105,931) for the three months ended September 30, 2003 and 2004 respectively and \$(76,025) and \$(76,383) for the nine months ended September 30, 2003 and 2004, respectively.	(35)	6,364	(3,
Total other comprehensive income (loss) before taxes	(825,492)	4,355,123	(1,020
Income tax expense (benefit) related to items of other comprehensive income, net of minority interest of \$(63,160) and \$59,639 for the three months ended September 30, 2003 and 2004 respectively and \$(19,848) and \$25,950 for the nine months ended September 30, 2003 and 2004, respectively.	<u>(163,320)</u>	<u>973,424</u>	<u>(426</u>
Other comprehensive income (loss)	<u>(662,172)</u>	<u>3,381,699</u>	<u>(5</u>
Total comprehensive income	\$ <u>2,299,878</u>	\$ <u>6,639,491</u>	\$ <u>7,402,</u>

See accompanying notes to consolidated financial statements (unaudited).

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**American Safety Insurance Holdings, Ltd. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

**Note 1 - Basis of Presentation**

The accompanying unaudited interim consolidated financial statements of American Safety Insurance Holdings, Ltd. ( American Safety ) and its subsidiaries, and American Safety Risk Retention Group, Inc. ( American Safety RRG ), a non-subsidiary risk retention group affiliate, (collectively the Company ) are prepared in accordance with accounting principles generally accepted in the United States of America and, in the opinion of management, reflect all normal, recurring adjustments considered necessary for a fair presentation of the interim period presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates, based on the best information available, in recording transactions resulting from business operations. The balance sheet amount that involves a greater extent of accounting estimates and actuarial determinations subject to future changes is the Company s liability for unpaid losses and loss adjustment expenses. As additional information becomes available (or actual amounts are determinable), the recorded estimates may be revised and reflected in operating results. While management believes that the liability for unpaid losses and loss adjustment expenses is adequate to cover the ultimate liability, such estimates may be more or less than the amounts actually paid when claims are settled.

The results of operations for the nine months ended September 30, 2004 may not be indicative of the results that may be expected for the full year ending December 31, 2004. 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 of American Safety and its subsidiaries for the year ended December 31, 2003.

The unaudited interim consolidated financial statements include the accounts of American Safety and each of its subsidiaries and American Safety RRG. All significant intercompany balances have been eliminated. Certain items

from prior periods have been reclassified to conform with the 2004 presentation.

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## Note 2 - Accounting Pronouncements

During the last two years, the Financial Accounting Standard Board (FASB) has issued a number of accounting pronouncements with various effective dates. Statement of Financial Accounting Standards (SFAS) No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections; SFAS No. 146, Accounting for Costs Associated with Exist or Disposal Activities; SFAS No. 147, Acquisitions of Certain Financial Institutions - an Amendment of FASB Statements No. 72 and 144; FASB Interpretation No. 9; FASB Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure; FASB Statement No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities; FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity; and FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others. These pronouncements do not have a material effect on our financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46). This interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the expected residual gains, or both, as a result of ownership, contractual or other financial interests in the entity. In October 2003, FASB delayed the effective date of FIN 46 for variable interest entities (VIE) or potential VIE created before February 2003. In December 2003, the FASB issued a revised version of FIN 46, FIN 46(R), which finalized the accounting guidance for VIE. The Company adopted FIN 46(R) and has restated all prior year balances to conform to the new consolidation policies. As a result of adopting FIN 46(R), the Company consolidated its affiliate, American Safety RRG.

## Note 3 Business Risks

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

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

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Potential Risk of United States Taxation of Bermuda Operations. Under current Bermuda law, American Safety is not required to pay any taxes in Bermuda on either income or capital gains. American Safety has received an undertaking from the Minister of Finance in Bermuda that will exempt American Safety from taxation until the year 2016 in the event of any such taxes being imposed. The Company, exclusive of its United States subsidiaries, does not consider itself to be engaged in a trade or business in the United States and accordingly does not expect to be subject to direct United States income taxation. The Company's U.S. subsidiaries are subject to taxation in the United States.

Whether a foreign corporation is engaged in a United States trade or business or is carrying on an insurance business in the United States depends upon the level of activities conducted in the United States. If the activities of a foreign company are continuous, regular, and considerable, the foreign company will be deemed to be engaged in a United States trade or business. Due to the fact that American Safety will continue to maintain an office in Bermuda and

American Safety and its Bermuda insurance subsidiary's business is reinsuring contracts via treaty reinsurance agreements, which are all signed outside of the United States, American Safety does not consider itself to be engaged in a trade or business in the United States and, accordingly, does not expect to be subject to United States income taxes. This position is consistent with the position taken by various other entities that have the same operational structure as American Safety.

However, Treasury Regulations, court decisions and the Internal Revenue Code of 1986, as amended, do not definitively identify activities that constitute being engaged in a United States trade or business, and because of the factual nature of the determination, there can be no assurance that the Internal Revenue Service will not contend that American Safety or its Bermuda insurance subsidiary are engaged in a United States trade or business. In general, if American Safety or its Bermuda insurance subsidiary are considered to be engaged in a United States trade or business, it would be subject to (i) United States Federal income tax on its taxable income that is effectively connected with a United States trade or business at graduated rates and (ii) the 30 percent branch profits tax on its effectively connected earnings and profits deemed repatriated from the United States.

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

Interest Rate Risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments. The Company works to mitigate this risk by attempting to match the maturities of its assets with the expected payouts of its liabilities.

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#### Note 4 - Investments

The amortized cost and estimated fair values of investments at December 31, 2003 and September 30, 2004 are as follows:

	Amortized <u>cost</u>	Gross unrealized <u>gains</u>	Gross unrealized <u>losses</u>
December 31, 2003:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	\$ 59,335,374	\$1,340,823	\$ 319,700
States of the U.S. and political subdivisions of the States	22,343,998	346,245	119,788
Corporate securities	81,522,358	1,694,500	376,514
Mortgage-backed securities	<u>48,965,816</u>	<u>134,843</u>	<u>824,535</u>
Total fixed maturities:	\$212,167,546	\$3,516,411	\$1,640,537
	=====	=====	=====
Common stock	\$ 2,520,930	\$ 188,678	\$ 14,872
	=====	=====	=====
September 30, 2004:			
Securities available for sale:			
Fixed maturities:			
U.S. Treasury securities and			



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obligations of U.S. Government corporations and agencies	\$63,443,375	\$1,009,905	\$ 276,623
States of the U.S. and political subdivisions of the States	29,254,151	461,548	94,370
Corporate Securities	89,339,572	1,800,135	480,758
Mortgage-backed securities	<u>85,382,396</u>	<u>291,191</u>	<u>711,861</u>
Total fixed maturities	\$267,419,494	\$3,562,779	\$1,563,612
	=====	=====	=====
Common stock	\$ 10,997,064	\$ 568,047	\$ 489,288
	=====	=====	=====

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**Note 5 - Segment Information**

The Company initially segregates its business into the following segments: Real Estate and Insurance Operations. The Insurance Operations segment is further classified into three reportable segments: Environmental, Excess and Surplus Lines (E&S) and Program Business.

Real Estate consists of the Harbour Village project in Ponce Inlet, Florida, as discussed in Note 6. In our Insurance Operations segment, Environmental provides insurance coverages for the environmental remediation industry. Excess and Surplus Lines provides commercial casualty insurance coverages, generally in the area of construction and products liability. Program Business facilitates the offering of insurance to homogeneous niche groups of risks.

The Company measures the Real Estate and Insurance Operations segments using net earnings, total assets and total equity. The reportable Insurance Operations segments are measured by multiple premium indicators, incurred losses and loss adjustment expenses and acquisition expenses. Assets are not allocated to the reportable Insurance Operations segments. The following table presents key financial data by segment for the nine months ended September 30, 2003 and September 30, 2004 (in thousands):

September 30, 2003	Real Estate	Insurance			
		Environmental	E&S	Programs	Other
Gross premiums written	-	25,173	56,420	62,243	5,735
Net premiums written	-	19,402	47,851	17,105	4,172
Net premiums earned	-	15,895	38,110	16,183	4,549
Losses and loss adjustment expenses	-	6,769	21,827	10,833	4,395
Acquisition expenses	-	4,495	8,274	1,258	796
Underwriting profit (loss)	-	4,631	8,009	4,092	(642)
Income tax expense (benefit)	602		875		
Net earnings (loss)	998		4,993		
Assets	56,173		410,720		
Equity	14,405		55,735		
September 30, 2004	Real Estate	Insurance			
		Environmental	E&S	Programs	Other
Gross premiums written	-	32,879	71,110	61,048	2,627
Net premiums written	-	26,247	57,018	12,735	1,470
Net premiums earned	-	23,333	58,133	16,000	3,324
Losses and loss adjustment expenses	-	10,507	42,811	11,708	5,620
Acquisition expenses	-	5,877	12,710	587	905

**Note 4 - Investments**

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Underwriting profit (loss)	-	6,949	2,612	3,705	(3,201)
Income tax expense (benefit)	3,167		(975)		
Net earnings (loss)	5,807		1,410		
Assets	21,381		538,192		
Equity	13,037		91,317		

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The Company conducts business in the following geographic segments: the United States and Bermuda. Significant differences exist in the regulatory environment in each country. Those differences include laws regarding the types of investments, capital requirements, solvency monitoring, pricing, corporate taxation, etc. The following provides key measurable information about the geographic segments for the nine months ended September 30, 2003 and September 30, 2004 (in thousands):

September 30, 2003	United States	Bermuda
Income tax	2,431	-
Net earnings	5,315	2,681
Assets	399,860	67,209
Equity	50,342	19,612
September 30, 2004	United States	Bermuda
Income tax	2,797	-
Net earnings	4,524	6,480
Assets	428,329	131,498
Equity	55,685	48,566

The following table presents key income-related financial data by segment for the three months ended September 30, 2003 and September 30, 2004 (in thousands):

September 30, 2003	Real Estate	Insurance			
		Environmental	E&S	Programs	Other
Gross premiums written	-	7,593	21,926	25,633	1,507
Net premiums written	-	6,195	18,858	9,797	994
Net premiums earned	-	5,831	14,456	5,638	1,511
Losses and loss adjustment expenses	-	2,470	8,337	3,924	1,646
Acquisition expenses	-	1,542	3,137	396	266
Underwriting profit (loss)	-	1,819	2,982	1,318	(401)
Income tax expense (benefit)	707		110		
Net earnings (loss)	1,173		1,768		
September 30, 2004	Real Estate	Insurance			
		Environmental	E&S	Programs	Other
Gross premiums written	-	10,589	23,731	19,772	484
Net premiums written	-	8,569	18,546	5,821	73
Net premiums earned	-	8,697	19,733	5,254	897
Losses and loss adjustment expenses	-	4,056	15,446	3,527	702
Acquisition expenses	-	2,099	4,612	145	99
Underwriting profit (loss)	-	2,542	(325)	1,582	96
Income tax expense (benefit)	1,045		148		
Net earnings (loss)	2,288		992		

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The following provides key measurable income-related information about the geographic segments for the three months ended September 30, 2003 and September 30, 2004 (in thousands):

September 30, 2003	United States	Bermuda
Income tax	834	-
Net earnings	2,092	870
September 30, 2004	United States	Bermuda
Income tax	1,191	-
Net earnings	1,695	1,563

#### Note 6 - Investment in Real Estate

The Company's investment in the development of the Harbour Village Golf and Yacht Club ( Harbour Village ) project is comprised of 173 acres of property in Ponce Inlet, Florida (the Property ) that was acquired through foreclosure on April 13, 1999. At the date of foreclosure, the Company evaluated the carrying value of its investment in real estate by comparing the fair value of the foreclosed collateral to the book value of the underlying loan and accrued interest. As the book value of the loan plus accrued interest was less than the fair value of the collateral, no loss was recognized on foreclosure; the book value of the loan plus accrued interest became the basis of the real estate.

As of December 31, 2003 and September 30, 2004, the investment in real estate for the Harbour Village project is as follows (in thousands):

	December 31, 2003	September
Land	\$1,587	\$
Capitalized overhead, interest and taxes	2,254	
Work in process	<u>34,015</u>	
Total	\$37,856	\$
	=====	=

During the quarter ended September 30, 2004, the Company closed 71 condominium units and 2 boat slips at Harbour Village and for the quarter ended September 30, 2003, the Company closed 55 condominium units and 4 boat slips. During the nine months ended September 30, 2004, the Company closed 175 condominium units and 4 boat slips at Harbour Village and for the nine months ended September 30, 2003, the Company closed 125 units and 14 boat slips. The Company recognizes revenue when title to each individual unit or boat slip passes to the purchaser. When title passes, the Company uses a percentage of completion method, based on actual costs to total estimated costs (including allocated common costs) to recognize revenue. The difference between total sales price and the revenue recognized is set up as deferred revenue and will be recognized as the additional costs of each building are incurred.

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#### Note 7 - Income Taxes

Total income tax expense for the periods ended September 30, 2003 and 2004 was allocated as follows:

	Three Months Ended September 30,		Nine Mon Septem
	<u>2003</u>	<u>2004</u>	<u>2003</u>
Tax expense (benefit) attributable to:			
Income from continuing operations	\$ 833,831	\$ 1,190,605	\$ 2,431,089
Change in unrealized gains/losses on hedging transactions	9,295	(82,192)	(25,031)

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Change in unrealized gains/losses on securities available for sale		<u>(235,775)</u>	<u>1,115,255</u>	<u>(421,029)</u>
Total	\$	607,351	\$ 2,223,668	\$ 1,985,029
		=====	=====	=====

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

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
Three months ended:			
September 30, 2003	\$ 1,796,770	\$ (962,939)	\$ 833,831
September 30, 2004	\$ (333,074)	\$ 1,523,679	\$ 1,190,605
Nine months ended:			
September 30, 2003	\$ 5,291,703	\$ (2,860,614)	\$ 2,431,089
September 30, 2004	\$ 1,318,706	\$ 1,477,915	\$ 2,796,621

The state income tax expense aggregated \$131,270 and \$471,196 for the nine months ended September 30, 2003 and 2004, respectively, and \$135,399 and \$152,654 for the three months ended September 30, 2003 and 2004, respectively.

Income tax expense (benefit) for the periods ended September 30, 2003 and 2004 differed from the amount computed by applying the U.S. Federal income tax rate of 34% to earnings before Federal income taxes as a result of the following:

	Three Months Ended September 30,		Nine Months Ended September
	<u>2003</u>	<u>2004</u>	<u>2003</u>
Expected income tax expense	\$ 1,290,600	\$ 1,512,455	\$ 3,545,319
Foreign earned income not subject to U.S. taxation	(295,786)	(531,218)	(911,470)
State taxes and other	(160,983)	209,368	(202,760)
	-----	-----	-----
	\$ 833,831	\$ 1,190,605	\$ 2,431,089
	=====	=====	=====

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

	December 31, <u>2003</u>
Deferred tax assets:	
Loss reserve discounting	\$ 5,785,906
Unearned premium reserves	3,404,780
Difference between tax and GAAP basis of Harbour Village project.	1,153,901
Difference between tax and GAAP method at Harbour Village project	3,087,152
Warranty reserve	1,407,578
NOL carry forward	<u>579,362</u>
Gross deferred tax assets	15,418,679
Valuation allowance	<u>(956,024)</u>

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Gross deferred tax assets after valuation allowance	14,462,655
Deferred tax liabilities:	
Deferred acquisition costs	2,163,012
Net unrealized gains	315,012
Other	<u>300,022</u>
Gross deferred tax liabilities	<u>2,778,046</u>
Net deferred tax asset	\$11,684,609 =====

Except for the components of the deferred tax assets shown above that are associated with American Safety RRG, we believe it is more likely than not that we will realize the full benefit of our deferred tax assets; therefore, a valuation allowance has not been established against these assets. However, given the prior years loss position of American Safety RRG, it has established a 100% valuation allowance on its net deferred tax assets totaling \$956,024, and \$582,041 at December 31, 2003 and September 30, 2004, respectively.

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### Note 8 - Stock Options

The Company applied the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for the plan. No compensation expense is reflected in net earnings as all options granted under the plan have an exercise price equal to the market value of the underlying common stock on the date of grant. The majority of the options in the plan vest over a three year period. The following table illustrates the effect on net earnings and earnings per share, assuming we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation.

	Three Months Ending September 30,		Nine Months En September
	<u>2003</u>	<u>2004</u>	<u>2003</u>
	(In thousands, except per share amounts)		
Net earnings:			
As reported	\$ 2,962	\$ 3,258	\$ 7,996
Effect of stock options	<u>-</u>	<u>(3)</u>	<u>(190)</u>
Pro forma net earnings	\$ 2,962 =====	\$ 3,255 =====	\$7,806 =====
Net earnings per share:			
Basic - as reported	\$ 0.62	\$ 0.47	\$ 1.69
Basic - pro forma	\$ 0.62	\$ 0.47	\$ 1.65
Diluted - as reported	\$ 0.58	\$ 0.45	\$ 1.65
Diluted - pro forma	\$ 0.60	\$ 0.45	\$ 1.65

### Note 9 - Stock Repurchase

On August 24, 2004, the Company's Board of Directors authorized a program to repurchase up to 200,000 shares of its outstanding common stock. During the third quarter of 2004, the Company repurchased in the open market all 200,000 shares authorized plus an additional 16,900 shares under a previous repurchase authorization.

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**Note 10 - Loans Payable***Acquisition and Development Loan*

In July 2000 the Company, through its subsidiary, Ponce Lighthouse Properties, Inc., initially closed a \$37,900,000 acquisition, development and construction loan facility with a commercial bank for the Harbour Village project. Over time, the loan facility had increased to \$57.0 million. As of December 31, 2003, the Company had outstanding borrowings of \$17,561,122. As of September 30, 2004, this loan has been fully repaid. The Company was in compliance with all debt covenants at December 31, 2003 and there were no defaults or events of default during 2003 and through September 30, 2004.

*Trust Preferred Offerings*

During 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 proceeds are being used to support the growth of the Company's insurance business, to repay short term debt and for general corporate purposes. 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 by the Company commencing in five years.

The underlying debt obligations between the Company and American Safety Capital and American Safety Capital II expose the Company to variability in interest payments due to changes in interest rates. Management entered into an interest rate swap for each trust preferred offering to manage that variability. Under each interest rate swap, the Company receives variable interest payments and makes fixed interest rate payments to the applicable capital trust entity, thereby creating fixed rate long-term debt. The overall effective fixed rate expense as a result of this hedge is 7.1% and 7.6% for American Safety Capital and American Safety Capital II, respectively, over the first five years of the obligation.

Interest expense for the twelve months ended December 31, 2003 and through September 30, 2004 includes no gains or losses from the interest rate swaps. Changes in fair value of the interest rate swaps designated as hedging instruments of the variability of cash flow associated with a floating rate, long-term debt obligation are reported in accumulated other comprehensive income. The gross unrealized gains and (losses) on the interest rate swaps at December 31, 2003 and September 30, 2004 were \$135,558 and \$130,221 for American Safety Capital and (\$39,604) and (\$29,028) for American Safety Capital II, respectively. The interest rate swaps are 100% effective at September 30, 2004.

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

The information in the following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto included elsewhere in this Report. All amounts and percentages are rounded.

The Company reported net earnings of \$3.3 million or \$0.45 per diluted share for the third quarter of 2004, as compared to \$3.0 million or \$0.58 per diluted share for the third quarter of 2003. Net earnings for the first nine months of 2004 are \$11.0 million or \$1.49 per diluted share, as compared to \$8.0 million or \$1.65 per diluted share for the same period of 2003. The following table sets forth the Company's net earnings (in thousands):

	Quarter Ended		Nine Months Ended	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Insurance Operations	\$1,768	\$992	\$4,993	\$11,000
Real Estate Operations	1,173	2,288	998	5,000

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Other, including realized gains and (losses)	21	(22)	2,005	3
Net Earnings	\$2,962	\$3,258	\$7,996	\$11

The decrease in earnings from insurance operations for the third quarter of 2004 reflects approximately \$3.0 million of reserve strengthening for prior accident years as a result of an actuarial reserve evaluation for the Company's excess and surplus lines business. The increase in earnings from real estate operations for the third quarter of 2004 was due to higher profits from closings of condominium units at Harbour Village.

The decrease in insurance earnings for the first nine months of 2004 reflects a total of \$12.3 million of reserve strengthening for prior accident years. Of this amount, \$7.7 million consists of reserve increases for the Company's excess and surplus business, and the remaining \$4.6 million represents reserve increases for discontinued lines. The increase in earnings from real estate operations for the first nine months of 2004 was due to higher profits from closings of condominium units at Harbour Village. Earnings from Harbour Village will be less in the fourth quarter of 2004 and will be minimal thereafter as the last units are sold and closed in 2005.

Total revenues for the third quarter of 2004 increased 27% to \$57 million as compared to the same quarter of 2003 as a result of increased net premiums earned, investment income and real estate income. Net premiums earned for the third quarter of 2004 increased 26% to \$35 million from the same period of 2003 due to increases in the Company's core business lines. Net cash flow generated from operations was \$22 million for the third quarter of 2004.

Total revenues for the first nine months of 2004 increased 34% to \$162 million as compared to the same period of 2003 as a result of increased net premiums earned, investment income and real estate income. Net premiums earned for the first nine months of 2004 increased 35% to \$101 million from the same period of 2003 due to increases in the Company's core business lines. Net cash flow from operations increased to \$66 million for the first nine months of 2004.

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The following table sets forth Company consolidated premium and total revenue information:

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30, 2003
	2003	2004	2003	2004	
(Dollars in thousands)					
Net premiums written:					
Environmental	\$ 6,195	\$ 8,569	\$ 19,402	\$ 26,247	3
Excess and surplus Programs	18,858	18,546	47,851	57,018	(
Other	9,797	5,821	17,105	12,735	(4
Other	994	73	4,172	1,470	(9
Total net premiums written	\$ 35,844	\$33,009	\$ 88,530	\$ 97,470	(
Net premiums earned:					
Environmental	\$ 5,831	\$ 8,697	\$ 15,895	\$ 23,333	4
Excess and surplus Programs	14,456	19,733	38,110	58,133	3
Other	5,638	5,254	16,183	16,000	(
Other	1,511	897	4,549	3,324	(4

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Total net premiums earned	27,436	34,581	74,737	100,790
Net investment income	1,410	2,529	3,869	6,849
Net realized gains	14	100	3,116	120
Real estate income	16,281	19,939	38,878	54,067
Other income	<u>88</u>	<u>47</u>	<u>119</u>	<u>192</u>
Total Revenue	\$ 45,229	\$ 57,196	\$ 120,719	\$162,018
	=====	=====	=====	=====

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The following table sets forth the components of the Company's insurance operations GAAP combined ratio for the periods indicated:

	Three months ended		Nine months ended	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>
Insurance operations:				
Loss and loss adjustment expense ratio	59.7%	68.6%	58.6%	70.1%
Expense ratio	<u>35.3</u>	<u>32.7</u>	<u>37.0</u>	<u>34.1</u>
Combined ratio	95.0%	101.3%	95.6%	104.2%
	=====	=====	=====	=====

**Quarter Ended Quarter Ended September 30, 2004 Compared to Quarter Ended September 30, 2003**

Net Premiums Earned

*Environmental.* Net earned premiums increased to \$8.7 million for the third quarter of 2004 compared to \$5.8 million in the same quarter of 2003. Net written premiums increased to \$8.6 million in the third quarter of 2004 compared to \$6.2 million in the same quarter of 2003. This increase was attributable to the Company's strategy of growing this segment. The Company opened an office in Denver, Colorado in the second quarter of 2004 and our office in Cherry Hill, New Jersey began its third full year of operations and expanded its underwriting staff as compared to 2003. Our Atlanta, Georgia office also increased its underwriting staff and expanded its distribution of the ProStar online quoting system to qualified brokers. While the market has experienced the entrance of new competitors and a general leveling of pricing, the Company believes its growth strategy will continue.

*Excess and Surplus.* Net earned premiums increased to \$19.7 million in the third quarter of 2004 compared to \$14.5 million for the same quarter of 2003. The earned premium increase represents the continuing effects of the expansion of this segment during 2003. Net written premiums remained consistent at \$18.0 million. There have been signs of market conditions softening with less business being shifted out of the standard market to the excess and surplus market, as well as a general leveling of pricing in the market. The Company intends to maintain its underwriting and pricing discipline in this changing market and expects to continue to capitalize on market opportunities. The Company's new excess coverage product, introduced in the second quarter of 2004, to meet the market need for higher limits of liability over the Company's current policies, has begun to produce premiums in the third quarter of 2004.

*Programs.* Net earned premiums decreased to \$5.3 million in the third quarter of 2004 compared to \$5.6 million in the same quarter of 2003. Net written premiums decreased to \$5.8 million in the third quarter of 2004 compared to \$9.8 million in the same period of 2003. The decrease was primarily due to the Company's assumed liability program, currently in run-off, which had \$4.7 million in net written premiums in the third quarter of 2003 compared to net written premiums of \$100,000 for the same period of 2004. This was partially offset by increased writings in existing programs, specifically the Company's pest control program. It is not unusual for the Company to experience



quarter-to-quarter premium variances due to seasonal fluctuations on individual programs and the time it takes a program to become fully operational, coupled with the run-off of expiring programs. The Company has 12 active programs producing new business at September 30, 2004, compared to 13 active programs at September 30, 2003. During the third quarter of 2004, the Company added 2 new programs and had 2 programs expire.

*Other.* Surety business net earned premium increased to \$301,000 in the third quarter of 2004 as compared to \$185,000 in the same quarter of 2003. Net written premium increased to \$312,000 in the third quarter of 2004 as compared to \$226,000 in the same quarter of 2003. The increase is attributed to the Company's recent efforts to modestly expand its surety business as a supporting product line to the environmental segment. During the second quarter of 2004 the Company entered into a \$2 million per bond quota share reinsurance agreement to facilitate more underwriting opportunities. During 2002 and 2003 the Company did not have any reinsurance coverage and was limited in its underwriting opportunities. Our workers' compensation business net earned premiums decreased from \$1.3 million in the third quarter of 2003 to \$596,000 in the third quarter of 2004. For the third quarter of 2004 the Company had net return premium of \$239,000 as compared to net written premium of \$768,000 in the same quarter of 2003 as a result of the Company's decision to exit the workers' compensation line after the first quarter of 2004.

#### Net Investment Income

Net investment income increased to \$2.5 million in the third quarter of 2004 from \$1.4 million in the same quarter of 2003 due to higher levels of invested assets generated by positive cash flows from operations. Average invested assets increased to \$284 million from \$138 million. The pre-tax investment yield decreased to 3.6% from 3.8% in the quarter ended September 30, 2004 and 2003, respectively, and the after-tax investment yield decreased to 2.9% from 3.0%, respectively. The decrease in yield is due to the Company realizing gains on its bond portfolio in the second quarter of 2003, with the proceeds from those sales as well as the proceeds from the fourth quarter 2003 secondary offering and recent positive cash flows from operations being invested in bonds with shorter durations, and therefore lower yields, due to prevailing market conditions. The Company's bond portfolio has an average time to maturity of 5.1 years at September 30, 2004 compared to 7.2 years at September 30, 2003.

#### Net Realized Gains and Losses

Net realized gains were \$100,000 in the third quarter of 2004 as compared to \$14,000 for the same quarter of 2003. These gains were realized within the normal course of operations.

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#### Real Estate Income

Real estate income at the Harbour Village project increased 22.5% to \$20.0 million in the third quarter of 2004 from \$16.2 million in the same quarter of 2003. This income was realized from the closing of 71 condominium units and 2 boat slips in the third quarter of 2004 as compared to the closing of 55 condominium units and 4 boat slips in the same quarter of 2003. In addition to increased closings, more higher priced units closed during the third quarter of 2004; the average sales price of condominiums closed was \$291,000 for the third quarter of 2004 compared to \$266,000 for the same quarter of 2003. Real estate income and sales will be lower in the fourth quarter of 2004 and will be minimal thereafter as the last units are sold and closed in 2005. See Exhibit 99 included in this Report for further information regarding Harbour Village.

#### Losses and Loss Adjustment Expenses

During the third quarter of 2004, the Company's loss ratio increased 8.9 points from 59.7% to 68.6%, due to a combination of factors. In response to the adverse loss development experienced in the first two quarters of 2004 in the Company's excess and surplus segment and management's concern that existing reserves for this segment might be

inadequate, the Company commenced an actuarial reserve evaluation. Following completion of this evaluation, the Company changed actuarial reserving methodologies and recorded \$3.0 million of additional reserves. The Company also experienced adverse loss development of \$300,000 on its discontinued assumed liability program during the third quarter of 2004.

### Acquisition Expenses

Acquisition expenses are amounts that are paid to agents and brokers for the production of premium for the Company offset in part by the ceding commissions we retain from our reinsurers. For our program business, fees are typically earned through ceding commissions and have the effect of lowering our acquisition expenses. Acquisition expenses also include amounts paid for premium taxes to the states where we do business on an admitted basis. Acquisition expenses are expensed as the corresponding premium is earned. Acquisition expenses were \$6.9 million in the third quarter of 2004 as compared to \$5.3 million in the same quarter of 2003. Acquisition expenses as a function of net earned premiums were 20.1% in the third quarter of 2004 and 19.5% in the same quarter of 2003. This increase is principally attributable to the growth of our environmental segment, which has higher average acquisition costs than our excess and surplus segment.

### Real Estate Expenses

Real estate expenses increased by \$2.2 million for the third quarter of 2004 to \$16.6 million. The majority of real estate expenses, including construction costs, capitalized interest and commissions (variable costs) are recognized at the same time as revenue is recognized. General and administrative expenses (fixed costs) are expensed as incurred once the project begins closing units. The following chart shows the cost components (in thousands).

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	Quarter Ended September 30	
	<u>2003</u>	<u>2004</u>
Variable	\$ 13,678	\$ 13,567
Fixed	<u>723</u>	<u>3,039</u>
Total	\$ 14,401	\$ 16,606
	=====	=====

These variable costs, when applied to real estate revenue, produced gross margins of 31.9% for the third quarter of 2004 as compared to 15.9% for the same quarter of 2003. The increase in gross margin was due to a higher average sales price on the Links units in the third quarter of 2004 as compared to the same quarter of 2003.

### Operations by Geographic Segment

*Net Income.* For the third quarter of 2004, net income from Bermuda operations increased by \$700,000 as compared to the same quarter of 2003 due to positive insurance operations results. Net income from United States operations for the third quarter of 2004 decreased by \$400,000 as compared to the same quarter of 2003, due to a \$1.5 million reduction in insurance operating results offset by a \$1.1 million increase in real estate operating results.

### **Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003**

#### Net Premiums Earned

*Environmental.* Net earned premiums increased to \$23.3 million for the first nine months of 2004 as compared to \$15.9 million for the same period of 2003. Net written premiums increased to \$26.2 million for the first nine months of 2004 as compared to \$19.4 million in the same period of 2003. This increase was attributable to the Company's strategy of growing this segment. The Company opened an office in Denver, Colorado in the second quarter of 2004 and our office in Cherry Hill, New Jersey began its third year of operations and expanded its underwriting staff as compared to 2003. Our Atlanta, Georgia office has also increased its underwriting staff and expanded its distribution of the ProStar online quoting system to qualified brokers. While the market has experienced the entrance of new competitors and a general leveling of pricing, the Company believes its growth strategy will continue.

*Excess and Surplus.* Net earned premiums increased to \$58.1 million in the first nine months of 2004 compared to \$38.1 million for the same period of 2003. Net written premiums increased to \$57.0 million for the first nine months of 2004 as compared to \$47.9 million. The earned premiums increase represents the continuing effects of the expansion of this segment during 2003. There have been signs of general market softening with less business being shifted out of the standard market to the excess and surplus market, as well as a general leveling of prices in the market. The Company intends to maintain its underwriting and pricing discipline in this changing market and expects to continue to capitalize on market opportunities. The Company's new excess coverage product was introduced in the second quarter of 2004, to meet the market need for higher limits of liability over the Company's current policies.

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*Programs.* Net earned premiums remained steady at \$16.0 million for the first nine months of 2004 and 2003. Net written premiums decreased to \$12.7 million in the first nine months of 2004 from \$17.1 million in the same period of 2003. The written premium decrease is primarily due to the run-off of the Company's expiring assumed liability program. This program had net return premiums of \$556,000 for the nine months ended September 30, 2004 compared to net written premiums of \$5.5 million during the same period of 2003. This decrease was partially offset by increased writings in other programs, specifically the Company's pest control program. It is not unusual for the Company to experience premium variances due to seasonal fluctuations on individual programs and the time it takes a program to become fully operational, coupled with the run-off of expiring programs. The Company has 12 active programs producing new business at September 30, 2004, compared to 13 active programs at September 30, 2003. During the first nine months of 2004, the Company added 4 new programs and had 3 programs expire.

*Other.* Surety business net earned premiums increased to \$842,000 for the first nine months of 2004 as compared to \$453,000 for the same period of 2003. Net written premium increased to \$908,000 for the first nine months of 2004 as compared to \$510,000 for the same period of 2003. The increase is attributed to the Company's recent efforts to modestly expand its surety business as a supporting product line to the environmental segment. During the second quarter of 2004 the Company entered into a \$2 million per bond quota share reinsurance agreement to facilitate more underwriting opportunities. During 2002 and 2003 the Company did not have any reinsurance coverage and was limited in its underwriting opportunities. Workers' compensation net earned premiums decreased to \$2.4 million for the first nine months of 2004 compared to \$4.1 million for the same period of 2003. Net written premiums for the first nine months of 2004 were \$563,000 as compared to \$3.7 million for the same period of 2003 as a result of the Company's decision to exit the workers' compensation line after the first quarter of 2004.

#### Net Investment Income

Net investment income increased to \$6.8 million for the first nine months of 2004 from \$3.9 million for the same period of 2003 due to higher levels of invested assets generated primarily by positive cash flows from operations. Average invested assets increased to \$262 million from \$135 million. The pre-tax and after-tax yields were 3.5% and 2.8% compared to 3.8% and 3.0% for the first nine months of 2004 and 2003, respectively. The decrease in yield is due to the Company realizing gains on its bond portfolio in the second quarter of 2003, with the proceeds from those sales as well as the proceeds from the fourth quarter 2003 secondary offering and recent positive cash flows from operations being invested in bonds with shorter durations, and therefore lower yields, due to prevailing market

conditions. The Company's bond portfolio has an average time to maturity of 5.1 years at September 30, 2004 compared to 7.2 years at September 30, 2003.

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### Net Realized Gains and Losses

Net realized gains were \$120,000 in the first nine months of 2004 as compared to \$3.1 million in the first nine months of 2003. During the second quarter of 2003, the Company determined it was beneficial to sell certain securities to maximize their total return as a result of an existing lower interest rate environment at that time.

### Real Estate Income

Real estate income at the Harbour Village project increased 39.1% to \$54.1 million in the first nine months of 2004 from \$38.8 million in the same period of 2003. This income was realized from the closing of 175 condominium units and 4 boat slips in the first nine months of 2004 as compared to the closing of 125 condominium units and 14 boat slips in the first nine months of 2003. In addition to increased closings, more higher priced units closed during the third quarter of 2004; the average sales price of condominiums closed was \$294,000 for the first nine months of 2004 compared to \$277,000 for the same period of 2003. See Exhibit 99 included in this Report for further information regarding Harbour Village. Real estate income and sales will be lower in the fourth quarter of 2004 and will be minimal thereafter as the last units are sold and closed in 2005.

### Losses and Loss Adjustment Expenses

For the first nine months of 2004, the Company's loss ratio increased 11.5 points from 58.6% to 70.1%, due to a combination of factors. The excess and surplus segment experienced adverse loss development of \$7.7 million. Of this amount, \$4.7 million was recorded through the first six months of 2004 and was attributable to certain New York contractor risks written in 2001. Exposure to New York contractor risks was significantly reduced during 2002 and 2003. In response to this development and management's concern that existing reserves for this segment might be inadequate, the Company commenced an actuarial reserve evaluation on this segment. Following completion of this evaluation, the Company changed actuarial reserving methodologies and recorded \$3.0 million of additional reserves. Finally, during the first nine months of 2004, the Company has experienced adverse loss development of \$1.6 million on its program segment and \$3.0 million on its other lines segment, all of which was in discontinued lines within those segments.

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### Acquisition Expenses

Acquisition expenses increased to \$20.1 million for the first nine months of 2004 from \$14.8 million for the same period of 2003. Acquisition expenses as a function of net earned premiums were a comparable 19.9% for the first nine months of 2004 compared to 19.8% for the same period of 2003.

### Real Estate Expenses

Real estate expenses were \$45.1 million for the first nine months of 2004 compared to \$37.3 million for the same period of 2003. The majority of real estate expenses including construction costs, capitalized interest and commissions (variable costs) are recognized at the same time as revenue is recognized. General and administrative expenses (fixed costs) are expensed as incurred once the project begins closing units. The following chart shows the cost components (in thousands):

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	Nine Months Ended September 30	
	<u>2003</u>	<u>2004</u>
Variable	\$ 34,278	\$ 40,219
Fixed	<u>2,999</u>	<u>4,874</u>
Total	\$ 37,277	\$ 45,093
	=====	=====

These variable costs, when applied to real estate revenue, produced gross margins of 25.6% nine months of 2004 as compared to 13% for the first nine months of 2003. The increase in gross margin was due to a higher average sales price on the Links units for the first nine months of 2004 as compared to same period of 2003.

### Operations by Geographic Segment

*Net Income.* For the nine months of 2004, net income from Bermuda operations increased by \$3.8 million as compared to the same time period of 2003. This increase was primarily due to the Company collecting \$2.6 million as final settlement of a note receivable for which an allowance was established during the fourth quarter of 2003 with the remainder of the increase due to growth in insurance operations. Net income from United States operations for the first nine months of 2004 decreased by \$800,000 compared to the same period of 2003. This decrease is a result of a \$5.6 million of reduced insurance operating results during the first nine months of 2004 offset by a \$4.8 million increase in real estate operating results.

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*Assets.* Assets from Bermuda operations increased by \$64.3 million for the first nine months of 2004 as compared to the same period of 2003. This increase is a result of a public stock offering in the fourth quarter of 2003 and an increase in premium writings assumed from growing United States operations. Assets from United States operations increased by \$28.5 million for the first nine months of 2004 compared to the same period of 2003. This is largely due to increased premium writings as the Company has capitalized on favorable market conditions.

*Equity.* Equity from Bermuda operations increased by \$28.9 million for the first nine months of 2004 compared to the same period of 2003. This increase is largely due to a public stock offering in the fourth quarter of 2003 which raised \$27.2 million in new equity, higher net income and increased net unrealized gains in the Company's investment portfolio offset by the Company's stock repurchase during the third quarter of 2004. Given the current stock price, the Board of Directors determined that investing in the Company's stock represented an attractive use of existing capital. Equity from United States operations increased by \$5.3 million. This increase was a result of higher net income and increased net unrealized gains on the Company's investment portfolio.

### **Liquidity and Capital Resources**

The Company meets its cash requirements and finances its growth principally through cash flows generated from operations. Since 2000 the Company has operated in a hardening market with increased insurance premium rates for general liability coverages and increased fees for program business opportunities. The Company's primary sources of short-term cash flow are premium writings, investment income and income from real estate development sales. Short-term cash requirements relate to claims payments, reinsurance premiums, commissions, salaries, employee benefits, real estate development expenses, and other operating expenses. Due to the uncertainty regarding the timing and amount of settlements of unpaid claims, future liquidity requirements may vary; therefore, the Company has structured its investment portfolio maturities to allow for variations in 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.

Net cash flow from operations was \$66.4 million for the first nine months of 2004 and \$59.7 million for the same period of 2003. During the second quarter of 2004, the Company received \$2.6 million in final settlement of impaired notes receivable and the Company received \$1.8 million in settlement of professional liability claims against parties who are involved in the Principal Management rescission litigation.

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Currently, the Company's Board of Directors has decided not to pay dividends on the common shares so that the Company could expand its capital base. The Company's ability to pay future dividends to shareholders will depend, to a significant degree, on the ability of its subsidiaries to generate earnings from which to pay dividends to the Company. The jurisdictions in which its insurance and reinsurance subsidiaries are domiciled place limitations on the amount of dividends or other distributions payable by insurance companies in order to protect the solvency of insurers. Given the Company's growth and the capital requirements associated with that growth, the Company does not anticipate paying dividends on the common shares in the near future.

Harbour Village is being developed in three phases with projected completion in 2005. At September 30, 2004, the Company had no outstanding borrowings on a development and construction loan facility. The estimated completion cost for the remainder of Harbour Village is approximately \$3 million. The Company believes that cash flows from sales operations will meet the remaining liquidity needs of Harbour Village. See Exhibit 99 for further information regarding Harbour Village.

#### **Income Taxes**

The Company is incorporated under the laws of Bermuda and, under current Bermuda law, is not obligated to pay any taxes in Bermuda based upon income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of The Exempted Undertakings Tax Protection Act 1966, which exempts the Company and its shareholders, other than shareholders ordinarily resident in Bermuda, from any Bermuda taxes computed on profits, income or any capital asset, gain or appreciation, or any tax in the nature of estate, duty or inheritance until March 28, 2016. The Company, exclusive of its United States subsidiaries, does not consider itself to be engaged in a trade or business in the United States and accordingly does not expect to be subject to direct United States income taxation. The Company's U.S. subsidiaries are subject to taxation in the United States.

#### **Impact of Inflation**

Property and casualty insurance premiums are established before the amount of losses and loss adjustment expenses are known and therefore before the extent by which inflation may affect such expenses is known. Consequently, the Company attempts, in establishing its premiums, to anticipate the potential impact of inflation. However, for competitive and regulatory reasons, the Company may be limited in raising its premiums consistent with anticipated inflation, in which event the Company, rather than its insureds, would absorb inflation costs. Inflation also affects the rate of investment return on the Company's investment portfolio with a corresponding effect on the Company's investment income.

#### **Combined Ratio**

The combined ratio of an insurance company measures only the underwriting results of insurance operations and not the profitability of the overall business. The Company's reported combined ratio for insurance operations may not provide an accurate indication of its overall profitability. For instance, depending on the mix of business the combined ratio may not fluctuate consistently with the overall Company profitability.

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## Reserves

Certain of the Company's insurance policies and reinsurance assumed, including general and pollution liability policies covering environmental remediation, excess and surplus, and workers' compensation risks, may be subject to claims brought years after an incident has occurred or the policy period has ended. The Company is required to maintain loss reserves to cover the unpaid portion of the estimated liability for losses and loss adjustment expenses with respect to (i) reported claims and (ii) incurred-but-not-reported claims. A full actuarial analysis is performed to provide this estimate of all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements. In evaluating whether the reserves make a reasonable provision for unpaid loss and loss adjustment expenses, it is necessary to project future loss and loss adjustment expense payments. It is certain that the actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections.

With respect to reported claims, reserves are established on a case-by-case basis. The reserve amounts on each reported claim are determined by taking into account the circumstances surrounding each claim and policy provisions relating to the type of loss. Loss reserves are reviewed on a regular basis, and as new information becomes available, appropriate adjustments are made to reserves.

In establishing reserves, several methods are employed in determining ultimate losses: the expected loss ratio method; the Bornhuetter-Ferguson method based on expected loss ratios, paid losses and reported losses; and the loss development method based on paid and reported losses. The first method uses industry expected losses adjusted for our actual experience, while the last method relies on industry payment and reporting patterns to develop our actual losses. The Bornhuetter-Ferguson method is a combination of the other two methods, using expected loss ratios produce expected losses, then applying loss payment and reporting patterns to the expected losses to produce the expected incurred-but-not-reported losses. The Company reviews the ultimate projections from all three methods and, based on the merits of each method, determines its estimated ultimate losses. However, the establishment of appropriate loss reserves is an inherently uncertain process, and there can be no assurance that such ultimate payments will not materially exceed the Company's reserves.

## Variable Interest Entities

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46). This interpretation requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the expected residual gains, or both, as a result of ownership, contractual or other financial interests in the entity. In October 2003, FASB delayed the effective date of FIN 46 for variable interest entities (VIE) or potential VIE created before February 2003. In December 2003, the FASB issued a revised version of FIN 46, FIN 46(R), which finalized the accounting guidance for VIE. The Company adopted FIN 46(R) and has restated all prior year balances to conform to the new consolidation policies. As a result of adopting FIN 46(R), the Company consolidated its non-subsiary affiliate American Safety RRG.

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## Off-Balance Sheet Arrangements

The Company has guaranteed a \$1 million letter of credit to the State of Vermont on behalf of American Safety RRG its non-subsiary affiliate, since 1988.

## Forward Looking Statements

This Report contains forward-looking statements within the meaning of United States securities laws that are intended to be covered by the safe harbors created thereby. Such statements reflect the Company's current views with respect to

future events and financial performance, including insurance market conditions, insurance pricing and underwriting strategies, future insurance claims and losses, and profitability of the Harbour Village real estate project, as presented in the Company's consolidated financial statements and Exhibit 99 to this Report. In addition, all statements, other than statements of historical facts, included or incorporated by reference in this Report that address activities, events or developments that the Company expects or anticipates will or may occur in the future constitute forward-looking statements.

Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, and are subject to change based on various insurance industry factors, including, without limitation, 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 collectibility of reinsurance receivables, market acceptance of new coverages and enhancements, changes in reinsurance costs and availability, potential adverse decisions in litigation and arbitration proceedings (including the outcome of the Principal Management acquisition rescission litigation), and changes in levels of general business activity and economic conditions. With respect to the development of the Harbour Village project, such forward-looking statements involve risks and uncertainties which may cause actual results to differ materially, and are subject to change based on various real estate development industry factors, including competitive housing conditions in the local market area, risks inherent in real estate development and new construction, increases in construction costs, weather, litigation, changes in interest rates and the availability of mortgage financing for prospective purchasers of condominium units and boat slips, and changes in local and national levels of general business activity and economic conditions. An adverse outcome of the Principal Management acquisition rescission litigation would have a material adverse effect on the financial condition of the Company. See discussion in Part II, Item 1 of this Report as to this material matter.

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Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could over time prove to be inaccurate and therefore, there can be no assurance that the forward-looking statements included in this Report will themselves prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company expressly disclaims any obligation to update any forward-looking statements except as required by law.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risks.**

The Company's market risk has not changed materially since December 31, 2003.

### **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 significant changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that could significantly affect the Company's disclosure controls and procedures subsequent to the



date of such evaluation, nor were there any significant deficiencies or material weaknesses in 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 a 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 legal and other defenses available to the Company's subsidiaries, management does not believe that any pending or threatened litigation or arbitration disputes will have any material adverse effect on the Company's financial condition or operating results, except for the following matter.

*Acquisition Rescission Litigation.* In April 2000, we filed a lawsuit in the U.S. District Court for the Northern District of Georgia for damages and, alternatively, to rescind the stock purchase of a Michigan insurance agency and two related insurance companies specializing in insurance program business based upon the sellers' breach of the representations and warranties made in the definitive agreements concerning the business affairs and financial condition of the acquired companies. The defendants filed several motions for summary judgment opposing our claims. In September 2002, the Court entered an order granting the defendants' motions for summary judgment. However, the Court did not rule that the representations and warranties of the defendant in the definitive agreements were correct. The Court also granted our motions on various counterclaims. We filed a motion for reconsideration with respect to the Court's order which the Court denied in November 2002. In August 2003, we filed a motion requesting the Court certify its previous order granting the defendants' motion for summary judgment as final so that we could appeal the adverse rulings. The Court denied our motion in December 2003 and it is anticipated that the remaining issues in the case will be determined by the Court, without a trial, in late 2004 or early 2005. Thereafter, we will have the right to appeal all adverse prior rulings in the case.

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### Item 2. Changes in Securities and Use of Proceeds.

In January 2001, the Company announced a plan to repurchase 500,000 shares of the Company's common stock. Shares purchased between August 14, 2004 and August 24, 2004 were part of this plan. This plan expired August 24, 2004.

On August 24, 2004, the Company announced plans to repurchase 200,000 shares of the Company's common stock. Subject to availability, the transactions were made from time to time on the open market or directly from shareholders at prevailing market prices. All 200,000 shares were repurchased between August 30, 2004 and September 15, 2004.

The Company may adopt additional repurchase planes in the future.

Period	Total Number of Shares Purchased	Average Paid Price per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet be Purchased Under the Plan
14-Aug-04	10,000	\$12.10	10,000	6,900
24-Aug-04	6,900	10.34	6,900	0
30-Aug-04	40,000	10.88	40,000	160,000
10-Sep-04	143,100	11.60	143,100	16,900
14-Sep-04	16,900	11.70	16,900	0
Total	216,900	\$ 11.46	216,900	0

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

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

None.

**Item 5. Other Information.**

None

**Item 6. Exhibits and Reports on Form 8-K.**

(a) The following exhibits are filed as part of this Report:

<u>Exhibit No.</u>	<u>Description</u>
11	Computation of Earnings Per Share
31.1	Certification Pursuant to § 302 of the Sarbanes-Oxley Act
31.2	Certification Pursuant to § 302 of the Sarbanes-Oxley Act
32.1	Certification Pursuant to § 906 of the Sarbanes-Oxley Act
32.2	Certification Pursuant to § 906 of the Sarbanes-Oxley Act
99	Harbour Village Development Status

(b) Reports on Form 8-K.

On August 2, 2004, the Company filed a report on Form 8-K with respect to a change in the Company's principal accountants.

On August 12, 2004, the Company filed a report on Form 8-K with respect to the issuance of a press release reporting its financial results for the third quarter ended September 30, 2004.

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**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 15<sup>th</sup> day of November 2004.

American Safety Insurance Holding

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

By: /s/ Steven B. Mathis  
 Steven B. Mathis  
 Chief Financial Officer  
 (Principal Financial Officer)

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**Exhibit 11**  
**American Safety Insurance Holdings, Ltd. and subsidiaries**  
**Computation of Earnings Per Share**

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	<u>Three Months Ended</u>		<u>Nine months</u>
	September 30, <u>2003</u>	September 30, <u>2004</u>	September <u>2003</u>
Basic:			
Earnings available to common shareholders.....	\$ 2,962,050 =====	\$ 3,257,792 =====	\$ 7,990,000 =====
Weighted average common shares outstanding.....	<u>4,749,266</u>	<u>6,876,380</u>	<u>4,749,266</u>
Basic earnings per common shares ...	\$ 0.62 =====	\$ 0.47 =====	\$ 1.66 =====
Diluted:			
Earnings available to common shareholders.....	\$ 2,962,050 =====	\$ 3,257,792 =====	\$ 7,990,000 =====
Weighted average common shares outstanding.....	4,749,266	6,876,380	4,749,266
Weighted average common shares equivalents associated with options....	<u>350,155</u>	<u>398,879</u>	
Total weighted average common shares.....	<u>5,099,421</u>	<u>7,275,259</u>	<u>4,749,266</u>
Diluted earnings per common shares.....	\$ 0.58 =====	\$ 0.45 =====	\$ 1.66 =====

Exhibit 31.1

**Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2003**

I, Stephen R. Crim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Safety Insurance Holdings, Ltd.;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - c. designed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 15, 2004

/s/ Stephen R. Crim  
Stephen R. Crim  
Chief Executive Officer  
American Safety Insurance Holdings,

Exhibit 31.2

**Certification Pursuant to § 302 of the Sarbanes-Oxley Act of 2003**

I, Steven B. Mathis, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American Safety Insurance Holdings, Ltd.;
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - c. designed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 15, 2004

/s/ Steven B. Mathis  
Steven B. Mathis  
Chief Financial Officer  
American Safety Insurance Holdings,

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Exhibit 32.1**Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2003**

The undersigned, as the Chief Executive Officer of American Safety Insurance Group, Ltd., certifies that, to the best of his knowledge and belief, the Quarterly Report on Form 10-Q for the period ended September 30, 2004, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of American Safety Insurance Group, Ltd. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2003 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose.

Date: November 15, 2004

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

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

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

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Exhibit 32.2**Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2003**

The undersigned, as the Chief Financial Officer of American Safety Insurance Group, Ltd., certifies that, to the best of his knowledge and belief, the Quarterly Report on Form 10-Q for the period ended September 30, 2004, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of American Safety Insurance Group, Ltd. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2003 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose.

Date: November 15, 2004

/s/ Steven B. Mathis  
Steven B. Mathis  
Chief Financial Officer

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

The information in this Exhibit 32.2 shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall it be deemed incorporated by reference in any filing under the Securities

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Act of 1933, except as shall be expressly set forth by specific reference in such filing.

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Exhibit 99			
Harbour Village Development Stat			
(000)s except references to Condo			
(unaudited)			
-----			
Phase 1			
-----			
Townhouses			
-----			
	Marina Condos	Oak Hammock	Riverwalk
-----			
9/30/2004			
-----			
Planned Number of Condo Units and Boat Slips	248	18	28
Condo Units and Boat Slips under Contract	248	18	27
Value of Pre-sale Contracts (Note 1)	62,892	8,680	10,916
Number of Buildings	8	4	6
Number of Closed Units	248	18	28
Number of Buildings Complete by Task			
Building Foundation	8	4	6
Vertical Building Completed	8	4	6
Interior Finish Completed	8	4	6
Certificate of Occupancy Received	8	4	6
-----			
3rd Quarter Actual			
-----			
Units Closed	-	1	1
Revenue Recognized			
Condos and Boat Slips	(354)	706	400
Land Sales and Other Revenue			
Total Revenue			
Gross Profit Recognized			
Condos and Boat Slips	45	78	85
Land Sales and Other Revenue			
Total Gross Profit			
Other Expense (Income) Items			
Pre-Tax Profit			
-----			
Outlook For 4th Quarter of 2004			
-----			
Units Closed	-	-	-
Sales Value of Closed Units	-	-	-
Revenue Recognized			

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Condos and Boat Slips	-	-	-
Land Sales and Other Revenue			
Total Revenue			
Gross Profit Recognized			
Condos and Boat Slips	-	-	-
Land Sales and Other Revenue			
Total Gross Profit			
Other Expense (Income) Items			
Pre-Tax Profit			

Note 1 - No assurance can be given that purchasers under binding pre-sale contracts with deposits will close each contemplated transaction .

Note 2 - Other includes net brokerage commissions, advertising, promotion, and other general and administrative costs. These items are not allocated to specific buildings.

The projected results contained above for unit closings, revenue, gross profit, fixed costs and pre-tax profit are forward looking statements. With respect to the Company's development of the Harbour Village property, such forward looking statements involve risks and uncertainties which may cause actual results to differ materially, and are development and new construction, increases in construction costs, construction delays, weather, litigation, changes in interest rates and the availability of mortgage financing for prospective purchasers of condominium units and boat slips and changes in local and national levels of general business activity and economic conditions.