

PARTNERRE LTD
Form 10-Q
November 14, 2003
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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, 2003

Commission file number 0-2253

PartnerRe Ltd.

(Exact name of Registrant as specified in its charter)

Bermuda
(State or other Jurisdiction of
Incorporation or Organization)

96 Pitts Bay Road

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

HM 08

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Pembroke, Bermuda
(Address of principal executive offices)

(Zip Code)

(441) 292-0888

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 (the Exchange Act) 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 an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The number of the Registrant's common shares (par value \$1.00 per share) outstanding as of November 7, 2003 was 53,648,451

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INDEPENDENT ACCOUNTANTS REPORT

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of September 30, 2003 and the related condensed consolidated statements of operations and comprehensive income for the three-month and nine-month periods ended September 30, 2003 and 2002 and of shareholders' equity and cash flows for the nine-month periods ended September 30, 2003 and 2002. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of December 31, 2002 and the related consolidated statements of operations and comprehensive income, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated February 10, 2003, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to the Company's change in method of accounting for goodwill and derivative instruments and hedging activities. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

Hamilton, Bermuda

November 3, 2003

Table of Contents**PartnerRe Ltd.****Condensed Consolidated Balance Sheets**

(Expressed in thousands of U.S. dollars, except parenthetical share data)

(Unaudited)

	September 30, 2003	December 31, 2002
Assets		
Investments and cash		
Fixed maturities, available for sale, at fair value (amortized cost: 2003, \$5,121,130; 2002, \$3,998,382)	\$ 5,255,480	\$ 4,145,594
Short-term investments, available for sale, at fair value (amortized cost: 2003, \$63,889; 2002, \$3,787)	63,869	3,801
Equities, available for sale, at fair value (cost: 2003, \$568,575; 2002, \$493,893)	621,216	473,163
Trading securities, at fair value (cost: 2003, \$117,031; 2002, \$72,998)	123,211	75,284
Cash and cash equivalents, at fair value, which approximates amortized cost	758,478	710,640
Other invested assets	4,102	3,630
Total investments and cash	6,826,356	5,412,112
Accrued investment income	98,556	66,980
Reinsurance balances receivable	1,256,512	994,502
Reinsurance recoverable on paid and unpaid losses	208,820	216,681
Funds held by reinsured companies	825,674	726,722
Deferred acquisition costs	347,276	304,873
Deposit assets	502,857	359,606
Taxes recoverable	94,276	100,002
Goodwill	429,519	429,519
Other	127,423	126,977
Total Assets	\$ 10,717,269	\$ 8,737,974
Liabilities		
Unpaid losses and loss expenses	\$ 4,323,685	\$ 3,658,416
Policy benefits for life and annuity contracts	960,371	815,978
Unearned premiums	1,188,288	869,925
Funds held under reinsurance treaties	30,859	32,359
Deposit liabilities	529,596	356,091
Long-term debt	220,000	220,000
Net payable for securities purchased	462,338	190,110
Accounts payable, accrued expenses and other	125,183	117,913
Mandatorily Redeemable Preferred Securities	200,000	
Total Liabilities	8,040,320	6,260,792
Trust Preferred and Mandatorily Redeemable Preferred Securities	200,000	400,000
Shareholders Equity		
Common shares (par value \$1.00, issued and outstanding: 2003, 53,638,131; 2002, 52,375,938)	53,638	52,376
Preferred shares (aggregate liquidation preference: 2003, \$290,000,000; 2002, \$250,000,000; par value \$1.00, issued and outstanding: 2003, 11,600,000; 2002, 10,000,000;)	11,600	10,000

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Additional paid-in capital	1,019,673	977,714
Deferred compensation	(159)	(261)
Accumulated other comprehensive income:		
Net unrealized gains on investments, net of tax	153,481	119,605
Currency translation adjustment	(1,216)	(30,820)
Retained earnings	1,239,932	948,568
	<hr/>	<hr/>
Total Shareholders Equity	2,476,949	2,077,182
	<hr/>	<hr/>
Total Liabilities, Trust Preferred and Mandatorily Redeemable Preferred Securities and Shareholders Equity	\$ 10,717,269	\$ 8,737,974
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See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**PartnerRe Ltd.****Condensed Consolidated Statements of Operations and Comprehensive Income**

(Expressed in thousands, except per share data)

(Unaudited)

	For the three months ended September 30, 2003	For the three months ended September 30, 2002	For the nine months ended September 30, 2003	For the nine months ended September 30, 2002
Revenues				
Gross premiums written	\$ 750,305	\$ 575,581	\$ 2,849,198	\$ 1,990,099
Net premiums written	\$ 743,525	\$ 570,108	\$ 2,817,132	\$ 1,957,881
Decrease (increase) in unearned premiums	144,686	61,829	(259,837)	(280,802)
Net premiums earned	888,211	631,937	2,557,295	1,677,079
Net investment income	65,435	60,186	190,910	178,416
Net realized investment gains (losses)	13,110	791	78,566	(13,363)
Other income	2,869	1,540	6,129	3,564
Total Revenues	969,625	694,454	2,832,900	1,845,696
Expenses				
Losses and loss expenses and life policy benefits	593,875	531,445	1,704,145	1,225,066
Acquisition costs	198,034	136,965	569,354	361,679
Other operating expenses	62,618	41,030	171,967	117,695
Interest expense	6,113	3,267	12,539	9,693
Net foreign exchange losses (gains)	972	(812)	1,267	5,279
Total Expenses	861,612	711,895	2,459,272	1,719,412
Income (Loss) before distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities and taxes				
	108,013	(17,441)	373,628	126,284
Distributions related to Trust Preferred and Mandatorily Redeemable Preferred Securities	4,010	6,815	17,640	20,445
Income tax (benefit) expense	(12,862)	3,679	(7,162)	3,929
Net income (loss)	116,865	(27,935)	363,150	101,910
Preferred dividends	4,854	5,000	24,421	15,000
Net income (loss) available to common shareholders	\$ 112,011	\$ (32,935)	\$ 338,729	\$ 86,910
Calculation of comprehensive income, net of tax:				
Net income (loss) as reported	\$ 116,865	\$ (27,935)	\$ 363,150	\$ 101,910
Change in unrealized gains or losses on investments	(18,284)	59,911	33,876	74,640
Change in currency translation adjustment	1,557	(4,765)	29,604	19,160
Comprehensive income	\$ 100,138	\$ 27,211	\$ 426,630	\$ 195,710

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Per share data:				
Earnings per common share:				
Basic net income (loss)	\$ 2.09	\$ (0.65)	\$ 6.38	\$ 1.73
Weighted average number of common shares outstanding	53,636.4	50,328.5	53,091.6	50,285.8
Diluted net income (loss)	\$ 2.08	\$ (0.65)	\$ 6.30	\$ 1.68
Weighted average number of common and common equivalent shares outstanding	53,952.0	50,328.5	53,800.9	51,652.7

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**PartnerRe Ltd.****Condensed Consolidated Statements of Shareholders Equity**

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Common Shares	Preferred Shares	Additional Paid-In Capital	Deferred Compen- sation	Net Unrealized Gains on Investments, Net of tax	Currency Translation Adjustment	Retained Earnings	Total Share- holders Equity
Balance at December 31, 2002	\$ 52,376	\$ 10,000	\$ 977,714	\$ (261)	\$ 119,605	\$ (30,820)	\$ 948,568	\$ 2,077,182
Issue of common shares	1,262		8,442					9,704
Issue of preferred shares		11,600	269,265					280,865
Redemption of preferred shares (liquidation value of \$250,000, see Note 2)		(10,000)	(232,163)					(242,163)
Adjustment on purchase contracts for common shares			(3,585)					(3,585)
Amortization of deferred compensation				102				102
Net unrealized gains for period					33,876			33,876
Currency translation adjustment						29,604		29,604
Net income							363,150	363,150
Dividends on common shares							(47,365)	(47,365)
Dividends on preferred share (see Note 2)							(24,421)	(24,421)
Balance at September 30, 2003	\$ 53,638	\$ 11,600	\$ 1,019,673	\$ (159)	\$ 153,481	\$ (1,216)	\$ 1,239,932	\$ 2,476,949
Balance at December 31, 2001	\$ 50,164	\$ 10,000	\$ 885,678	\$ (397)	\$ 24,023	\$ (58,043)	\$ 836,684	\$ 1,748,109
Issue of common shares	166		5,072					5,238
Adjustment on purchase contracts for common shares			(3,585)					(3,585)
Amortization of deferred compensation				102				102
Net unrealized gains for period					74,640			74,640
Currency translation adjustment						19,160		19,160
Net income							101,910	101,910
Dividends on common shares							(43,235)	(43,235)
Dividends on preferred shares							(15,000)	(15,000)
Balance at September 30, 2002	\$ 50,330	\$ 10,000	\$ 887,165	\$ (295)	\$ 98,663	\$ (38,883)	\$ 880,359	\$ 1,887,339

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**PartnerRe Ltd.****Condensed Consolidated Statements of Cash Flows**

(Expressed in thousands of U.S. dollars)

(Unaudited)

	For the nine months ended September 30, 2003	For the nine months ended September 30, 2002
Cash Flows From Operating Activities		
Net income	\$ 363,150	\$ 101,910
Adjustments to reconcile net income to net cash provided by operating activities:		
Accrual of discount on investments, net of amortization of premium	16,235	(2,707)
Net realized investment (gains) losses	(78,566)	13,363
Changes in:		
Unearned premiums	259,837	280,802
Reinsurance balances receivable	(144,658)	(302,142)
Unpaid losses and loss expenses including life policy benefits	594,656	455,746
Taxes recoverable	(8,204)	4,273
Other changes in assets and liabilities	(111,061)	(17,250)
Other items, net	(6,827)	11,448
Net cash provided by operating activities	884,562	545,443
Cash Flows From Investing Activities		
Sales of fixed maturities	6,567,966	2,120,860
Redemptions of fixed maturities	655,691	220,557
Purchases of fixed maturities	(7,875,296)	(2,674,112)
Net (purchases) sales of short term investments	(60,048)	25,946
Sales of equities	86,134	131,892
Purchases of equities	(174,963)	(284,189)
Other	(11,266)	5,039
Net cash used in investing activities	(811,782)	(454,007)
Cash Flows from Financing Activities		
Cash dividends paid to shareholders	(71,898)	(58,235)
Issue of common shares	9,704	5,238
Issue of preferred shares	280,865	
Redemption of preferred shares	(242,163)	
Adjustment on purchase contract for common shares	(3,585)	(3,585)
Net cash used in financing activities	(27,077)	(56,582)
Effect of exchange rate changes on cash	2,135	6,281
Increase in cash and cash equivalents	47,838	41,135
Cash and cash equivalents beginning of period	710,640	451,614
Cash and cash equivalents end of period	\$ 758,478	\$ 492,749



See Accompanying Notes to Condensed Consolidated Financial Statements

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PartnerRe Ltd.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. General

PartnerRe Ltd. (the Company) is a leading global reinsurer, providing multi-line reinsurance to insurance companies through its wholly owned subsidiaries, Partner Reinsurance Company Ltd. (Partner Reinsurance Company), PartnerRe SA, and Partner Reinsurance Company of the U.S. (PartnerRe U.S.). Risks reinsured include, but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering/energy, marine, special risk, other lines, and life/annuity and health.

The accompanying unaudited condensed consolidated financial statements have been prepared on the basis of United States generally accepted accounting principles (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In the opinion of management, these condensed consolidated financial statements reflect all the normal recurring adjustments and estimates necessary for a fair presentation of the Company's financial position at September 30, 2003 and December 31, 2002 and its results of operations for the three and nine-month periods ended September 30, 2003 and 2002 and shareholders' equity and cash flows for the nine months then ended. Actual results could differ from those estimates and results of operations for any interim period are not necessarily indicative of the results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's 2002 Annual Report to Shareholders.

2. Recent Development

In May 2003, the Company issued 11.6 million of 6.75% Series C Cumulative Redeemable Preferred Shares (Series C preferred shares) for a total consideration of \$280.9 million after underwriting discounts and commissions totaling \$9.1 million. The Series C preferred shares can not be redeemed before May 8, 2008. Beginning May 8, 2008, the Company may redeem Series C preferred shares at \$25.00 per share plus accrued and unpaid dividends without interest. Dividends on the Series C preferred shares are cumulative from the date of issuance and are payable quarterly in arrears. A portion of the net proceeds from the sale, in the amount of \$250 million, has been used to redeem the Company's existing 8% Series A Preferred Shares (Series A preferred shares). The remaining net proceeds were used for general corporate purposes.

While the redemption of the Series A preferred shares had no impact on the net income of the Company, the difference between the aggregate liquidation value and the carrying value of the Series A preferred shares, which totalled \$7.8 million, was treated as a dividend on preferred shares and resulted in a \$7.8 million reduction to the net income available to common shareholders, which is used in the calculation of earnings per share for the nine-month period ended September 30, 2003.

3. Change in Accounting Policy

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In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148). SFAS 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, by providing alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company currently uses four types of equity-based compensation; stock options, restricted stock, restricted stock units (RSUs), and stock issued under the Company's employee stock purchase plan. The Company's adoption in 2003, of the fair-value provisions of SFAS 123, as amended by SFAS 148, resulted in the recognition in net income of an expense corresponding to the fair value of the Company's stock options that were granted during the first nine months of 2003. The expense is recognized in net income over the vesting period of the stock options. The Company has elected to use the prospective transition method as described in SFAS 123, which results in the expensing of options granted subsequent to January 1, 2003. Under the provisions of SFAS 123, options were valued at fair value on the date of grant using a Black-Scholes option-valuation model that considered, as at the date of grant, the exercise price and expected life of the option, the current price of the Company's common share and its expected volatility, expected dividends on the common shares, and the risk-free interest rate for the expected life of the option. The adoption of the fair-value provision of SFAS 123 resulted in a charge to net income of \$2.2 million, or \$0.04 per diluted share, in the first nine months of 2003.

Prior to April 1, 2003, the Company accounted for equity-based compensation under the intrinsic-value provisions of Accounting Principles Board No. 25 (APB 25) and although the Company did not recognize the fair value of equity-based compensation in its

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results, the Company disclosed pro-forma net income and earnings per share that reflected the effect of expensing all equity-based compensation. The effect of the Company's adoption of the fair-value provision of SFAS 123 on net income and earnings per share for the three-month period ended March 31, 2003 was as follows (\$ thousands, except per share data):

	For the three months ended March 31, 2003
Net income available to common shareholders:	
As reported	\$ 119,632
As restated	\$ 119,369
Per share data:	
Basic net income as reported	\$ 2.28
Basic net income as restated	\$ 2.28
Diluted net income as reported	\$ 2.23