

PLATINUM UNDERWRITERS HOLDINGS LTD
Form 10-Q
August 03, 2007

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

FORM 10-Q

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

OR

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

For the transition period from _____ to _____

Commission File Number 001-31341

PLATINUM UNDERWRITERS HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of incorporation or organization)

98-0416483
(I.R.S. Employer Identification No.)

The Belvedere Building
69 Pitts Bay Road
Pembroke, Bermuda
(Address of principal executive offices)

HM 08
(Zip Code)

(441) 295-7195

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YesxNo "

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):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of July 12, 2007, there were outstanding 60,172,313 common shares, par value \$0.01 per share, of the registrant.

PLATINUM UNDERWRITERS HOLDINGS, LTD.
 QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2007

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ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
PLATINUM UNDERWRITERS HOLDINGS, LTD. AND SUBSIDIARIES
 Consolidated Balance Sheets
 (\$ in thousands, except share data)

	(Unaudited) June 30, 2007	December 31, 2006
ASSETS		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost – \$3,427,964 and \$3,276,970, respectively)	\$ 3,354,590	\$ 3,226,354
Fixed maturity trading securities at fair value (amortized cost – \$126,090 and \$110,845, respectively)	120,903	108,291
Preferred stocks (cost – \$11,246 and \$11,246, respectively)	10,180	10,772
Other invested asset	–	4,745
Short-term investments	4,849	27,123
Total investments	3,490,522	3,377,285
Cash and cash equivalents	922,475	851,652
Accrued investment income	35,714	32,682
Reinsurance premiums receivable	336,865	377,183
Reinsurance recoverable on ceded losses and loss adjustment expenses	35,657	57,956
Prepaid reinsurance premiums	8,220	9,680
Funds held by ceding companies	227,507	238,499
Deferred acquisition costs	83,078	82,610
Income tax recoverable	–	7,515
Deferred tax assets	47,171	38,577
Other assets	11,373	19,928
Total assets	\$ 5,198,582	\$ 5,093,567
LIABILITIES AND SHAREHOLDERS' EQUITY		
<u>Liabilities</u>		
Unpaid losses and loss adjustment expenses	\$ 2,393,672	\$ 2,368,482
Unearned premiums	354,918	349,792
Reinsurance deposit liabilities	5,567	4,009
Debt obligations	292,840	292,840
Ceded premiums payable	7,065	17,597
Commissions payable	118,805	140,835
Deferred tax liabilities	–	4,234
Other liabilities	34,689	57,717
Total liabilities	3,207,556	3,235,506
<u>Shareholders' Equity</u>		
Preferred shares, \$.01 par value, 25,000,000 shares authorized, 5,750,000 shares issued and outstanding	57	57
Common shares, \$.01 par value, 200,000,000 shares authorized, 60,077,313 and 59,671,959 shares issued and outstanding, respectively	601	597

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Additional paid-in capital	1,553,813	1,545,979
Accumulated other comprehensive loss	(67,830)	(44,289)
Retained earnings	504,385	355,717
Total shareholders' equity	1,991,026	1,858,061
Total liabilities and shareholders' equity	\$ 5,198,582	\$ 5,093,567

See accompanying Notes to the Condensed consolidated financial statements.

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PLATINUM UNDERWRITERS HOLDINGS, LTD. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income (Unaudited)
For the Three and Six Months Ended June 30, 2007 and 2006
(\$ in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue:				
Net premiums earned	\$ 295,918	337,065	580,766	\$ 681,366
Net investment income	54,684	45,348	106,383	88,863
Net realized gains (losses) on investments	(1,639)	14	(1,657)	79
Other expense	(2,206)	(2,324)	(2,986)	(3,641)
Total revenue	346,757	380,103	682,506	766,667
Expenses:				
Net losses and loss adjustment expenses	164,431	187,464	346,344	394,238
Net acquisition expenses	56,827	76,052	104,947	145,291
Operating expenses	26,108	23,392	49,314	46,380
Net foreign currency exchange gains	(1,416)	(414)	(1,458)	(689)
Interest expense	5,456	5,450	10,911	10,900
Total expenses	251,406	291,944	510,058	596,120
Income before income tax expense	95,351	88,159	172,448	170,547
Income tax expense	4,701	6,411	8,965	11,763
Net income	90,650	81,748	163,483	158,784
Preferred dividends	2,602	2,602	5,204	5,178
Net income attributable to common shareholders	\$ 88,048	79,146	158,279	\$ 153,606
Earnings per share:				
Basic earnings per share	\$ 1.47	1.34	2.64	\$ 2.60
Diluted earnings per share	\$ 1.34	1.24	2.42	\$ 2.40
Comprehensive income:				
Net income	\$ 90,650	81,748	163,483	\$ 158,784
Other comprehensive income (loss):				
Net change in unrealized gains and losses on available-for-sale securities, net of deferred taxes	(32,294)	(24,580)	(22,865)	(59,895)
Cumulative translation adjustments	(632)	171	(676)	175
Comprehensive income	\$ 57,724	57,339	139,942	\$ 99,064
Shareholder dividends:				
Preferred dividends declared	\$ 2,602	2,602	5,204	\$ 4,614
Preferred dividends declared per share	0.45	0.45	0.91	0.80

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Common dividends declared	4,827	4,754	9,611	9,487
Common dividends declared per share \$	0.08	0.08	0.16	\$ 0.16

See accompanying Notes to the Condensed consolidated financial statements.

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PLATINUM UNDERWRITERS HOLDINGS, LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
For the Six Months Ended June 30, 2007 and 2006
(\$ in thousands)

	2007	2006
Preferred shares:		
Balances at beginning and end of periods	\$ 57	\$ 57
Common shares:		
Balances at beginning of period	597	590
Exercise of share options	7	4
Issuance of restricted shares	-	1
Purchase of common shares	(3)	-
Balances at end of period	601	595
Additional paid-in-capital:		
Balances at beginning of period	1,545,979	1,527,316
Exercise of common share options	16,804	10,486
Share based compensation	3,233	3,692
Purchase of common shares	(12,572)	-
Tax benefit of share options	369	-
Transfer of unearned common share grant compensation	-	(2,467)
Balances at end of period	1,553,813	1,539,027
Unearned common share grant compensation:		
Balances at beginning of period	-	(2,467)
Transfer of unearned common share grant compensation	-	2,467
Balances at end of period	-	-
Accumulated other comprehensive loss:		
Balances at beginning of period	(44,289)	(40,718)
Net change in unrealized gains and losses on available-for-sale securities, net of deferred tax	(22,865)	(59,895)
Net change in cumulative translation adjustments	(676)	175
Balances at end of period	(67,830)	(100,438)
Retained earnings:		
Balances at beginning of period	355,717	55,471
Net income	163,483	158,784
Preferred share dividends	(5,204)	(5,178)
Common share dividends	(9,611)	(9,487)
Balances at end of period	504,385	199,590
Total shareholders' equity	\$ 1,991,026	\$ 1,638,831

See accompanying Notes to the Condensed consolidated financial statements.

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PLATINUM UNDERWRITERS HOLDINGS, LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2007 and 2006
(\$ in thousands)

	2007	2006
<u>Operating Activities:</u>		
Net income	\$ 163,483	\$ 158,784
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	6,284	7,801
Net realized (gains) losses on investments	1,657	(79)
Net foreign currency exchange gains	(1,458)	(689)
Share based compensation	3,233	3,692
Deferred income tax expense	(12,050)	5,051
Trading securities activities	(4,709)	(9,603)
Changes in assets and liabilities:		
Increase in accrued investment income	(3,032)	(3,259)
Decrease in reinsurance premiums receivable	42,096	165,703
Decrease in funds held by ceding companies	10,992	41,552
(Increase) decrease in deferred acquisition costs	(468)	32,268
Increase in net unpaid losses and loss adjustment expenses	42,904	10,898
Increase (decrease) in net unearned premiums	6,586	(73,621)
Increase in reinsurance deposit liabilities	1,558	121
Increase (decrease) in ceded premiums payable	(10,532)	18,603
Decrease in commissions payable	(22,030)	(44,831)
Net changes in other assets and liabilities	(10,743)	15,131
Other net	(305)	9,583
Net cash provided by operating activities	213,466	337,105
<u>Investing Activities:</u>		
Proceeds from sale of available-for-sale fixed maturity securities	15,887	190,248
Proceeds from maturity or paydown of available-for-sale fixed maturity securities	605,260	93,933
Acquisition of available-for-sale fixed maturity securities	(780,459)	(663,027)
Proceeds from sale of other invested asset	4,745	-
Net change in short-term investments	22,506	(64,565)
Net cash used in investing activities	(132,061)	(443,411)
<u>Financing Activities:</u>		
Dividends paid to preferred shareholders	(5,204)	(4,614)
Dividends paid to common shareholders	(9,611)	(9,487)
Proceeds from exercise of share options	16,809	10,491
Purchase of common shares	(12,576)	-
Net cash used in financing activities	(10,582)	(3,610)
Net increase (decrease) in cash and cash equivalents	70,823	(109,916)
Cash and cash equivalents at beginning of period	851,652	820,746
Cash and cash equivalents at end of period	\$ 922,475	\$ 710,830

Supplemental disclosures of cash flow information:

Income taxes paid (recovered)	\$	11,566	\$	(3,366)
Interest paid	\$	10,740	\$	10,740

See accompanying Notes to the Condensed consolidated financial statements.

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PLATINUM UNDERWRITERS HOLDINGS, LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended June 30, 2007 and 2006

1. Basis of Presentation

Platinum Underwriters Holdings, Ltd. ("Platinum Holdings") is a Bermuda holding company organized in 2002. We provide property and marine, casualty and finite risk reinsurance coverages, through reinsurance intermediaries, to a diverse clientele of insurers and select reinsurers on a worldwide basis. Platinum Holdings and its subsidiaries (collectively, the "Company") operate through two licensed reinsurance subsidiaries: Platinum Underwriters Bermuda, Ltd. ("Platinum Bermuda") and Platinum Underwriters Reinsurance, Inc. ("Platinum US"). Through December 31, 2006 we also underwrote business in Platinum Re (UK) Limited ("Platinum UK"), our other licensed reinsurance subsidiary. In 2007 Platinum UK ceased underwriting reinsurance business.

The condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") and include the accounts of Platinum Holdings and its consolidated subsidiaries, including Platinum Bermuda, Platinum US, Platinum UK, Platinum Underwriters Finance, Inc. ("Platinum Finance"), Platinum Regency Holdings ("Platinum Regency"), Platinum Administrative Services, Inc. and Platinum UK Services Company Limited. The terms "we", "us", and "our" also refer to Platinum Holdings and its consolidated subsidiaries, unless the context otherwise indicates. All material inter-company transactions have been eliminated in preparing these condensed consolidated financial statements. The condensed consolidated financial statements included in this report as of and for the three and six months ended June 30, 2007 and 2006 are unaudited and include adjustments consisting of normal recurring items that management considers necessary for a fair presentation under U.S. GAAP. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from these estimates. The results of operations for any interim period are not necessarily indicative of results for the full year.

Recently Effective Accounting Standards

In February 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Instruments, an Amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 requires that investments in securitized financial instruments, such as mortgage-backed and asset-backed securities, be evaluated to identify whether they are freestanding investments or hybrid financial instruments containing an embedded derivative that requires bifurcation. Subsequent to the issuance of SFAS 155, the FASB issued additional guidance in the form of Implementation Issue B40. Implementation Issue B40 provides a narrow scope exception for certain securitized interests in prepayable financial assets, subject to certain criteria. Securitized financial instruments with the potential for prepayment are evaluated under SFAS 155 and related guidance, possibly resulting in the bifurcation of an embedded derivative. The embedded derivative is recorded at fair value, with unrealized gains and losses included in other income (expense) and the related deferred income tax included in income tax expense. SFAS 155 and related guidance is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring for the Company after December 31, 2006. The Company does not have any securities with embedded derivatives that require bifurcation under SFAS 155.

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PLATINUM UNDERWRITERS HOLDINGS, LTD. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements (Unaudited), continued
For the Three and Six Months Ended June 30, 2007 and 2006

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48") on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not have any effect on our results of operations or financial condition. We did not have any unrecognized tax benefits as of January 1, 2007 or June 30, 2007.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements in order to conform to the 2007 presentation.

2. Investments

Investments classified as available-for-sale are carried at fair value as of the balance sheet date. Net change in unrealized investment gains and losses on available-for-sale securities, net of deferred taxes, for the six months ended June 30, 2007 and 2006 were as follows (\$ in thousands):

	2007	2006
Available-for-sale securities	\$ (23,350)	\$ (66,675)
Less - deferred taxes	485	6,780
Net change in unrealized investment gains and losses	\$ (22,865)	\$ (59,895)

Gross unrealized gains and losses on available-for-sale securities as of June 30, 2007 were \$580,000 and \$75,020,000, respectively.