

PRIMUS GUARANTY LTD
Form 10-Q
August 09, 2006
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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, 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

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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 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, 2006, the number of shares outstanding of the issuer's common stock, \$0.08 par value, was 43,306,239.

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

	June 30, 2006	December 31, 2005 (unaudited)
Assets		
Cash and cash equivalents	\$ 96,648	\$ 69,355
Available-for-sale investments	550,160	560,147
Accrued interest receivable	5,340	5,127
Accrued premiums and interest receivable on credit and other swaps	3,500	3,461
Premiums receivable on financial guarantees	100	300
Unrealized gain on credit and other swaps, at fair value	50,440	25,342
Fixed assets and software costs, net	5,803	4,993
Debt issuance costs, net	3,074	3,147
Other assets	1,665	1,210
Total assets	\$ 716,730	\$ 673,082
Liabilities and stockholders' equity		
Accounts payable and accrued expenses	\$ 1,793	\$ 3,035
Compensation payable	3,875	4,833
Interest payable	160	404
Accrued premiums on credit swaps	26	—
Taxes payable	46	54
Unrealized loss on credit and other swaps, at fair value	4,350	3,521
Deferred credit swap premiums	35	46
Deferred financial guarantee premiums	200	401
Deferred rent payable	540	416
Long-term debt	200,000	200,000
Total liabilities	211,025	212,710
Preferred securities of subsidiary	98,521	98,521
Stockholders' equity:		
Common stock, \$0.08 par value, 62,500,000 shares authorized, 43,306,084 and 43,176,511 shares issued and outstanding at June 30, 2006 and December 31, 2005	3,572	3,572

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Additional paid-in-capital	267,547	265,848
Warrants	612	612
Accumulated other comprehensive loss	(6,383)	(4,254)
Retained earnings	141,836	96,073
Total stockholders' equity	407,184	361,851
Total liabilities, preferred securities of subsidiary and stockholders' equity	\$ 716,730	\$ 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		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
	(unaudited)		(unaudited)	
Revenues				
Net credit swap revenue (loss)	\$ 16,831	\$ (3,579)	\$ 56,960	\$ (11,777)
Net total return swap revenue	124	—	124	—
Premiums earned on financial guarantees	100	100	200	199
Asset management fees	118	49	167	91
Interest income	6,786	2,793	13,387	6,486
Investment portfolio realized gains	—	23	—	23
Foreign currency revaluation loss	(18)	(955)	(24)	(1,519)
Total net revenues	23,941	(1,569)	70,814	(6,497)
Expenses				
Compensation and employee benefits	5,603	3,406	10,494	8,602
Professional and legal fees	1,069	796	2,284	1,750
Depreciation and amortization	608	525	1,197	1,041
Technology and data	421	398	820	715
Interest expense	2,653	497	5,102	991
Other	1,291	853	2,330	1,618
Total expenses	11,645	6,475	22,227	14,717
Distributions on preferred securities of subsidiary	(1,638)	(1,127)	(2,769)	(1,775)
Income (loss) before provision for income taxes	10,658	(9,171)	45,818	(22,989)
Provision for income taxes	—	(9)	(55)	(45)
Net income (loss) available to common shares	\$ 10,658	\$ (9,180)	\$ 45,763	\$ (23,034)
Income (loss) per common share:				
Basic	\$ 0.25	\$ (0.21)	\$ 1.06	\$ (0.53)

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Diluted	\$ 0.24	\$ (0.21)	\$ 1.03	\$ (0.53)
Average common shares outstanding:				
Basic	43,294	43,108	43,270	43,160
Diluted	44,287	43,108	44,316	43,160

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,	
	2006	2005
	(unaudited)	
Cash flows from operating activities		
Net income (loss)	\$ 45,763	\$ (23,034)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Non-cash items included in net income (loss):		
Depreciation and amortization	1,197	1,041
Stock compensation	2,142	1,534
Net unrealized (gain) loss on swap portfolio	(24,269)	33,571
Net amortization of premium and discount on securities	(1,806)	—
Deferred rent	124	(9)
Amortization of debt issuance costs	86	22
Distributions on preferred securities of subsidiary	2,769	1,775
Increase (decrease) in cash resulting from changes in:		
Accrued interest receivable	(213)	(3,553)
Accrued premiums and interest receivable on credit and other swaps	(39)	90
Premiums receivable on financial guarantees	200	300
Other assets	(455)	263
Accounts payable and accrued expenses	(1,242)	484
Compensation payable	(958)	(2,700)
Interest payable	(244)	(5)
Accrued premiums payable on credit swaps	26	—
Taxes payable.	(8)	172
Deferred credit swap premiums	(11)	(12)
Deferred financial guarantee premiums	(201)	(199)
Net cash provided by operating activities	22,861	9,740
Cash flows from investing activities		
Fixed asset purchases and capitalized software costs.	(2,007)	(356)

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Purchases of available-for-sale investments.	(10,375)	(125,551)
Maturities of available-for-sale investments.	20,000	—
Net cash provided by (used in) investing activities	7,618	(125,907)
Cash flows from financing activities		
Repurchase and retirement of common stock	(649)	(2,397)
Proceeds from exercise of stock options and issue of stock	206	233
Debt issuance costs	(13)	(31)
Net preferred distributions of subsidiary	(2,769)	(1,775)
Net cash used in financing activities	(3,225)	(3,970)
Net effect of exchange rate changes on cash	39	—
Net increase (decrease) in cash	27,293	(120,137)
Cash and cash equivalents at beginning of period	69,355	320,989
Cash and cash equivalents at end of period	\$ 96,648	\$ 200,852
Supplemental disclosures		
Cash paid for interest	\$ 5,260	\$ 482
Cash paid for taxes	\$ 62	\$ 4

See accompanying notes.

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1. Organization and Basis of Presentation

Primus Guaranty, Ltd., together with its consolidated subsidiaries (“Primus Guaranty” or “the Company”), is a Bermuda holding company, and the 100% owner of Primus Bermuda, Ltd. (“Primus Bermuda”), a Bermuda holding company and PRS Trading Strategies, LLC. Primus Bermuda is the 100% owner of Primus Group Holdings, LLC (“Primus Group Holdings”), a Delaware limited liability company. Primus Group Holdings has two principal operating subsidiaries, Primus Financial Products, LLC (“Primus Financial”), and Primus Asset Management, Inc. (“Primus Asset Management”). Primus Financial is a Delaware financial products limited liability company that maintains a long-term counterparty credit rating of AAA from Standard & Poor’s (“S&P”) and Aaa from Moody’s Investors Service, Inc. (“Moody’s”) and, together with S&P, the “Rating Agencies”). The Company considers its legal domicile to be where it is incorporated, Bermuda. Primus Financial is primarily a provider of credit risk protection in the form of credit swaps, with respect to corporate and sovereign issuers. Primus Financial also sells credit swaps referencing portfolios containing obligations of multiple reference entities. Primus Asset Management is an asset manager for Primus Financial and unrelated third parties.

Primus Financial and Primus Asset Management function as separate entities from Primus Group Holdings. Additionally, the obligations of Primus Guaranty are not the obligations of Primus Bermuda, Primus Group Holdings, or any other of its affiliates, and vice versa. Primus Asset Management wholly owns Primus Re, Ltd. (“Primus Re”), a Bermuda company that operates as a financial guaranty insurance company and is licensed as a Class 3 Insurer under the Insurance Act of 1978 of Bermuda.

In July 2005, PRS Trading Strategies, LLC (PRS Trading), a Delaware limited liability company, was formed.. PRS Trading engages in relative value trading and other strategies involving buying and selling of credit swaps and other financial instruments. PRS Trading has no rating from the rating agencies and, accordingly generally provides its swap counterparties with collateral to support its contractual obligations. PRS Trading engages primarily in relative value investing across credits and financial instruments. These investments generally have a short-term investment horizon and are subject to tight risk controls and liquidity management. PRS Trading commenced operations in

January 2006.

In November 2005, Primus Guaranty (UK), Ltd (PGUK) was incorporated in England to expand the Company's presence and further develop its business and relationships across Europe. Primus Bermuda is the 100% owner of PGUK.

The accompanying unaudited condensed consolidated financial statements of Primus Guaranty, Ltd. have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for any other interim period or for the year ended December 31, 2006. The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances have been eliminated.

The condensed consolidated financial statements represent a single reportable segment, as defined in Statement of Financial Accounting Standards ("SFAS") No. 131, Disclosures about Segments of an Enterprise and Related Information.

The condensed consolidated financial statements are presented in U.S. dollar equivalents. At June 30, 2006 and December 31, 2005, the Company's credit swap activities were conducted in U.S. dollars and euros.

Certain prior year amounts have been reclassified to conform to current year presentation.

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2. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (R), Share-Based Payment. SFAS No. 123 (R) is a revision of SFAS No. 123 and supersedes Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. SFAS No. 123 (R) eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25 and requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements using a fair value-based method. In April 2005, the Securities and Exchange Commission ("SEC") amended the effective date of SFAS No. 123 (R) until the first fiscal year beginning after June 15, 2005 to provide additional time for companies to comply with the reporting requirements. Effective January 1, 2006, the Company adopted SFAS No. 123 (R). See note 7 of notes to condensed consolidated financial statements for further detail.

In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 ("SAB No. 107") to provide supplemental implementation guidance on SFAS No. 123 (R). The Company applied the relevant provisions of SAB No. 107 in its adoption of SFAS No. 123 (R).

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company will apply SFAS 154 in future periods, if

applicable.

In November 2005, the FASB issued FASB Staff Position FSP 115-1, The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments (FSP 115-1), which addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in FSP 115-1 is required to be applied to reporting periods beginning after December 15, 2005. The adoption did not have any effect on the condensed consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact that adoption of FIN 48 will have on its consolidated financial statements.

3. Available-for-sale Investments

Available-for-sale investments included U.S. government agency obligations (including government-sponsored enterprises) rated AAA and Aaa by the respective rating agencies and commercial paper rated A-1 and P-1 by the respective rating agencies. Available-for-sale investments have original maturities or maturities at time of purchase greater than 90 days.

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The following table summarizes the composition of the Company's available-for-sale investments at June 30, 2006 and December 31, 2005 (in thousands):

	June 30, 2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S government agency obligations	\$ 556,592	\$ —	\$ (6,432)	\$ 550,160
Commercial paper	—	—	—	—
Total	\$ 556,592	\$ —	\$ (6,432)	\$ 550,160
	December 31, 2005			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S government agency obligations	\$ 544,824	\$ —	\$ (4,259)	\$ 540,565
Commercial paper	19,577	5	—	19,582
Total	\$ 564,401	\$ 5	\$ (4,259)	\$ 560,147

The unrealized losses on the Company's investments in U.S. government agency obligations were primarily the result of an increase in interest rates during the first six months of 2006 and during the year of 2005. These securities have primarily been in a loss position for less than 12 months. Because the decline in market value is attributable to changes in interest rates and not credit quality, and the Company has the ability and intent to hold these investments until maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2006 and December 31, 2005. These securities have maturities of less than 3 years.

4. Net Credit Swap Revenue and Credit Swap Portfolio

Overview

Net credit swap revenue as presented in the condensed consolidated statements of operations comprises changes in the fair value of credit swaps, realized gains or losses on the termination of credit swaps and premium income or expense. The realized gains and losses on credit swaps represent realized gains and losses on unwound or assigned credit swaps. The realization of gains or losses on credit swaps will generally result in a reduction in unrealized gains or losses and accrued premium at the point in time realization occurs.

Credit swaps are derivative transactions that obligate one party to the transaction (the "Seller") to pay an amount to the other party to the transaction (the "Buyer") should one of a specified group of events ("Credit Events") be incurred by an unrelated third party or portfolio of third parties (the "Reference Entity") specified in the contract. The amount to be paid by the Seller will either be (a) the notional amount of the transaction, in exchange for which the Seller must be delivered a defined obligation of the Reference Entity (called physical settlement), or (b) the difference between the current market value of a defined obligation of the Reference Entity and the notional amount of the transaction (called cash settlement). In exchange for incurring the potential of a Credit Event-generated loss, the Seller will receive a fixed premium for the term of the contract (or until the occurrence of a Credit Event). The fixed premium is generally paid quarterly in arrears over the term of the transaction. Premiums are taken into income as they are earned over the life of the transaction. Accrued premiums on credit swaps represent premiums earned but not yet payable. Premiums receivable on credit swaps represents premiums that are both earned and payable. When the Company purchases credit protection from its counterparties, the Company pays premiums as a series of fixed cash flows. The premium expense is recognized ratably over the life of the transaction as a component of net credit swap revenue.

All credit swap transactions entered into between the Buyer and the Seller are subject to an ISDA Master Agreement executed by both parties. The Master Agreement allows for the consolidation of the market exposures and termination of all transactions between the Buyer and Seller in the event a Default (as defined by the Master Agreement) is incurred by either party.

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The primary risks inherent in the Company's activities are (a) where the Company is a Seller that Reference Entities specified in its credit swap transactions will experience Credit Events that will require the Company to make payments to the Buyers of the transactions. Credit Events may include any or all of the following: bankruptcy, failure to pay, repudiation or moratorium, and modified or original restructuring, (b) where the Company is a Buyer of a credit swap and a Credit Event occurs, the Seller fails to make payment to the Company, and (c) that Buyers of the transactions from the Company will default on their required premium payments. During the three and six months ended June 30, 2006 and 2005, none of these events have occurred.

The Company terminates a credit swap in one of two ways. The Company may negotiate an agreed termination through the original counterparty (an unwind). The Company may negotiate an assignment and novation of its rights and obligations under the credit swap to a third party (an assignment). As an alternative to terminating a transaction, in order to reduce its exposure, the Company may enter into an equal and opposite transaction with a third party under which the Company purchases credit default protection on terms that match the terms of the original transaction (an offset). In this last case, both sides of the position may subsequently be unwound or assigned.

In the event of an unwind or assignment, the Company pays or receives a cash settlement negotiated with the counterparty or assignee, based on the fair value of the credit swap contract and the accrued premium on the swap contract at the time of negotiation. The amounts the Company pays or receives are recorded as a realization of fair value and as a realization of accrued premiums in the period in which the termination occurs.

In accordance with accounting principles generally accepted in the United States, the Company carries its credit swaps on its condensed consolidated statements of financial condition at their fair value. Changes in the fair value of the Company's credit swap portfolio are recorded as unrealized gains or losses as a component of net credit swap revenue in the Company's consolidated statements of operations. If a credit swap has an increase in fair value during a period, the increase will add to the Company's net credit swap revenue for that period. Conversely, if a credit swap has a decline in fair value during the period, the decline will subtract from the Company's net credit swap revenue for that period. Changes in the fair value of the Company's credit swap portfolio are a function of the notional amount and composition of the portfolio and prevailing market credit swap premiums for comparable credit swaps. The Company generally holds the credit swaps it sells to maturity, at which point, assuming no credit event has occurred, the cumulative unrealized gains and losses on each credit swap would equal zero.

In general, the Company aggregates fair values of individual credit swaps by counterparty for presentation on the Company's condensed consolidated statements of financial condition. If the aggregate total of fair values with a counterparty is a net gain, the total is recorded as a component of unrealized gains on credit swaps, at fair value in the condensed consolidated statements of financial condition. If the aggregate total of fair values with a counterparty is a net loss, the total is recorded as a component of unrealized losses on credit swaps, at fair value in the condensed consolidated statements of financial condition. Aggregation by counterparty is applied where a valid ISDA master agreement is in place with the counterparty. In instances where the Company does not yet have a valid ISDA master agreement with the counterparty, the fair values of individual swap transactions are recorded as components of unrealized gains or losses on credit swaps, at fair value, dependent upon whether the individual contract was at a gain or a loss.

The Company's portfolio of credit swaps is generally held by Primus Financial and PRS Trading.

Primus Financial

Under the terms of Primus Financial's operating guidelines, derivatives transactions can only include credit swaps.

Primus Financial is primarily a Seller of credit swaps, although it may also buy credit swaps to off-set the risks it has incurred as a Seller. Credit swaps purchased to off-set risks do not qualify as hedges in accordance with SFAS No. 133. As a general rule, when Primus Financial sells credit

protection, it intends to maintain the transaction until maturity. However, there are two sets of circumstances in which the Company could elect to terminate transactions prior to maturity, and the Company monitors its portfolio on a continuing basis to assess whether those circumstances are present.

First, whenever Primus Financial receives new information suggesting that the credit quality of the underlying risk has deteriorated to a material degree, the Company considers the possibility of terminating the transaction, usually at a loss, to avoid the larger loss that could result if the credit swap were to remain in place until a credit event occurs.

Second, Primus Financial may elect to terminate a transaction for which it has an unrealized gain or loss based on one or more of the following considerations: the likelihood of further gains or losses arising from the position, its view as to whether the capital dedicated to the position would be profitably reallocated, its total exposure to a particular Reference Entity, the total size of its portfolio in relation to its capital and the total size of its swap positions and exposures with a particular counterparty which might be reduced so that the counterparty may enter into additional swaps with Primus Financial.

Primus Financial distinguishes among credit swaps sold-single name, credit swaps sold-tranche, credit swaps purchased as short-term investments and credit swaps purchased to offset the credit risk on credit swaps previously sold. Credit swaps sold-single name refers to credit protection referencing a single entity. Credit swaps sold-tranche refers to credit protection referencing portfolios containing obligations of multiple reference entities, which Primus Financial began selling during the second quarter of 2005.

PRS Trading

PRS Trading sells and buys protection through credit default swaps in pursuit of investment returns. Credit swaps purchased to off-set risks do not qualify as hedges in accordance with SFAS No. 133. The Company's board limits the amount of credit swaps sold and purchased in accordance with a set of pre-established risk limits.

Consolidated Net Credit Swap Revenue and Credit Swap Portfolio Information

The tables below present the components of consolidated net credit swap revenue for the three and six months ended June 30, 2006 and 2005 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Net premium income	\$ 17,104	\$ 12,396	\$ 33,047	\$ 23,599
Realized gains	284	1,105	942	1,245
Realized losses	(410)	(3,042)	(1,214)	(3,049)
Change in unrealized gains (losses)	(147)	(14,038)	24,185	(33,572)
Total net credit swap revenue (loss)	\$ 16,831	\$ (3,579)	\$ 56,960	\$ (11,777)

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The Company's consolidated notional amount, fair value and average fair value of open credit swap transactions (excluding the CDS index) entered into with third parties at June 30, 2006 and December 31, 2005 are as follows (in thousands):

	June 30, 2006	December 31, 2005
Gross Notional Amounts:		
Credit swaps sold-single name	\$ 15,147,074	\$ 13,374,031
Credit swaps sold-tranche	350,000	50,000
Credit swaps purchased-single name	(142,500)	—
Fair value:		
Asset	50,440	25,342
Liability	4,335	3,521
Average fair value:		
Asset	48,121	28,140
Liability	2,144	3,545

“Asset” in the table above represents unrealized gains on credit swaps while “Liability” represents unrealized losses on credit swaps. All credit swaps are subject to netting arrangements that have been contractually established independently by Primus Financial and PRS Trading with each counterparty under an ISDA Master Agreement. The notional amounts of the credit swap contracts in the preceding table are presented on a gross basis and the fair values of such contracts are netted by counterparty.

At June 30, 2006 and December 31, 2005, Primus Financial had three derivative transactions with its affiliate, Primus Re, totaling \$87 million in notional principal which are eliminated in consolidation.

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The tables that follow summarize, by credit rating of Reference Entities and of Counterparties, the notional amounts and fair values of credit swap transactions outstanding (excluding transactions with affiliates and \$15 thousand net fair value associated with total return swap and CDS index) for the Company as of June 30, 2006 and December 31, 2005 (in thousands):

(in thousands)

Moody's Rating Category Reference Entity/Tranche Credit Swaps Sold – Single Name:	June 30, 2006		December 31, 2005	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Aaa	\$ 734,772	\$ 1,181	\$ 561,472	\$ 1,118
Aa	2,534,432	8,525	2,268,090	8,006

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A	6,075,773	23,096	5,270,706	15,008
Baa	5,333,690	23,362	5,041,442	4,328
Ba	402,615	(3,436)	199,321	(5,785)
B	65,792	(2,611)	33,000	(1,539)
Total	\$ 15,147,074	\$ 50,117	\$ 13,374,031	\$ 21,136
Credit Swaps Sold – Tranche:				
Aa	\$ 150,000	\$ 950	\$ 50,000	\$ 685
A	200,000	(4,890)	—	—
Total	\$ 350,000	\$ (3,940)	\$ 50,000	\$ 685
Credit Swaps Purchased				
A	\$ (50,000)	\$ (16)	\$ —	\$ —
Baa	(89,000)	(50)	—	—
Ba	(3,500)	(6)	—	—
Total	\$ (142,500)	\$ (72)	\$ —	\$ —
Counterparty Buyer				
Credit Swaps Sold – Single Name:				
Aaa	\$ 5,000	\$ 32	\$ 5,000	\$ 37
Aa	12,744,948	40,344	11,228,563	13,341
A	2,397,126	9,741	2,140,468	7,758
Total	\$ 15,147,074	\$ 50,117	\$ 13,374,031	\$ 21,136
Credit Swaps Sold – Tranche:				
Aa	\$ 350,000	\$ (3,940)	\$ 50,000	\$ 685
Total	\$ 350,000	\$ (3,940)	\$ 50,000	\$ 685
Counterparty Seller				
Credit Swaps Purchased:				
Aa	\$ (142,500)	\$ (72)	\$ —	\$ —
Total	\$ (142,500)	\$ (72)	\$ —	\$ —

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(in thousands)

S&P Rating Category Reference Entity/Tranche	June 30, 2006		December 31, 2005	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Credit Swaps Sold – Single Name:				
AAA	\$ 797,772	\$ 1,718	\$ 636,472	\$ 1,222
AA	2,191,204	6,819	1,862,713	6,026
A	6,806,357	27,029	6,143,717	17,753
BBB	5,020,456	20,202	4,513,356	4,803
BB	254,493	(1,905)	197,773	(7,062)
B	76,792	(3,746)	20,000	(1,606)
Total	\$ 15,147,074	\$ 50,117	\$ 13,374,031	\$ 21,136

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Credit Swaps Sold – Tranche:

AAA	\$ 150,000	\$ (2,538)	\$ —	\$ —
AA	200,000	(1,402)	50,000	685
Total	\$ 350,000	\$ (3,940)	\$ 50,000	\$ 685

Credit Swaps Purchased:

A	\$ (50,000)	\$ (73)	\$ —	\$ —
BBB	(89,000)	7	—	—
BB	(3,500)	(6)	—	—
Total	\$ (142,500)	\$ (72)	\$ —	\$ —

Counterparty Buyer

Credit Swaps Sold – Single Name:

AAA	\$ 41,980	\$ 11	\$ 34,623	\$ (57)
AA	11,567,342	37,860	9,262,316	10,525
A	3,537,752	12,246	4,077,092	10,668
Total	\$ 15,147,074	\$ 50,117	\$ 13,374,031	\$ 21,136

Credit Swaps Sold – Tranche:

AA	\$ 350,000	\$ (3,940)
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