

PRIMUS GUARANTY LTD
Form 10-Q
November 08, 2006

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

FORM 10-Q

(Mark One)

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: 001-32307

Primus Guaranty, Ltd.

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

Not Required
(I.R.S. Employer Identification No.)

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

(Address of principal executive offices, including zip code)

441-296-0519

(Registrant's telephone number, including area code)

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

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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 November 1, 2006, the number of shares outstanding of the issuer's common stock, \$0.08 par value, was 43,356,274.

Primus Guaranty, Ltd.
Form 10-Q
For the three months ended September 30, 2006

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Part I. Financial Information

Item 1. Financial Statements

Primus Guaranty, Ltd.

Condensed Consolidated Statements of Financial Condition

(in thousands except per share amounts)

	September 30, 2006 (unaudited)	December 31, 2005
Assets		
Cash and cash equivalents	\$ 58,701	\$ 69,355
Available-for-sale investments	599,932	560,147
Trading investments	1,257	—
Accrued interest receivable	5,900	5,127
Accrued premiums and interest receivable on credit and other swaps	3,813	3,461
Premiums receivable on financial guarantees	100	300
Unrealized gain on credit and other swaps, at fair value	59,930	25,342
Deposit and warehouse loan agreements	4,116	—
Fixed assets and software costs, net	5,753	4,993
Debt issuance costs, net	3,032	3,147
Other assets	1,597	1,210
Total assets	\$ 744,131	\$ 673,082
Liabilities and stockholders' equity		
Accounts payable and accrued expenses	\$ 2,236	\$ 3,035
Accrued compensation	5,974	4,833
Interest payable	339	404
Accrued premiums on credit and other swaps	42	—
Taxes payable	19	54
Unrealized loss on credit and other swaps, at fair value	1,350	3,521
Deferred credit swap premiums	29	46
Deferred financial guarantee premiums	100	401
Deferred rent payable	586	416
Long-term debt	200,000	200,000
Total liabilities	210,675	212,710
Preferred securities of subsidiary	98,521	98,521
Stockholders' equity:		
Common stock, \$0.08 par value, 62,500,000 shares authorized, 43,341,973 and 43,176,511 shares issued and outstanding at September 30, 2006 and	3,572	3,572

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December 31, 2005

Additional paid-in-capital	268,365	265,848
Warrants	612	612
Accumulated other comprehensive loss	(3,182)	(4,254)
Retained earnings	165,568	96,073
Total stockholders' equity	434,935	361,851
Total liabilities, preferred securities of subsidiary and stockholders' equity	\$ 744,131	\$ 673,082

See accompanying notes.

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Primus Guaranty, Ltd.
Condensed Consolidated Statements of Operations
(in thousands except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
Revenues				
Net credit swap revenue	\$ 28,905	\$ 27,449	\$ 85,865	\$ 15,672
Net total return swap revenue	313	—	437	—
Net warehouse loan revenue	76	—	76	—
Premiums earned on financial guarantees	100	101	300	300
Asset management and advisory fees	542	49	709	140
Interest income	7,143	4,483	20,530	10,969
Investment portfolio realized gains (losses)	—	(3)	—	20
Foreign currency revaluation gain (loss)	(32)	55	(56)	(1,464)
Total net revenues	37,047	32,134	107,861	25,637
Expenses				
Compensation and employee benefits	5,023	3,537	15,517	12,139
Professional and legal fees	1,361	981	3,645	2,731
Depreciation and amortization	649	533	1,846	1,574
Technology and data	726	535	1,546	1,250
Interest expense	2,831	649	7,933	1,640
Other	1,302	805	3,632	2,423
Total expenses	11,892	7,040	34,119	21,757
Distributions on preferred securities of subsidiary	(1,437)	(1,022)	(4,206)	(2,797)
Income before provision for income taxes	23,718	24,072	69,536	1,083
(Provision) benefit for income taxes	14	(63)	(41)	(108)
Net income available to common shares	\$ 23,732	\$ 24,009	\$ 69,495	\$ 975
Income per common share:				
Basic	\$ 0.55	\$ 0.56	\$ 1.61	\$ 0.02

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Diluted	\$ 0.54	\$ 0.54	\$ 1.56	\$ 0.02
Average common shares outstanding:				
Basic	43,314	43,120	43,285	43,147
Diluted	44,341	44,543	44,410	44,673

See accompanying notes.

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Primus Guaranty, Ltd.
Condensed Consolidated Statements of Cash Flows
(in thousands except per share amounts)

	Nine months ended September 30, 2006 2005 (unaudited)	
Cash flows from operating activities		
Net income	\$ 69,495	\$ 975
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash items included in net income:		
Depreciation and amortization	1,846	1,574
Stock compensation	2,747	2,149
Net unrealized (gain) loss on swap portfolio	(36,759)	18,837
Net amortization of premium and discount on securities	(2,669)	—
Deferred rent	170	(20)
Loss on disposal of assets	25	—
Amortization of debt issuance costs	128	31
Distributions on preferred securities of subsidiary	4,206	2,798
Increase (decrease) in cash resulting from changes in:		
Accrued interest receivable	(773)	(2,754)
Accrued premiums and interest receivable on credit and other swaps	(352)	188
Premiums receivable on financial guarantees	200	400
Deposit and warehouse loan agreement	(4,116)	—
Other assets	(387)	356
Purchase of trading investments	(1,257)	—
Accounts payable and accrued expenses	(799)	881
Accrued compensation	1,141	(1,400)
Interest payable	(65)	(269)
Accrued premiums payable on credit swaps	42	—
Taxes payable	(35)	208
Deferred credit swap premiums	(17)	(17)
Deferred financial guarantee premiums	(301)	(299)

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Net cash provided by operating activities	32,470	23,638
Cash flows from investing activities		