

GREENLIGHT CAPITAL RE, LTD.
Form 10-Q
October 31, 2012

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, 2012

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 001-33493

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.)
--	---

65 MARKET STREET SUITE 1207, CAMANA BAY 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 No

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).

Edgar Filing: GREENLIGHT CAPITAL RE, LTD. - Form 10-Q

Yes No

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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Yes No

Class A Ordinary Shares, \$0.10 par value	30,423,704
Class B Ordinary Shares, \$0.10 par value	6,254,949
(Class)	Outstanding as of October 30, 2012

GREENLIGHT CAPITAL RE, LTD.

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2012 (unaudited) and December 31, 2011</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Shareholders' Equity for the Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (unaudited)</u>	<u>6</u>
<u>Notes to the Condensed Consolidated Financial Statements (unaudited)</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>41</u>
<u>Item 4. Controls and Procedures</u>	<u>44</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>45</u>
<u>Item 1A. Risk Factors</u>	<u>45</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>45</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>45</u>
<u>Item 5. Other Information</u>	<u>45</u>
<u>Item 6. Exhibits</u>	<u>46</u>
<u>SIGNATURES</u>	<u>47</u>

[Return to table of contents](#)

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

GREENLIGHT CAPITAL RE, LTD.

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2012 and December 31, 2011

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

	September 30, 2012 (unaudited)	December 31, 2011 (audited)
Assets		
Investments		
Debt instruments, trading, at fair value	\$6,361	\$10,639
Equity securities, trading, at fair value	1,068,534	890,822
Other investments, at fair value	146,576	128,685
Total investments	1,221,471	1,030,146
Cash and cash equivalents	22,301	42,284
Restricted cash and cash equivalents	1,289,434	957,462
Financial contracts receivable, at fair value	18,983	23,673
Reinsurance balances receivable	185,068	141,278
Loss and loss adjustment expenses recoverable	34,006	29,758
Deferred acquisition costs, net	57,735	68,725
Unearned premiums ceded	6,041	27,233
Notes receivable	19,078	17,437
Other assets	3,553	5,492
Total assets	\$2,857,670	\$2,343,488
Liabilities and equity		
Liabilities		
Securities sold, not yet purchased, at fair value	\$1,020,031	\$683,816
Financial contracts payable, at fair value	15,609	6,324
Due to prime brokers	296,739	260,359
Loss and loss adjustment expense reserves	349,395	241,279
Unearned premium reserves	185,053	225,735
Reinsurance balances payable	36,289	32,192
Funds withheld	18,433	38,031
Other liabilities	10,260	10,054
Performance compensation payable to related party	31,646	—
Total liabilities	1,963,455	1,497,790
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, 30,423,704 (2011: 30,283,200); Class B: par value \$0.10; authorized, 25,000,000; issued and outstanding, 6,254,949 (2011: 6,254,949))	3,668	3,654
Additional paid-in capital	491,262	488,478
Retained earnings	386,172	310,971
Shareholders' equity attributable to shareholders	881,102	803,103
Non-controlling interest in joint venture	13,113	42,595
Total equity	894,215	845,698

Total liabilities and equity	\$2,857,670	\$2,343,488
------------------------------	-------------	-------------

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

3

[Return to table of contents](#)

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

For the three and nine months ended September 30, 2012 and 2011
 (expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues				
Gross premiums written	\$67,644	\$93,156	\$303,850	\$307,160
Gross premiums ceded	30,637	(9,308)	24,244	(29,967)
Net premiums written	98,281	83,848	328,094	277,193
Change in net unearned premium reserves	18,276	6,500	20,065	25,462
Net premiums earned	116,557	90,348	348,159	302,655
Net investment income (loss)	96,450	1,070	131,161	(54,574)
Other income (expense), net	191	184	(256)	(163)
Total revenues	213,198	91,602	479,064	247,918
Expenses				
Loss and loss adjustment expenses incurred, net	126,624	62,399	277,268	184,994
Acquisition costs, net	33,820	31,847	107,751	116,792
General and administrative expenses	4,637	1,532	13,619	10,867
Total expenses	165,081	95,778	398,638	312,653
Income (loss) before income tax expense	48,117	(4,176)	80,426	(64,735)
Income tax expense	(645)	(148)	(707)	(189)
Net income (loss) including non-controlling interest	47,472	(4,324)	79,719	(64,924)
(Income) loss attributable to non-controlling interest in joint venture	(1,335)	(156)	(4,518)	1,492
Net income (loss)	\$46,137	\$(4,480)	\$75,201	\$(63,432)
Earnings (loss) per share				
Basic	\$1.26	\$(0.12)	\$2.05	\$(1.75)
Diluted	\$1.23	\$(0.12)	\$2.01	\$(1.75)
Weighted average number of ordinary shares used in the determination of earnings (loss) per share				
Basic	36,678,653	36,153,743	36,630,136	36,153,743
Diluted	37,402,725	36,153,743	37,360,049	36,153,743

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

[Return to table of contents](#)

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

For the nine months ended September 30, 2012 and 2011
 (expressed in thousands of U.S. dollars)

	Ordinary share capital	Additional paid-in capital	Retained earnings	Shareholders' Equity Attributable to Shareholders	Non-controlling interest in joint venture	Total Equity
Balance at December 31, 2010	\$3,646	\$485,555	\$304,202	\$793,403	\$ 45,758	\$839,161
Issue of Class A ordinary shares, net of forfeitures	5	—	—	5	—	5
Share-based compensation expense, net of forfeitures	—	2,116	—	2,116	—	2,116
Non-controlling interest withdrawal from joint venture, net	—	—	—	—	(10,400)	(10,400)
Income (loss) attributable to non-controlling interest in joint venture	—	—	—	—	(1,492)	(1,492)
Net income (loss)	—	—	(63,432)	(63,432)	—	(63,432)
Balance at September 30, 2011	\$3,651	\$487,671	\$240,770	\$732,092	\$ 33,866	\$765,958
Balance at December 31, 2011	\$3,654	\$488,478	\$310,971	\$803,103	\$ 42,595	\$845,698
Issue of Class A ordinary shares, net of forfeitures	14	—	—	14	—	14
Share-based compensation expense, net of forfeitures	—	2,784	—	2,784	—	2,784
Non-controlling interest withdrawal from joint venture, net	—	—	—	—	(34,000)	(34,000)
Income (loss) attributable to non-controlling interest in joint venture	—	—	—	—	4,518	4,518
Net income (loss)	—	—	75,201	75,201	—	75,201
Balance at September 30, 2012	\$3,668	\$491,262	\$386,172	\$881,102	\$ 13,113	\$894,215

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

[Return to table of contents](#)

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

For the nine months ended September 30, 2012 and 2011
 (expressed in thousands of U.S. dollars)

	Nine months ended September 30,	
	2012	2011
Cash provided by (used in) operating activities		
Net income (loss)	\$75,201	\$(63,432)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Net change in unrealized gains and losses on investments and financial contracts	(168,321)	110,679
Net realized (gains) losses on investments and financial contracts	(18,542)	(83,294)
Foreign exchange (gains) losses on restricted cash and cash equivalents	(218)	5,883