GREENLIGHT CAPITAL RE, LTD.
Form 10-Q
November 02, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from to

Commission file number 001-33493

GREENLIGHT CAPITAL RE, LTD.
(Exact name of registrant as specified in its charter)

CAYMAN ISLANDS	N/A
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
65 MARKET STREET SUITE 1207, CAMANA BAY P.O. BOX 31110 GRAND CAYMAN CAYMAN ISLANDS	KY1-1205
(Address of principal executive offices)	(Zip code)

(345) 943-4573
(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

Class A Ordinary Shares, $0.10 par value	30,200,835
Class B Ordinary Shares, $0.10 par value	6,254,949
(Class)	(Outstanding as of October 29, 2010)

GREENLIGHT CAPITAL RE, LTD.

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PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2010 and December 31, 2009
(expressed in thousands of U.S. dollars, except per share and share amounts)

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Investments		
Debt instruments, trading, at fair value	$ 20,060	$ 95,838
Equity securities, trading, at fair value	744,292	593,201
Other investments, at fair value	172,936	141,561
Total investments	937,288	830,600
Cash and cash equivalents	9,726	31,717
Restricted cash and cash equivalents	631,758	590,871
Financial contracts receivable, at fair value	16,491	30,117
Reinsurance balances receivable	147,745	82,748
Loss and loss adjustment expense recoverable	9,518	7,270
Deferred acquisition costs, net	85,172	34,401
Unearned premiums ceded	6,325	6,478
Notes receivable	14,491	15,424
Other assets	2,947	4,754
Total assets	$ 1,861,461	$ 1,634,380
Liabilities and shareholders' equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$ 578,790	$ 570,875
Financial contracts payable, at fair value	25,653	16,200
Due to prime brokers	22,822	—
Loss and loss adjustment expense reserves	161,180	137,360
Unearned premium reserves	233,491	118,899
Reinsurance balances payable	35,239	34,301
Funds withheld	22,482	14,711
Other liabilities	10,859	12,796
Performance compensation payable to related party	4,145	—
Total liabilities	1,094,661	905,142
Shareholders' equity		
Preferred share capital (par value $0.10; authorized, 50,000,000; none issued)	—	—
Ordinary share capital (Class A: par value $0.10; authorized, 100,000,000; issued and outstanding, 30,200,835 (2009: 30,063,893); Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2009: 6,254,949))	3,646	3,632

Additional paid-in capital	484,535	481,449
Non-controlling interest in joint venture	30,784	30,597
Retained earnings	247,835	213,560
Total shareholders’ equity	766,800	729,238
Total liabilities and shareholders’ equity	$ 1,861,461	$ 1,634,380

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

For the three and nine months ended September 30, 2010 and 2009
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Revenues				
Gross premiums written	$ 151,247	$ 65,983	$ 307,091	$ 207,901
Gross premium ceded	(3,639)	(2,894)	(8,228)	(10,725)
Net premium written	147,608	63,089	298,863	197,176
Change in net unearned premium reserves	(68,207)	(6,432)	(114,745)	(44,979)
Net premiums earned	79,401	56,657	184,118	152,197
Net investment income	33,881	32,628	39,682	148,667
Other income (expense), net	(474)	(145)	(1,002)	1,909
Total revenues	112,808	89,140	222,798	302,773
Expenses				
Loss and loss adjustment expenses incurred, net	50,257	34,643	114,936	88,386
Acquisition costs, net	28,807	17,767	60,183	46,591
General and administrative expenses	3,392	4,081	11,633	13,788
Total expenses	82,456	56,491	186,752	148,765
Net income before non-controlling interest and income tax expense	30,352	32,649	36,046	154,008
Non-controlling interest in income of joint venture	(1,313)	(380)	(1,687)	(1,716)
Net income before income tax expense	29,039	32,269	34,359	152,292
Income tax expense	(25)	(11)	(84)	(28)
Net income	$ 29,014	$ 32,258	$ 34,275	$ 152,264
Earnings per share				
Basic	$ 0.80	$ 0.89	$ 0.94	$ 4.21
Diluted	$ 0.78	$ 0.88	$ 0.92	$ 4.16
Weighted average number of ordinary shares used in the determination of:				
Basic	36,452,224	36,286,514	36,408,859	36,202,860
Diluted	37,218,906	36,828,726	37,174,558	36,627,849

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

For the nine months ended September 30, 2010 and 2009
(expressed in thousands of U.S. dollars)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Ordinary share capital		
Balance – beginning of period	$ 3,632	$ 3,604
Issue of Class A ordinary share capital, net of forfeitures	14	27
Balance – end of period	$ 3,646	$ 3,631
Additional paid-in capital		
Balance – beginning of period	$ 481,449	$ 477,571
Issue of Class A ordinary share capital	32	578
Share-based compensation expense, net of forfeitures	3,054	2,528
Options repurchased	—	(124)
Balance – end of period	$ 484,535	$ 480,553
Non-controlling interest		
Balance – beginning of period	$ 30,597	$ 6,058
Non-controlling interest (withdrawal) contribution from/to joint venture	(1,500)	337
Non-controlling interest in income of joint venture	1,687	1,716
Balance – end of period	$ 30,784	$ 8,111
Retained earnings		
Balance – beginning of period	$ 213,560	$ 4,207
Net income	34,275	152,264
Options repurchased	—	(89)
Balance – end of period	$ 247,835	$ 156,382
Total shareholders' equity	$ 766,800	$ 648,677

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

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GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the nine months ended September 30, 2010 and 2009
(expressed in thousands of U.S. dollars)

	Nine months ended September 30, 2010		Nine months ended September 30, 2009	
Cash provided by (used in)				
Operating activities				
Net income	$	34,275	$	152,264
Adjustments to reconcile net income to net cash provided by (used in) operating activities				
Net change in unrealized gains and losses on investments and financial contracts		1,258		(164,936)
Net realized gains on investments and financial contracts		(52,153)		(8,073)
Foreign exchange (gain) loss on restricted cash and cash equivalents		(3,810)		2,164
Non-controlling interest in income of joint venture		1,687		1,716
Share-based compensation expense		3,068		2,549
Depreciation expense		168		60
Net change in				
Reinsurance balances receivable		(64,997)		(27,519)
Loss and loss adjustment expense recoverable		(2,248)		5,011
Deferred acquisition costs, net		(50,771)		(19,551)
Unearned premiums ceded		153		(452)
Other assets		1,639		(1,763)
Loss and loss adjustment expense reserves		23,820		50,186
Unearned premium reserves		114,592		45,432
Reinsurance balances payable		938		1,251
Funds withheld		7,771		(369)
Other liabilities		(1,937)		3,819
Performance compensation payable to related party		4,145		16,255
Net cash provided by operating activities	$	17,598	$	58,044
Investing activities				
Purchase of investments and financial contracts		(885,146)		(890,780)
Sales of investments and financial contracts		860,347		1,024,623
Change in due to prime brokers		22,822		—
Change in restricted cash and cash equivalents, net		(37,077)		(247,589)
Change in notes receivable, net		933		(14,383)
Non-controlling interest (withdrawal) contribution from/to joint venture		(1,500)		337
Fixed assets additions		—		(1,453)
Net cash used in investing activities	$	(39,621)	$	(129,245)
Financing activities				
Net proceeds from exercising of stock options		32		584
Options repurchased		—		(213)

Net cash provided by financing activities	$	32	$	371
Net decrease in cash and cash equivalents		(21,991)		(70,830)
Cash and cash equivalents at beginning of period		31,717		94,144
Cash and cash equivalents at end of period	$	9,726	$	23,314
Supplementary information				
Interest paid in cash	$	7,840	$	3,430
Interest received in cash		3,880		3,500
Income tax paid in cash		17		—

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

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GREENLIGHT CAPITAL RE, LTD.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

September 30, 2010

1. GENERAL

Greenlight Capital Re, Ltd. ("GLRE") was incorporated as an exempted company under the Companies Law of the Cayman Islands on July 13, 2004. GLRE's principal wholly-owned subsidiary, Greenlight Reinsurance, Ltd. ("Greenlight Reinsurance"), provides global specialty property and casualty reinsurance. Greenlight Reinsurance has an unrestricted Class "B" insurance license under Section 4(2) of the Cayman Islands Insurance Law. Greenlight Reinsurance commenced underwriting in April 2006. Effective May 30, 2007, GLRE completed an initial public offering of 11,787,500 Class A ordinary shares at $19.00 per share. Concurrently, 2,631,579 Class B ordinary shares of GLRE were sold at $19.00 per share in a private placement offering. During 2008, Verdant Holding Company, Ltd. ("Verdant"), a wholly owned subsidiary of GLRE, was incorporated in the state of Delaware. During September 2010, GLRE established a new Dublin based reinsurance entity, Greenlight Reinsurance Ireland, Ltd. ("GRIL"), a wholly owned subsidiary of GLRE. GRIL provides multi-line property and casualty reinsurance capacity to the European broker market and provides GLRE with a platform to serve clients located in Europe.

The Class A ordinary shares of GLRE are listed on Nasdaq Global Select Market under the symbol "GLRE."

As used herein, the "Company" refers collectively to GLRE and its subsidiaries.

These unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2009. In the opinion of management, these unaudited condensed consolidated financial statements reflect all the normal recurring adjustments considered necessary for a fair presentation of the Company's financial position and results of operations as of the dates and for the periods presented.

The results for the nine months ended September 30, 2010 are not necessarily indicative of the results expected for the full year.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of GLRE and the consolidated financial statements of all of its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management 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 consolidated financial statements and the reported amounts of income and expenses during the period. Actual results could differ from these estimates.

Restricted Cash and Cash Equivalents

The Company is required to maintain cash and cash equivalents in segregated accounts with prime brokers and swap counterparties. The amount of restricted cash and cash equivalents held by prime brokers is used to support the liability created from securities sold, not yet purchased. Cash and cash equivalents held for the benefit of swap counterparties are used to collateralize the current value of any amounts that may be due to the counterparty under the financial contracts.

Deferred Acquisition Costs

Policy acquisition costs, such as commission and brokerage costs, relate directly to and vary with the writing of reinsurance contracts. These costs are deferred subject to ultimate recoverability and amortized over the related contract term. The Company evaluates the recoverability of deferred acquisition costs by determining if the sum of future earned premiums and anticipated investment income is greater than the expected future claims and expenses. If a loss is probable on the unexpired portion of policies in force, a premium deficiency loss is recognized. At September 30, 2010, the deferred acquisition costs were fully recoverable and no premium deficiency loss was recorded.

Acquisition costs reported on the condensed consolidated statements of income include profit commissions which are expensed when incurred. For the nine months ended September 30, 2010, included in acquisition costs was profit commission expense of $1.1 million (2009: 5.7 million). Profit commissions are calculated and accrued based on the expected loss experience for contracts and recorded when the current loss estimate on a contract indicates that a profit commission is probable under the contract terms. At September 30, 2010, profit commission reserves of $28.4 million (December 31, 2009: $27.4 million) were included in the condensed consolidated balance sheet under reinsurance balances payable.

Loss and Loss Adjustment Expense Reserves and Recoverable

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses, including losses incurred but not reported. These estimated ultimate reserves are based on the Company's own actuarial estimates derived from reports received from ceding companies, industry data, and historical experience. These estimates are reviewed by the Company periodically on a contract by contract basis and adjusted as necessary. Since reserves are estimates, the final settlement of losses may vary from the reserves established and any adjustments to the estimates, which may be material, are recorded in the period they are determined.

Loss and loss adjustment expense recoverable include the amounts due from retrocessionaires for paid and unpaid loss and loss adjustment expenses on retrocession agreements. Ceded losses incurred but not reported are estimated based on the Company’s actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. The Company may not be able to ultimately recover the loss and loss adjustment expense recoverable amounts due to the retrocessionaires’ inability to pay. The Company regularly evaluates the financial condition of its retrocessionaires and records provisions for uncollectible reinsurance recoverable when recovery is no longer probable.

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Notes Receivable

Notes receivable include promissory notes receivable from third party entities. These notes are recorded at cost along with accrued interest, if any, which approximates the fair value. The Company regularly reviews all notes receivable individually for impairment and records provisions for uncollectible and non-performing notes. At September 30, 2010, all notes receivable were considered current and performing. For the nine months ended September 30, 2010, the notes earned interest at annual interest rates ranging from 6% to 10% and had remaining maturity terms ranging from approximately 4 years to 9 years. Included in the notes receivable balance was accrued interest of $1.3 million at September 30, 2010 (December 31, 2009: $0.7 million), of which $1.2 million (December 31, 2009: $0.6 million) related to interest accrued on a note receivable which contractually requires any principal or interest payments to be approved in advance by the Florida Office of Insurance Regulation. This note receivable matures in December 2018 and based on management's assessment, the accrued interest and principal are expected to be fully collectible and therefore no provision for uncollectible interest was deemed necessary at September 30, 2010. Interest income earned on notes receivable is included in the condensed consolidated statements of income in net investment income.

Deposit Assets and Liabilities

The Company accounts for reinsurance contracts in accordance with U.S. GAAP. In the event that a reinsurance contract does not transfer sufficient risk, or a contract provides retroactive reinsurance, deposit accounting is used. Any losses on such contracts are charged to earnings immediately. Any gains relating to such contracts are deferred and amortized over the estimated remaining settlement period. All such deferred gains are included in reinsurance balances payable in the condensed consolidated balance sheets. Amortized gains are recorded in the condensed consolidated statements of income as other income. At September 30, 2010, included in the condensed consolidated balance sheets under reinsurance balances receivable and reinsurance balances payable were $3.9 million and $1.0 million of deposit assets and deposit liabilities (December 31, 2009: $2.1 million and $0.8 million), respectively. For the three and nine months ended September 30, 2010, included in other income (expense), net were ($0.7) million and ($1.1) million, respectively, relating to losses on deposit accounted contracts. For the three and nine months ended September 30, 2010, there were no gains reported on deposit accounted contracts. For the three and nine months ended September 30, 2009, included in other income (expense), net were ($0.2) million and ($0.4) million, respectively, relating to losses on deposit accounted contracts, and $0.1 million and $0.3 million, respectively, relating to gains on deposit accounted contracts.

Financial Instruments

Investments in Securities and Securities Sold, Not Yet Purchased

The Company's investments in debt instruments and equity securities that are classified as "trading securities" are carried at fair value. The fair values of the listed equity and debt instruments are derived based on quoted prices (unadjusted) in active markets for identical assets (Level 1 inputs). The fair values of private debt instruments are derived based on inputs that are observable, either directly or indirectly, such as market maker or broker quotes reflecting recent transactions (Level 2 inputs), and are generally derived based on the average of multiple market maker or broker quotes which are considered to be binding. Where quotes are not available, private debt instruments are valued using cash flow models using assumptions and estimates that may be subjective and non-observable (Level 3 inputs).

The Company's "other investments" may include investments in private and unlisted equity securities, limited partnerships, futures, commodities, exchange traded options and over-the-counter options ("OTC"), which are all carried at fair value. The Company maximizes the use of observable direct or indirect inputs (Level 2 inputs) when deriving the fair values for "other investments". For limited partnerships and private and unlisted equity securities, where observable inputs are not available, the fair values are derived based on unobservable inputs (Level 3 inputs) such as management's assumptions developed from available information using the services of the investment advisor, including the most recent net asset values. Amounts invested in exchange traded and OTC call and put options are recorded as an asset or liability at inception. Subsequent to initial recognition, unexpired exchange traded option contracts are recorded at fair value based on quoted prices in active markets (Level 1 inputs). For OTC options or exchange traded options where a quoted price in an active market is not available, fair values are derived based upon observable inputs (Level 2 inputs) such as multiple market maker quotes.

For securities classified as "trading securities," and "other investments," any realized and unrealized gains or losses are determined on the basis of the specific identification method (by reference to cost and amortized cost, as appropriate) and included in net investment income in the condensed consolidated statements of income.

Dividend income and expense are recorded on the ex-dividend date. The ex-dividend date is the date by which the underlying security must have been traded to be eligible for the dividend declared. Interest income and interest expense are recorded on an accrual basis.

Derivative Financial Instruments

U.S GAAP requires that an entity recognize all derivatives in the balance sheet at fair value. It also requires that unrealized gains and losses resulting from changes in fair value be included in income or comprehensive income, depending on whether the instrument qualifies as a hedge transaction, and if so, the type of hedge transaction. The Company's derivative financial instrument assets generally are included in investments in securities or financial contracts receivable. Derivative financial instrument liabilities generally are included in financial contracts payable or investments in securities sold, not yet purchased. The Company's derivatives do not constitute hedges for financial reporting purposes.

Financial Contracts

The Company enters into financial contracts with counterparties as part of its investment strategy. Financial contracts, which include total return swaps, credit default swaps ("CDS"), and other derivative instruments, are recorded at their fair value with any unrealized gains and losses included in net investment income in the condensed consolidated statements of income. Financial contracts receivable represents derivative contracts whereby the Company is entitled to receive payments upon settlement of the contract. Financial contracts payable represents derivative contracts whereby the Company is obligated to make payments upon settlement of the contract.

Total return swap agreements, included on the condensed consolidated balance sheets as financial contracts receivable and financial contracts payable, are derivative financial instruments whereby the Company is either entitled to receive or obligated to pay the product of a notional amount multiplied by the movement in an underlying security, which the Company does not own, over a specified time frame. In addition, the Company may also be obligated to pay or receive other payments based on either interest rate, dividend payments and receipts, or foreign exchange movements during a specified period. The Company measures its rights or obligations to the counterparty based on the fair value movements of the underlying security together with any other payments due. These contracts are carried at fair value, based on observable inputs (Level 2 inputs) with the resultant unrealized gains and losses reflected in net investment income in the condensed consolidated statements of income. Additionally, any changes in the value of amounts received or paid on swap contracts are reported as a gain or loss in net investment income in the condensed consolidated statements of income.

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Financial contracts may also include exchange traded futures or options contracts that are based on the movement of a particular index or interest rate. Where such contracts are traded in an active market, the Company's obligations or rights on these contracts are recorded at fair value measured based on the observable quoted prices of the same or similar financial contract in an active market (Level 1) or on broker quotes which reflect market information based on actual transactions (Level 2).

The Company purchases and sells CDS for the purpose of either managing its exposure to certain investments or for other strategic investment purposes. A CDS is a derivative instrument that provides protection against an investment loss due to specified credit or default events of a reference entity. The seller of a CDS guarantees to the buyer a specified amount if the reference entity defaults on its obligations or fails to perform. The buyer of a CDS pays a premium over time to the seller in exchange for obtaining this protection. A CDS trading in an active market is valued at fair value based on broker or market maker quotes for identical instruments in an active market (Level 2) or based on the current credit spreads on identical contracts (Level 2).

Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share include the dilutive effect of additional potential common shares issuable when stock options are exercised and are determined using the treasury stock method. In the event of a net loss, any stock options outstanding are excluded from the calculation of diluted loss per share. U.S. GAAP requires that unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as "participating securities"), be included in the number of shares outstanding for both basic and diluted earnings per share calculations. The Company treats its unvested restricted stock as participating securities. In the event of a net loss, the participating securities are excluded from the calculation of both basic and diluted loss per share.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Weighted average shares outstanding	36,452,224	36,286,514	36,408,859	36,202,860
Effect of dilutive service provider share-based awards	177,559	148,729	178,483	125,767
Effect of dilutive employee and director share-based awards	589,123	393,483	587,216	299,222
	37,218,906	36,828,726	37,174,558	36,627,849
Anti-dilutive stock options outstanding	240,000	210,000	240,000	210,000

Taxation

Under current Cayman Islands law, no corporate entity, including the Company, is obligated to pay taxes in the Cayman Islands on either income or capital gains. The Company has an undertaking from the Governor-in-Cabinet of the Cayman Islands, pursuant to the provisions of the Tax Concessions Law, as amended, that, in the event that the Cayman Islands enacts any legislation that imposes tax on profits, income, gains or appreciations, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company or its operations, or to the Class A or Class B ordinary shares or related obligations, until February 1, 2025.

Verdant is incorporated in Delaware, and therefore is subject to taxes in accordance with the U.S. federal rates and regulations prescribed by the U.S. Internal Revenue Service. Verdant's taxable income is generally expected to be taxed at a rate of 35%.

GRIL is incorporated in Ireland and therefore is subject to the Irish corporation tax rate of 12.5% on its trading income, and 25% on its non-trading income, if any.

Any deferred tax asset is evaluated for recovery and a valuation allowance is recorded when it is more likely than not that the deferred tax asset will not be realized in the future. Neither Verdant nor GRIL has taken any tax position that is subject to significant uncertainty or that is reasonably likely to have a material impact to Verdant, GRIL, or the Company.

Recently Issued Accounting Standards

In October 2010 the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2010-26 ("ASU 2010-26"), Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. ASU 2010-26 modifies the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. ASU 2010-26 is effective for fiscal years beginning after December 15, 2011 and is to be applied prospectively upon adoption, although retrospective application is permitted. The Company is reviewing ASU 2010-26; however, the effects of implementing ASU 2010-26 are not expected to have a material impact on the Company's results of operations or financial position.

In June 2010 the FASB issued Accounting Standards Update No. 2010-20 ("ASU 2010-20"), Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires a reporting entity to provide a greater level of disaggregated information about credit quality of its financing receivables and its allowance for credit losses. A financing receivable is a contractual right to receive money on demand or on fixed or determinable dates that is recognized as an asset in the reporting entity's balance sheet and includes loans, long term trade accounts receivable, credit card receivables, notes receivable and lease receivables. For public companies, certain disclosures required by ASU 2010-20 are effective for interim and annual reporting periods ending on or after December 15, 2010, while other disclosure requirements contained in ASU 2010-20 are effective for interim and annual reporting periods beginning on or after December 15, 2010. The Company intends to begin providing the required disclosures, as required under ASU 2010-20, in its annual report on Form 10-K for the year ended December 31, 2010, and in its quarterly reports on Form 10-Q thereafter.

In January 2010 the FASB issued Accounting Standards Update No. 2010-06 ("ASU 2010-06"), Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 requires additional disclosures and clarifies some existing disclosure requirements about fair value measurement. ASU No. 2010-06 amends Codification Subtopic 820-10 to require a reporting entity to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. A reporting entity should present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). In addition, ASU No. 2010-06 clarifies the requirements of the existing disclosures. ASU No. 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. As a result of adoption of ASU 2010-06, the Company started providing the required disclosures in its quarterly reports on Form 10-Q for periods beginning after December 31, 2009. The additional disclosures required under ASU 2010-06 for fiscal years beginning after December 15, 2010, will be included by the Company beginning with its Form 10-Q for the period ending March 31, 2011.

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Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation (see Note 9). The reclassifications resulted in no changes to net income or retained earnings for any of the periods presented.