

PLATINUM UNDERWRITERS HOLDINGS LTD

Form 10-Q

October 30, 2006

**Table of Contents**

**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 September 30, 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 October 13, 2006, there were outstanding 59,643,834 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 SEPTEMBER 30, 2006  
TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2006 (Unaudited) and December 31, 2005</u>	1
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2006 and 2005 (Unaudited)</u>	2
<u>Consolidated Statements of Changes in Shareholders' Equity for the Nine Months Ended September 30, 2006 and 2005 (Unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2006 and 2005 (Unaudited)</u>	4
<u>Notes to Condensed Consolidated Financial Statements for the Three and Nine Months Ended September 30, 2006 and 2005 (Unaudited)</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	53
<u>Item 4. Controls and Procedures</u>	54
<u>PART II OTHER INFORMATION</u>	
<u>Item 6. Exhibits</u>	56
<u>SIGNATURES</u>	57
<u>EX-31.1: CERTIFICATION</u>	
<u>EX-31.2: CERTIFICATION</u>	
<u>EX-32.1: CERTIFICATION</u>	
<u>EX-32.2: CERTIFICATION</u>	

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**Table of Contents****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) September 30, 2006	December 31, 2005
<b>ASSETS</b>		
Investments:		
Fixed maturity available-for-sale securities at fair value (amortized cost \$3,286,729 and \$2,936,152, respectively)	\$ 3,233,580	\$ 2,888,922
Fixed maturity trading securities at fair value (amortized cost \$122,311 and \$99,141, respectively)	120,572	98,781
Preferred stocks (cost \$8,735 and \$8,735, respectively)	8,322	8,186
Other invested asset	5,000	5,000
Short-term investments	42,502	8,793
Total investments	3,409,976	3,009,682
Cash and cash equivalents	773,323	820,746
Accrued investment income	30,356	29,230
Reinsurance premiums receivable	385,052	567,449
Reinsurance recoverable on ceded losses and loss adjustment expenses	59,014	68,210
Prepaid reinsurance premiums	20,625	7,899
Funds held by ceding companies	249,359	291,629
Deferred acquisition costs	90,195	130,800
Income tax recoverable	114	24,522
Deferred tax assets	34,542	31,934
Due from investment broker	2,642	157,930
Other assets	11,587	14,344
Total assets	\$ 5,066,785	\$ 5,154,375

**LIABILITIES AND SHAREHOLDERS EQUITY**

Liabilities		
Unpaid losses and loss adjustment expenses	\$ 2,358,801	\$ 2,323,990
Unearned premiums	399,524	502,018
Reinsurance deposit liabilities	4,003	6,048
Debt obligations	292,840	292,840
Ceded premiums payable	32,610	22,544
Commissions payable	143,672	186,654
Deferred tax liabilities	601	118
Due to investment broker		259,834
Other liabilities	61,206	20,080
Total liabilities	3,293,257	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, 59,638,834 and 59,126,675 shares issued and outstanding, respectively	596	590
Additional paid-in capital	1,542,228	1,527,316
Unearned share grant compensation		(2,467)
Accumulated other comprehensive loss	(46,497)	(40,718)
Retained earnings	277,144	55,471
 Total shareholders' equity	 1,773,528	 1,540,249
 Total liabilities and shareholders' equity	 \$ 5,066,785	 \$ 5,154,375

See accompanying notes to condensed consolidated financial statements.

- 1 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
 Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)  
 For the Three and Nine Months Ended September 30, 2006 and 2005  
 (\$ in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue:				
Net premiums earned	\$ 339,609	429,388	1,020,975	\$ 1,271,898
Net investment income	48,302	36,441	137,165	92,250
Net realized gains (losses) on investments	(57)	(879)	22	(1,062)
Other income (expense)	1,714	(433)	(1,927)	(201)
<b>Total revenue</b>	<b>389,568</b>	<b>464,517</b>	<b>1,156,235</b>	<b>1,362,885</b>
Expenses:				
Losses and loss adjustment expenses	191,428	564,618	585,666	1,043,168
Acquisition expenses	74,994	98,858	220,285	296,035
Operating expenses	25,348	8,080	71,728	51,568
Net foreign currency exchange losses (gains)	228	(88)	(461)	1,870
Interest expense	5,452	6,839	16,352	13,186
<b>Total expenses</b>	<b>297,450</b>	<b>678,307</b>	<b>893,570</b>	<b>1,405,827</b>
<b>Income (loss) before income tax expense (benefit)</b>	<b>92,118</b>	<b>(213,790)</b>	<b>262,665</b>	<b>(42,942)</b>
Income tax expense (benefit)	7,195	(37,766)	18,958	(7,991)
<b>Net income (loss)</b>	<b>84,923</b>	<b>(176,024)</b>	<b>243,707</b>	<b>(34,951)</b>
Preferred dividends	2,602		7,780	
<b>Net income (loss) attributable to common shareholders</b>	<b>\$ 82,321</b>	<b>(176,024)</b>	<b>235,927</b>	<b>\$ (34,951)</b>
Earnings (loss) per share:				
Basic earnings (loss) per share	\$ 1.38	(4.02)	3.98	\$ (0.80)
Diluted earnings (loss) per share	\$ 1.28	(4.02)	3.68	\$ (0.80)
Comprehensive income (loss):				
Net income (loss)	\$ 84,923	(176,024)	243,707	\$ (34,951)
Other comprehensive income (loss):				
Net change in unrealized gains and losses on available-for-sale securities, net of deferred taxes	53,893	(36,414)	(6,002)	(37,992)
Cumulative translation adjustments, net of deferred taxes	48	59	223	22

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Comprehensive income (loss)	\$ 138,864	(212,379)	237,928	\$ (72,921)
Shareholder dividends:				
Preferred dividends declared	\$ 2,602		7,216	\$
Preferred dividends declared per share	0.45		1.26	
Common dividends declared	4,767	3,490	14,254	10,401
Common dividends declared per share	\$ 0.08	0.08	0.24	\$ 0.24

See accompanying notes to condensed consolidated financial statements.

- 2 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
 Consolidated Statements of Changes in Shareholders Equity (Unaudited)  
 For the Nine Months Ended September 30, 2006 and 2005  
 (\$ in thousands)

	2006	2005
Preferred shares:		
Balances at beginning and end of periods	\$ 57	\$
Common shares:		
Balances at beginning of period	590	430
Exercise of share options	5	7
Issuance of restricted shares	1	1
Issuance of common shares		58
Balances at end of period	596	496
Additional paid-in-capital:		
Balances at beginning of period	1,527,316	911,851
Issuance of restricted shares		13,063
Exercise of common share options	12,224	2,749
Share based compensation	5,155	2,559
Issuance of common shares		161,807
Transfer of unearned common share grant compensation	(2,467)	
Balances at end of period	1,542,228	1,092,029
Unearned common share grant compensation:		
Balances at beginning of period	(2,467)	
Shares issued		(2,750)
Amortization		642
Transfer of unearned common share grant compensation	2,467	
Balances at end of period		(2,108)
Accumulated other comprehensive income (loss):		
Balances at beginning of period	(40,718)	12,252
Net change in unrealized gains and losses on available-for-sale securities, net of deferred tax	(6,002)	(37,992)
Net change in cumulative translation adjustments, net of deferred tax	223	22
Balances at end of period	(46,497)	(25,718)
Retained earnings:		
Balances at beginning of period	55,471	208,470



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Net income (loss)	243,707	(34,951)
Preferred share dividends	(7,780)	
Common share dividends	(14,254)	(10,401)
Balances at end of period	277,144	163,118
Total shareholders' equity	\$ 1,773,528	\$ 1,227,817

See accompanying notes to condensed consolidated financial statements.

- 3 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
 Consolidated Statements of Cash Flows (Unaudited)  
 For the Nine Months Ended September 30, 2006 and 2005  
 (\$ in thousands)

	2006	2005
<b>Operating Activities:</b>		
Net income (loss)	\$ 243,707	\$ (34,951)
Adjustments to reconcile net income (loss) to cash provided by operations:		
Depreciation and amortization	12,298	13,361
Net realized (gains) losses on investments	(22)	1,062
Net foreign currency exchange (gains) losses	(461)	1,870
Share based compensation	5,155	3,301
Deferred income tax expense	(2,446)	(22,539)
Trading securities activities	(15,019)	(14,195)
Changes in assets and liabilities:		
Increase in accrued investment income	(1,126)	(7,350)
Decrease in reinsurance premiums receivable	182,397	22,626
(Increase) decrease in funds held by ceding companies	42,270	(52,276)
(Increase) decrease in deferred acquisition costs	40,605	(3,120)
Increase in net unpaid losses and loss adjustment expenses	35,723	638,669
Increase (decrease) in net unearned premiums	(115,220)	48,600
Decrease in reinsurance deposit liabilities	(2,045)	(14,257)
Increase in ceded premiums payable	10,066	23,894
Decrease in commissions payable	(42,982)	(5,889)
Increase in funds withheld		(11,999)
Decrease in income tax recoverable	24,408	(8,781)
Net changes in other assets and liabilities	42,113	(16,607)
Other net	577	(2,399)
 Net cash provided by operating activities	 459,998	 559,020
<b>Investing Activities:</b>		
Proceeds from sale of available-for-sale fixed maturity securities	195,899	478,134
Proceeds from maturity or paydown of available-for-sale fixed maturity securities	184,609	97,070
Acquisition of available-for-sale fixed maturity securities	(847,276)	(1,363,918)
Net acquisitions of short-term investments	(31,412)	
 Net cash used in investing activities	 (498,180)	 (788,714)
<b>Financing Activities:</b>		
Dividends paid to preferred shareholders	(7,216)	
Dividends paid to common shareholders	(14,254)	(10,401)
Proceeds from issuance of debt		246,900
Proceeds from exercise of share options	12,229	13,070
Proceeds from issuance of common shares		161,865
 Net cash provided by (used in) financing activities	 (9,241)	 411,434

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Net increase (decrease) in cash and cash equivalents	(47,423)	181,740
Cash and cash equivalents at beginning of period	820,746	209,897
Cash and cash equivalents at end of period	\$ 773,323	\$ 391,637
Supplemental disclosures of cash flow information:		
Income taxes paid (recovered)	\$ (3,342)	\$ 32,507
Interest paid	\$ 10,740	\$ 7,219
See accompanying notes to condensed consolidated financial statements.		

- 4 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited)  
For the Three and Nine Months Ended September 30, 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 consolidated subsidiaries (collectively, the Company ), including Platinum Underwriters Bermuda, Ltd. ( Platinum Bermuda ), Platinum Underwriters Reinsurance, Inc. ( Platinum US ), Platinum Re (UK) Limited ( 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 Underwriters Holdings, Ltd. 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 nine months ended September 30, 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 our 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. The cumulative effect of the adoption of SFAS 123R was not material.

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 established by Accounting Principles Board Opinion No. 25 Accounting for Stock Issued to Employees ( APB 25 ) for our share-based awards granted to employees 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 loss and net loss per share for the three and nine months ended September 30, 2005 of applying the fair value method to all share option grants (\$ in

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

thousands, except per share data):

	As Reported	Pro Forma
Three Months Ended September 30, 2005:		
Share-based compensation expense	\$ 908	\$ 2,140
Net loss	(176,024)	(177,256)
Basic loss per share	(4.02)	(4.05)
Diluted loss per share	(4.02)	(4.05)
Nine Months Ended September 30, 2005:		
Share-based compensation expense	2,710	6,256
Net loss	(34,951)	(38,497)
Basic loss per share	(0.80)	(0.89)
Diluted loss per share	\$ (0.80)	\$ (0.89)

*Recently Issued 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 assets, such as mortgage-backed and asset-backed securities, be evaluated to identify whether they are freestanding derivatives or hybrid financial instruments containing an embedded derivative that requires bifurcation. Securitized financial assets with the potential for prepayment would have to be evaluated under the SFAS 155 guidance, possibly resulting in the bifurcation of an embedded derivative. The embedded derivative would be accounted for at fair value, with changes in fair value recognized in earnings. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring for the Company after December 31, 2006. In October 2006, the FASB proposed a narrow exception to SFAS 155 that would exempt most securitized financial instruments that are subject to prepayment from the bifurcation requirements of SFAS 155 and SFAS 133. FASB will expose this exemption for comment for a 30-day period. After the comment period and if ultimately approved by the FASB, the FASB will issue the exemption in the form of a Derivative Implementation Guide. The Company is currently evaluating the impact that the provisions of SFAS 155 and the potential exemption may have, if any, on its consolidated financial statements.

*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 nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

- 6 -

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

	2006	2005
Fixed maturities	\$ (5,782)	\$ (44,218)
Less deferred taxes	(220)	6,226
Net change in unrealized investment gains and losses	\$ (6,002)	\$ (37,992)

Gross unrealized gains and losses on available-for-sale securities as of September 30, 2006 are \$2,535,000 and \$56,097,000, 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 September 30, 2006 are as follows (\$ in thousands):

	Fair Value	Unrealized Loss
Less than twelve months:		
U.S. Government	\$ 90,078	\$ 963
Corporate bonds	343,979	4,055
Mortgage-backed and asset-backed securities	331,255	2,386
Municipal bonds	17,578	69
Foreign governments and states	1,957	19
Total	784,847	7,492
Twelve months or more:		
U.S. Government	41,031	818
Corporate bonds	986,265	23,958
Mortgage-backed and asset-backed securities	703,695	19,705
Municipal bonds	181,221	2,726
Foreign governments and states	38,778	985
Preferred stocks	8,322	413
Total	1,959,312	48,605
Total of securities with unrealized losses:		
U.S. Government	131,109	1,781
Corporate bonds	1,330,244	28,013
Mortgage-backed and asset-backed securities	1,034,950	22,091
Municipal bonds	198,799	2,795
Foreign governments and states	40,735	1,004
Preferred stocks	8,322	413

Total	\$ 2,744,159	\$ 56,097
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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

- 7 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

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, 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 statement of operations.

As of September 30, 2006 there are a total of 599 issues in an unrealized loss position in our investment portfolio, with the single largest unrealized loss being \$1,043,000. 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 September 30, 2006. Investment holdings within our corporate portfolio are diversified across approximately 30 sub-portfolios, ranging from aerospace to telecommunications, and within each sub-portfolio across many individual issuers and issues. As of September 30, 2006 there are 292 corporate issues in an unrealized loss position, with the single largest unrealized loss being \$592,000. Investment holdings within the mortgage-backed and asset-backed portfolio are diversified across a number of sub-categories. As of September 30, 2006 there are 229 issues within the mortgage-backed and asset-backed portfolio in an unrealized loss position, with the single largest unrealized loss being \$1,043,000.

Other invested asset represents an investment in Inter-Ocean Holdings Ltd., a non-public reinsurance company. In June 2005, as a result of the routine evaluation of investments, we wrote down the carrying value of the investment in Inter-Ocean Holdings Ltd. to its estimated net realizable value and recorded a realized loss of \$769,000. We have not ceded or assumed reinsurance business with Inter-Ocean Holdings Ltd.

Overall, our unrealized loss position as of September 30, 2006 was primarily the result of interest rate increases that impacted all investment categories. We do not consider any of our available-for-sale investments to be other-than-temporarily impaired as of September 30, 2006.

**3. Earnings (Loss) Per Share**

Following is a calculation of the basic and diluted earnings (loss) per common share for the three and nine months ended September 30, 2006 and 2005 (\$ in thousands, except per share data):

- 8 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

	Net Income (Loss)	Weighted Average Common Shares Outstanding	Earnings (Loss) Per Common Share
Three Months Ended September 30, 2006:			
Basic earnings per share:			
Net income attributable to common shareholders	\$ 82,321	59,537	\$ 1.38
Effect of dilutive securities:			
Common share options, restricted common shares and common share units		1,233	
Conversion of preferred shares		5,750	
Preferred share dividends	2,602		
Adjusted net income for diluted earnings per share	\$ 84,923	66,520	\$ 1.28
Three Months Ended September 30, 2005:			
Basic and diluted loss per share:			
Net loss attributable to common shareholders	\$ (176,024)	43,785	\$ (4.02)
Nine Months Ended September 30, 2006:			
Basic earnings per share:			
Net income attributable to common shareholders	\$ 235,927	59,287	\$ 3.98
Effect of dilutive securities:			
Common share options, restricted common shares and common share units		1,236	
Conversion of preferred shares		5,750	
Preferred share dividends	7,780		
Adjusted net income for diluted earnings per share	\$ 243,707	66,273	\$ 3.68
Nine Months Ended September 30, 2005:			
Basic and diluted loss per share:			
Net loss attributable to common shareholders	\$ (34,951)	43,459	\$ (0.80)

**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



**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

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. In exchange for contractual features that limit our downside risk, we provide the potential for significant profit commission to the ceding company. The classes of risks underwritten through finite risk contracts are generally consistent with the classes covered by traditional products. 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 and nine months ended September 30, 2006 and 2005 (\$ in thousands):

	Property and Marine	Casualty	Finite Risk	Total
Three months ended September 30, 2006:				
Net premiums written	\$ 83,018	202,302	12,680	\$ 298,000
Net premiums earned	97,686	214,427	27,496	339,609
Losses and LAE	17,181	149,698	24,549	191,428
Acquisition expenses	14,895	54,503	5,596	74,994
Other underwriting expenses	8,608	9,464	1,991	20,063
Segment underwriting income (loss)	\$ 57,002	762	(4,640)	53,124
Net investment income				48,302
Net realized losses on investments				(57)
Net foreign currency exchange losses				(228)
Other income				1,714
Corporate expenses not allocated to segments				(5,285)
Interest expense				(5,452)
Income before income tax expense				\$ 92,118

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

	Property and Marine	Casualty	Finite Risk	Total
Ratios:				
Loss and LAE	17.6%	69.8%	89.3%	56.4%
Acquisition expense	15.2%	25.4%	20.4%	22.1%
Other underwriting expense	8.8%	4.4%	7.2%	5.9%
Combined	41.6%	99.6%	116.9%	84.4%
Three months ended September 30, 2005:				
Net premiums written	\$ 133,350	216,659	60,177	\$ 410,186
Net premiums earned	145,853	205,050	78,485	429,388
Losses and LAE	373,761	129,218	61,639	564,618
Acquisition expenses	17,753	50,097	31,008	98,858
Other underwriting expenses	3,632	1,894	524	6,050
Segment underwriting income (loss)	\$ (249,293)	23,841	(14,686)	(240,138)
Net investment income				36,441
Net realized losses on investments				(879)
Net foreign currency exchange gains				88
Other expense				(433)
Corporate expenses not allocated to segments				(2,030)
Interest expense				(6,839)
Loss before income tax benefit				\$ (213,790)
Ratios:				
Loss and LAE	256.3%	63.0%	78.5%	131.5%
Acquisition expense	12.2%	24.4%	39.5%	23.0%
Other underwriting expense	2.5%	0.9%	0.7%	1.4%
Combined	271.0%	88.3%	118.7%	155.9%

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

	Property and Marine	Casualty	Finite Risk	Total
Nine Months Ended September 30, 2006:				
Net premiums written	\$ 333,906	583,950	(16,816)	\$ 901,040
Net premiums earned	342,322	573,168	105,485	1,020,975
Losses and LAE	104,876	394,087	86,703	585,666
Acquisition expenses	55,783	141,025	23,477	220,285
Other underwriting expenses	27,642	23,487	3,935	55,064
Segment underwriting income (loss)	\$ 154,021	14,569	(8,630)	159,960
Net investment income				137,165
Net realized gains on investments				22
Net foreign currency exchange gains				461
Other expense				(1,927)
Corporate expenses not allocated to segments				(16,664)
Interest expense				(16,352)
Income before income tax expense				\$ 262,665
Ratios:				
Loss and LAE	30.6%	68.8%	82.2%	57.4%
Acquisition expense	16.3%	24.6%	22.3%	21.6%
Other underwriting expense	8.1%	4.1%	3.7%	5.4%
Combined	55.0%	97.5%	108.2%	84.4%
Nine Months Ended September 30, 2005:				
Net premiums written	\$ 453,352	621,218	252,374	\$ 1,326,944
Net premiums earned	414,719	588,541	268,638	1,271,898
Losses and LAE	492,300	375,187	175,681	1,043,168
Acquisition expenses	69,437	143,262	83,336	296,035
Other underwriting expenses	19,595	18,179	3,428	41,202
Segment underwriting income (loss)	\$ (166,613)	51,913	6,193	(108,507)
Net investment income				92,250
Net realized losses on investments				(1,062)
Net foreign currency exchange losses				(1,870)
Other expense				(201)

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Corporate expenses not allocated to segments	(10,366)
Interest expense	(13,186)
Loss before income tax benefit	\$ (42,942)

- 12 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

	Property and Marine	Casualty	Finite Risk	Total
Ratios:				
Loss and LAE	118.7%	63.7%	65.4%	82.0%
Acquisition expense	16.7%	24.3%	31.0%	23.3%
Other underwriting expense	4.7%	3.1%	1.3%	3.2%
Combined	140.1%	91.1%	97.7%	108.5%

**5. Income Taxes**

We provide for income tax expense or benefit based upon income or loss reported in the consolidated financial statements and the provisions of currently enacted tax laws. Platinum Holdings and Platinum Bermuda are incorporated in Bermuda. Under current Bermuda law, they are not taxed on any Bermuda income or capital gains and they have received an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to Platinum Holdings or Platinum Bermuda or any of their respective operations, shares, debentures or other obligations until March 28, 2016. We also have subsidiaries in the United States, United Kingdom and Ireland that are subject to the tax laws thereof.

A reconciliation of expected income tax expense (benefit), computed by applying a 35% income tax rate to income (loss) before income taxes, to actual income tax expense (benefit) for the three and nine months ended September 30, 2006 and 2005 is as follows (\$ in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Expected income tax expense (benefit) at 35%	\$ 32,241	(74,827)	91,933	\$ (15,030)
Effect of foreign income subject to tax at rates other than 35%	(24,913)	38,528	(71,726)	270
Tax exempt investment income	(142)	(1,047)	(1,281)	(2,011)
U.S. withholding taxes related to transfer to foreign affiliate		(1,000)		8,150
Other, net	9	580	32	630
Income tax expense (benefit)	\$ 7,195	(37,766)	18,958	\$ (7,991)

For the nine months ended September 30, 2005, we incurred approximately \$8,150,000 of income taxes associated with the transfer from Platinum Finance to Platinum Holdings of \$183,350,000 of the proceeds from the \$250,000,000 Series A Notes issued in May 2005. This transaction is deemed to be a taxable distribution under U.S. tax law and subject to U.S. withholding tax. During the three months ended September 30, 2005, the estimated amount deemed to be a taxable distribution under U.S. tax law and subject to withholding tax was revised as a result of the net loss for the nine months ended September 30, 2005. Consequently, the estimate of withholding tax was reduced by \$1,000,000 in the

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

three months ended September 30, 2005.

**6. Condensed Consolidating Financial Information**

Platinum Finance is a U.S. based intermediate holding company and a wholly owned subsidiary of Platinum Regency. The outstanding Series B 7.5% Notes, due September 1, 2017, issued by Platinum Finance are fully and unconditionally guaranteed by Platinum Holdings. The outstanding Series B 6.371% Remarketed Senior Guaranteed Notes, due November 16, 2007, issued by Platinum Finance are also fully and unconditionally guaranteed by Platinum Holdings.

The payment of dividends from our regulated reinsurance subsidiaries is limited by applicable laws and statutory requirements of the jurisdictions in which the subsidiaries operate, including Bermuda, the United States and the United Kingdom. Based on the regulatory restrictions of the State of Maryland, the maximum amount available for payment of dividends or other distributions by Platinum US to Platinum Finance in 2006 without prior regulatory approval is approximately \$44,000,000. Platinum US declared and paid a dividend to Platinum Finance of \$20,000,000 in September 2006. The maximum amount available for payment of dividends or other distributions by all of the reinsurance subsidiaries of Platinum Holdings for the remainder of 2006, including Platinum US, without prior regulatory approval is estimated to be approximately \$175,000,000.

The tables below present condensed consolidating financial information of Platinum Holdings, Platinum Finance and the non-guarantor subsidiaries of Platinum Holdings as of September 30, 2006 and December 31, 2005 and for the three and nine months ended September 30, 2006 and 2005 (\$ in thousands):

<b>Condensed Consolidating Balance Sheet September 30, 2006</b>	Platinum Holdings	Platinum Finance	Non- guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Total investments	\$	11,695	3,398,281		\$ 3,409,976
Investment in subsidiaries	1,657,191	475,554	376,792	(2,509,537)	
Cash and cash equivalents	109,183	22,415	641,725		773,323
Reinsurance assets			804,245		804,245
Income tax recoverable		3,751	(3,637)		114
Other assets	12,216	3,840	63,071		79,127
<b>Total assets</b>	<b>\$ 1,778,590</b>	<b>517,255</b>	<b>5,280,477</b>	<b>(2,509,537)</b>	<b>\$ 5,066,785</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
Liabilities					
Reinsurance liabilities	\$		2,938,610		\$ 2,938,610
Debt obligations		292,840			292,840
Other liabilities	5,062	7,394	49,351		61,807
<b>Total liabilities</b>	<b>5,062</b>	<b>300,234</b>	<b>2,987,961</b>		<b>3,293,257</b>
Shareholders Equity					
Preferred shares		57			57
Common shares		596	6,250	(6,250)	596
Additional paid-in capital	1,542,228	192,036	2,051,134	(2,243,170)	1,542,228
Accumulated other comprehensive loss	(46,497)	(9,474)	(58,044)	67,518	(46,497)



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Retained earnings	277,144	34,459	293,176	(327,635)	277,144
Total shareholders equity	1,773,528	217,021	2,292,516	(2,509,537)	1,773,528
Total liabilities and shareholders equity	\$ 1,778,590	517,255	5,280,477	(2,509,537)	\$ 5,066,785

- 14 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

<b>Condensed Consolidating Balance Sheet December 31, 2005</b>	Platinum Holdings	Platinum Finance	Non- guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>					
Total investments	\$	12,448	2,997,234		\$ 3,009,682
Investment in subsidiaries	1,410,794	448,839	436,368	(2,296,001)	
Cash and cash equivalents	129,962	5,010	685,774		820,746
Reinsurance assets			1,065,987		1,065,987
Income tax recoverable		5,874	18,648		24,522
Other assets	2,963	4,086	226,389		233,438
<b>Total assets</b>	<b>\$ 1,543,719</b>	<b>476,257</b>	<b>5,430,400</b>	<b>(2,296,001)</b>	<b>\$ 5,154,375</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>					
Liabilities					
Reinsurance liabilities	\$		3,041,254		\$ 3,041,254
Debt obligations		292,840			292,840
Other liabilities	3,470	2,243	274,319		280,032
<b>Total liabilities</b>	<b>3,470</b>	<b>295,083</b>	<b>3,315,573</b>		<b>3,614,126</b>
Shareholders Equity					
Preferred shares		57			57
Common shares		590	6,250	(6,250)	590
Unearned share grant compensation		(2,467)			(2,467)
Additional paid-in capital	1,527,316	192,036	2,050,834	(2,242,870)	1,527,316
Accumulated other comprehensive loss	(40,718)	(10,199)	(52,840)	63,039	(40,718)
Retained earnings	55,471	(663)	110,583	(109,920)	55,471
<b>Total shareholders equity</b>	<b>1,540,249</b>	<b>181,174</b>	<b>2,114,827</b>	<b>(2,296,001)</b>	<b>1,540,249</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 1,543,719</b>	<b>476,257</b>	<b>5,430,400</b>	<b>(2,296,001)</b>	<b>\$ 5,154,375</b>

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

<b>Consolidating Statement of Operations For the Three Months Ended September 30, 2006</b>	Platinum Holdings	Platinum Finance	Non- guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:					
Net premiums earned	\$		339,609		\$ 339,609
Net investment income	1,568	171	46,563		48,302
Net realized gains on investments			(57)		(57)
Other income (expense), net	2,000		(286)		1,714
 Total revenue	 3,568	 171	 385,829		 389,568
Expenses:					
Losses and loss adjustment expenses			191,428		191,428
Acquisition expenses			74,994		74,994
Operating expenses	5,167	105	20,076		25,348
Net foreign currency exchange losses			228		228
Interest expense		5,452			5,452
 Total expenses	 5,167	 5,557	 286,726		 297,450
 Income (loss) before income tax expense (benefit)	 (1,599)	 (5,386)	 99,103		 92,118
Income tax expense (benefit)		(1,870)	9,065		7,195
 Net income (loss) before equity in earnings of subsidiaries	 (1,599)	 (3,516)	 90,038		 84,923
Equity in earnings of subsidiaries	86,522	12,443	14,097	(113,062)	
 Net income	 84,923	 8,927	 104,135	 (113,062)	 84,923
Preferred dividends	2,602				2,602
 Net income attributable to common shareholders	 \$ 82,321	 8,927	 104,135	 (113,062)	 \$ 82,321

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

<b>Consolidating Statement of Operations For the Three Months Ended September 30, 2005</b>	Platinum Holdings	Platinum Finance	Non- guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:					
Net premiums earned	\$		429,388		\$ 429,388
Net investment income	153	295	36,077	(84)	36,441
Net realized losses on investments		7	(886)		(879)
Other income (expense), net	3,500		(3,933)		(433)
 Total revenue	 3,653	 302	 460,646	 (84)	 464,517
Expenses:					
Losses and loss adjustment expenses			564,618		564,618
Acquisition expenses			98,858		98,858
Operating expenses	1,795	131	6,238	(84)	8,080
Net foreign currency exchange gains			(88)		(88)
Interest expense	13	6,826			6,839
 Total expenses	 1,808	 6,957	 669,626	 (84)	 678,307
 Income (loss) before income tax expense (benefit)	 1,845	 (6,655)	 (208,980)		 (213,790)
Income tax benefit		(2,329)	(35,437)		(37,766)
 Net income (loss) before equity in loss of subsidiaries	 1,845	 (4,326)	 (173,543)		 (176,024)
Equity in loss of subsidiaries	(177,869)	(37,728)	(74,343)	289,940	
 Net loss	 \$ (176,024)	 (42,054)	 (247,886)	 289,940	 \$ (176,024)

- 17 -

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

<b>Consolidating Statement of Operations For the Nine Months Ended September 30, 2006</b>	Platinum Holdings	Platinum Finance	Non- guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:					
Net premiums earned	\$		1,020,975		\$ 1,020,975
Net investment income	4,474	618	132,073		137,165
Net realized gains on investments			22		22
Other income (expense), net	3,100		(5,027)		(1,927)
<b>Total revenue</b>	<b>7,574</b>	<b>618</b>	<b>1,148,043</b>		<b>1,156,235</b>
Expenses:					
Losses and loss adjustment expenses			585,666		585,666
Acquisition expenses			220,285		220,285
Operating expenses	16,039	471	55,218		71,728
Net foreign currency exchange gains			(461)		(461)
Interest expense		16,352			16,352
<b>Total expenses</b>	<b>16,039</b>	<b>16,823</b>	<b>860,708</b>		<b>893,570</b>
Income (loss) before income tax expense (benefit)	(8,465)	(16,205)	287,335		262,665
Income tax expense (benefit)		(5,656)	24,614		18,958
Net income (loss) before equity in earnings of subsidiaries	(8,465)	(10,549)	262,721		243,707
Equity in earnings of subsidiaries	252,172	45,670	37,162	(335,004)	
Net income	243,707	35,121	299,883	(335,004)	243,707
Preferred dividends	7,780				7,780
Net income attributable to common shareholders	\$ 235,927	35,121	299,883	(335,004)	\$ 235,927

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

<b>Consolidating Statement of Operations For the Nine Months Ended September 30, 2005</b>	Platinum Holdings	Platinum Finance	Non- guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenue:					
Net premiums earned	\$		1,271,898		\$ 1,271,898
Net investment income	225	551	91,558	(84)	92,250
Net realized gains (losses) on investments		8	(1,070)		(1,062)
Other income, net	3,500		(3,701)		(201)
 Total revenue	 3,725	 559	 1,358,685	 (84)	 1,362,885
Expenses:					
Losses and loss adjustment expenses			1,043,168		1,043,168
Acquisition expenses			296,035		296,035
Operating expenses	9,668	439	41,545	(84)	51,568
Net foreign currency exchange losses	2		1,868		1,870
Interest expense	66	13,120			13,186
 Total expenses	 9,736	 13,559	 1,382,616	 (84)	 1,405,827
 Loss before income tax expense	 (6,011)	 (13,000)	 (23,931)		 (42,942)
Income tax benefit		(4,550)	(3,441)		(7,991)
 Net loss before equity in loss of subsidiaries	 (6,011)	 (8,450)	 (20,490)		 (34,951)
Equity in loss of subsidiaries	(28,940)	(1,128)	(32,898)	62,966	
 Net loss	 \$ (34,951)	 (9,578)	 (53,388)	 62,966	 \$ (34,951)

- 19 -

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**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

**Condensed Consolidating Statement of Cash Flows  
For the Nine Months Ended  
September 30, 2006**

	Platinum Holdings	Platinum Finance	Non- guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	\$ (11,538)	(3,009)	474,545		\$ 459,998
Investing Activities:					
Proceeds from sale of available-for-sale fixed maturities			195,899		195,899
Proceeds from maturity or paydown of available-for-sale fixed maturities		1,212	183,397		184,609
Acquisition of available-for-sale fixed maturities		(498)	(846,778)		(847,276)
Increase in short-term investments			(31,412)		(31,412)
Contributions to subsidiaries		(300)	300		
Dividends from subsidiaries		20,000		(20,000)	
Net cash provided by (used in) investing activities		20,414	(498,594)	(20,000)	(498,180)
Financing Activities:					
Dividends paid to preferred shareholders	(7,216)				(7,216)
Dividends paid to common shareholders	(14,254)		(20,000)	20,000	(14,254)
Proceeds from exercise of share options	12,229				12,229
Net cash used in financing activities	(9,241)		(20,000)	20,000	(9,241)
Net increase (decrease) in cash and cash equivalents	(20,779)	17,405	(44,049)		(47,423)
Cash and cash equivalents at beginning of period	129,962	5,010	685,774		820,746
Cash and cash equivalents at end of period	\$ 109,183	22,415	641,725		\$ 773,323

- 20 -

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

**Condensed Consolidating Statement of Cash Flows****For the Nine Months Ended****September 30, 2005**

	Platinum Holdings	Platinum Finance	Non- guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net cash provided by (used in) operating activities	\$ (6,885)	(4,872)	570,777		\$ 559,020
Investing Activities:					
Proceeds from sale of available-for-sale fixed maturities		2,983	475,151		478,134
Proceeds from sale of subsidiary shares			193,000	(193,000)	
Proceeds from maturity or payoff of available-for-sale fixed maturities		316	96,754		97,070
Acquisition of available-for-sale fixed maturities		(12,347)	(1,351,571)		(1,363,918)
Dividends from subsidiaries	202,000			(202,000)	
Contributions to subsidiaries	(185,000)	(25,000)		210,000	
Net cash provided by (used in) investing activities	17,000	(34,048)	(586,666)	(185,000)	(788,714)
Financing Activities:					
Dividends paid to shareholders	(10,401)		(202,000)	202,000	(10,401)
Proceeds from exercise of share options	13,070				13,070
Proceeds from issuance of debt		246,900			246,900
Purchase of common shares		(193,000)		193,000	
Proceeds from issuance of common shares	161,865				161,865
Capital contribution from parent			210,000	(210,000)	
Net cash provided by financing activities	164,534	53,900	8,000	185,000	411,434
Net increase (decrease) in cash and cash equivalents	174,649	14,980	(7,889)		181,740
Cash and cash equivalents at beginning of period	1,945	8,204	199,748		209,897
Cash and cash equivalents at end of period	\$ 176,594	23,184	191,859		\$ 391,637

- 21 -



**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

**7. Retrocessional Reinsurance**

In the normal course of business and in accordance with industry practice, we retrocede a portion of our exposure with other reinsurance companies to limit our maximum loss arising out of any one occurrence. The effects of retrocessional reinsurance on premiums, losses and loss adjustment expenses ( LAE ) as of and for the three and nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	Gross	Ceded	Net
For the Three Months Ended September 30, 2006:			
Premiums written	\$ 319,625	21,625	\$ 298,000
Premiums earned	369,782	30,173	339,609
Losses and LAE incurred	192,923	1,495	191,428
For the Three Months Ended September 30, 2005:			
Premiums written	425,146	14,960	410,186
Premiums earned	439,843	10,455	429,388
Losses and LAE incurred	622,466	57,848	564,618
For the Nine Months Ended September 30, 2006:			
Premiums written	984,797	83,757	901,040
Premiums earned	1,092,668	71,693	1,020,975
Losses and LAE incurred	599,853	14,187	585,666
For the Nine Months Ended September 30, 2005:			
Premiums written	1,366,647	39,703	1,326,944
Premiums earned	1,303,744	31,846	1,271,898
Losses and LAE incurred	\$ 1,109,735	66,567	\$ 1,043,168

Platinum US and Platinum UK entered into a retrocessional reinsurance agreement under which they cede, on a quota share basis, 30% of new and renewal property catastrophe business effective on or after January 1, 2006. Under this agreement, the retrocessionnaire is obligated to place premiums ceded, net of commissions, in trust for the benefit of Platinum US and Platinum UK as well as provide a letter of credit such that the combination of the two amounts will ultimately collateralize the limit of loss under this treaty. As of September 30, 2006, assets with a fair value of \$18,970,000 are held in trust and Platinum US holds letters of credit in the amount of \$95,760,000.

**Table of Contents**

Platinum Underwriters Holdings, Ltd. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited), continued  
For the Three and Nine Months Ended September 30, 2006 and 2005

**8. Hurricane Losses**

In the three months ended September 30, 2005, two significant named hurricanes, Katrina and Rita, caused severe damage in Louisiana, Mississippi, Texas and several other states in the Gulf Coast region of the United States. As a result of property and marine losses arising from these hurricanes, certain reinsurance contracts generated additional premiums and profit commissions for certain reinsurance contracts were reduced. The net adverse impact on our underwriting results for the three and nine months ended September 30, 2005 from Hurricanes Katrina and Rita is summarized as follows (\$ in thousands):

	2005
Gross losses and LAE	\$ 396,923
Retrocessional reinsurance	(56,083)
Net losses and LAE	340,840
Additional premiums earned	(19,554)
Net adverse impact on income before income taxes	\$ 321,286

In the three months ended December 31, 2005, the net adverse impact before income taxes from changes in estimates of Hurricanes Katrina and Rita was \$43,418,000. In October 2005, Hurricane Wilma caused severe damage primarily in the state of Florida and the net adverse impact before income taxes in the three months ended December 31, 2005 was estimated to be \$165,266,000. The net favorable (unfavorable) impact on income before income taxes from changes in estimates of Hurricanes Katrina, Rita and Wilma was \$7,356,000 and (\$9,074,000) for the three and nine months ended September 30, 2006, respectively.

- 23 -

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**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Business Overview**

Platinum Underwriters Holdings, Ltd. ( Platinum Holdings ) is a Bermuda holding company organized in 2002. Platinum Holdings and its subsidiaries (collectively, the Company ) operate through three licensed reinsurance subsidiaries: Platinum Underwriters Bermuda, Ltd. ( Platinum Bermuda ), Platinum Underwriters Reinsurance, Inc. ( Platinum US ) and Platinum Re (UK) Limited ( Platinum UK ). The terms we , us , and our also refer to Platinum Underwriters Holdings, Ltd. and its consolidated subsidiaries, unless the context otherwise indicates. 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 following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes thereto and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2005. Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ).

We write property and casualty reinsurance. Property reinsurance protects a ceding company against financial loss arising out of damage to property or loss of its use caused by an insured peril. Examples of property reinsurance are property catastrophe and property per-risk coverages. Property catastrophe reinsurance protects a ceding company against losses arising out of multiple claims for a single event while property per-risk reinsurance protects a ceding company against loss arising out of a single claim for a single event. Casualty reinsurance protects a ceding company against financial loss arising out of the obligation to others for loss or damage to persons or property. Examples of casualty reinsurance are reinsurance treaties that cover umbrella liability, general and product liability, professional liability, workers' compensation, casualty clash, automobile liability, surety and trade credit. Casualty reinsurance also includes accident and health reinsurance treaties, which are predominantly reinsurance of health insurance products.

The property and casualty reinsurance industry is highly competitive. We compete with reinsurers worldwide, many of which have greater financial, marketing and management resources. Our competitors can vary by type of business. Large multi-national and multi-line reinsurers represent some of our competitors in all lines and classes, while other specialty reinsurance companies in the United States compete in selective lines. Financial institutions have also created alternative capital market products that compete with reinsurance products, such as reinsurance securitization. Bermuda-based reinsurers tend to be the significant competitors on property catastrophe business. Lloyd's of London syndicates are significant competitors on marine business. For casualty and other international classes of business, the large U.S. and European reinsurers are significant competitors.

The reinsurance industry historically has been cyclical, characterized by periods of price competition due to excessive underwriting capacity as well as periods of favorable pricing due to shortages of underwriting capacity. Cyclical trends in the industry and the industry's profitability can also be significantly affected by volatile developments, including natural and other catastrophes, such as hurricanes, windstorms, earthquakes, floods, fires, explosions and terrorist attacks, the frequency and severity of which are inherently difficult to predict. Property and casualty reinsurance rates often rise in the aftermath of significant catastrophe losses. To the extent that actual claim liabilities are higher than anticipated, the industry's capacity to write new business diminishes. The industry is also affected by

**Table of Contents**

changes in the propensity of courts to expand insurance coverage and grant large liability awards, as well as fluctuations in interest rates, inflation and other changes in the economic environment that affect market prices of investments.

Both insurers and reinsurers experienced record losses in 2005 from three significant named hurricanes, Katrina, Rita and Wilma (the 2005 Hurricanes ). These record catastrophe losses placed a significant strain on the capital of a number of reinsurance companies. Commercial catastrophe models implemented more severe assumptions for frequency and severity of hurricane losses, rating agencies increased capital requirement measures and a number of our competitors were downgraded. Demand for catastrophe reinsurance increased while capacity declined, particularly for exposures to North American events. Following these events, some insurers and reinsurers raised capital through equity and debt offerings. Several new Bermuda based reinsurers were formed. Some compete in the open market and others dedicate their capacity to a single sponsoring reinsurer. Despite new capital and capacity, pricing for North American property catastrophe reinsurance increased throughout 2006.

**Results of Operations****Three Months Ended September 30, 2006 as Compared with the Three Months Ended September 30, 2005**

Net income (loss) for the three months ended September 30, 2006 and 2005 is as follows (\$ in thousands):

	2006	2005	Increase
Net income (loss)	\$84,923	(176,024)	\$260,947

The most significant factor in the comparison of net income in 2006 with the net loss in 2005 is the difference in underwriting income in 2006 as compared with 2005. Underwriting income, which consists of net premiums earned, less losses and loss adjustment expenses ( LAE ), acquisition expenses and operating expenses related to the reinsurance company subsidiaries, is significantly higher in 2006 as compared with 2005. Underwriting income of \$53,124,000 in 2006 is favorably impacted by the absence of major catastrophes. The underwriting loss of \$240,138,000 in 2005 is primarily the result of property losses arising out of Hurricanes Katrina and Rita in the southeastern United States.

Net favorable development, which includes the development of prior years unpaid losses and LAE and the related impact on premiums and commissions, also contributed to underwriting income. Net favorable development is \$19,980,000 in 2006 as compared with \$31,580,000 in 2005. Net income in 2006 as compared with the net loss in 2005 is also impacted by an increase in investment income of \$11,861,000 and by an increase in income tax expense of \$44,961,000.

The net adverse impact on our underwriting results for the three and nine months ended September 30, 2005 from Hurricanes Katrina and Rita is summarized as follows (\$ in thousands):

	2005
Gross losses and LAE	\$ 396,923
Retrocessional reinsurance	(56,083)
Net losses and LAE	340,840
Additional premiums earned	(19,554)
Net adverse impact on income before income taxes	\$ 321,286

**Table of Contents**

In the three months ended December 31, 2005, the net adverse impact before income taxes from changes in estimates of Hurricanes Katrina and Rita was \$43,418,000. In October 2005, Hurricane Wilma caused severe damage primarily in the state of Florida and the net adverse impact before income taxes in the three months ended December 31, 2005 was estimated to be \$165,266,000. The net favorable (unfavorable) impact on income before income taxes from changes in estimates of the 2005 Hurricanes was \$7,356,000 and (\$9,074,000) for the three and nine months ended September 30, 2006, respectively.

Gross, ceded and net premiums written and earned for the three months ended September 30, 2006 and 2005 is as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Gross premiums written	\$ 319,625	425,146	\$ (105,521)
Ceded premiums written	21,625	14,960	6,665
Net premiums written	298,000	410,186	(112,186)
Gross premiums earned	369,782	439,843	(70,061)
Ceded premiums earned	30,173	10,455	19,718
Net premiums earned	\$ 339,609	429,388	\$ (89,779)

The decrease in net premiums written in 2006 is attributable to the reduction in business written in the current period in all segments. The decrease is primarily attributable to two large capped quota share contracts written in 2005 in the Finite Risk segment that were not renewed, a reduction in the accident and health class of the Casualty segment and reductions in the North American property proportional and crop classes. These reductions are partially offset by increases in estimates of net written premiums of approximately \$38,427,000 in the North American excess casualty classes related to business written in prior periods. The decrease in net premiums written in 2006 as compared with 2005 is also due to the commencement of a quota share retrocession agreement effective January 1, 2006 (the Property Quota Share Agreement ) under which Platinum US and Platinum UK cede 30% of their new and renewal property catastrophe business effective on or after January 1, 2006 to a non-affiliated reinsurer. The Property Quota Share Agreement was entered into in order to reduce our overall net exposure to catastrophe losses and potentially earn profit commissions on the business ceded to this facility. The decrease in net premiums earned is due to the decrease in net premiums written and is affected by changes in the mix of business and the structure of the underlying reinsurance contracts.

Net investment income for the three months ended September 30, 2006 and 2005 is \$48,302,000 and \$36,441,000, respectively. Net investment income increased in 2006 due to increased invested assets and increased yields. The increase in invested assets is attributable to positive net cash flows from operations in the twelve months since September 30, 2005 and the net proceeds from the issuance of common and preferred shares, partially offset by the repurchase of debt obligations in December 2005. Net investment income includes interest earned on funds held of \$1,945,000 and \$2,741,000 in 2006 and 2005, respectively. Net realized losses on investments are \$57,000 and \$879,000 for the three months ended September 30, 2006 and 2005, respectively. Net realized gains and losses on investments primarily result from our efforts to manage credit quality, duration and sector allocation of the investment portfolio as well as to balance our foreign currency denominated invested assets with our foreign currency denominated liabilities.

Other income (expense) for the three months ended September 30, 2006 and 2005 is \$1,714,000 and (\$433,000), respectively. Other income (expense) is composed primarily of changes in fair value of fixed maturities classified as trading, net earnings or expense on several reinsurance contracts in

**Table of Contents**

the Finite Risk segment that are accounted for as deposits and interest expense related to funds withheld. Other income (expense) for the three months ended September 30, 2006 includes \$1,834,000 of net unrealized gains relating to fixed maturities classified as trading and (\$170,000) of net expense on reinsurance contracts accounted for as deposits. Other income (expense) for the three months ended September 30, 2005 includes (\$402,000) of net unrealized losses relating to fixed maturities classified as trading, (\$98,000) of net expense on reinsurance contracts accounted for as deposits and \$67,000 of interest income related to funds withheld.

Losses and LAE and the resulting loss ratios for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Decrease
Losses and LAE	\$ 191,428	564,618	\$ (373,190)
Loss and LAE ratios	56.4%	131.5%	(75.1) points

The decreases in losses and LAE and the resulting loss and LAE ratio in 2006 as compared with 2005 are primarily due to an absence of major catastrophe losses in 2006 as compared with losses of \$340,840,000 from Hurricanes Katrina and Rita, representing 79.4% of net premiums earned in 2005. The decrease in net premiums earned also contributed to the decrease in losses and LAE. Losses and LAE and the resulting loss and LAE ratios are also impacted by favorable loss development of \$21,652,000, representing 6.4% of net premiums earned in 2006 and \$42,066,000, representing 9.8% of net premiums earned in 2005. The loss and LAE ratios are also affected by changes in the mix of business.

Acquisition expenses and resulting acquisition expense ratios for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Decrease
Acquisition expenses	\$ 74,994	98,858	\$ (23,864)
Acquisition expense ratios	22.1%	23.0%	(0.9) points

The decrease in acquisition expenses in 2006 as compared with 2005 is primarily due to the decrease in net premiums earned as well as shifts in the mix of business. The decrease in the acquisition expense ratio in 2006 as compared with 2005 is partially due to the decrease in assumed quota share contracts with higher ceding commissions in the Property and Marine and Finite Risk segments. Also contributing to the decrease in the acquisition expense ratio in 2006 as compared with 2005 is the commencement of the Property Quota Share Agreement which has an override and profit commission. Acquisition expenses also include increases in commissions of \$1,023,000 related to favorable loss development from prior years representing 0.3% of net premiums earned in 2006. Commission increases related to favorable loss development from prior years are approximately \$4,423,000 in 2005, representing 1.0% of net premiums earned. The acquisition expense ratios are also affected by changes in the mix of business.

Operating expenses for the three months ended September 30, 2006 and 2005 are \$25,348,000 and \$8,080,000, respectively. Operating expenses include costs such as salaries, rent and like items related to reinsurance operations as well as costs associated with Platinum Holdings and its non-operating intermediate holding company subsidiaries. Operating expenses in 2006 increased as compared with 2005 primarily due to an increase in incentive-based compensation. In 2006, operating expenses include approximately \$6,400,000 of incentive-based compensation as compared with a reduction of accruals for

**Table of Contents**

incentive based compensation of approximately \$7,776,000 in 2005. The change in incentive-based compensation reflects the increase in net income.

Net foreign currency exchange (gains) losses for the three months ended September 30, 2006 and 2005 are \$228,000 and (\$88,000), respectively. We routinely transact business in various foreign currencies. Foreign currency exchange gains and losses result from the re-valuation into U.S. dollars of assets and liabilities denominated in foreign currencies. We periodically monitor our largest foreign currency exposures and purchase or sell foreign currency denominated invested assets to match these exposures. Net foreign currency exchange gains and losses arise as a result of fluctuations in the amounts of assets and liabilities denominated in foreign currencies as well as fluctuations in the currency exchange rates.

Interest expense for the three months ended September 30, 2006 and 2005 is \$5,452,000 and \$6,839,000, respectively. Interest expense in 2006 includes interest on the \$250,000,000 of Series B 7.5% Notes due September 1, 2017 (the Series B Notes ) as well as interest on the remaining balance of \$42,840,000 of the Series B 6.371% Remarketed Senior Guaranteed Notes due November 16, 2007 (the Remarketed Notes ). Interest expense in 2005 includes interest related to \$137,500,000 of 5.25% Senior Guaranteed Notes that were part of the Equity Security Units issued in November 2002 (the Senior Notes ) as well as interest on the Series B Notes. The Senior Notes were remarketed in August 2005 and then subsequently partially repurchased in December 2005. The decrease in 2006 as compared with 2005 is primarily due to the partial repurchase of \$94,660,000 of Remarketed Notes in December 2005.

Income tax expense (benefit) and the effective income tax rates for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Income tax expense (benefit)	\$7,195	(37,766)	\$ 44,961
Effective income tax rates	7.8%	17.7%	(9.9) points

The increase in income tax expense in 2006 as compared with the tax benefit in 2005 is primarily due to net income in 2006 as compared with a net loss in 2005. The decrease in the effective tax rate is primarily due to a higher percentage of income before income taxes being generated by Platinum Holdings and Platinum Bermuda in 2006, which are not subject to corporate income tax. In 2006, the combined net income derived from Platinum Holdings and Platinum Bermuda was approximately 75.7% of the total income before tax expense as compared with approximately 48.6% of loss before tax benefit in 2005.

**Nine Months Ended September 30, 2006 as Compared with the Nine Months Ended September 30, 2005**

Net income (loss) for the nine months ended September 30, 2006 and 2005 is as follows (\$ in thousands):

	2006	2005	Increase
Net income (loss)	\$243,707	(34,951)	\$278,658

The most significant factor in the comparison of net income in 2006 with the net loss in 2005 is the difference in underwriting income in 2006 as compared with 2005. Underwriting income of \$159,960,000 in 2006 is favorably impacted by the absence of major catastrophes. The underwriting loss of \$108,507,000 in 2005 primarily resulted from losses arising out of Hurricanes Katrina and Rita.

**Table of Contents**

Net favorable development also contributed to underwriting income. Net favorable development is \$32,078,000 in 2006 as compared with \$67,212,000 in 2005. The increase in net income in 2006 as compared with the net loss in 2005 is also attributable to an increase in investment income of \$44,915,000, partially offset by an increase in income tax expense of \$26,949,000 in 2006.

Gross, ceded and net premiums written and earned for the nine months ended September 30, 2006 and 2005 is as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Gross premiums written	\$ 984,797	1,366,647	\$(381,850)
Ceded premiums written	83,757	39,703	44,054
Net premiums written	901,040	1,326,944	(425,904)
Gross premiums earned	1,092,668	1,303,744	(211,076)
Ceded premiums earned	71,693	31,846	39,847
Net premiums earned	\$1,020,975	1,271,898	\$(250,923)

The decrease in net premiums written and earned in 2006 as compared with 2005 is primarily attributable to two large capped quota share contracts written in 2005 in the Finite Risk segment that were not renewed, a reduction in the accident and health class of the Casualty segment and reductions in the North American property proportional and crop classes. These reductions are partially offset by increases in estimates of net written premiums of approximately \$65,521,000 in the North American excess casualty classes related to business written in prior periods. We also commenced ceding 30% of premiums in certain property catastrophe classes under the Property Quota Share Agreement. The reduction in net premiums earned is also affected by changes in the mix of business and the structure of the underlying reinsurance contracts.

Net investment income for the nine months ended September 30, 2006 and 2005 is \$137,165,000 and \$92,250,000, respectively. Net investment income increased in 2006 as compared with 2005 due to increased invested assets and increased yields. The increase in invested assets is attributable to positive net cash flows from operations in the twelve months since September 30, 2005 and the net proceeds from the issuance of common and preferred shares, partially offset by the repurchase of debt obligations in December 2005. Net investment income includes interest earned on funds held of \$6,215,000 and \$8,235,000 in 2006 and 2005, respectively. Net realized gains (losses) on investments are \$22,000 and (\$1,062,000) for the nine months ended September 30, 2006 and 2005, respectively. Net realized losses on investments in 2005 include a provision of \$769,000 for the permanent impairment of an investment in Inter-Ocean Holdings Ltd., a non-public reinsurance company, included in other invested asset. Exclusive of this provision, net realized gains and losses on investments primarily result from our efforts to manage credit quality, duration and sector allocation of the investment portfolio as well as to balance our foreign currency denominated invested assets with our foreign currency denominated liabilities.

Other income (expense) for the nine months ended September 30, 2006 and 2005 is (\$1,927,000) and (\$201,000), respectively. Other income (expense) is composed primarily of changes in fair value of fixed maturities classified as trading and net earnings or expense on several reinsurance contracts in the Finite Risk segment that are accounted for as deposits. Other income (expense) for the nine months ended September 30, 2006 includes (\$1,404,000) of net unrealized losses relating to changes in fair value of fixed maturities classified as trading and (\$573,000) of net expense on reinsurance contracts accounted for as deposits. Other income (expense) for the nine months ended September 30, 2005 includes



**Table of Contents**

\$128,000 of net unrealized gains relating to changes in fair value of fixed maturities classified as trading, \$105,000 of earnings on reinsurance contracts accounted for as deposits and (\$434,000) of interest expense related to funds withheld.

Losses and LAE and the resulting loss ratios for the nine months ended September 30, 2006 and 2005 is as follows (\$ in thousands):

	2006	2005	Decrease
Losses and LAE	\$ 585,666	1,043,168	\$ (457,502)
Loss and LAE ratios	57.4%	82.0%	(24.6) points

The decreases in losses and LAE and the resulting loss and LAE ratio in 2006 as compared with 2005 are primarily due to an absence of major catastrophe losses in 2006 as compared with losses of \$340,840,000 from Hurricanes Katrina and Rita representing 26.8% of net premiums earned in 2005. The decrease in net premiums earned also contributed to the decrease in losses and LAE in 2006. Losses and LAE and the resulting loss and LAE ratios are also impacted by favorable loss development of \$33,583,000, representing 3.3% of net premiums earned in 2006 and \$75,184,000, representing 5.9% of net premiums earned in 2005. Net premiums earned and related losses and LAE have decreased in the finite casualty, crop, trade credit and accident and health classes, which have loss ratios higher than our overall book of business. Additionally, net premiums earned have increased in catastrophe exposed classes that, in the absence of catastrophes, have lower loss ratios than our overall book of business. The loss and LAE ratios are also affected by changes in the mix of business.

Acquisition expenses and resulting acquisition expense ratios for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Decrease
Acquisition expenses	\$ 220,285	296,035	\$ (75,750)
Acquisition expense ratios	21.6%	23.3%	(1.7) points

The decrease in acquisition expenses is primarily due to the decrease in net premiums earned in 2006 as compared with 2005. The decrease in the acquisition expense ratio in 2006 as compared with 2005 is partially due to the decrease in assumed quota share contracts with higher ceding commissions than the remaining business in the Property and Marine and Finite Risk segments. The decrease is also due to lower commissions on property contracts in force in 2006 that have adjustable commissions and prior year catastrophe loss experience. Also contributing to the decrease in the acquisition expense ratio in 2006 as compared with 2005 is a ceding commission and override on the Property Quota Share Agreement.

Operating expenses for the nine months ended September 30, 2006 and 2005 are \$71,728,000 and \$51,568,000, respectively. Operating expenses include costs such as salaries, rent and like items related to reinsurance operations as well as costs associated with Platinum Holdings and its non-operating intermediate holding company subsidiaries. The increase in operating expenses is primarily due to increased incentive-based compensation accruals and increased fees relating to the Services and Capacity Reservation Agreement dated November 1, 2002 with RenaissanceRe Holdings Ltd. (the RenRe Agreement) that provides for a periodic review of aggregate property catastrophe exposures by RenaissanceRe Holdings Ltd. In 2006, operating expenses include approximately \$11,024,000 of accruals for incentive-based compensation as compared with \$867,000 in 2005. The change in incentive-based compensation reflects the increase in net income. Fees relating to the RenRe Agreement increased by

**Table of Contents**

\$1,200,000 due to an increase in gross premiums written in the catastrophe classes. The increase in operating expenses in 2006 also includes an increase in share-based compensation, due in part to the adoption of the new share based compensation accounting standard, and increases in other general and administrative expenses.

Net foreign currency exchange (gains) losses for the nine months ended September 30, 2006 and 2005 are (\$461,000) and \$1,870,000, respectively. Net foreign currency exchange gains and losses arise as a result of fluctuations in the amounts of assets and liabilities denominated in foreign currencies as well as fluctuations in the currency exchange rates.

Interest expense for the nine months ended September 30, 2006 and 2005 is \$16,352,000 and \$13,186,000, respectively. The increase in 2006 as compared with 2005 is due to the increase in average outstanding debt during the comparable periods. Interest expense in 2006 includes interest on the Series B Notes and the remaining balance of \$42,840,000 of the Remarketed Notes. Interest expense in 2005 includes interest on the Series B Notes issued in May 2005 and interest on \$137,500,000 of 5.25% Senior Guaranteed Notes. The Senior Guaranteed Notes were remarketed in August 2005 and then subsequently partially repurchased in December 2005.

Income tax expense (benefit) and the effective income tax (benefit) rates for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Income tax expense (benefit)	\$ 18,958	(7,991)	\$ 26,949
Effective income tax (benefit) rates	7.2%	18.6%	(11.4 ) points

The increase in income tax expense in 2006 as compared with 2005 is primarily due to net income in 2006 as compared with a net loss in 2005. The decrease in the effective tax rate is due to several factors. A higher percentage of income before income taxes is generated by Platinum Holdings and Platinum Bermuda in 2006, which are not subject to corporate income tax, offset by \$8,150,000 of income tax that was incurred in 2005 as a result of the transfer of \$183,350,000 of the proceeds from the issuance of the Series B Notes from Platinum Finance to Platinum Holdings. This transfer is considered to be a taxable distribution under U.S. tax law and, accordingly, subject to U.S. withholding tax. In 2006, the combined net income derived from Platinum Holdings and Platinum Bermuda is approximately 77.4% of the total income before tax expense as compared with 2005 when a significant amount of loss before income tax benefit was incurred by our subsidiaries in the United States and the United Kingdom where a tax benefit was available.

**Segment Information**

We conduct our worldwide reinsurance business through three operating segments: Property and Marine, Casualty and Finite Risk. 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 three operating segments for the three and nine months ended September 30, 2006 and 2005 (\$ in thousands):

**Table of Contents**

	Property and Marine	Casualty	Finite Risk	Total
Three months ended September 30, 2006:				
Net premiums written	\$ 83,018	202,302	12,680	\$ 298,000
Net premiums earned	97,686	214,427	27,496	339,609
Losses and LAE	17,181	149,698	24,549	191,428
Acquisition expenses	14,895	54,503	5,596	74,994
Other underwriting expenses	8,608	9,464	1,991	20,063
Segment underwriting income (loss)	\$ 57,002	762	(4,640)	53,124
Net investment income				48,302
Net realized losses on investments				(57)
Net foreign currency exchange losses				(228)
Other income				1,714
Corporate expenses not allocated to segments				(5,285)
Interest expense				(5,452)
Income before income tax expense				\$ 92,118
Ratios:				
Loss and LAE	17.6%	69.8%	89.3%	56.4%
Acquisition expense	15.2%	25.4%	20.4%	22.1%
Other underwriting expense	8.8%	4.4%	7.2%	5.9%
Combined	41.6%	99.6%	116.9%	84.4%
Three months ended September 30, 2005:				
Net premiums written	\$ 133,350	216,659	60,177	\$ 410,186
Net premiums earned	145,853	205,050	78,485	429,388
Losses and LAE	373,761	129,218	61,639	564,618
Acquisition expenses	17,753	50,097	31,008	98,858
Other underwriting expenses	3,632	1,894	524	6,050
Segment underwriting income (loss)	\$ (249,293)	23,841	(14,686)	(240,138)
Net investment income				36,441
Net realized losses on investments				(879)
Net foreign currency exchange gains				88
Other expense				(433)
Corporate expenses not allocated to segments				(2,030)
Interest expense				(6,839)

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Loss before income tax benefit				\$ (213,790)
Ratios:				
Loss and LAE	256.3%	63.0%	78.5%	131.5%
Acquisition expense	12.2%	24.4%	39.5%	23.0%
Other underwriting expense	2.5%	0.9%	0.7%	1.4%
Combined	271.0%	88.3%	118.7%	155.9%

- 32 -

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**Table of Contents**

	Property and Marine	Casualty	Finite Risk	Total
Nine Months Ended September 30, 2006:				
Net premiums written	\$ 333,906	583,950	(16,816)	\$ 901,040
Net premiums earned	342,322	573,168	105,485	1,020,975
Losses and LAE	104,876	394,087	86,703	585,666
Acquisition expenses	55,783	141,025	23,477	220,285
Other underwriting expenses	27,642	23,487	3,935	55,064
Segment underwriting income (loss)	\$ 154,021	14,569	(8,630)	159,960
Net investment income				137,165
Net realized gains on investments				22
Net foreign currency exchange gains				461
Other expense				(1,927)
Corporate expenses not allocated to segments				(16,664)
Interest expense				(16,352)
Income before income tax expense				\$ 262,665
Ratios:				
Loss and LAE	30.6%	68.8%	82.2%	57.4%
Acquisition expense	16.3%	24.6%	22.3%	21.6%
Other underwriting expense	8.1%	4.1%	3.7%	5.4%
Combined	55.0%	97.5%	108.2%	84.4%
Nine Months Ended September 30, 2005:				
Net premiums written	\$ 453,352	621,218	252,374	\$ 1,326,944
Net premiums earned	414,719	588,541	268,638	1,271,898
Losses and LAE	492,300	375,187	175,681	1,043,168
Acquisition expenses	69,437	143,262	83,336	296,035
Other underwriting expenses	19,595	18,179	3,428	41,202
Segment underwriting income (loss)	\$ (166,613)	51,913	6,193	(108,507)
Net investment income				92,250
Net realized losses on investments				(1,062)
Net foreign currency exchange losses				(1,870)
Other expense				(201)
Corporate expenses not allocated to segments				(10,366)
Interest expense				(13,186)

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Loss before income tax benefit \$ (42,942)

Ratios:

Loss and LAE	118.7%	63.7%	65.4%	82.0%
Acquisition expense	16.7%	24.3%	31.0%	23.3%
Other underwriting expense	4.7%	3.1%	1.3%	3.2%
Combined	140.1%	91.1%	97.7%	108.5%

- 33 -

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**Table of Contents*****Property and Marine***

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. This operating segment represents 27.8% and 32.5% of our net premiums written for the three months ended September 30, 2006 and 2005, respectively, and 37.1% and 34.2% of our net premiums written for the nine months ended September 30, 2006 and 2005, respectively.

**Three Months Ended September 30, 2006 as Compared with the Three Months Ended September 30, 2005**

Gross, ceded and net premiums written and earned for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Gross premiums written	\$ 100,382	145,673	\$ (45,291)
Ceded premiums written	17,364	12,323	5,041
Net premiums written	83,018	133,350	(50,332)
Gross premiums earned	123,597	153,248	(29,651)
Ceded premiums earned	25,911	7,395	18,516
Net premiums earned	\$ 97,686	145,853	\$ (48,167)

Net premiums written decreased in the crop, North American property proportional, property risk excess and aviation classes of business in 2006. The reduction in the crop class is due to the expiration of a significant contract. The reduction in North American property proportional and property risk excess is due to our decision to favor North American catastrophe excess business over North American property proportional and property risk excess catastrophe exposed business. Net premiums written and net premiums earned in 2005 include additional premiums of \$25,555,000 and \$17,599,000, respectively, relating to Hurricanes Katrina and Rita. Excluding the additional premiums related to Hurricanes Katrina and Rita, net premiums written in the North American catastrophe excess class increased in 2006. The reduction in the aviation class is due to the expiration of one proportional contract. Net premiums written and earned in 2006 as compared with 2005 also decreased as a result of the commencement of the Property Quota Share Agreement.

Losses and LAE and the resulting loss ratios for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Decrease
Losses and LAE	\$ 17,181	373,761	\$ (356,580)
Loss and LAE ratios	17.6%	256.3%	(238.7) points

The decreases in losses and LAE and the resulting loss and LAE ratio in 2006 as compared with 2005 are primarily due to an absence of major catastrophe losses in 2006 as compared with losses of \$316,840,000 from Hurricanes Katrina and Rita representing 217.2% of net premiums earned in 2005. The decrease in losses and LAE in 2006 as compared with 2005 is also due to the decrease in net premiums earned and more net favorable loss development in 2006 than in 2005. Favorable loss development is \$26,179,000, representing 26.8% of net premiums earned in 2006, and \$18,441,000,

**Table of Contents**

representing 12.6% of net premiums earned in 2005. In addition, the loss and LAE ratio is favorably impacted by a reduction in the crop class that has a higher expected loss ratio than the remainder of the segment. The loss and LAE ratios are also affected by other changes in the mix of business.

Acquisition expenses and resulting acquisition expense ratios for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Acquisition expenses	\$ 14,895	17,753	\$(2,858)
Acquisition expense ratios	15.2%	12.2%	3.0 points

The decrease in acquisition expenses in 2006 as compared with 2005 is primarily due to the decrease in net premiums earned. The increase in the acquisition expense ratio is the result of several factors. Net premiums earned have declined in the crop class where the acquisition ratio is lower than the remainder of the segment. Also, additional net premiums earned of \$17,599,000 in 2005 resulting from Hurricanes Katrina and Rita have an acquisition ratio lower than the total Property and Marine segment. Acquisition expenses include increases in adjustable commissions of \$1,436,000 in 2006, representing 1.5% of net premiums earned related to favorable loss development from prior years. Reductions in adjustable commissions in 2005 related to prior years are approximately \$2,513,000, representing 1.7% of net premiums earned. The acquisition expense ratios are also affected by changes in the mix of business.

Other underwriting expenses for the three months ended September 30, 2006 and 2005 are \$8,608,000 and \$3,632,000, respectively. Other underwriting expenses include costs such as salaries, rent and like items related to property and marine underwriting operations. The increase in other underwriting expenses in 2006 as compared with 2005 is primarily due to an increase in incentive-based compensation. The increase in incentive-based compensation in 2006 as compared with 2005 is due to increased net income in 2006, while in 2005 accruals were reduced as a result of net losses. Other underwriting expenses for the three months ended September 30, 2006 and 2005 include fees of \$1,453,000 and \$1,531,000, respectively, relating to the RenRe Agreement.

**Nine Months Ended September 30, 2006 as Compared with the Nine Months Ended September 30, 2005**

Gross, ceded and net premiums written and earned for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Gross premiums written	\$ 409,561	472,493	\$(62,932)
Ceded premiums written	75,655	19,141	56,514
Net premiums written	333,906	453,352	(119,446)
Gross premiums earned	404,560	427,273	(22,713)
Ceded premiums earned	62,238	12,554	49,684
Net premiums earned	\$ 342,322	414,719	\$(72,397)

The decreases in net premiums written and earned in 2006 as compared with 2005 are across most classes of this segment, the most significant classes being the crop, North American property proportional and marine and aviation classes of business. The decrease in crop business is due to the expiration of a significant contract. The decrease in North American property proportional and property risk excess is due to our decision to favor North American catastrophe excess business over North



**Table of Contents**

American property proportional and risk excess catastrophe exposed business. Net premiums written and net premiums earned in 2005 include additional premiums of \$25,555,000 and \$17,599,000, respectively, relating to Hurricanes Katrina and Rita. Excluding the additional premiums related to Hurricanes Katrina and Rita, net premiums written in the North American catastrophe class increased in 2006. Net written premiums written and earned are also reduced by the premiums ceded under Property Quota Share Agreement. Net premiums written and earned in 2005 include \$2,744,000 of net additional premiums relating to prior year events.

Losses and LAE and the resulting loss ratios for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Decrease
Losses and LAE	\$104,876	492,300	\$(387,424)
Loss and LAE ratios	30.6%	118.7%	(88.1) points

The decreases in losses and LAE and the resulting loss and LAE ratio in 2006 as compared with 2005 are primarily due to an absence of major catastrophe losses in 2006 as compared with losses of \$316,840,000 from Hurricanes Katrina and Rita, representing 76.4% of net premiums earned in 2005. The decreases in 2006 as compared with 2005 are also due to the decrease in net premiums earned and the difference in favorable loss development. Losses and LAE and the resulting loss and LAE ratios in 2006 and 2005 are impacted by favorable loss development of \$43,571,000, representing 12.7% of net premiums earned in 2006 and \$27,527,000 representing 6.6% of net premiums earned in 2005. In addition, the loss and LAE ratio is impacted by an increase in catastrophe business in 2006 that, in the absence of catastrophe events, has a lower loss ratio than the remainder of the segment and a decrease in crop business in 2006 that has a higher loss ratio than the remainder of the segment. The loss and LAE ratios are also affected by changes in the mix of business.

Acquisition expenses and resulting acquisition expense ratios for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Decrease
Acquisition expenses	\$55,783	69,437	\$(13,654)
Acquisition expense ratios	16.3%	16.7%	(0.4) points

The decrease in acquisition expenses in 2006 as compared with 2005 is primarily due to the decrease in net premiums earned. The decrease in the acquisition expense ratio is due in part to the commencement of the Property Quota Share Agreement which has an override and profit commission. Net premiums earned in 2006 have a greater proportion of catastrophe excess business that has lower acquisition expenses and a smaller proportion of pro rata business which has higher acquisition expenses. Acquisition expenses include increases in commissions of \$2,460,000 in 2006, representing 0.7% of net premiums earned related to favorable loss development from prior years as compared with insignificant commission adjustments in 2005. The acquisition expense ratios are also impacted by changes in the mix of business.

Other underwriting expenses for the nine months ended September 30, 2006 and 2005 are \$27,642,000 and \$19,595,000, respectively. The increase in other underwriting expenses in 2006 as compared with 2005 is primarily due to increased incentive-based compensation and increased fees relating to the RenRe Agreement. The increase in incentive-based compensation in 2006 as compared with 2005 is due to increased net income in 2006, while in 2005 accruals were significantly less as a

**Table of Contents**

result of net losses. Other underwriting expenses for the nine months ended September 30, 2006 and 2005 include fees of \$6,292,000 and \$5,092,000, respectively, relating to the RenRe Agreement. The increase in the fee in 2006 as compared with 2005 is due to an increase in gross premiums written in the catastrophe classes of business subject to the fee.

**Casualty**

The Casualty operating segment principally includes 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. This operating segment represents 67.9% and 52.8% of our net premiums written for the three months ended September 30, 2006 and 2005, respectively, and 64.8% and 46.8% of our net premiums written for the nine months ended September 30, 2006 and 2005, respectively.

**Three Months Ended September 30, 2006 as Compared with the Three Months Ended September 30, 2005**

Gross, ceded and net premiums written and earned for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Gross premiums written	\$ 202,395	216,643	\$ (14,248)
Ceded premiums written	93	(16)	109
Net premiums written	202,302	216,659	(14,357)
Gross premiums earned	214,521	205,127	9,394
Ceded premiums earned	94	77	17
Net premiums earned	\$ 214,427	205,050	\$ 9,377

The decrease in net premiums written in 2006 as compared with 2005 is due to reductions across most of the casualty classes, most significantly in the accident and health class. The decrease in net premiums written is partially offset by increases of \$38,427,000 in premium estimates in the North American excess casualty classes related to business written in prior periods. The increase in net premiums earned is due to the increase in estimates of prior years North American excess casualty premiums, a significant portion of which is earned. Net earned premiums are also affected by changes in the mix of business and the structure of the underlying reinsurance contracts.

Losses and LAE and the resulting loss ratios for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase
Losses and LAE	\$ 149,698	129,218	\$ 20,480
Loss and LAE ratios	69.8%	63.0%	6.8 points

The increase in loss and LAE in 2006 as compared with 2005 is due to less net favorable loss development in 2006 as compared with 2005 as well as an increase in the loss and LAE ratio. The increase in the loss and LAE ratio in 2006 as compared with 2005 is due to higher initial expected loss ratios in certain significant classes reflecting a decline in price adequacy. Losses and LAE include

**Table of Contents**

approximately \$582,000 of net unfavorable loss development, representing 0.3% of net premiums earned in 2006 and approximately \$5,546,000 of net favorable loss development, representing 2.7% of net premiums earned in 2005. The net favorable loss development in 2005 results primarily from casualty classes with short loss development periods. The loss ratio is also affected by changes in the mix of business within the segment.

Acquisition expenses and resulting acquisition expense ratios for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase
Acquisition expenses	\$54,503	50,097	\$4,406
Acquisition expense ratios	25.4%	24.4%	1.0 points

The increase in acquisition expenses is primarily due to the increase in net premiums earned in 2006 as compared with 2005. The acquisition expense ratios are impacted by changes in the mix of business.

Other underwriting expenses for the three months ended September 30, 2006 and 2005 are \$9,464,000 and \$1,894,000, respectively, and represent costs such as salaries, rent and like items. The increase in other underwriting expenses in 2006 as compared with 2005 is primarily due to an increase in incentive-based compensation. The increase in incentive-based compensation in 2006 as compared with 2005 is due to increased net income in 2006, while in 2005 accruals were reduced as a result of net losses.

**Nine Months Ended September 30, 2006 as Compared with the Nine Months Ended September 30, 2005**

Gross, ceded and net premiums written and earned for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Decrease
Gross premiums written	\$ 584,026	621,302	\$ (37,276)
Ceded premiums written	76	84	(8)
Net premiums written	583,950	621,218	(37,268)
Gross premiums earned	573,244	589,078	(15,834)
Ceded premiums earned	76	537	(461)
Net premiums earned	\$ 573,168	588,541	\$ (15,373)

The decrease in net premiums written in 2006 is primarily due to reductions of business written across most casualty classes in the 2006 underwriting year, most significantly in the accident and health and trade credit classes. The decrease in net premiums written in the 2006 underwriting year is partially offset by increases in estimates of net written premiums of \$65,521,000 in the North American excess casualty classes related to business written in prior underwriting years. The decrease in net premiums earned in 2006 is the result of the decrease in net premiums written in the 2006 underwriting year, partially offset by increases in premium estimates from prior underwriting years. Net premiums written and earned are also affected by changes in the mix of business and the structure of the underlying reinsurance contracts.

**Table of Contents**

Losses and LAE and the resulting loss ratios for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase
Losses and LAE	\$394,087	375,187	\$18,900
Loss and LAE ratios	68.8%	63.7%	5.1 points

The increase in losses and LAE in 2006 as compared with 2005 is primarily due to an increase in the loss and LAE ratio. The increase in the loss and LAE ratio in 2006 as compared with 2005 is due to less net favorable loss development in 2006 than in 2005 and higher initial expected loss ratios in certain significant classes reflecting a decline in price adequacy. Losses and LAE include net favorable loss development of approximately \$312,000, representing 0.1% of net premiums earned in 2006, and approximately \$17,355,000 of net favorable loss development, representing 2.9% of net premiums earned in 2005. The net favorable loss development is primarily in casualty classes with short loss development periods. The loss ratio is also affected by the changes in the mix of business within the segment.

Acquisition expenses and resulting acquisition expense ratios for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Acquisition expenses	\$141,025	143,262	\$(2,237)
Acquisition expense ratios	24.6%	24.3%	0.3 points

The decrease in acquisition expenses is primarily due to the decrease in net premiums earned in 2006 as compared with 2005. The resulting acquisition expense ratios are comparable.

Other underwriting expenses for the nine months ended September 30, 2006 and 2005 are \$23,487,000 and \$18,179,000, respectively. Other underwriting expenses include costs such as salaries, rent and like items related to casualty underwriting operations. The increase in other underwriting expenses in 2006 as compared with 2005 is primarily due to increased incentive-based compensation. The increase in incentive-based compensation in 2006 as compared with 2005 is due to increased net income in 2006, while in 2005 accruals were significantly less as a result of net losses.

**Finite Risk**

The Finite Risk operating segment includes principally structured reinsurance contracts with ceding companies whose needs may not be met efficiently through traditional reinsurance products. In exchange for contractual features that limit our downside risk, reinsurance contracts we classify as finite risk provide the potential for significant profit commission to the ceding company. The classes of risks underwritten through finite risk contracts are generally consistent with the classes covered by traditional products. 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 our finite risk contracts are quota share, multi-year excess-of-loss and whole account aggregate stop loss. Due to the often significant inverse relationship between losses and commissions for this segment, we believe it is important to evaluate the overall combined ratio, rather than its component parts of loss and loss adjustment expense and acquisition expense ratios. The ongoing industry-wide investigations by legal and regulatory authorities into potential misuse of finite products have curtailed demand for finite risk products in 2006 and 2005. This operating segment represents 4.3%

**Table of Contents**

and 14.7% of our net premiums written for the three months ended September 30, 2006 and 2005, respectively, and (1.9%) and 19.0% of our net premiums written for the nine months ended September 30, 2006 and 2005, respectively.

**Three Months Ended September 30, 2006 as Compared with the Three Months Ended September 30, 2005**

Gross, ceded and net premiums written and earned for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Gross premiums written	\$ 16,848	62,830	\$ (45,982)
Ceded premiums written	4,168	2,653	1,515
Net premiums written	12,680	60,177	(47,497)
Gross premiums earned	31,664	81,468	(49,804)
Ceded premiums earned	4,168	2,983	1,185
Net premiums earned	\$ 27,496	78,485	\$ (50,989)

The Finite Risk segment consists of a small number of contracts that are large in premium size and, consequently, overall premium volume may vary significantly from year to year. The decrease in net premiums written and earned is primarily due to the termination of two finite casualty quota share contracts.

Losses and LAE, acquisition expenses and the resulting ratios for the three months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Losses and LAE	\$ 24,549	61,639	\$ (37,090)
Loss and LAE ratios	89.3%	78.5%	10.8 points
Acquisition expenses	\$ 5,596	31,008	\$ (25,412)
Acquisition expense ratios	20.4%	39.5%	(19.1) points
Losses, LAE and acquisition expenses	\$ 30,145	92,647	\$ (62,502)
Loss, LAE and acquisition expense ratios	109.7%	118.0%	(8.3) points

The decreases in losses, LAE and acquisition expenses and the loss, LAE and acquisition expense ratio in 2006 as compared with 2005 are primarily due to an absence of major catastrophe losses in 2006 as compared with losses of \$24,000,000 from Hurricanes Katrina and Rita, representing 30.6% of net premiums earned in 2005. The decrease in losses, LAE and acquisition expenses in 2006 is also due to the decrease in net premiums earned. The decrease in the loss, LAE and acquisition expense ratio in 2006 is partially offset by net unfavorable development of approximately \$3,823,000, representing 13.9% of net premiums earned in 2006, as compared with net favorable development of approximately \$11,364,000, representing 14.5% of net premiums earned in 2005. Also contributing to the decrease in the loss, LAE and acquisition ratio in 2006 is the termination of two finite casualty quota share contracts that had higher combined ratios than the remainder of the Finite Risk segment.

**Table of Contents**

Other underwriting expenses for the three months ended September 30, 2006 and 2005 are \$1,991,000 and \$524,000, respectively, and represent costs such as salaries, rent and like items. The increase in other underwriting expenses in 2006 as compared with 2005 is primarily due to an increase in incentive-based compensation. The increase in incentive compensation costs in 2006 as compared with 2005 is due to increased net income in 2006, while in 2005 accruals were reduced as a result of net losses.

**Nine Months Ended September 30, 2006 as Compared with the Nine Months Ended September 30, 2005**

Gross, ceded and net premiums written and earned for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Decrease
Gross premiums written	\$ (8,790)	272,852	\$ (281,642)
Ceded premiums written	8,026	20,478	(12,452)
Net premiums written	(16,816)	252,374	(269,190)
Gross premiums earned	114,864	287,393	(172,529)
Ceded premiums earned	9,379	18,755	(9,376)
Net premiums earned	\$ 105,485	268,638	\$ (163,153)

The decrease in net premiums written and earned in 2006 as compared with 2005 is primarily attributable to the termination of two significant finite casualty contracts. One of the contracts was terminated effective January 1, 2006 on a cut-off basis, which resulted in the return of previously written but unearned premium.

Losses and LAE, acquisition expenses and the resulting ratios for the nine months ended September 30, 2006 and 2005 are as follows (\$ in thousands):

	2006	2005	Increase (decrease)
Losses and LAE	\$ 86,703	175,681	\$ (88,978)
Loss and LAE ratios	82.2%	65.4%	16.8 points
Acquisition expenses	\$ 23,477	83,336	\$ (59,859)
Acquisition expense ratios	22.3%	31.0%	(8.7) points
Losses, LAE and acquisition expenses	\$ 110,180	259,017	\$ (148,837)
Loss, LAE and acquisition expense ratios	104.5%	96.4%	8.1 points

The decrease in losses, LAE and acquisition expenses in 2006 as compared with 2005 is due to the reduction in net premiums earned, partially offset by an increase in the loss, LAE and acquisition expense ratio. The increase in the loss, LAE and acquisition expense ratio in 2006 is due to net unfavorable development of approximately \$9,853,000 representing 9.3% of net premiums earned in 2006, as compared with net favorable development of approximately \$25,813,000, representing 9.6% of net premiums earned in 2005. This is partially offset by an absence of major catastrophe losses in 2006 as compared with losses of \$24,000,000 from Hurricanes Katrina and Rita representing 8.9% of net premiums earned in 2005. Also contributing to the decrease in the loss, LAE and acquisition ratio in 2006 is the termination of two finite casualty quota share contracts that had higher combined ratios than the remainder of the Finite Risk portfolio.

**Table of Contents**

Other underwriting expenses for the nine months ended September 30, 2006 and 2005 are \$3,935,000 and \$3,428,000, respectively, and represent costs such as salaries, rent and like items. The increase in other underwriting expenses in 2006 as compared with 2005 is primarily due to increased incentive-based compensation. The increase in incentive-based compensation in 2006 as compared with 2005 is due to increased net income in 2006, while in 2005 accruals were significantly less as a result of net losses.

**Financial Condition, Liquidity and Capital Resources*****Financial Condition***

Cash and cash equivalents and investments as of September 30, 2006 and December 31, 2005 are as follows (\$ in thousands):

	September 30, 2006	December 31, 2005	Increase (decrease)
Cash and cash equivalents	\$ 773,323	820,746	\$ (47,423)
Fixed maturity securities	3,354,152	2,987,703	366,449
Preferred stocks	8,322	8,186	136
Short-term investments	42,502	8,793	33,709
Other invested asset	5,000	5,000	
<b>Total</b>	<b>\$ 4,183,299</b>	<b>3,830,428</b>	<b>\$ 352,871</b>

The net increase in total cash and cash equivalents and investments is due to positive net cash flows from operations in the nine months ended September 30, 2006. This increase was partially offset by the decline in fair value of our investments. Our available-for-sale and trading portfolios are composed primarily of diversified, high quality, predominantly publicly traded fixed maturity securities. Our investment portfolio, excluding cash and cash equivalents, had a weighted average duration of 3.0 years as of September 30, 2006. We maintain and periodically update our overall duration target for the portfolio and routinely monitor the composition of, and cash flows from, the portfolio to maintain liquidity necessary to meet our obligations.

Premiums receivable include significant estimates. Premiums receivable as of September 30, 2006 of \$385,052,000 include \$318,328,000 that is based upon estimates. Premiums receivable as of December 31, 2005 of \$567,449,000 include \$496,603,000 that is based upon estimates. The decrease in premiums receivable as of September 30, 2006 as compared with December 31, 2005 is due to the decrease in premiums written. An allowance for uncollectible premiums is established for possible non-payment of such amounts due, as deemed necessary. As of September 30, 2006, based on our historical experience, the general profile of our ceding companies and our ability, in most cases, to contractually offset premiums receivable with losses and LAE or other amounts payable to the same parties, we did not establish an allowance for uncollectible premiums receivable.

Unpaid losses and LAE as of September 30, 2006 of \$2,358,801,000 include \$1,616,905,000 of estimates of claims that are incurred but not reported ( IBNR ). Unpaid losses and LAE as of December 31, 2005 of \$2,323,990,000 includes \$1,812,245,000 of IBNR. IBNR decreased during the nine months ended September 30, 2006 as losses related to the 2005 Hurricanes and hurricane losses

**Table of Contents**

of 2004 were reported and paid. Paid losses related to the 2005 Hurricanes and hurricane losses of 2004 during the nine months ended September 30, 2006 are approximately \$209,974,000.

Commissions payable as of September 30, 2006 of \$143,672,000 include \$128,510,000 that is based on premium estimates. Commissions payable as of December 31, 2005 of \$186,654,000 include \$167,949,000 that is based upon estimates. The decrease in commissions payable as of September 30, 2006 as compared with December 31, 2005 is due to the decrease in premiums written and is consistent with the decrease in premiums receivable.

***Sources of Liquidity***

Our sources of funds consist of premiums written, investment income, proceeds from sales and redemption of investments, losses recovered from retrocessionaires, cash and cash equivalents held, borrowings under the credit facility described below as well as the sale of debt or equity securities. Net cash flows provided by operations, excluding trading securities activities, for the nine months ended September 30, 2006 are \$475,017,000.

Platinum Holdings is a holding company that conducts no reinsurance operations of its own. All of its reinsurance operations are conducted through its wholly owned operating subsidiaries: Platinum Bermuda, Platinum US and Platinum UK. As a holding company, the cash flows of Platinum Holdings consist primarily of interest, dividends and other permissible payments from its subsidiaries and issuances of securities. Platinum Holdings depends on such payments for general corporate purposes and to meet its obligations, including the payment of dividends to its preferred and common shareholders.

We filed an unallocated universal shelf registration statement with the Securities and Exchange Commission (the SEC), which the SEC declared effective on November 4, 2005. This shelf registration statement provides the capacity to issue and sell, in one or more offerings, up to \$750,000,000 of debt, equity and other types of securities or a combination of the above, including debt securities of Platinum Finance, unconditionally guaranteed by Platinum Holdings. To affect any such sales from time to time, Platinum Holdings and/or Platinum Finance will file one or more supplements to the prospectus forming a part of such registration statement, which will provide details of any proposed offering. In December 2005, Platinum Holdings issued \$132,909,000 of Common Shares and \$173,363,000 of mandatory convertible preferred shares under this unallocated shelf registration statement.

On December 1, 2005, certain reform measures simplifying the process for conducting registered securities offerings under the Securities Act of 1933 (the Securities Act) came into effect. The new rules provide that shelf registration statements of certain well-known seasoned issuers, such as Platinum Holdings, are eligible for effectiveness automatically upon filing. Should Platinum Holdings seek to issue securities in the future, it may make use of the new rules.

On October 21, 2005 we entered into a three-year \$200,000,000 credit agreement with a syndicate of lenders. On September 13, 2006, we amended and restated the existing three-year \$200,000,000 credit agreement and entered into a five-year \$400,000,000 credit agreement with a syndicate of lenders. The amended and restated credit agreement consists of a \$150,000,000 senior unsecured credit facility available for revolving borrowings and letters of credit and a \$250,000,000 senior secured credit facility available for letters of credit. The revolving line of credit generally will be available for our working capital, liquidity and general corporate requirements and those of our subsidiaries. Platinum Holdings and Platinum Finance have guaranteed borrowings by our reinsurance subsidiaries. The interest rate on borrowings under the credit facility is based on our election of either: (1) LIBOR plus 50 basis points or (2) the higher of: (a) the prime interest rate of the lead bank providing the credit facility, or (b) the federal funds rate plus 50 basis points. The interest rate based on LIBOR rate