

PRIMUS GUARANTY LTD
Form 10-Q
August 08, 2007

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 June 30, 2007

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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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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 August 1, 2007, the number of shares outstanding of the issuer’s common shares, \$0.08 par value, was 45,024,358.

Primus Guaranty, Ltd.
Form 10-Q
For the three months ended June 30, 2007

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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)

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	\$ 189,715	\$ 204,428
Available-for-sale investments	621,985	584,911
Trading account assets	13,203	14,537
Accrued interest receivable	6,545	6,374
Accrued premiums and receivables on credit and other swaps	4,777	4,022
Unrealized gain on credit and other swaps, at fair value	43,676	73,330
Deposit and warehouse loan agreements	6,022	—
Warehouse loans held for securitization	336,278	—
Fixed assets and software costs, net	5,627	5,510
Debt issuance costs, net	7,120	7,399
Other assets	5,416	1,957
Total assets	\$ 1,240,364	\$ 902,468
Liabilities and shareholders' equity		
Accounts payable and accrued expenses	\$ 2,096	\$ 2,854
Accrued compensation	4,048	8,800
Interest payable	425	625
Unrealized loss on credit and other swaps, at fair value	32,273	2,931
Trading account liabilities	970	1,002
Warehouse loan payable	336,278	—
Long-term debt	321,304	325,000
Other liabilities	4,391	644
Total liabilities	701,785	341,856
Preferred securities of subsidiary	98,521	98,521
Shareholders' equity		
Common shares, \$0.08 par value, 62,500,000 shares authorized, 45,024,204 and 43,380,893 shares issued and outstanding at June 30, 2007 and December 31, 2006	3,583	3,470
Additional paid-in-capital	278,917	269,420
Warrants	—	612
Accumulated other comprehensive loss	(2,172)	(2,375)
Retained earnings	159,730	190,964
Total shareholders' equity	440,058	462,091
Total liabilities, preferred securities of subsidiary and shareholders' equity	\$ 1,240,364	\$ 902,468

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
Revenues				
Net credit swap revenue (loss)	\$ (15,995)	\$ 16,831	\$ (20,872)	\$ 56,960
Premiums earned on financial guarantees	—	100	—	200
Asset management and advisory fees	625	118	1,286	167
Interest income	10,316	6,786	20,293	13,387
Other trading revenue	708	124	1,967	124
Foreign currency revaluation loss	(63)	(18)	(12)	(24)
Total net revenues	(4,409)	23,941	2,662	70,814
Expenses				
Compensation and employee benefits	5,972	5,603	11,976	10,494
Professional and legal fees	1,463	1,069	2,439	2,284
Depreciation and amortization	370	608	947	1,197
Technology and data	1,078	421	1,955	820
Interest expense	4,859	2,653	9,721	5,102
Other	1,410	1,291	2,945	2,330
Total expenses	15,152	11,645	29,983	22,227
Distributions on preferred securities of subsidiary	1,959	1,638	3,861	2,769
Income (loss) before provision for income taxes	(21,520)	10,658	(31,182)	45,818
Provision (benefit) for income taxes	(4)	—	52	55
Net income (loss) available to common shares	\$ (21,516)	\$ 10,658	\$ (31,234)	\$ 45,763
Income (loss) per common share:				
Basic	\$ (0.48)	\$ 0.25	\$ (0.70)	\$ 1.06
Diluted	\$ (0.48)	\$ 0.24	\$ (0.70)	\$ 1.03
Average common shares outstanding:				
Basic	45,012	43,294	44,588	43,270
Diluted	45,012	44,287	44,588	44,316

See accompanying notes.

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

	Six months ended June 30,	
	2007	2006
	(unaudited)	
Cash flows from operating activities		
Net income (loss)	\$ (31,234)	\$ 45,763
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Non-cash items included in net income (loss):		
Depreciation and amortization	947	1,197
Share compensation	2,248	2,142
Net unrealized (gain) loss on credit swap portfolio	58,996	(24,269)
Net amortization of premium and discount on securities	(4,634)	(1,806)
Amortization of debt issuance costs	156	86
Distributions on preferred securities of subsidiary	3,861	2,769
Increase (decrease) in cash resulting from changes in:		
Accrued interest receivable	(171)	(213)
Accrued premiums and interest receivable on credit and other swaps	(755)	(39)
Deposit and warehouse loan agreement	(6,022)	—
Warehouse loans held for securitization.	(336,278)	—
Other assets	(3,459)	(255)
Trading account assets	1,334	—
Accounts payable and accrued expenses	(635)	(1,242)
Accrued compensation	(4,752)	(958)
Trading account liabilities	(32)	—
Interest payable	(200)	(244)
Other liabilities	51	(70)
Net cash (used in) provided by operating activities	(320,579)	22,861
Cash flows from investing activities		
Fixed asset purchases and capitalized software costs.	(1,064)	(2,007)
Purchases of available-for-sale investments.	(413,731)	(10,375)
Maturities and sales of available-for-sale investments.	381,499	20,000
Net cash (used in) provided by investing activities	(33,296)	7,618
Cash flows from financing activities		
Repurchase and retirement of common shares	(1,142)	