

PLATINUM UNDERWRITERS HOLDINGS LTD

Form 10-Q

April 28, 2006

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**UNITED STATES 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 March 31, 2006

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

98-0416483

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

The Belvedere Building
69 Pitts Bay Road
Pembroke, Bermuda

HM 08

(Address of principal executive offices)

(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. Yes No

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

Large accelerated filer

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 April 17, 2006, there were outstanding 59,201,800 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 MARCH 31, 2006
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PART I FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Balance Sheets
(\$ in thousands, except share data)

	(Unaudited) March 31, 2006	December 31, 2005
ASSETS		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost \$3,208,066 and \$2,936,152, respectively)	\$ 3,121,500	\$ 2,888,922
Fixed maturity trading securities at fair value (amortized cost \$101,832 and \$99,141, respectively)	99,821	98,781
Preferred stocks (cost \$8,735 and \$8,735, respectively)	8,169	8,186
Other invested asset	5,000	5,000
Short-term investments	80,609	8,793
Total investments	3,315,099	3,009,682
Cash and cash equivalents	570,030	820,746
Accrued investment income	29,581	29,230
Reinsurance premiums receivable	517,429	567,449
Reinsurance recoverable on ceded losses and loss adjustment expenses	61,528	68,210
Prepaid reinsurance premiums	30,860	7,899
Funds held by ceding companies	266,541	291,629
Deferred acquisition costs	105,699	130,800
Income tax recoverable	10,600	24,522
Deferred tax assets	36,723	31,934
Due from investment broker	187	157,930
Other assets	11,940	14,344
Total assets	\$ 4,956,217	\$ 5,154,375

LIABILITIES AND SHAREHOLDERS EQUITY

Liabilities		
Unpaid losses and loss adjustment expenses	\$ 2,371,916	\$ 2,323,990
Unearned premiums	474,433	502,018
Reinsurance deposit liabilities	6,041	6,048
Debt obligations	292,840	292,840
Ceded premiums payable	38,106	22,544
Commissions payable	142,826	186,654
Deferred tax liabilities	960	118
Due to investment broker	16,902	259,834
Other liabilities	34,355	20,080
Total liabilities	3,378,379	3,614,126

Shareholders' Equity		
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, 59,190,300 and 59,126,675 shares issued and outstanding, respectively	592	590
Additional paid-in capital	1,528,020	1,527,316
Unearned share grant compensation		(2,467)
Accumulated other comprehensive loss	(76,029)	(40,718)
Retained earnings	125,198	55,471
 Total shareholders' equity	 1,577,838	 1,540,249
 Total liabilities and shareholders' equity	 \$ 4,956,217	 \$ 5,154,375

See accompanying notes to condensed consolidated financial statements.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Income and Comprehensive Income (Unaudited)
For the Three Months Ended March 31, 2006 and 2005
(\$ in thousands, except per share data)

	2006	2005
Revenue:		
Net premiums earned	\$ 344,301	\$ 411,040
Net investment income	43,515	26,905
Net realized gains on investments	65	372
Other income (expense), net	(1,317)	(356)
 Total revenue	 386,564	 437,961
Expenses:		
Losses and loss adjustment expenses	206,774	237,698
Acquisition expenses	69,239	93,249
Operating expenses	22,988	20,008
Net foreign currency exchange losses (gains)	(275)	1,798
Interest expense	5,450	2,173
 Total expenses	 304,176	 354,926
 Income before income tax expense	 82,388	 83,035
Income tax expense	5,352	9,947
 Net income	 77,036	 73,088
Preferred dividends	2,576	
 Net income available to common shareholders	 \$ 74,460	 \$ 73,088
 Earnings per common share:		
Basic earnings per common share	\$ 1.26	\$ 1.69
Diluted earnings per common share	\$ 1.16	\$ 1.49
Comprehensive income:		
Net income	\$ 77,036	\$ 73,088
Other comprehensive income:		
Net change in unrealized gains and losses on available-for-sale securities, net of deferred tax	(35,315)	(34,629)
Cumulative translation adjustments, net of deferred tax	4	9
 Comprehensive income	 \$ 41,725	 \$ 38,468
 Shareholder dividends:		
Preferred dividends declared	\$ 2,012	
Preferred dividends declared per share	0.35	
Common dividends declared	4,733	\$ 3,449
Common dividends declared per share	\$ 0.08	\$ 0.08

See accompanying notes to condensed consolidated financial statements.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
For the Three Months Ended March 31, 2006 and 2005
(\$ in thousands)

	2006	2005
Preferred shares:		
Balances at beginning of year	\$ 57	\$
Balances at end of period	57	
Common shares:		
Balances at beginning of year	590	430
Exercise of share options	1	2
Issuance of restricted shares	1	
Balances at end of period	592	432
Additional paid-in-capital:		
Balances at beginning of year	1,527,316	911,851
Transfer of unearned common share grant compensation	(2,467)	
Exercise of common share options	1,435	3,757
Share based compensation	1,736	1,295
Balances at end of period	1,528,020	916,903
Unearned common share grant compensation:		
Balances at beginning of year	(2,467)	
Transfer of unearned common share grant compensation	2,467	
Balances at end of period		
Accumulated other comprehensive income (loss):		
Balances at beginning of year	(40,718)	12,252
Net change in unrealized gains and losses on available-for-sale securities, net of deferred tax	(35,315)	(34,629)
Net change in cumulative translation adjustments, net of deferred tax	4	9
Balances at end of period	(76,029)	(22,368)
Retained earnings:		
Balances at beginning of year	55,471	208,470
Net income	77,036	73,088
Preferred share dividends	(2,576)	
Common share dividends	(4,733)	(3,449)
Balances at end of period	125,198	278,109
Total shareholders' equity	\$ 1,577,838	\$ 1,173,076

See accompanying notes to condensed consolidated financial statements.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2006 and 2005
(\$ in thousands)

	2006	2005
Operating Activities:		
Net income	\$ 77,036	\$ 73,088
Adjustments to reconcile net income to cash used in operations:		
Depreciation and amortization	3,803	4,931
Net realized gains on investments	(65)	(372)
Net foreign currency exchange (gains) losses	(275)	1,798
Share based compensation	1,736	1,295
Deferred income tax expense	87	(593)
Trading securities activities	717	4,527
Changes in assets and liabilities:		
Increase in accrued investment income	(351)	(3,464)
(Increase) decrease in reinsurance premiums receivable	50,020	(58,235)
(Increase) decrease in funds held by ceding companies	25,088	(24,743)
(Increase) decrease in deferred acquisition costs	25,101	(13,517)
Increase in net unpaid losses and loss adjustment expenses	53,256	119,840
Increase (decrease) in net unearned premiums	(50,546)	82,486
Decrease in reinsurance deposit liabilities	(7)	(14,484)
Increase in ceded premiums payable	15,562	16,361
Decrease in commissions payable	(43,828)	(9,701)
Increase in funds withheld		1,082
Decrease in income tax recoverable	13,922	10,538
Net changes in other assets and liabilities	15,712	(11,680)
Other net	(12)	491
Net cash provided by operating activities	186,956	179,648
Investing Activities:		
Proceeds from sale of available-for-sale fixed maturity securities	179,119	72,716
Proceeds from maturity or paydown of available-for-sale fixed maturity securities	32,535	21,155
Acquisition of available-for-sale fixed maturity securities	(572,201)	(183,709)
Increase in short-term investments	(71,816)	
Net cash used in investing activities	(432,363)	(89,838)
Financing Activities:		
Dividends paid to preferred shareholders	(2,012)	
Dividends paid to common shareholders	(4,733)	(3,449)
Proceeds from exercise of share options	1,436	3,759
Net cash provided by (used in) financing activities	(5,309)	310
Net increase (decrease) in cash and cash equivalents	(250,716)	90,120
Cash and cash equivalents at beginning of year	820,746	209,897

Cash and cash equivalents at end of period	\$ 570,030	\$ 300,017
Supplemental disclosures of cash flow information:		
Income taxes paid (recovered)	\$ (8,699)	\$ 10,200
Interest paid	\$	\$ 1,840
See accompanying notes to condensed consolidated financial statements.		

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the Three Months Ended March 31, 2006 and 2005

(1) Basis of Presentation

The condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the accounts of Platinum Underwriters Holdings, Ltd. (Platinum Holdings) and its subsidiaries (collectively, the Company), including Platinum Underwriters Bermuda, Ltd. (Platinum Bermuda), Platinum Underwriters Reinsurance, Inc. (Platinum US), Platinum Re (UK) Limited, Platinum Underwriters Finance, Inc. (Platinum Finance), Platinum Regency Holdings, and Platinum Administrative Services, Inc. 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 months ended March 31, 2006 and 2005 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 the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

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.

Share-Based Compensation

We adopted Statement of Financial Accounting Standards No. 123R Share-Based Payment (SFAS 123R) using the modified prospective method effective January 1, 2006. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123R requires that, prospectively, compensation costs be recognized for the fair value of all share options over their vesting period, including the cost related to the unvested portion of all outstanding share options as of December 31, 2005.

Prior to January 1, 2006, we accounted for share based compensation using Statement of Financial Accounting Standards No. 123 Accounting for Awards of Stock Based Compensation to Employees and Statement of Financial Accounting Standards No. 148 Accounting for Stock-Based Compensation-Transition and Disclosure (SFAS 148). In accordance with the transition rules of SFAS 148, we elected to continue using the intrinsic value method of accounting for our share-based awards granted to employees established by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) for share options granted in 2002. Under APB 25, if the exercise price of our employee share options is equal to or greater than the fair market value of the underlying shares on the date of the grant, no compensation expense is recorded.

The following table illustrates the effect on our net income and earnings per share for the three months ended March 31, 2005 of applying the fair value method to all share option grants (\$ in thousands, except per share data):

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2006 and 2005

	As	
	Reported	Pro Forma
Share-based compensation expense	\$ 1,295	\$ 2,521
Net income	73,088	71,862
Basic earnings per share	1.69	1.66
Diluted earnings per share	\$ 1.49	\$ 1.46

Reclassifications

Certain reclassifications have been made to the 2005 financial statements in order to conform to the 2006 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 three months ended March 31, 2006 and 2005 were as follows (\$ in thousands):

	2006	2005
Fixed maturities	\$ (39,353)	\$ (41,158)
Less deferred taxes	4,038	6,529
Net change in unrealized investment gains and losses	\$ (35,315)	\$ (34,629)

Gross unrealized gains and losses on available-for-sale securities as of March 31, 2006 were \$268,000 and \$87,400,000, respectively.

The unrealized losses on securities classified as available-for-sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2006 were as follows (\$ in thousands):

	Fair Value	Unrealized Loss
Less than twelve months:		
U.S. Government and U.S. Government agencies	\$ 180,461	\$ 3,286
Corporate bonds	951,215	28,514
Mortgage-backed and asset-backed securities	1,032,480	29,807
Municipal bonds	122,219	2,658
Foreign governments and states	13,189	496
Total	\$ 2,299,564	\$ 64,761

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2006 and 2005

	Fair Value	Unrealized Loss
Twelve months or more:		
Corporate bonds	\$ 448,833	\$ 14,404
Mortgage-backed and asset-backed securities	100,364	5,025
Municipal bonds	76,596	1,781
Foreign governments and states	27,158	863
Preferred stocks	8,169	566
Total	\$ 661,120	\$ 22,639
Total of securities with unrealized losses:		
U.S. Government and U.S. Government agencies		
Corporate bonds	\$ 180,461	\$ 3,286
Mortgage-backed and asset-backed securities	1,400,048	42,918
Municipal bonds	1,132,844	34,832
Foreign governments and states	198,815	4,439
Preferred stocks	40,347	1,359
Total	\$ 2,960,684	\$ 87,400

We routinely review our available-for-sale investments to determine whether unrealized losses represent temporary changes in fair value or are the result of other-than-temporary impairments. The process of determining whether a security is other than temporarily impaired is subjective and involves analyzing many factors. These factors include but are not limited to: the overall financial condition of the issuer, the length and magnitude of an unrealized loss, specific credit events, and our ability and intent to hold a security for a sufficient period of time for the value to recover the unrealized loss. This is based on current and anticipated future positive cash flows from operations that generate sufficient liquidity in order to meet our obligations. If we determine that an unrealized loss on a security is other than temporary, we write down the carrying value of the security and record a realized loss in the statement of operations.

Corporate, mortgage-backed and asset-backed securities represent our largest categories within our available-for-sale portfolio and consequently account for the greatest amount of our overall unrealized loss as of March 31, 2006. Investment holdings within our corporate sector are diversified across approximately 30 sub-sectors, ranging from aerospace to telecommunications, and within each sub-sector across many individual issuers and issues. As of March 31, 2006 there were 578 corporate issues in an unrealized loss position, with the single largest unrealized loss being \$726,000. Investment holdings within the mortgage-backed and asset-backed sector are diversified across a number of sub-categories. As of March 31, 2006 there were a total of 997 issues in an unrealized loss position in our investment portfolio, with the single largest unrealized loss being \$802,000.

Overall our unrealized loss position as of March 31, 2006 was a result of interest rate increases that impacted all investment categories. Given our ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider any of our available-for-sale investments to be other-than-temporarily impaired as of March 31, 2006.

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2006 and 2005

(3) Earnings Per Share

Following are calculations of the basic and diluted earnings per share for the three months ended March 31, 2006 and 2005 (\$ in thousands, except per share data):

	Net	Weighted Average Shares	Earnings Per Share
	Income	Outstanding	
Three months ended March 31, 2006:			
Basic earnings per share:			
Net income available to common shareholders	\$ 74,460	59,097	\$ 1.26
Effect of dilutive securities:			
Common share options, restricted common shares and common share units		1,810	
Conversion of preferred shares		5,690	
Preferred share dividends	2,576		
Adjusted net income for diluted earnings per share	\$ 77,036	66,597	\$ 1.16
Three months ended March 31, 2005:			
Basic earnings per share:			
Net income available to common shareholders	\$ 73,088	43,163	\$ 1.69
Effect of dilutive securities:			
Common share options and restricted common share units		1,860	
Conversion of Equity Security Units		5,009	
Interest expense related to Equity Share Units, net of income tax benefit	1,423		
Adjusted net income for diluted earnings per share	\$ 74,511	50,032	\$ 1.49

(4) Operating Segment Information

We conduct our worldwide reinsurance business through three operating segments: Property and Marine, Casualty and Finite Risk. The Property and Marine operating segment includes principally property (including crop) and marine reinsurance coverages that are written in the United States and international markets. This business includes catastrophe excess-of-loss treaties, per-risk excess-of-loss treaties and proportional treaties. The Casualty operating segment includes principally reinsurance treaties that cover umbrella liability, general and product liability, professional liability, workers compensation, casualty clash, automobile liability, surety and trade credit. This operating segment also includes accident and health treaties, which are predominantly reinsurance of health insurance products. The Finite Risk operating segment includes principally structured reinsurance contracts with ceding companies whose needs may not be met efficiently through traditional reinsurance products. The classes of risks underwritten through finite risk contracts are generally consistent with the classes covered by

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Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited), continued
For the Three Months Ended March 31, 2006 and 2005

traditional products. Typically, the amount of losses we might pay is finite or capped. In return for this limit on losses, we often accept a cap on the potential profit margin specified in the treaty and return profits above this margin to the ceding company. The finite risk contracts that we underwrite generally provide prospective protection, meaning coverage is provided for losses that are incurred after inception of the contract, as contrasted with retrospective coverage, which covers losses that are incurred prior to inception of the contract. The three main categories of finite risk contracts are finite quota share, multi-year excess-of-loss and whole account aggregate stop loss.

In managing our operating segments, we use measures such as underwriting income and underwriting ratios to evaluate segment performance. We do not allocate by segment our assets or certain income and expenses such as investment income, interest expense and certain corporate expenses. Total underwriting income is reconciled to income before income tax expense. The measures we use in evaluating our operating segments should not be used as a substitute for measures determined under U.S. GAAP. The following table summarizes underwriting activity and ratios for the operating segments together with a reconciliation of total underwriting income to income before income tax expense for the three months ended March 31, 2006 and 200