Greenlight Capital Re, Ltd.
Form 10-Q
May 04, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-33493

GREENLIGHT CAPITAL RE, LTD.
(Exact Name of Registrant as Specified in Its Charter)

CAYMAN ISLANDS (State or Other Jurisdiction of Incorporation or Organization)	N/A (I.R.S. Employer Identification No.)
THE GRAND PAVILION 802 WEST BAY ROAD P.O. BOX 31110 GRAND CAYMAN CAYMAN ISLANDS (Address of Principal Executive Offices)	KY1-1205 (Zip Code)

(345) 943-4573
(Registrant’s Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of ‘‘large accelerated filer,’’ ‘‘accelerated filer,’’ and ‘‘smaller reporting company’’ in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Class A Ordinary Shares, $0.10 par value	29,986,192
Class B Ordinary Shares, $0.10 par value	6,254,949
(Class)	(Outstanding as of April 30, 2009)

GREENLIGHT CAPITAL RE, LTD.

TABLE OF CONTENTS

Table of contents

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2009 and December 31, 2008
(expressed in thousands of U.S. dollars, except per share and share amounts)

	March 31, 2009 (unaudited)	December 31, 2008
Assets		
Investments in securities		
Debt securities, trading, at fair value	$ 109,091	$ 70,214
Equity securities, trading, at fair value	436,490	409,329
Other investments, at fair value	11,755	14,423
Total investments in securities	557,336	493,966
Cash and cash equivalents	56,310	94,144
Restricted cash and cash equivalents	344,520	248,330
Financial contracts receivable, at fair value	23,563	21,419
Reinsurance balances receivable	87,932	59,573
Loss and loss adjustment expense recoverables	7,000	11,662
Deferred acquisition costs, net	24,347	17,629
Unearned premiums ceded	6,464	7,367
Notes receivable	16,915	1,769
Other assets	4,417	2,146
Total assets	$ 1,128,804	$ 958,005
Liabilities and shareholders' equity		
Liabilities		
Securities sold, not yet purchased, at fair value	$ 319,337	$ 234,301
Financial contracts payable, at fair value	26,465	17,140
Loss and loss adjustment expense reserves	99,734	81,425
Unearned premium reserves	112,482	88,926
Reinsurance balances payable	37,176	34,963
Funds withheld	3,382	3,581
Other liabilities	6,651	6,229
Performance compensation payable to related party	3,032	—
Total liabilities	608,259	466,565
Shareholders' equity		
Preferred share capital (par value $0.10; authorized, 50,000,000; none issued)	—	—
Ordinary share capital (Class A: par value $0.10; authorized, 100,000,000; issued and outstanding, 29,986,192 (2008: 29,781,736); Class B: par value $0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2008: 6,254,949))	3,624	3,604
Additional paid-in capital	478,516	477,571
Non-controlling interest in joint venture	6,388	6,058
Retained earnings	32,017	4,207

Total shareholders' equity	520,545	491,440
Total liabilities and shareholders' equity	$ 1,128,804	$ 958,005

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Table of contents

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

For the three months ended March 31, 2009 and 2008
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended March 31, 2009	Three months ended March 31, 2008
Revenues		
Gross premiums written	$ 71,871	$ 70,766
Gross premiums ceded	(1,220)	(9,272)
Net premiums written	70,651	61,494
Change in net unearned premium reserves	(24,458)	(34,002)
Net premiums earned	46,193	27,492
Net investment income (loss)	27,717	(5,762)
Other income	2,124	—
Total revenues	76,034	21,730
Expenses		
Loss and loss adjustment expenses incurred, net	30,196	12,124
Acquisition costs, net	13,245	9,929
General and administrative expenses	4,378	4,460
Total expenses	47,819	26,513
Net income (loss) before non-controlling interest and corporate income tax expense	28,215	(4,783)
Non-controlling interest in (income) loss of joint venture	(330)	33
Net income (loss) before corporate income tax expense	27,885	(4,750)
Corporate income tax expense	75	—
Net income (loss)	$ 27,810	$ (4,750)
Earnings (loss) per share		
Basic	$ 0.77	$ (0.13)
Diluted	$ 0.77	$ (0.13)
Weighted average number of ordinary shares used in the determination of		
Basic	36,078,258	35,981,312
Diluted	36,334,870	35,981,312

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

4

Table of contents

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

For the three months ended March 31, 2009 and 2008
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended March 31, 2009		Three months ended March 31, 2008	
Ordinary share capital				
Balance – beginning of period	$	3,604	$	3,610
Issue of Class A ordinary share capital		20		13
Balance – end of period	$	3,624	$	3,623
Additional paid-in capital				
Balance – beginning of period	$	477,571	$	476,861
Issue of Class A ordinary share capital		221		—
Share-based compensation expense		724		569
Balance – end of period	$	478,516	$	477,430
Non-controlling interest				
Balance – beginning of period	$	6,058	$	6,745
Non-controlling interest in income (loss) of joint venture		330		(33)
Balance – end of period	$	6,388	$	6,712
Retained earnings				
Balance – beginning of period	$	4,207	$	125,111
Net income (loss)		27,810		(4,750)
Balance – end of period	$	32,017	$	120,361
Total shareholders' equity	$	520,545	$	608,126

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Table of contents

GREENLIGHT CAPITAL RE, LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the three months ended March 31, 2009 and 2008
(expressed in thousands of U.S. dollars, except per share and share amounts)

	2009	2008
Cash provided by (used in)		
Operating activities		
Net income (loss)	$ 27,810	$ (4,750)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Net change in unrealized losses on securities and financial contracts	6,738	31,913
Net realized gains on securities and financial contracts	(42,477)	(42,560)
Foreign exchange loss on restricted cash and cash equivalents	2,298	15,310
Non-controlling interest in income (loss) of joint venture	330	(33)
Share-based compensation expense	743	582
Depreciation expense	10	10
Change in		
Reinsurance balances receivable	(28,359)	(33,507)
Loss and loss adjustment expense recoverables	4,662	(1,195)
Deferred acquisition costs, net	(6,718)	(7,833)
Unearned premiums ceded	903	(4,513)
Other assets	(2,281)	(833)
Loss and loss adjustment expense reserves	18,309	9,762
Unearned premium reserves	23,556	38,594
Reinsurance balances payable	2,213	8,361
Funds withheld	(199)	1,434
Other liabilities	422	1,036
Performance compensation payable to related party	3,032	(6,885)
Net cash provided by operating activities	10,992	$ 4,893
Investing activities		
Purchases of securities and financial contracts	(250,091)	(383,978)
Sales of securities and financial contracts	314,677	284,503
Change in restricted cash and cash equivalents	(98,488)	83,302
Change in notes receivable	(15,146)	—
Non-controlling interest in joint venture	—	6,745
Net cash used in investing activities	(49,048)	$ (9,428)
Financing activities		
Net proceeds from exercise of stock options	222	—
Net cash provided by financing activities	222	$ —
Net decrease in cash and cash equivalents	(37,834)	(4,535)
Cash and cash equivalents at beginning of the period	94,144	64,192
Cash and cash equivalents at end of the period	56,310	$ 59,657
Supplementary information		
Interest paid in cash	$ 1,574	$ 3,227
Interest received in cash	629	4,554

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Table of contents

GREENLIGHT CAPITAL RE, LTD.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

March 31, 2009 and 2008
(expressed in thousands of U.S. dollars, except per share and share amounts)

1. GENERAL

Greenlight Capital Re, Ltd. (‘‘GLRE’’) was incorporated as an exempted company under the Companies Law of the Cayman Islands on July 13, 2004. GLRE’s wholly-owned subsidiary, Greenlight Reinsurance, Ltd. (the ‘‘Subsidiary’’), provides global specialty property and casualty reinsurance. The Subsidiary has an unrestricted Class ‘‘B’’ insurance license under Section 4(2) of the Cayman Islands Insurance Law. The Subsidiary commenced underwriting in April 2006. Effective May 30, 2007, GLRE completed an initial public offering of 11,787,500 Class A ordinary shares at $19.00 per share. Concurrently, 2,631,579 Class B ordinary shares of GLRE were sold at $19.00 per share in a private placement offering. On December 9, 2008, Verdant Holding Company, Ltd. (“Verdant”), a wholly owned subsidiary of GLRE, was incorporated in the state of Delaware.

The Class A ordinary shares of GLRE are listed on Nasdaq Global Select Market under the symbol ‘‘GLRE’’.

As used herein, the ‘‘Company’’ refers collectively to GLRE and its subsidiaries.

These unaudited condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (‘‘U.S. GAAP’’) and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2008. In the opinion of management, these unaudited condensed consolidated financial statements reflect all the normal recurring adjustments considered necessary for a fair presentation of the Company’s financial position and results of operations as of the dates and for the periods presented.

The results for the three months ended March 31, 2009 are not necessarily indicative of the results expected for the full year.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of GLRE and the consolidated financial statements of all of its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management 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 consolidated financial statements and the reported amounts of income and expenses during the period. Actual results could differ from these estimates.

Restricted Cash and Cash Equivalents

The Company is required to maintain cash in segregated accounts with prime brokers and swap counterparties. The amount of restricted cash held by prime brokers is used to support the liability created from securities sold, not yet purchased. Cash held for the benefit of swap counterparties is used to collateralize the current value of any amounts that may be due to the counterparty under the swap contract.

Table of contents

Loss and Loss Adjustment Expense Reserves and Recoverables

The Company establishes reserves for contracts based on estimates of the ultimate cost of all losses including losses incurred but not reported. These estimated ultimate reserves are based on reports received from ceding companies, historical experience as well as the Company's own actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. Since reserves are estimates, the final settlement of losses may vary from the reserves established and any adjustments to the estimates, which may be material, are recorded in the period they are determined.

Loss and loss adjustment expense recoverables include the amounts due from retrocessionaires for paid and unpaid loss and loss adjustment expenses on retrocession agreements. Ceded losses incurred but not reported are estimated based on the Company’s actuarial estimates. These estimates are reviewed periodically and adjusted when deemed necessary. The Company may not be able to ultimately recover the loss and loss adjustment expense recoverable amounts due to the retrocessionaires’ inability to pay. The Company regularly evaluates the financial condition of its retrocessionaires and records provisions for uncollectible reinsurance recoverable when recovery becomes unlikely.

Notes Receivable

Notes receivable include promissory notes receivable from third party entities. These notes are generally recorded at cost along with accrued interest, if any. The Company regularly reviews all notes receivable for impairment and records provisions for uncollectible notes and interest receivable for non-performing notes. At March 31, 2009, the notes earned interest at annual interest rates ranging from 5% to 10% and had maturity terms ranging from 2 years to 10 years. Included in notes receivable balance were accrued interest of $0.2 million at March 31, 2009 (December 31, 2008: $19,000) and all notes were considered current and performing.

Deposit Assets and Liabilities

The Company accounts for reinsurance contracts in accordance with Statement of Financial Accounting Standards ("SFAS") No. 60, ‘‘Accounting and Reporting by Insurance Enterprises,’’ and SFAS No. 113, ‘‘Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts.’’ In the event that a reinsurance contract does not transfer sufficient risk, or a contract provides retroactive reinsurance, deposit accounting is used. Any losses on such contracts are charged to earnings immediately. Any gains relating to such contracts are deferred and amortized over the estimated remaining settlement period. All such deferred gains are included in reinsurance balances payable in the condensed consolidated balance sheets. Amortized gains are recorded in the consolidated statements of income as other income. At March 31, 2009, included in the condensed consolidated balance sheets under reinsurance balances receivable and reinsurance balances payable were $2.0 million and $1.9 million of deposit assets and deposit liabilities, respectively. There were no deposit assets or liabilities at December 31, 2008.

Financial Instruments

Investments in Securities and Securities Sold, Not Yet Purchased

Effective January 1, 2008, the Company adopted SFAS No. 157, “Fair Value Measurements,” which establishes a framework for measuring fair value by creating a hierarchy of fair value measurements based on inputs used in deriving fair values and enhances disclosure requirements for fair value measurements. The adoption of SFAS No. 157 had no material impact to the Company’s results of operations or financial condition as there were no material changes in the valuation techniques used by the Company to measure fair value. The Company’s investments in debt and equity securities that are classified as “trading securities” are carried at fair value. The fair values of the listed equity and debt investments are derived based on quoted prices (unadjusted) in active markets for identical assets (Level 1 inputs). The fair values of most private debt securities are derived based on inputs that are observable, either directly or indirectly, such as market maker or broker quotes reflecting recent transactions (Level 2 inputs), and are generally derived based on the average of multiple market maker or broker quotes which are considered to be binding. Where quotes are not available, debt securities are valued using cash flow models using assumptions and estimates that may be subjective and non-observable (Level 3 inputs).

Table of contents

The Company’s “other investments” may include investments in private equity securities, limited partnerships, futures, exchange traded options and over-the-counter (“OTC”) options, which are all carried at fair value. The Company maximizes the use of observable direct or indirect inputs (Level 2 inputs) when deriving the fair values for “other investments”. For limited partnerships and private equity securities, where observable inputs are not available, the fair values are derived based on unobservable inputs (Level 3 inputs) such as management’s assumptions developed from available information using the services of the investment advisor. Amounts invested in exchange traded and OTC call and put options are recorded as an asset or liability at inception. Subsequent to initial recognition, unexpired exchange traded option contracts are recorded at fair value based on quoted prices in active markets (Level 1 inputs). For OTC options or exchange traded options where a quoted price in an active market is not available, fair values are derived based upon observable inputs (Level 2 inputs) such as multiple market maker quotes.

For securities classified as “trading securities,” and “other investments,” any realized and unrealized gains or losses are determined on the basis of specific identification method (by reference to cost and amortized cost, as appropriate) and included in net investment income in the consolidated statements of income.

Dividend income and expense are recorded on the ex-dividend date. The ex-dividend date is the date as of when the underlying security must have been traded to be eligible for the dividend declared. Interest income and interest expense are recorded on an accrual basis.

Derivative Financial Instruments

SFAS No. 133, ‘‘Accounting for Derivative Instruments and Hedging Activities,’’ (“SFAS No. 133”) establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives in the balance sheet at fair value. It also requires that unrealized gains and losses resulting from changes in fair value be included in income or comprehensive income, depending on whether the instrument qualifies as a hedge transaction, and if so, the type of hedge transaction. Derivative financial instrument assets are generally included in investments in securities or financial contracts receivable. Derivative financial instrument liabilities are generally included in financial contracts payable. The Company's derivatives do not constitute hedges for financial reporting purposes.

Financial Contracts

The Company enters into financial contracts with counterparties as part of its investment strategy. Derivatives not designated as hedging instruments under SFAS No. 133, include total return swaps, credit default swaps, and other derivative instruments which are recorded at their fair value with any unrealized gains and losses included in net investment income in the consolidated statements of income. On the consolidated balance sheets, financial contracts receivable represents derivative contracts whereby the Company is entitled to receive payments upon settlement of the contract. Financial contracts payable represents derivative contracts whereby the Company is obligated to make payments upon settlement of the contract.

Total return swap agreements, included on the consolidated balance sheets as financial contracts receivable and financial contracts payable, are derivative financial instruments whereby the Company is either entitled to receive or obligated to pay the product of a notional amount multiplied by the movement in an underlying security, which the Company does not own, over a specified time frame. In addition, the Company may also be obligated to pay or receive other payments based on either interest rate, dividend payments and receipts, or foreign exchange movements during a specified period. The Company measures its rights or obligations to the counterparty based on the fair value movements of the underlying security together with any other payments due. These contracts are carried at fair value, based on observable inputs (Level 2 inputs) with the resultant unrealized gains and losses reflected in net investment income in the consolidated statements of income. Additionally, any changes in the value of amounts received or paid on swap contracts are reported as a gain or loss in net investment income in the consolidated statements of income.

Table of contents

Financial contracts may also include exchange traded futures or options contracts that are based on the movement of a particular index or interest rate, and are entered into for non-hedging purposes. Where such contracts are traded in an active market, the Company's obligations or rights on these contracts are recorded at fair value measured based on the observable quoted prices of the same or similar financial contract in an active market (Level 1) or on broker quotes which reflect market information based on actual transactions (Level 2).

The Company purchases and sells credit default swaps ("CDS") for the purposes of either managing its exposure to certain investments, or for other strategic investment purposes. A CDS is a derivative instrument that provides protection against an investment loss due to specified credit or default events of a reference entity. The seller of a CDS guarantees to the buyer a specified amount if the reference entity defaults on its obligations or fails to perform. The buyer of a CDS pays a premium over time to the seller in exchange for obtaining this protection. The Company does not designate a CDS as a hedging instrument. CDS trading in an active market are valued at fair value based on broker or market maker quotes for identical instruments in an active market (Level 2) or based on the current credit spreads on identical contracts (Level 2) with any unrealized gains and losses reflected in net investment income in the consolidated statements of income.

Earnings (loss) Per Share

Basic earnings per share is based on the weighted average number of common shares and participating securities outstanding during the period. Diluted earnings per share include the dilutive effect of additional potential common shares issuable under our stock options and are determined using the treasury stock method. As discussed below under the caption, "Recently Issued Accounting Standards," FASB Staff Position ("FSP") EITF 03-6-1 was adopted effective January 1, 2009. This FSP requires that unvested stock awards which contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as "participating securities"), be included in the number of shares outstanding for both basic and diluted earnings per share calculations. Our unvested restricted stock is considered a participating security. All prior period earnings per share data presented is required to be adjusted retrospectively to conform to the provisions of the FSP. In the event of a net loss, the participating securities are excluded from the calculation of both basic and diluted earnings per share. Due to our net loss for the three months ended March 31, 2008, 252,889 unvested restricted shares were not included in determining both basic and diluted earnings per share. In addition, stock options for 1,529,000 shares of common stock were anti-dilutive and were not included in determining diluted earnings per share for the three months ended March 31, 2008. Weighted average diluted common shares outstanding equals the weighted average common shares outstanding during the three month periods ended March 31, 2008 due to the net loss recorded during that period.

	Three months ended March 31,	
	2009	2008
Weighted average shares outstanding	36,078,258	35,981,312
Effect of dilutive service provider stock options	98,156	—
Effect of dilutive employee and director options	158,456	—
	36,334,870	35,981,312

Taxation

Under current Cayman Islands law, no corporate entity, including the Company, is obligated to pay taxes in the Cayman Islands on either income or capital gains. The Company has an undertaking from the Governor-in-Cabinet of the Cayman Islands, pursuant to the provisions of the Tax Concessions Law, as amended, that, in the event that the Cayman Islands enacts any legislation that imposes tax on profits, income, gains or appreciations, or any tax in the nature of estate duty or inheritance tax, such tax will not be applicable to the Company or its operations, or to the

Class A or Class B ordinary shares or related obligations, until February 1, 2025.

The Company's wholly owned subsidiary, Verdant, is incorporated in the U.S. and therefore subject to taxes in accordance with the rates and regulations prescribed by the Internal Revenue Service. Verdant's taxable income is taxed at an effective rate of 35%.

Table of contents

Recently Issued Accounting Standards

In April 2009, the FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity For the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." FSP FAS 157-4 provides further clarification of the principles established by SFAS No. 157 for determining the fair values of assets and liabilities in inactive markets and those transacted in distressed situations. This FSP is effective for periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. Retrospective application is not permitted. The Company did not early adopt this FSP and is evaluating the impact of this FSP, but does not expect the adoption of this FSP to have a material impact on the Company’s results of operations or financial position.

In April 2009, the FASB issued FSP FAS 115-2, and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments.” This FSP, which is limited to debt securities, provides guidance that aims to make other-than-temporary impairments (“OTTI”) of debt securities more operational and improve the presentation of OTTIs in the financial statements. This FSP is effective for periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The Company did not early adopt this FSP and does not expect the adoption of this FSP to have any impact on the Company’s results of operations or financial position.

In April 2009, the FASB issued FSP 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments.” This FSP amends FASB Statement No. 107, “Disclosures about Fair Value of Financial Instruments”, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This FSP is effective for periods ending after June 15, 2009 with early adoption permitted for period ending after March 15, 2009. The Company did not early adopt this FSP and is evaluating the impact of this FSP, but does not expect the adoption of this FSP to have a material impact on the Company’s disclosures since its financial instruments are currently carried at fair value.

In June 2008, the FASB issued FSP No. EITF 03-6-1 "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS"). This FSP is effective for periods beginning after December 15, 2008, and interim periods within those years. The implementation of this FSP did not have a material impact to the Company's EPS calculations given that the Company has declared no dividends since inception and the number of unvested restricted shares are insignificant compared to the total number of outstanding shares. The Company does not anticipate the EPS calculations to be materially affected in the foreseeable future as a result of adopting this FSP.

In March 2008, the FASB issued SFAS No. 161, ‘‘Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133.’’ SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement changes the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how an entity accounts for the derivatives and hedged items, and how derivatives and hedged items affect an entity’s financial position, performance and cash flows. The effect of the statement’s implementation did not have a material impact on the Company’s derivative disclosures.

In February 2008, the FASB issued FSP FAS 157-2 "Effective Date of FASB Statement No. 157." FSP FAS 157-2 deferred the effective date of SFAS No. 157 until January 1, 2009 for non-financial assets and non-financial liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. The implementation of this FSP did not have a material impact on the Company’s results of operation or financial position.

In December 2007, the FASB issued SFAS No. 160, ‘‘Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51.’’ SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and early adoption is prohibited. This statement establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Upon adoption of this statement, the Company's non-controlling interest in joint venture (previously referred to as minority interest in joint venture) was reclassified from liabilities to shareholders’ equity for all years presented. This reclassification resulted in an increase in shareholders’ equity and a decrease in total liabilities. However, the effect of the statement's implementation did not have any impact on the Company's results of operations or retained earnings.

Table of contents

Reclassifications

Certain prior period balances have been reclassified to conform to the current period presentation. The reclassifications resulted in no changes to net income (loss) or retained earnings for any of the periods presented.

3. FINANCIAL INSTRUMENTS

Fair Value Hierarchy

All of the Company's financial instruments are carried at fair value, and the net unrealized gains or losses are included in net investment income in the consolidated statements of income.

The following table presents the Company's investments, categorized by the level of the fair value hierarchy as at March 31, 2009:

	Fair value measurements as at March 31, 2009			
Description	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	($ in thousands)			
Debt securities	$ —	$ 99,739	$ 9,352	$ 109,091
Listed equity securities	436,490	—	—	436,490
Private equity securities	—	1,147	9,807	10,954
Call options	—	801	—	801
Financial contracts receivable (payable), net	—	(2,902)	—	(2,902)
	$ 436,490	$ 98,785	$ 19,159	$ 554,434
Listed equity securities, sold not yet purchased	$ (319,337)	$ —	$ —	$ (319,337)

The following table presents the reconciliation of the balances for all investments measured at fair value using significant unobservable inputs (Level 3):

	Fair value measurements using significant unobservable inputs (Level 3)		
	Debt securities	Private equity securities	Total
	($ in thousands)		
Beginning balance, January 1, 2009	$ 4,115	$ 11,776	$ 15,891
Purchases, sales, issuances, and settlements, net	1,732	(82)	1,650
Total gains or losses (realized & unrealized) included in earnings, net	(1,485)	(1,887)	(3,372)
Transfers in and/or (out of) Level 3	4,990	—	4,990
Ending balance, March 31, 2009	9,352	9,807	19,159

Table of contents

Transfers into Level 3 represent the fair value on the date of transfer of debt securities for which there was not an active market and multiple broker quotes were not available. The fair values of these debt securities were estimated using the last available transaction price, adjusted for credit risk, expected cash flows, and other non-observable inputs.

For the three months ended March 31, 2009, realized gains of $5,000 and change in unrealized gains of $3.4 million on securities still held at the reporting date, and valued using unobservable inputs, are included as net investment income (loss) in the condensed consolidated statements of income.

Debt Securities, trading

At March 31, 2009, the following investments are included in debt securities:

2009	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Corporate debt – U.S	$ 100,433	$ 9,750	$ (11,110)	$ 99,073
Corporate debt – Non U.S	9,251	948	(181)	10,018
Total debt securities	$ 109,684	$ 10,698	$ (11,291)	$ 109,091

At December 31, 2008, the following investments are included in debt securities:

2008	Cost/amortized cost	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Corporate debt – U.S	$ 74,833	$ 1,204	$ (8,750)	$ 67,287
Corporate debt – Non U.S	2,978	109	(160)	2,927
Total debt securities	$ 77,811	$ 1,313	$ (8,910)	$ 70,214

The maturity distribution for debt securities held at March 31, 2009 is as follows:

	Cost/amortized cost	Fair value
	($ in thousands)	
Within one year	$ 15,337	$ 15,683
From one to five years	50,017	55,676
From five to ten years	36,146	29,829
More than ten years	8,184	7,903
	$ 109,684	$ 109,091

Table of contents

Investment in Equity Securities, Trading

At March 31, 2009, the following long positions are included in investment securities, trading:

2009	Cost	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Equities – listed	$ 582,708	$ 20,995	$ (230,542)	$ 373,161
Exchange traded funds	52,088	11,241	—	63,329
	$ 634,796	$ 32,236	$ (230,542)	$ 436,490

At December 31, 2008, the following long positions are included in investment securities, trading:

2008	Cost	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Equities – listed	$ 552,941	$ 14,822	$ (219,173)	$ 348,590
Exchange traded funds	53,364	8,092	(717)	60,739
	$ 606,305	$ 22,914	$ (219,890)	$ 409,329

Other Investments

“Other investments” include options as well as private equity securities for which quoted prices in active markets are not readily available. Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell to (put option) the option counterparty, a specified underlying security at a specified price on or before a specified date. The Company enters into option contracts to meet certain investment objectives. For exchange traded option contracts, the exchange acts as the counterparty to specific transactions and therefore bears the risk of delivery to and from counterparties of specific positions. For OTC options, a dealer acts as the counterparty and therefore the Company is exposed to credit risk to the extent the dealer is unable to meet its obligations. As of March 31, 2009 and December 31, 2008, the Company did not hold any OTC options.

At March 31, 2009, the following securities are included in other investments:

2009	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – unlisted	$ 15,985	$ 1,164	$ (6,195)	$ 10,954
Call options	2,133	—	(1,332)	801
	$ 18,118	$ 1,164	$ (7,527)	$ 11,755

At December 31, 2008, the following securities are included in other investments:

2008	Cost	Unrealized gains	Unrealized losses	Fair value
	($ in thousands)			
Equities – unlisted	$ 15,395	$ 1,236	$ (4,734)	$ 11,897
Call options	2,133	393	—	2,526
	$ 17,528	$ 1,629	$ (4,734)	$ 14,423

14

Table of contents

Investments in Securities Sold, Not Yet Purchased

At March 31, 2009, the following securities are included in investments in securities sold, not yet purchased:

2009	Proceeds	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Equities - listed	$ 386,927	$ (115,131)	$ 8,335	$ 280,131
Warrants and rights on listed equities	—	—	574	574
Exchange traded funds	39,811	(1,179)	—	38,632
	$ 426,738	$ (116,310)	$ 8,909	$ 319,337

At December 31, 2008, the following securities are included in investments in securities sold, not yet purchased:

2008	Proceeds	Unrealized gains	Unrealized losses	Fair value
		($ in thousands)		
Equities - listed	$ 343,079	$ (115,619)	$ 6,841	$ 234,301

Financial Contracts

As of March 31, 2009 and December 31, 2008, the Company had entered into total return swaps, credit default swaps, and interest rate options contracts with various financial institutions to meet certain investment objectives but not for hedging purposes. Under the terms of each of these financial contracts, the Company is either entitled to receive or is obligated to make payments which are based on the product of a formula contained within the contract that includes the change in the fair value of the underlying or reference security.

The fair value of financial contracts outstanding at March 31, 2009 is as follows:

Underlying security	Listing currency	Fair value of underlying	Net assets/ (obligations) on financial contracts
		($ in thousands)	
Interest rate options	USD	$ 137,492	$ 4,131
Credit default swaps, purchased – Sovereign debt	USD	316,425	10,373
Credit default swaps, purchased – Corporate debt	USD	35,765	9,059
Total financial contracts receivable, at fair value			$ 23,563
Credit default swaps, purchased – Sovereign debt	USD	$ 1,317	$ (20)
Credit default swaps, issued – Corporate debt	USD	9,180	(9,180)
Total return swaps - Equities	USD	17,035	(17,265)
Total financial contracts payable, at fair value			$ (26,465)

Table of contents

The fair value of financial contracts outstanding at December 31, 2008 was as follows:

Underlying security	Listing currency	Fair value of underlying	Net assets/ (obligations) on financial contracts
		($ in thousands)	
Interest rate options	USD	$ 85,935	$ 2,564
Credit default swaps, purchased – Sovereign debt	USD	322,516	12,881
Credit default swaps, purchased – Corporate debt	USD	54,509	5,956
Total return swaps - Equities	USD	3,249	18
Total financial contracts receivable, at fair value			$ 21,419
Credit default swaps, issued – Corporate debt	USD	$ 11,089	$ (7,024)
Total return swaps - Equities	USD	26,844	(10,116)
Total financial contracts payable, at fair value			$ (17,140)

As of March 31, 2009, included in financial contracts payable, was a CDS issued by the Company relating to the debt issued by another entity ("reference entity"). The CDS has a remaining term of four years and a notional amount of $13.9 million. Under this contract, the Company receives fees for guaranteeing the debt and in return will be obligated to pay the notional amount to the counterparty if the reference entity defaults under its debt obligations. As of March 31, 2009, based on the assessment conducted by the Company's investment advisor, the risk of default does not appear likely. As of March 31, 2009, the reference entity had a financial strength rating of (A2) and a surplus notes rating of (Baa1) from Moody's Investors Service. The fair value of the CDS at March 31, 2009 was $9.2 million which was determined based on broker quotes obtained for identical or similar contracts traded in an active market (Level 2 inputs).

During the three months ended March 31, 2009 and 2008, the Company reported gains and losses on derivatives as follows:

Derivatives not designated as hedging instruments	Location of gains and losses on derivatives recognized in income	Gain (loss) on derivatives recognized in income for the three months ended March 31, 2009	2008
		($ in thousands)	
Interest rate options	Net investment income	$ 970	$ —
Credit default swaps, purchased – Corporate debt	Net investment income	3,917	175
Credit default swaps, purchased – Sovereign debt	Net investment income	(2,036)	—
Total return swaps – Equities	Net investment income	(10,586)	4,689