PLATINUM UNDERWRITERS HOLDINGS LTD
Form 10-Q
July 30, 2008

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

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: 001-31341

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. Yes X No ___

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 definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer	X		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)		Smaller Reporting Company

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

As of July 16, 2008, there were outstanding 48,688,706 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, 2008

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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, 2008	December 31, 2007
ASSETS		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost – $3,349,054 and $3,214,981, respectively)	$ 3,281,686	$ 3,191,923
Fixed maturity trading securities at fair value (amortized cost – $139,024 and $170,952, respectively)	134,888	169,818
Preferred stocks (cost – $12,246 and $12,246, respectively)	8,782	9,607
Short-term investments	127,951	13,876
Total investments	3,553,307	3,385,224
Cash and cash equivalents	825,108	1,076,279
Accrued investment income	34,429	34,696
Reinsurance premiums receivable	262,128	244,360
Reinsurance recoverable on ceded losses and loss adjustment expenses	15,385	27,979
Prepaid reinsurance premiums	12,265	9,369
Funds held by ceding companies	157,603	165,604
Deferred acquisition costs	62,237	70,508
Deferred tax assets	48,236	43,342
Other assets	18,106	21,389
Total assets	$ 4,988,804	$ 5,078,750
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 2,352,116	$ 2,361,038
Unearned premiums	263,672	298,498
Debt obligations	250,000	250,000
Ceded premiums payable	2,997	4,559
Commissions payable	110,346	100,204
Other liabilities	41,081	66,074
Total liabilities	3,020,212	3,080,373
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, 48,688,706 and 53,779,914 shares issued and outstanding, respectively	487	538
Additional paid-in capital	1,157,535	1,338,466

Accumulated other comprehensive loss	(67,336)	(24,339)
Retained earnings	877,849	683,655
Total shareholders' equity	1,968,592	1,998,377
Total liabilities and shareholders' equity	$ 4,988,804	$ 5,078,750

See accompanying Notes to the Condensed Consolidated Financial Statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income (Unaudited)
For the Three and Six Months Ended June 30, 2008 and 2007
($ in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Net premiums earned	$ 257,982	295,918	559,833	$ 580,766
Net investment income	46,932	54,684	95,994	106,383
Net realized losses on investments	(184)	(1,639)	(139)	(1,657)
Other expense	(6,227)	(2,206)	(4,206)	(2,986)
Total revenue	298,503	346,757	651,482	682,506
Expenses:				
Net losses and loss adjustment expenses	93,392	164,431	253,595	346,344
Net acquisition expenses	66,137	56,827	126,679	104,947
Operating expenses	25,100	26,108	46,790	49,314
Net foreign currency exchange (gains) losses	1,998	(1,416)	(2,871)	(1,458)
Interest expense	4,751	5,456	9,501	10,911
Total expenses	191,378	251,406	433,694	510,058
Income before income tax expense	107,125	95,351	217,788	172,448
Income tax expense	4,768	4,701	10,260	8,965
Net income	102,357	90,650	207,528	163,483
Preferred dividends	2,602	2,602	5,204	5,204
Net income attributable to common shareholders	$ 99,755	88,048	202,324	$ 158,279
Earnings per share:				
Basic earnings per share	$ 2.06	1.47	4.02	$ 2.64
Diluted earnings per share	$ 1.82	1.34	3.58	$ 2.42
Comprehensive income:				
Net income	$ 102,357	90,650	207,528	$ 163,483
Other comprehensive income (loss):				
Net change in unrealized gains and losses on available-for-sale securities, net of deferred taxes	(38,876)	(32,294)	(42,997)	(22,865)
Cumulative translation adjustments	–	(632)	–	(676)
Comprehensive income	$ 63,481	57,724	164,531	$ 139,942
Shareholder dividends:				
Preferred dividends declared	$ 2,602	2,602	5,204	$ 5,204
Preferred dividends declared per share	0.45	0.45	0.91	0.91
Common dividends declared	3,976	4,827	8,130	9,611
Common dividends declared per share	$ 0.08	0.08	0.16	$ 0.16

See accompanying Notes to the Condensed Consolidated Financial Statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
For the Six Months Ended June 30, 2008 and 2007
($ in thousands)

	2008	2007
Preferred shares:		
Balances at beginning and end of periods	$ 57	$ 57
Common shares:		
Balances at beginning of period	538	597
Exercise of common share options	11	7
Issuance of common shares	1	–
Purchase of common shares	(63)	(3)
Balances at end of period	487	601
Additional paid-in-capital:		
Balances at beginning of period	1,338,466	1,545,979
Exercise of common share options	24,444	16,804
Issuance of common shares	1,647	–
Share based compensation	7,711	3,233
Settlement of equity awards	(925)	–
Purchase of common shares	(213,877)	(12,572)
Tax benefit of share options	69	369
Balances at end of period	1,157,535	1,553,813
Accumulated other comprehensive loss:		
Balances at beginning of period	(24,339)	(44,289)
Net change in unrealized gains and losses on available-for-sale securities, net of deferred tax	(42,997)	(22,865)
Net change in cumulative translation adjustments, net of deferred tax	–	(676)
Balances at end of period	(67,336)	(67,830)
Retained earnings:		
Balances at beginning of period	683,655	355,717
Net income	207,528	163,483
Preferred share dividends	(5,204)	(5,204)
Common share dividends	(8,130)	(9,611)
Balances at end of period	877,849	504,385
Total shareholders' equity	$ 1,968,592	$ 1,991,026

See accompanying Notes to the Condensed Consolidated Financial Statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2008 and 2007
($ in thousands)

	2008	2007
Operating Activities:		
Net income	$ 207,528	$ 163,483
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	3,955	6,284
Net realized (gains) losses on investments	139	1,657
Net foreign currency exchange gains	(2,871)	(1,458)
Share based compensation	7,711	3,233
Deferred income tax expense	(2,736)	(12,050)
Trading securities activities	41,632	(4,709)
Changes in assets and liabilities:		
(Increase) decrease in accrued investment income	267	(3,032)
(Increase) decrease in reinsurance premiums receivable	(15,387)	42,096
Decrease in funds held by ceding companies	8,001	10,992
(Increase) decrease in deferred acquisition costs	8,271	(468)
Increase (decrease) in net unpaid losses and loss adjustment expenses	(4,742)	42,904
Increase (decrease) in net unearned premiums	(37,722)	6,586
Decrease in ceded premiums payable	(1,562)	(10,532)
Increase (decrease) in commissions payable	10,142	(22,030)
Net changes in other assets and liabilities	(14,773)	(10,743)
Other net	1,292	1,253
Net cash provided by operating activities	209,145	213,466
Investing Activities:		
Proceeds from sale of available-for-sale fixed maturity securities	7,691	15,887
Proceeds from maturity or paydown of available-for-sale fixed maturity securities	668,560	605,260
Acquisition of available-for-sale fixed maturity securities	(820,720)	(780,459)
Proceeds from sale of other invested asset	–	4,745
Net change in short-term investments	(113,019)	22,506
Net cash used in investing activities	(257,488)	(132,061)
Financing Activities:		
Dividends paid to preferred shareholders	(5,204)	(5,204)
Dividends paid to common shareholders	(8,130)	(9,611)
Proceeds from exercise of share options	24,446	16,809
Purchase of common shares	(213,940)	(12,576)
Net cash used in financing activities	(202,828)	(10,582)
Net increase (decrease) in cash and cash equivalents	(251,171)	70,823
Cash and cash equivalents at beginning of period	1,076,279	851,652
Cash and cash equivalents at end of period	$ 825,108	$ 922,475
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 11,213	$ 11,566

Interest paid	$ 9,375	$ 10,740

See accompanying Notes to the Condensed Consolidated Financial Statements.

Platinum Underwriters Holdings, Ltd. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended June 30, 2008 and 2007

1. Basis of Presentation

Platinum Underwriters Holdings, Ltd. ("Platinum Holdings") is a Bermuda holding company organized in 2002. 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"). The terms "we," "us," and "our" also refer to Platinum Holdings and its consolidated subsidiaries, unless the context otherwise indicates. Through December 31, 2006 we also underwrote business through Platinum Re (UK) Limited ("Platinum UK"), our other licensed reinsurance subsidiary. In 2007, Platinum UK ceased underwriting reinsurance business. 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.

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. 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 six months ended June 30, 2008 and 2007 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, 2007.

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.

New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits an entity to irrevocably elect fair value on a contract-by-contract basis as the initial and subsequent measurement attribute for many financial assets and liabilities and certain other items. Most provisions of SFAS 159 are elective. Entities electing the fair value measurement attributes of SFAS 159 are required to recognize changes in fair values in earnings and to expense upfront costs and fees associated with the items for which the fair values option is elected. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We have not applied the fair value measurement attributes of SFAS 159 to any financial assets or liabilities, and therefore our adoption of SFAS 159 as of January 1, 2008 did not have an effect on our financial condition or results of operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosure about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements in SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” about an entity’s derivative and hedging activities and how these activities affect an entity’s financial position, financial performance and cash flows, thereby improving the transparency of financial reporting. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. We are currently evaluating the impact that SFAS 161 may have, if any, on the presentation of our consolidated financial statements.

In May 2008 the FASB issued Statement of Financial Accounting Standards No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. This statement is effective 60 days following approval by the Security and Exchange Commission ("SEC") of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of ‘Present Fairly in Conformity With Generally Accepted Accounting Principles’." Our adoption of SFAS 162 will have no impact on our current selection of applicable accounting principles.

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, 2008 and 2007 were as follows ($ in thousands):

	2008	2007
Net change in fair value	$ (45,155)	$ (23,350)
Deferred taxes	2,158	485
Net change in unrealized investment gains and losses	$ (42,997)	$ (22,865)

Gross unrealized gains and losses on available-for-sale securities as of June 30, 2008 were $16,923,000 and $87,754,000, respectively. As of June 30, 2008 there were a total of 414 issues in an unrealized loss position in our investment portfolio, with the single largest unrealized loss being an asset-backed security with an amortized cost of $10,088,000 and an unrealized loss of $4,360,000. Corporate, mortgage-backed and asset-backed securities represent the largest categories within our available-for-sale portfolio and consequently accounted for the greatest amount of our overall unrealized loss as of June 30, 2008. Investment holdings within our corporate portfolio were diversified across approximately 30 industry sectors and within each sector across many individual issuers and issues. As of June 30, 2008 there were 148 corporate issues in an unrealized loss position, with the single largest unrealized loss being $1,651,000 on an amortized cost of $7,393,000. Investment holdings within the mortgage-backed and asset-backed portfolio were diversified across a number of sub-categories. As of June 30, 2008 there were 213 issues within the mortgage-backed and asset-backed portfolio in an unrealized loss position.

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 June 30, 2008, were as follows ($ in thousands):

	Fair Value	Unrealized Loss
Less than twelve months:		
U.S. Government	$ –	$ –
U.S. Government agencies	199,232	1,919
Corporate bonds	359,646	7,645
Mortgage-backed and asset-backed securities	672,954	19,996
Municipal bonds	105,676	1,449
Foreign governments and states	37,672	631
Preferred stocks	916	84
Total	$ 1,376,096	$ 31,724
Twelve months or more:		
U.S. Government	$ 2,576	$ 88
U.S. Government agencies	–	–
Corporate bonds	179,584	18,687
Mortgage-backed and asset-backed securities	343,969	33,241
Municipal bonds	8,089	466
Foreign governments and states	1,551	168
Preferred stocks	7,866	3,380
Total	$ 543,635	$ 56,030
Total unrealized losses:		
U.S. Government	$ 2,576	$ 88
U.S. Government agencies	199,232	1,919
Corporate bonds	539,230	26,332
Mortgage-backed and asset-backed securities	1,016,923	53,237
Municipal bonds	113,765	1,915
Foreign governments and states	39,223	799
Preferred stocks	8,782	3,464
Total	$ 1,919,731	$ 87,754

We routinely review our available-for-sale investments to determine whether unrealized losses represent temporary changes in fair value or were 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, the collateral structure and the credit support that may be applicable to mortgage-backed and asset-backed securities. We also consider our ability and intent to hold a security for a sufficient period of time for the value to recover the unrealized loss, which is based, in part, on current and anticipated future positive net 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 consolidated statement of operations.

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Fair Value Measurements

We adopted SFAS No. 157, “Fair Value Measurements” ("SFAS 157") as of January 1, 2008. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a framework for measuring fair value and expands disclosures regarding fair value measurements in accordance with U.S. GAAP. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to fair values derived from unobservable inputs (Level 3). The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety.

We consider prices for actively traded treasury securities and exchange traded preferred stocks to be based on quoted prices in active markets for identical assets (Level 1 as defined by SFAS 157). The fair values of our other fixed maturities, which generally include mortgage-backed and asset-backed securities, corporate bonds, municipal bonds, U.S. government-sponsored enterprises, foreign governments and states, are based on prices obtained from independent pricing vendors, index providers, or broker-dealers using observable inputs (Level 2 as defined by SFAS 157). The observable inputs used in standard market valuation pricing models may include but are not limited to: credit ratings, interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks and default rates. The fair values of our derivative instruments, which are included in other assets in the consolidated balance sheet, are determined by management using unobservable inputs through the application of our own assumptions and internal valuation pricing models (Level 3 as defined by SFAS 157).

The following table presents the fair value measurement levels for all assets and liabilities which the Company has recorded at fair value as of June 30, 2008 ($ in thousands):

		Fair Value Measurement at Reporting Date Using:
	Total	