

PLATINUM UNDERWRITERS HOLDINGS LTD

Form 424B4

October 29, 2002

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30,040,000 Shares

Platinum Underwriters Holdings, Ltd.

Common Shares

This is an initial public offering of 30,040,000 Common Shares of Platinum Underwriters Holdings, Ltd. All of the Common Shares are being sold by Platinum Holdings.

Prior to this offering, there has been no public market for Platinum Holdings' Common Shares. The Common Shares have been approved for listing on the New York Stock Exchange under the symbol "PTP", subject to notice of issuance.

Immediately after this offering, public shareholders, The St. Paul Companies, Inc. and RenaissanceRe Holdings Ltd. will own 75.1%, 15.0% and 9.9% of the outstanding Common Shares, respectively, assuming no exercise by the underwriters, St. Paul and RenaissanceRe of their options to purchase additional Common Shares in connection with this offering.

In addition, we are, by means of a separate prospectus, concurrently offering 7.00% equity security units for an aggregate offering price of \$125 million, plus up to an additional \$18.75 million if the underwriters' option to purchase additional equity security units is exercised in full. Each unit will initially consist of (a) a contract to purchase Common Shares from Platinum Holdings on November 16, 2005 and (b) an ownership interest in a 5.25% senior note, which we will guarantee, of Platinum Underwriters Finance, Inc., which will be our wholly owned subsidiary, due November 16, 2007.

See "Risk Factors" beginning on page 22 to read about certain factors you should consider before buying Common Shares.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	\$22.5000	\$675,900,000
Underwriting discount	\$ 1.2375	\$ 37,174,500
Proceeds, before expenses, to Platinum Holdings	\$21.2625	\$638,725,500

To the extent that the underwriters sell more than 30,040,000 Common Shares, the underwriters have the option to purchase up to an additional 4,506,000 Common Shares from Platinum Holdings at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the Common Shares against payment in New York, New York, on November 1, 2002.

Goldman, Sachs & Co. Merrill Lynch & Co. Salomon Smith Barney

Banc of America Securities LLC

Credit Suisse First Boston

Prospectus dated October 28, 2002.

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PROSPECTUS SUMMARY

Platinum Underwriters Holdings, Ltd. is a newly formed company that will conduct its business through three operating subsidiaries, Platinum Underwriters Reinsurance, Inc. ("Platinum US"), Platinum Re (UK) Limited ("Platinum UK") and Platinum Underwriters Bermuda, Ltd. ("Platinum Bermuda"). Platinum UK and Platinum Bermuda are newly formed companies, while Platinum US has been in existence since 1995 and is an inactive, wholly owned subsidiary of The St. Paul Companies. Platinum UK is, and upon completion of this initial public offering, Platinum US will be, owned through Platinum Regency Holdings ("Platinum Ireland"), a newly formed and wholly owned intermediate Irish holding subsidiary of Platinum Underwriters Holdings, Ltd. Platinum US will be owned directly by Platinum Underwriters Finance, Inc. ("Platinum Finance"), a newly formed Delaware corporation, which, upon completion of this initial public offering, will be a wholly owned subsidiary of Platinum Ireland.

The "Company", "Platinum", "we", "us" and "our" refer to Platinum Underwriters Holdings, Ltd.'s consolidated operations, including Platinum US, unless the context otherwise indicates. "Platinum Holdings" refers solely to Platinum Underwriters Holdings, Ltd. Concurrent with the completion of this initial public offering, St. Paul will contribute to Platinum \$123 million in cash, which we refer to as the "Cash Contribution." The St Paul Companies, Inc. and its subsidiaries will also contribute to Platinum substantially all of their continuing reinsurance business and related assets, including all of the outstanding capital stock of Platinum US, referred to herein as the "Transferred Business", having a net tangible book value of approximately \$11 million as of June 30, 2002 (after reflecting a dividend of \$15 million to be paid, prior to the completion of the Public Offering, to United States Fidelity and Guaranty Company, the current parent of Platinum US). Reinsurance is an arrangement in which a reinsurance company indemnifies an insurer or other reinsurer, which is referred to as a "ceding company" or "cedent", against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies. "St. Paul" refers to The St. Paul Companies, Inc., which is sponsoring our formation, and, unless the context otherwise requires, its subsidiaries.

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"St. Paul Re" refers to the reinsurance segment of St. Paul prior to this initial public offering, which includes the continuing business and related assets being transferred to Platinum upon completion of this initial public offering as well as the reinsurance business that will remain with St. Paul after this offering and not be renewed and will thereafter expire when claims are ultimately resolved, which is referred to as the "run-off".

We intend to commence our property and casualty reinsurance business operations, whereby we indemnify insurers and other reinsurers against all or a portion of their insurance or reinsurance risks for property loss and related damage and negligence resulting in bodily injury or property damage, upon completion of this initial public offering of Common Shares, which we refer to as the "Public Offering".

Concurrently with the completion of the Public Offering, St. Paul will make the Cash Contribution and contribute the Transferred Business to us in exchange for our issuance to St. Paul, on a private placement basis, of 6,000,000 Common Shares and a ten-year option, referred to as the "St. Paul Option", which will entitle St. Paul to buy from us up to 6,000,000 additional Common Shares at a price per share equal to 120% of the initial public offering price. St. Paul will own 15.0% of Platinum Holdings' outstanding Common Shares following the Public Offering, the St. Paul Investment and the RenaissanceRe Investment (each as defined below), which Common Shares will be limited to 9.9% of the voting power of the outstanding Common Shares. If the underwriters exercise their option to purchase additional Common Shares in the Public Offering, St. Paul has the option to purchase, at a price per share equal to the initial public offering price, less the underwriting discount, as many additional Common Shares as are required in order for it to retain its 15.0% interest (a maximum of 900,000 additional Common Shares). In this prospectus, we refer to our issuance to St. Paul of the

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15.0% interest in our Common Shares and the St. Paul Option in exchange for the Cash Contribution and the Transferred Business as the "St. Paul Investment".

Also concurrently with the completion of the Public Offering, RenaissanceRe Holdings Ltd. (including its subsidiaries, unless the context otherwise requires, "RenaissanceRe"), a Bermuda company that provides reinsurance and insurance coverage, will purchase from us in a private placement, at a price per share equal to the initial public offering price, less the underwriting discount, 3,960,000 Common Shares, or 9.9% of the Common Shares outstanding upon completion of the Public Offering, the St. Paul Investment and the RenaissanceRe Investment. If the underwriters exercise their option to purchase additional Common Shares in the Public Offering, RenaissanceRe has the option to purchase, at a price per share equal to the initial public offering price, less the underwriters' discount, as many additional Common Shares as are required in order for it to retain its 9.9% interest (a maximum of 594,000 Common Shares). As additional consideration, RenaissanceRe will receive a ten-year option, referred to as the "RenaissanceRe Option", to purchase up to an additional 2,500,000 Common Shares at a price per share equal to 120% of the initial public offering price. In this prospectus, we refer to this private placement as the "RenaissanceRe Investment". The closing of this private placement to RenaissanceRe is conditioned on the completion of the Public Offering, the ESU Offering and the St. Paul Investment.

In addition, we are, by means of a separate prospectus, concurrently offering 7.00% equity security units for an aggregate offering price of \$125 million, plus up to an additional \$18.75 million if the underwriters' option to purchase additional equity security units is exercised in full (the "ESU Offering"). Each unit consists of (a) a contract to purchase Common Shares from Platinum Holdings on November 16, 2005 and (b) an ownership interest in a 5.25% senior note, which we will guarantee, of Platinum Finance, due November 16, 2007.

We will have a total capitalization of between approximately \$974 million (assuming no exercise of the underwriters' options to purchase additional Common Shares or equity security units) and approximately \$1,120 million (assuming full exercise of the underwriters', St. Paul's and RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering and the underwriters' option to purchase additional equity security units), upon completion of the Public Offering, the ESU Offering, the St. Paul Investment and the RenaissanceRe Investment. The pro forma net tangible book value per Common Share following the Public Offering, the ESU Offering, the St. Paul Investment and the RenaissanceRe Investment will be \$21.23 per share, assuming no exercise of the underwriters' options to purchase additional Common Shares or equity security units and without giving effect to the settlement of the purchase contracts included in the equity security units.

In this prospectus, amounts are expressed in U.S. dollars and the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), except as otherwise indicated.

The Company

General

Our objective is to provide property and casualty reinsurance coverages to a diverse clientele of insurers and select reinsurers on a worldwide basis. We will operate principally by using reinsurance brokers to market our products and principally as a lead reinsurer on treaty reinsurance business. In treaty reinsurance, a reinsurer accepts a specified portion of a category of risks insured by a ceding insurer or reinsurer. A substantial majority of our business will be written as excess-of-loss reinsurance, which indemnifies the reinsured against all or a specified portion of loss

above a specified amount. We intend to organize our worldwide reinsurance business around three operating segments:

Global Property and Marine. The Global Property and Marine operating segment will include principally property reinsurance coverages and marine reinsurance coverages. Marine reinsurance coverages include all types of marine vessels and related warehouses and liabilities. We intend to focus our underwriting activities primarily on catastrophe excess-of-loss and per risk excess-of-loss contracts. Catastrophes are events such as hurricanes and earthquakes that produce pre-tax losses before reinsurance which, in our definition, are in excess of \$10 million to us or \$1 billion to the insurance industry, and per risk excess-of-loss contracts cover losses in excess of a specified level on a single risk, rather than aggregate losses for all covered risks. We intend to write other types of property reinsurance as well, including selected property proportional reinsurance, where we will share a proportional part of the original premiums and losses of the reinsured. This segment generated \$315 million, or 22.8%, of Platinum's 2001 pro forma net premiums written, which are gross written premiums less premiums ceded to reinsurers.

Global Casualty. The Global Casualty operating segment will include principally general and automobile liability, professional liability, workers' compensation, accident and health coverages and casualty clash (casualty clash covers losses arising from a single set of circumstances covered by more than one cedent's insurance policy or multiple claimants on one policy). We intend to focus our underwriting activities primarily on excess-of-loss reinsurance coverages. This segment generated \$592 million, or 42.8%, of Platinum's 2001 pro forma net premiums written.

Finite Risk. The Finite Risk operating segment, which writes policies under which our aggregate risk and return are generally capped at a finite amount, will include principally non-traditional reinsurance treaties, including multi-year excess-of-loss (in which the cedent funds the agreed level of loss activity over a multi-year period, and the reinsurer charges an additional amount to provide a profit margin and to cover its costs and the risk that losses are worse than the agreed level), aggregate stop loss (which provides protection from losses arising from a wide range of circumstances in excess of an aggregate specified level), finite quota share (in which the reinsurer's losses and profit potential are capped at specified amounts), loss portfolio transfer (which typically transfers to the reinsurer all liabilities for incurred losses, subject to an aggregate loss limit specified in the contract), and adverse loss development contracts (which typically provide reinsurance coverage for losses in excess of the carried loss reserves of the ceding company at the transaction date). We intend to provide clients, either directly or through brokers, with customized solutions for their risk management and other financial management needs. We intend to focus our finite risk underwriting activities primarily on multi-year excess-of-loss and aggregate stop loss reinsurance treaties. Coverage classes within these products will primarily include property, casualty and marine exposures. This segment generated \$475 million, or 34.4%, of Platinum's 2001 pro forma net premiums written.

In addition, we may write other property and casualty reinsurance on an opportunistic basis. For a discussion of the basis on which pro forma net premiums written were determined, see " Selected Pro Forma Financial Information and Operating Data" below.

Background and the Transferred Business

St. Paul and its subsidiaries constitute one of the oldest insurance organizations in the United States, dating back to 1853. Through its division St. Paul Re, St. Paul has been engaged in the reinsurance business since 1983. In December of 2001, in an effort to enhance the profitability of its reinsurance business, St. Paul decided to narrow the product focus of its reinsurance operations

and to exit certain lines of that business. As part of this effort, St. Paul Re reduced its anticipated 2002 exposure and expenses by exiting unprofitable lines of business and reducing the number of reinsurance branch offices outside the U.S. The narrowing of reinsurance product lines included exiting aviation, bond and credit reinsurance coverages, as well as certain financial risk and capital markets lines. International branch office closings included Munich, Brussels, Hong Kong, Sydney and Singapore. In addition to curtailing various reinsurance operations,

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St. Paul's management decided that its reinsurance business and its primary insurance business should ideally operate as separate entities because of their different risk profiles and business characteristics.

Accordingly, St. Paul determined to sponsor the formation of Platinum Holdings and its subsidiaries. Contingent upon the completion of the Public Offering, St. Paul will contribute to us the Cash Contribution and the Transferred Business through the arrangements described below:

Cash Contribution. At the completion of the Public Offering, St. Paul will make the Cash Contribution in an amount of approximately \$123 million. If the underwriters exercise their option to purchase additional Common Shares, St. Paul has the option to purchase, at a price per share equal to the initial public offering price, less the underwriters' discount, up to 900,000 additional Common Shares, thereby increasing the amount of the Cash Contribution to up to approximately \$142 million. The pro forma net tangible book value per Common Share following the Public Offering, the ESU Offering, the St. Paul Investment and the RenaissanceRe Investment will be \$21.23 per Common Share, assuming no exercise of the underwriters' options to purchase additional Common Shares or equity security units and without giving effect to the settlement of the purchase contracts included in the equity security units.

Renewal Opportunities and Commitments. We will be acquiring from St. Paul Re its existing customer lists and the right to seek to renew substantially all of St. Paul Re's continuing reinsurance contracts. We also will assume commitments, if any, of St. Paul Re to offer reinsurance coverages in the future.

Assumed Reinsurance Contracts. Through 100% quota share retrocession agreements (the "Quota Share Retrocession Agreements"), we will reinsure substantially all of the reinsurance contracts entered into by St. Paul Re on or after January 1, 2002, which we refer to as the "Assumed Reinsurance Contracts". St. Paul Re will retain all of its reinsurance exposure not being transferred to us and will administer the associated run-off. Consequently, we will not assume any underwriting exposure with respect to reinsurance contracts entered into by St. Paul prior to January 1, 2002, except as noted below with respect to finite reinsurance. St. Paul will also retain all liabilities relating to the flooding in Europe in August 2002 and an intermediate layer of liability for named storms in existence at the time of completion of the Public Offering which cause insured damage within ten days of such time, as described herein. We will receive as consideration cash and other assets in an amount equal to the aggregate of all applicable loss reserves (excluding reserves relating to liabilities retained by St. Paul), allocated loss adjustment expense reserves (which are reserves relating to the expense incurred in settling claims), other reserves related to non-traditional reinsurance treaties, ceding commission reserves (which are reserves relating to commissions payable to ceding insurers) and unearned premium reserves (which are reserves equal to the difference between premiums written and premiums earned) subject to agreed upon adjustments, net of ceding commissions under the Quota Share Retrocession Agreements as of the transfer date (which is 12:01 a.m. on the day immediately following the date of the completion of the Public Offering). Underwriting gain or loss with respect to the Assumed Reinsurance Contracts for the period from January 1, 2002 to the transfer date will be retained by St. Paul.

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The terms of the Quota Share Retrocession Agreements provide, with limited exceptions, that retrocessional reinsurance, which is reinsurance obtained by a reinsurer to insure against all or a portion of its reinsurance written, purchased by St. Paul Re shall be for our expense and shall inure to our benefit in respect of the Assumed Reinsurance Contracts, providing us with remaining retrocessional reinsurance coverage for such contracts through 2002 or the earlier termination or expiration of the various retrocession agreements. We will bear all the risk associated with non-payment by third party retrocessionaires under such retrocessional reinsurance. All the Quota Share Retrocession Agreements will take effect as of 12:01 a.m. on the day immediately following the date of the completion of the Public Offering. Accordingly, while St. Paul will be contractually committed to effect the transfer, the effective time of the transfer of the Assumed Reinsurance Contracts will occur after the sale to investors of Common Shares in the Public Offering.

In the case of business written in the U.S. and the U.K., we will have the right to underwrite specified reinsurance business on behalf of St. Paul for a period of one year following the completion of the Public Offering in cases where we are unable to underwrite that business ourselves because, despite using our reasonable best efforts, we have not obtained the necessary regulatory license or approval to do so or we have not yet been approved as a reinsurer by the cedent, and we will reinsure such business pursuant to the Quota Share Retrocession Agreements or, following receipt by Platinum UK of a license from the Financial Services Authority (the "FSA"), may reinsure all or a part of such business pursuant to quota share retrocession agreements to be entered into between Platinum UK and St. Paul Re UK. This will allow us to participate in reinsurance business which is bound after the completion of the Public Offering without any delay occasioned by the start-up of our operations, including the

lack of required licenses, and facilitate the transition of St. Paul Re's business to us.

For a period of three years following the completion of the Public Offering, we will underwrite on behalf of St. Paul, with the consent of St. Paul, renewals of in-force contracts of finite reinsurance. St. Paul will retrocede to us 100% of the unpaid and future losses under currently in-force contracts, and we will have the option to reinsure losses under certain renewed contracts and will be required to offer to reinsure losses under other renewed contracts, for a fair market retrocession premium pursuant to the Quota Share Retrocession Agreements. Under the Quota Share Retrocession Agreements, a portion of future premiums will be applied to settle balances related to prior year experience for the benefit of St. Paul. St. Paul will have an option to renew this arrangement with us for a subsequent period of two years. In the U.K., this arrangement will be limited to finite treaties which St. Paul Re has entered into with a small number of identified cedents and any further finite treaties which may be entered into on behalf of St. Paul Re UK prior to the first anniversary of the completion of the Public Offering.

Related Assets. We will be acquiring from St. Paul tangible and intangible assets relating to the continuing businesses being transferred to us, including furniture and equipment, systems and software, assignments of leases, licenses and other assets, as well as all of the outstanding capital stock of Platinum US.

Employees. Upon or following the completion of the Public Offering, we expect to employ approximately 150 employees previously employed by St. Paul Re.

St. Paul has agreed with us that, subject to certain exceptions, for a period of two years following the completion of the Public Offering, it will not offer reinsurance of the type covered by the Assumed Reinsurance Contracts and for which we have acquired renewal rights or hire certain of our employees.

For discussion of the share ownership interests St. Paul will obtain for its contribution of the Transferred Business, see "St. Paul's Share Ownership" below.

Our Organization

The following chart summarizes our corporate structure upon completion of the transactions contemplated by this prospectus. Our operating business will be conducted by Platinum US, Platinum UK and Platinum Bermuda. Platinum Bermuda expects to reinsure up to approximately 70% of Platinum US's reinsurance business, excluding business subject to the Quota Share Retrocession Agreements, written after the completion of the Public Offering, and we are seeking consent from the FSA for Platinum Bermuda to reinsure up to approximately 55% of Platinum UK's reinsurance business, excluding business subject to the Quota Share Retrocession Agreements, written after the Public Offering; however, such consent may not be granted. St. Paul will continue to write reinsurance in the U.K. and reinsure it 100% to us for up to one year following the completion of the Public Offering. For a discussion of potential future limits on the portion of the reinsurance written by Platinum UK after the completion of the Public Offering which can be reinsured to Platinum Bermuda, see "Business Regulation U.K. Regulation Proposed Limits on Concentration of Reinsurance Exposures".

Management and Directors

We have assembled a senior management team of experienced insurance industry professionals, whose backgrounds include underwriting and marketing property and casualty reinsurance worldwide. Steven H. Newman, who is the Chairman of Platinum Holdings' Board of Directors, Jerome T. Fadden, who is Platinum Holdings' President and Chief Executive Officer, William A. Robbie, who is Chief Financial Officer of Platinum Holdings, Michael E. Lombardozzi, who is General Counsel of Platinum Holdings, Michael D. Price, who will be President and Chief Underwriting Officer of Platinum US, and Neal J. Schmidt, who will be Chief Actuary of Platinum US, in each case upon completion of the Public Offering, have extensive experience in the global property and casualty reinsurance industry. The new senior management team intends to initiate a

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number of actions to improve the underwriting performance and profitability of the Company. These actions are described more fully under "Platinum's Strategy" below.

Our Board of Directors consists of seven members: Mr. Newman; Mr. Fadden; Jay S. Fishman, Chairman of the Board of Directors and Chief Executive Officer of The St. Paul Companies, Inc.; H. Furlong Baldwin, Chairman of Mercantile Bankshares Corporation; Jonathan F. Bank, Senior Vice President of Tawa Associates Ltd.; Dan R. Carmichael, President and Chief Executive Officer of Ohio Casualty Corporation; and Peter T. Pruitt, retired Chairman of Willis Re Inc.

Our Competitive Strengths

We believe that with our experienced management team, unencumbered capital base and the long-term potential of the business and assets of St. Paul Re obtained from St. Paul, we will have the benefits of being both an established business and a new market entrant. As a well-capitalized, focused reinsurer, we believe we will be able to expand our relationships with clients of St. Paul Re as well as new clients to a greater extent than if our operations were part of a multi-line insurer such as St. Paul.

We intend to focus our initial marketing efforts on those brokers and their clients with which St. Paul Re has established business relationships. We feel that the existing portfolio of business generated by St. Paul Re represents a valuable asset given the renewal nature of the reinsurance industry and the importance of continuity of relationships. We believe that the market perceptions and reputation established by

St. Paul Re with respect to service and responsiveness will benefit us in light of the transfer of personnel and underwriting activities from St. Paul Re to us.

Platinum's Strategy

Our goal is to achieve superior long-term returns for our shareholders, while establishing Platinum as a conservative risk manager and market leader in certain classes of property and casualty reinsurance.

Build our future on a strong foundation. We will commence operations with the benefit of the Transferred Business:

Renewal Rights and Assumed Reinsurance Contracts. Our initial portfolio will contain a diversity of business that would normally take many years to develop. We will be acquiring St. Paul Re's existing customer lists and the right to seek to renew its continuing in-force reinsurance contracts, which produced 2001 pro forma net premiums written of approximately \$1.4 billion.

Fully operational infrastructure. We will select experienced employees from the skilled St. Paul Re employee base. These employees have broker and ceding company relationships and underwriting pricing and claims experience that will allow us to be fully staffed and operational in key underwriting and support functions.

Add new executive leadership to existing talent. In order to take full advantage of the historical strengths of St. Paul Re, we have significantly strengthened our senior management team with the addition of Mr. Newman and Mr. Fadden. Mr. Newman and Mr. Fadden have extensive experience in leading publicly traded reinsurance companies and intend to implement a number of initiatives to create a more focused and more profitable reinsurance business.

Focus on profitability, not market share. Our new management team intends to pursue a strategy that emphasizes underwriting discipline and profitability over market share. Key elements of this strategy will be prudent risk selection, appropriate pricing through strict underwriting discipline and increasing our writings of lines of business, which we believe will contribute to our long-term profitability.

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Exercise disciplined underwriting and risk management. We intend to exercise risk management discipline by (i) maintaining a diverse spread of risk in our book of business across products and geographic zones, (ii) focusing on excess-of-loss contracts as opposed to proportional contracts, and (iii) reducing our aggregate catastrophe exposure.

Operate a lean and expense-focused underwriting business. We believe a lean underwriting culture will support our focus on profitability and allow us to be more responsive to changing market conditions. We intend to keep our headcount low and maintain a limited number of offices. In addition, we expect to originate most of our business from brokers, rather than directly from ceding companies or cedents, which are insurance companies seeking reinsurance coverages, which we believe will keep our expenses low.

Grow our business by leveraging our global platform. We intend to operate in all three of the world's leading reinsurance markets with offices in New York, London and Bermuda. St. Paul Re has conducted authorized reinsurance activities in the U.S. and London for many years. Our new Bermuda subsidiary will provide us with both a new market in which to write reinsurance and the flexibility to provide reinsurance products that are best facilitated by an offshore company.

Operate from a position of financial strength. As a newly formed company, our initial capital position is unencumbered by any development of loss reserves for business written prior to January 1, 2002, which are reserves established to reflect estimated cost of loss payments that ultimately will be required to be paid. Upon completion of the Public Offering, the ESU Offering, the St. Paul Investment and the RenaissanceRe Investment, we expect to have a total capitalization of between approximately \$974 million (assuming no exercise of the underwriters' options to purchase additional Common Shares or equity security units) and approximately \$1,120 million (assuming full exercise of the underwriters', St. Paul's and RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering and the underwriters' option to purchase additional equity security units). Our investment strategy will focus on security and stability in our investment portfolio by maintaining a diversified portfolio that will consist primarily of investment grade fixed-income securities.

Recent Industry Trends

After an extended period of increased competition and eroding premiums, the reinsurance markets began experiencing improvements in rates, terms and conditions in the first quarter of 2000. These improvements continued in 2001 and were accelerated by the terrorist attack of September 11, 2001, which resulted in a range of estimated property and casualty insurance losses to the insurance industry of between \$30 billion and \$35 billion, the largest estimated catastrophe losses ever experienced by the industry. We believe property and other reinsurance premiums have often risen in the aftermath of significant catastrophe losses. As claims are reserved, industry surplus is depleted and the industry's capacity to write new business diminishes. At the same time, there appears to be heightened awareness that commercial properties are exposed to a variety of risks. We believe that market trends similar to those that have occurred in past cycles are developing in the current environment. With respect to January, April and July 2002 renewals, St. Paul Re experienced substantial rate increases, generally ranging from 20% to 50% depending on the line of business. We believe that the current imbalance between the increased demand for property-related insurance and reinsurance and the reduced supply of this type of coverage will continue at least for the immediate future.

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St. Paul's Share Ownership

St. Paul has determined that the efficiency, profitability and competitive position of its reinsurance operations can be maximized by separating them from St. Paul's primary insurance operations. Despite the separation of the two businesses, St. Paul will continue to participate in future financial results of the reinsurance business through its ownership of Common Shares as a result of the St. Paul Investment.

In return for the Cash Contribution and the Transferred Business, we will issue 6,000,000 Common Shares to St. Paul (so that St. Paul will own 15.0% of our outstanding Common Shares following the Public Offering, the St. Paul Investment and the RenaissanceRe Investment) and the St. Paul Option. St. Paul's Common Shares will be limited to 9.9% of the voting power of the outstanding Common Shares. If the underwriters exercise their option to purchase additional Common Shares in the Public Offering, St. Paul will have the option to purchase additional Common Shares, at a price per share equal to the initial public offering price less the underwriting discount, in order for it to retain its 15.0% interest. In addition, we will grant St. Paul the St. Paul Option, which is a ten-year option to purchase up to 6,000,000 Common Shares at 120% of the initial public offering price. Exercise of such option by St. Paul in full immediately after completion of the Public Offering, the St. Paul Investment and the RenaissanceRe Investment would increase its percentage interest in our Common Shares to approximately 26.1%, assuming no exercise of the underwriters', St. Paul's or RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering or of the RenaissanceRe Option. However, St. Paul has agreed with us that, prior to any exercise of the St. Paul Option, it will, if necessary, dispose of a sufficient number of Common Shares so that, immediately after exercise of the St. Paul Option, St. Paul would not be a "United States 25% Shareholder" as defined under "Description of Our Common Shares Restrictions on Transfer". St. Paul has informed us that it currently intends to continue its share ownership in Platinum Holdings for the foreseeable future.

RenaissanceRe's Share Ownership and Business Arrangements

In connection with the RenaissanceRe Investment, we will issue to RenaissanceRe 3,960,000 Common Shares (so that RenaissanceRe will own 9.9% of our outstanding Common Shares following the Public Offering, the St. Paul Investment and the RenaissanceRe Investment) and the RenaissanceRe Option. If the underwriters exercise their option to purchase additional Common Shares in the Public Offering, RenaissanceRe will have the option to purchase additional Common Shares, at a price per share equal to the initial public offering price less the underwriting discount, in order for it to retain its 9.9% interest. In addition, we will grant RenaissanceRe the RenaissanceRe Option, which is a ten-year option to purchase up to 2,500,000 Common Shares at 120% of the initial public offering price. Exercise of such option by RenaissanceRe in full immediately after completion of the Public Offering, the St. Paul Investment and the RenaissanceRe Investment would increase its percentage interest in our Common Shares to approximately 15.2%, assuming no exercise of the underwriters', St. Paul's or RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering or of the St. Paul Option. RenaissanceRe has agreed with us that, prior to any exercise of the RenaissanceRe Option, it will, if necessary, dispose of a sufficient number of Common Shares so that, immediately after exercise of the RenaissanceRe Option, RenaissanceRe would not beneficially own more than 19.9% of our outstanding voting securities (or up to 24.9% with our approval). See "Description of Our Common Shares Restrictions on Transfer". RenaissanceRe has informed us that it currently intends to continue its share ownership in Platinum Holdings for the foreseeable future.

We have entered into an investment agreement with St. Paul and RenaissanceRe, which provides RenaissanceRe with, among other things, the right to nominate one director to our board and, in addition, to designate a non-voting representative to attend our board meetings, subject to certain conditions.

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We also will enter into an agreement, which we refer to as the "Services and Capacity Reservation Agreement" in this prospectus, with RenaissanceRe, pursuant to which in exchange for certain payments by us to RenaissanceRe, RenaissanceRe will provide services to us in connection with the reviewing and repositioning of our property catastrophe book of business for a period of five years. These services will include assisting us in measuring risk and managing our aggregate catastrophe exposures. In addition, we expect that we and RenaissanceRe may refer business to each other, to be accepted in the discretion of the party receiving the referral, and that compensation will be paid for referral business at negotiated rates.

RenaissanceRe is a Bermuda company principally engaged, through its operating subsidiaries, in providing reinsurance and insurance coverage that is subject to the risk of natural and man-made catastrophes. For a further discussion of our relationship with RenaissanceRe, see "Certain Relationships and Related Transactions The RenaissanceRe Investment".

Principal Executive Offices

Platinum Holdings was organized on April 19, 2002 as a company limited by shares under Bermuda law. Platinum Holdings' principal executive offices are located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Its telephone number is (441) 295-5950.

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The Public Offering, the St. Paul Investment, the RenaissanceRe Investment and the ESU Offering

Common Shares Offered in the Public Offering	30,040,000 shares.
Common Shares Privately Placed to St. Paul	6,000,000 shares.
Common Shares Privately Placed to RenaissanceRe	3,960,000 shares.
Common Shares Outstanding after the Public Offering, the St. Paul Investment and the RenaissanceRe Investment	40,000,000 shares.
NYSE Symbol	PTP.
St. Paul Investment and the RenaissanceRe Investment	At the completion of the Public Offering, St. Paul will make the Cash Contribution in the amount of \$123 million and will contribute to Platinum the Transferred Business, which had a net tangible book value of approximately \$11 million as of June 30, 2002 (after reflecting a dividend of \$15 million to be paid, prior to the completion of the Public Offering, to United States Fidelity and Guaranty Company, the current parent of Platinum US). St. Paul's Cash Contribution, together with the net tangible book value of Platinum US as of June 30, 2002 (consisting of approximately \$5 million of cash and cash equivalents after reflecting the pre-closing dividend of \$15 million referred to above) to be contributed as part of the Transferred Business, will represent an amount approximately equal to the initial public offering price less the underwriters' discount for the Common Shares privately placed to St. Paul. St. Paul will also contribute to Platinum, as part of the Transferred Business, certain tangible assets and other intangible assets with a net book value of approximately \$7 million as of June 30, 2002. RenaissanceRe will pay, in return for the Common Shares privately placed to it, a per share purchase price equal to the initial public offering price less the underwriters' discount, or in the aggregate \$84 million. The initial public offering price of \$22.50, the Cash Contribution of \$123 million and the purchase price of \$84 million from RenaissanceRe will result in a pro forma net tangible book value per Common Share of \$21.23 following the Public Offering, the ESU Offering, the St. Paul Investment and the RenaissanceRe Investment, assuming no exercise of the underwriters', St. Paul's or RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering or the underwriters' option to purchase additional equity security units.

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Use of Proceeds	Assuming no exercise of the underwriters', St. Paul's or RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering or the underwriters' option to purchase additional equity security units, we expect to receive net proceeds (after the underwriters' discount and before expenses) from the Public Offering, the Cash Contribution, the RenaissanceRe Investment and the ESU Offering
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as set forth in the following table:

	IPO Price of \$22.50 per Share
	(\$ in millions)
Public Offering	\$ 639
St. Paul Cash Contribution	123
RenaissanceRe Investment	84
ESU Offering	120
Total Net Proceeds	\$ 966

Assuming full exercise (which is in their sole discretion) by the underwriters, St. Paul and RenaissanceRe of their options to purchase additional Common Shares in connection with the Public Offering and the underwriters' option to purchase additional equity security units, we expect to receive net proceeds (after the underwriters' discount and before expenses) from the Public Offering, the Cash Contribution, the RenaissanceRe Investment and the ESU Offering as set forth in the following table:

	IPO Price of \$22.50 per Share
	(\$ in millions)
Public Offering	\$ 735
St. Paul Cash Contribution	142
RenaissanceRe Investment	97
ESU Offering	138
Total Net Proceeds	\$ 1,112

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A portion of the net proceeds of the Public Offering, the Cash Contribution and the RenaissanceRe Investment, currently estimated at approximately \$10 million, will be retained by Platinum Holdings and the balance will be contributed to the capital of Platinum US (in an amount not less than \$250 million, which includes net proceeds from the ESU Offering as discussed below), Platinum UK (in an amount not less than \$150 million, upon its being licensed in the United Kingdom), Platinum Ireland (in an amount not less than \$100 million, substantially all of which will be used to purchase a surplus note issued by Platinum US) and Platinum Bermuda (in an amount not less than \$375 million). To the extent we receive net proceeds from the Public Offering, the Cash Contribution and the RenaissanceRe Investment in excess of the minimum amounts stated above, we expect to contribute substantially all such proceeds to the capital of Platinum Bermuda. All but approximately \$20 million of the net proceeds from the ESU Offering (or approximately \$23 million if the underwriters exercise in full their option to purchase additional equity security units) will be contributed to Platinum US. The remaining net proceeds from the ESU Offering will be retained by Platinum Finance.

See "Use of Proceeds."

Dividend Policy

We intend to recommend that our Board of Directors authorize the payment of a dividend of \$0.32 for 2003. It is intended that dividends will be recommended to the Board for approval and payment on a quarterly basis. The declaration and payment of dividends to holders of Common Shares will be at the discretion of the Board of Directors but will be prohibited if certain contract adjustment payments in respect of the equity security units are deferred. See "Dividend Policy".

ESU Offering

Concurrently with the Public Offering, we will offer, by means of a separate prospectus, 7.00% equity security units for an aggregate offering price of \$125 million, plus an additional \$18.75 million if the underwriters' option to purchase additional equity security units is exercised in full. Each unit will initially consist of (a) a contract to purchase Common Shares from Platinum Holdings and (b) a ¹/₄₀, or 2.5%, ownership interest in a 5.25% senior note of Platinum Finance, due November 16, 2007, with a principal amount of \$1,000.

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The purchase contract underlying an equity security unit will obligate holders to purchase, and us to sell, for \$25, on November 16, 2005, a number of newly issued Common Shares equal to a settlement rate based on the average trading price of our Common Shares at that time. We will make quarterly contract adjustment payments on the purchase contracts at the annual rate of 1.75% of the stated amount of \$25 per purchase contract, subject to our rights to defer these payments.

The senior notes of Platinum Finance will be unsecured and senior obligations of Platinum Finance, guaranteed as to principal and interest by Platinum Holdings on a senior and unsecured basis. The notes will mature on November 16, 2007. Each note will initially bear interest at the rate of 5.25% per year, payable quarterly. The applicable interest rate on the notes will be reset, and the notes remarketed, as described under "Description of the Equity Security Units".

During any period in which we defer contract adjustment payments, in general we cannot declare or pay any dividend or distribution on our Common Shares or take specified other actions. We do not expect to defer the contract adjustment payments. The completion of the ESU Offering and the completion of the Public Offering are conditioned on each other.

Underwriters' Options to Purchase Additional Securities

If the underwriters exercise their option to purchase additional Common Shares in whole or in part, St. Paul has the option to purchase (at a price per share equal to the initial public offering price less the underwriting discount) in the aggregate up to an additional 900,000 Common Shares, in order to maintain its proportionate initial share ownership in Platinum Holdings at 15.0%, and RenaissanceRe has the option to purchase (at a price per share equal to the initial public offering price less the underwriting discount) in the aggregate up to an additional 594,000 Common Shares, in order to maintain its proportionate initial share ownership in Platinum Holdings at 9.9%. As a result, if the underwriters', St. Paul's and RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering are exercised in full, there would be 46,000,000 Common Shares outstanding upon completion of the Public Offering, the St. Paul Investment and the RenaissanceRe Investment, and, if the underwriters' option to purchase additional equity security units is exercised in full, \$143.75 million of equity security units outstanding upon completion of the ESU Offering.

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St. Paul Option

We will grant St. Paul a ten-year option, exercisable in whole or in part, to purchase up to 6,000,000 Common Shares at 120% of the initial public offering price. Exercise of such option by St. Paul in full immediately after completion of the Public Offering, the St. Paul Investment and the RenaissanceRe Investment would increase its percentage interest in our Common Shares to approximately 26.1%, assuming no exercise of the underwriters', St. Paul's or RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering or of the RenaissanceRe Option. The option has antidilution provisions as described in this prospectus. St. Paul has agreed with us that, prior to any exercise of the St. Paul Option, it will, if necessary, dispose of a sufficient number of Common Shares so that, immediately after exercise of the St. Paul Option, St. Paul will not be a "United States 25% Shareholder" as defined under "Description of Our Common Shares Restrictions on Transfer."

RenaissanceRe Option

We will grant RenaissanceRe a ten-year option, exercisable in whole or in part, to purchase up to 2,500,000 Common Shares at 120% of the initial public offering price. Exercise of such option by RenaissanceRe in full immediately after completion of the Public Offering, the St. Paul Investment and the RenaissanceRe Investment would increase its percentage interest in our Common Shares to approximately 15.2%, assuming no exercise of the underwriters' option to purchase additional Common

Shares in connection with the Public Offering or of the St. Paul Option. The option has antidilution provisions as described in this prospectus. RenaissanceRe has agreed with us that, prior to any exercise of the RenaissanceRe Option, it will, if necessary, dispose of a sufficient number of Common Shares so that, immediately after exercise of the RenaissanceRe Option, RenaissanceRe will not beneficially own more than 19.9% of our outstanding voting securities (or up to 24.9% with our approval). See "Description of Our Common Shares - Restrictions on Transfer."

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Selected Pro Forma Financial Information and Operating Data

Financial information in this prospectus is presented in U.S. dollars and on the basis of U.S. GAAP unless otherwise indicated.

In this prospectus, we are presenting unaudited pro forma financial information of Platinum Holdings with respect to the Transferred Business, contingent upon the completion of this Public Offering. This pro forma financial information is based on the terms of the agreements between Platinum and St. Paul effecting the transfer of the Transferred Business, the material terms of which are described under "Certain Relationships and Related Transactions", which we refer to herein as the "Inception Agreements".

We caution that the Platinum pro forma consolidated balance sheet and pro forma combined underwriting results presented herein are not indicative of the actual results that we expect to achieve once we commence operations. Many factors may cause our actual results to differ materially from the pro forma consolidated balance sheet and underwriting results including, but not limited to, the following:

Platinum's pro forma combined statement of underwriting results includes premium and loss development on business entered into prior to January 1, 2002. Under the Quota Share Retrocession Agreements, we are assuming no premium or loss development on business entered into prior to January 1, 2002. Therefore, our reported premiums written and earned and reported losses and loss adjustment expenses, which are the expenses of settling claims, in our initial years of operation could be substantially lower than as presented in Platinum's pro forma combined statement of underwriting results. As such, our reported results in our initial years of operation will not be subject to prior year development for periods prior to January 1, 2002.

Following the Public Offering, we will report underwriting results under the Quota Share Retrocession Agreements for the period through the date of completion of the Public Offering based on the application of retroactive reinsurance accounting, resulting in the premiums earned and losses incurred by St. Paul during such period being excluded from our statement of underwriting results. Due to this exclusion, following the Public Offering, our reported 2002 premiums written and earned and our net underwriting results in 2002 could be substantially different than as presented in Platinum's pro forma combined statement of underwriting results.

Platinum's pro forma consolidated balance sheet reflects the inception of the Quota Share Retrocession Agreements assuming transferred balances as of June 30, 2002. Platinum's actual consolidated balance sheet will report transferred amounts determined as of 12:01 a.m. on the day immediately following the date of completion of the Public Offering. Accordingly, underwriting gain or loss with respect to the Assumed Reinsurance Contracts for the period from January 1, 2002 through such date will be retained by St. Paul.

Although we expect to continue to be afforded the benefits of most of St. Paul Re's retrocessional reinsurance program through their expiration during 2002, we may enter into retrocessional reinsurance contracts with significantly different terms and conditions from those that have been made available to us from St. Paul Re and which form the basis of our initial operations.

The additional and reinstatement premiums, which are premiums charged for the restoration of the limit of a catastrophe contract to its full amount after payment of losses, recorded in 2001 by St. Paul Re's Finite Risk operating segment were primarily caused by losses relating

to the September 11, 2001 terrorist attack. These additional and reinstatement premiums were unusually high and not necessarily indicative of the recurring premium volume we expect to write in that business segment.

Platinum's pro forma financial statements continue to reflect the discounting of the liability for certain Assumed Reinsurance Contracts based on our current intention to make arrangements to permit such discounting. If we do not put such arrangements in place, reinsurance contracts of a similar type entered into in the future would be reported on an undiscounted basis.

Pro Forma Consolidated Balance Sheet Data

We have prepared our unaudited pro forma consolidated balance sheet as of June 30, 2002 to reflect our initial capitalization in the amount of \$120,000 and adjusted to reflect, among other things,

amounts reflecting (a) the receipt of approximately \$723 million, representing the approximate net proceeds from the Public Offering and the RenaissanceRe Investment based on the initial public offering price of \$22.50 per Common Share without giving effect to any exercise of the underwriters', St. Paul's or RenaissanceRe's options to purchase additional Common Shares in connection with the Public Offering, (b) the redemption of the Common Shares that were issued at inception and capital contributed prior to the Public Offering, (c) the payment of certain formation and organization expenses, as discussed in Notes 2 and 12 to our consolidated balance sheet, on pages F-5 and F-12 of this prospectus, which total \$5.1 million, of which \$2.1 million has been expensed as of June 30, 2002, and (d) our entering into, and accruing for, the Services and Capacity Reservation Agreement as of June 30, 2002. Additional formation and organization expenses will be incurred prior to closing. It is further assumed that the net proceeds from the Public Offering will be invested in long-term, taxable fixed income securities;

amounts representing the receipt of (a) St. Paul's Cash Contribution of approximately \$123 million, without giving effect to any exercise of St. Paul's option to purchase additional Common Shares in connection with the Public Offering, and (b) the contribution of the Transferred Business at historical cost in exchange for the issuance of Common Shares and the St. Paul Option. Amounts related to net tangible assets contributed to Platinum by St. Paul are recorded at St. Paul's book value as of June 30, 2002. Assets as of June 30, 2002 include approximately \$5 million of net assets of Platinum US consisting of cash and cash equivalents (which reflect a dividend of \$15 million to be paid, prior to the completion of the Public Offering, to United States Fidelity and Guaranty Company, the current parent of Platinum US) as well as approximately \$7 million of tangible assets and other intangible assets such as broker and customer lists and contract renewal rights and licenses;

amounts reflecting the receipt of approximately \$120 million, representing the estimated net proceeds from the ESU Offering, and recognition of the present value of future contract adjustment payments payable on the purchase contracts contained within the equity security units, without giving effect to any exercise of the underwriters' option to purchase additional equity security units. It is further assumed that the net proceeds from the ESU Offering will be invested in long-term, taxable fixed income securities; and

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amounts reflecting Platinum entering into the Quota Share Retrocession Agreements with St. Paul Re reinsuring the Assumed Reinsurance Contracts as of June 30, 2002.

At June 30, 2002

**(\$ in millions,
except per share**

	At June 30, 2002
	amount)
Cash and invested assets	\$ 1,166
Deferred acquisition costs	25
Funds held by reinsured	40
Other assets(1)	19
Total assets	\$ 1,250
Unpaid losses and loss adjustment expense reserves	\$ 109
Unearned premium reserves	140
Debt obligations(2)	125
Financial reinsurance liabilities	17
Other liabilities(1)(3)	10
Total shareholders' equity(3)	849
Total liabilities and shareholders' equity(3)	\$ 1,250
Book value per Common Share(1)(3)(4)	\$ 21.23

- (1) Reflects Platinum entering into, and accruing for, the Services and Capacity Reservation Agreement as of June 30, 2002.
- (2) Reflects senior notes issued in connection with the ESU Offering.
- (3) Reflects the present value of the contract adjustment payments in connection with the ESU Offering.
- (4) Reflects the issuance of 40,000,000 Common Shares in the Public Offering, the St. Paul Investment and the RenaissanceRe Investment.

Pro Forma Combined Underwriting Results

We have prepared our unaudited pro forma combined statements of underwriting results to represent our reinsurance business as if we had commenced our operations and the Public Offering, the ESU Offering, the St. Paul Investment and the RenaissanceRe Investment had been completed as of January 1, 2001. Our presentation of our pro forma underwriting results assumes that all of the Inception Agreements were entered into as of January 1, 2001. We have based our presentation on St. Paul Re's actual underwriting results for the periods presented. We have then adjusted these historical results to remove any of St. Paul Re's reinsurance businesses that will not be part of Platinum following the completion of the Public Offering, including

amounts related to St. Paul Re's reinsurance business representing lines of business that will not be transferred to Platinum, including aviation and bond and credit reinsurance, certain financial risk and capital markets reinsurance products, and certain North American business previously underwritten in London. Platinum will not obtain the renewal rights to these lines of business and will not assume liabilities related to these lines of business, and Platinum's management does not intend to write these lines of business in the future, and

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amounts related to St. Paul Re's allocations from the St. Paul corporate aggregate excess-of-loss reinsurance programs that will not be available to Platinum.

Except as noted above, the pro forma combined underwriting results assume that all other retrocessional reinsurance with respect to the Assumed Reinsurance Contracts entered into in 2002 and prior years will remain available to Platinum.

Also, as noted above, we have based our pro forma underwriting results on the assumption that all of the Inception Agreements were entered into on January 1, 2001, including the Services and Capacity Reservation Agreement.

Our future results will depend in part on the amount of our investment income, which cannot be predicted and which will fluctuate depending upon the types of investments we select, our underwriting results and market factors. Actual tax expense in future periods will be based on underwriting results plus investment income and other income and expense items not reflected in the pro forma combined underwriting results. Our effective tax rate will reflect the proportion of income recognized by our operating subsidiaries, with Platinum US taxed at the U.S. corporate income tax rate (35%), Platinum UK taxed at the U.K. corporate tax rate (generally 30%), Platinum Ireland taxed at the Irish corporate tax rate (25% on non-trading income and 16% on trading income, the latter rate to be reduced to 12.5% as of January 1, 2003), and Platinum Bermuda taxed at a zero corporate tax rate. In 2002, we expect to have a greater portion of our income subject to U.S. taxation and U.K. taxation than we expect to have in the future because our Bermuda operations are entirely new but can be expected to grow as a proportion of our business. As a result of changes in the geographic distribution of taxable income as well as changes in the amount of our non-taxable income and expense, the relationship between our reported income before tax and our income tax expense may change significantly from one period to the next.

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	Six Months Ended June 30,		Year Ended December 31, 2001
	2002	2001	
	(\$ in millions)		
Net premiums earned			
Net premiums written	\$ 602	\$ 576	\$ 1,382
Change in unearned premiums, net	(29)	(88)	(80)
	573	488	1,302
Losses and Underwriting Expenses			
Losses and loss adjustment expenses	350	344	1,440
Policy acquisition expenses	144	149	237
Other underwriting expenses	34	37	69
	528	530	1,746
Underwriting gain (loss)	\$ 45	\$ (42)	\$ (444)
Selected Ratios - U.S. GAAP			
Loss and loss adjustment expense ratio	61.2%	70.6%	110.6%
Underwriting expense ratio	31.1%	38.1%	23.5%
	92.3%	108.7%	134.1%
Selected Ratios - Statutory			
Loss and loss adjustment expense ratio	61.2%	70.6%	110.6%
Underwriting expense ratio	29.6%	32.3%	22.1%

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	Six Months Ended		
	June 30,		
Combined ratio	90.8%	102.9%	132.7%
Impact of catastrophes on combined ratio (1)	(3.0)%	3.7%	40.9%

(1) Excludes ceded losses under St. Paul Re's aggregate excess-of-loss treaties, because such treaties extend to non-catastrophic as well as catastrophic losses as described below. The 3% benefit from catastrophes on the June 30, 2002 combined ratio is driven by a lack of catastrophes in the first six months of 2002 and favorable loss development in 2002 on catastrophe losses incurred in prior years.

Included in the 2001 pro forma combined underwriting results are pre-tax losses related to the September 11, 2001 terrorist attack totaling \$468 million. This amount includes gross losses and loss adjustment expenses of \$819 million, \$123 million of ceded reinsurance, \$137 million of additional and reinstatement premiums and \$91 million of reduced contingent commission expenses. The determination of the impact of catastrophes on the combined ratio (which is a combination of the expense ratio and the loss ratio) excludes the ceded losses under St. Paul Re's aggregate excess-of-loss treaties; these treaties provide coverage for excess losses arising from catastrophic and non-catastrophic events. The benefits of St. Paul Re's aggregate excess-of-loss treaty for 2002 will remain available to Platinum for the balance of 2002 unless earlier terminated pursuant to its terms.

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Pro Forma Underwriting Results by Operating Segment

The following provides a summary of the pro forma underwriting results for our three operating segments. To provide a more meaningful indication of the underlying performance of our business segments, the results exclude the impact of St. Paul Re's aggregate excess-of-loss treaties and the impact of the September 11, 2001 terrorist attack.

	Six Months Ended		Year Ended
	June 30,		
	2002	2001	December 31, 2001

(\$ in millions)

Net premiums written			
Global Property and Marine	\$ 215	\$ 196	\$ 356
Global Casualty	248	288	611
Finite Risk	146	129	365
Total	\$ 609	\$ 613	\$ 1,332
Underwriting gain (loss)			
Global Property and Marine	\$ 64	\$ 11	\$ 62
Global Casualty	(29)	(89)	(119)
Finite Risk	30	(6)	(26)

Total Six Months
Ended
 \$ 65,843 (84) \$
June 30,

(83) The Compensation Committee does not allocate a fixed percentage to each of these elements, but works with management to design compensation structures that best serve its goals.

Base Salary

The base salary of Mr. Lance B. Rosemore, the Company's CEO, was recommended by the Compensation Committee. Recommendations for compensation of executive officers, other than Mr. Rosemore, are provided by the CEO after annual evaluations of individual contributions to the business of the Company are held with each such executive officer. Factors considered by the Compensation Committee in recommending base salaries include the performance of the Company, measured by both financial and non-financial objectives, individual accomplishments, any planned change of responsibilities for the forthcoming year, salaries paid for similar positions within the real estate and REIT industry as published in industry statistical surveys and proposed base salary relative to that of other executive officers. The predominating factor is the performance of the Company. The application of the remaining factors is subjective, with no factor being given more weight than the other.

Annual Incentive

Executives are also eligible for annual incentive awards which awards are designed to place a part of an executive's annual compensation at risk. The executive officers will participate in the bonus incentive program under which the individual executives are eligible for annual cash and/or share bonuses. Bonuses were paid by the Company to each of the executive officers for the year ended December 31, 2004. The Compensation Committee determines bonuses on the basis of a comparison of actual performance against pre-established performance goals for the Company and will be, in part, based on the discretion of the Compensation Committee.

Six Months
Ended
June 30,

Long-term Incentives

In keeping with the Compensation Committee's philosophy to provide long-term incentives to executive officers and other key employees, it is anticipated that restricted share awards and share options will be granted to executive officers and other key officers on a periodic basis. The Compensation Committee will administer the 2005 Equity Incentive Plan, if approved by shareholders, and will establish the number of options granted based upon REIT industry data and upon each individual's base salary.

CEO Performance Evaluation

The Compensation Committee recommends to the Board for its approval the compensation of all executives, including the CEO. Mr. Rosemore's salary for 2005, as established by his employment agreement, is set at \$337,050. In 2004, the Company paid Mr. Rosemore \$326,025 in base compensation. Also, he was awarded a bonus of \$34,300.

Tax Consideration

The Compensation Committee is aware of the tax law which makes certain (non-performance based) compensation to certain executive officers in excess of \$1,000,000 non-deductible to the Company. While none of the executive officers currently receives performance-based compensation at or near the \$1,000,000 maximum, the Compensation Committee has carefully considered the impact of these tax provisions and has taken steps which are designed to minimize their future effect, if any.

The Compensation Committee Report is given by the following members of the Compensation Committee:

Ira Silver
Roy Greenberg
Barry Imber

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of members of the Board who are neither former nor current officers or employees of the Company or any of its subsidiaries.

Six Months
Ended
June 30,

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our trust managers and executive officers and persons who own more than 10% of a registered class of our equity securities, to file reports of holdings and transactions in our securities with the SEC. Executive officers, trust managers and greater than 10% beneficial owners are required by applicable regulations to furnish us with copies of all Section 16(a) forms they file with the SEC.

Based solely upon a review of the reports furnished to us with respect to our 2004 fiscal year, we believe that all SEC filing requirements applicable to our trust managers and executive officers were satisfied.

Certain Relationships and Related Transactions

There are no related transactions.

Six Months
Ended
June 30,

PERFORMANCE GRAPH

Set forth below is a line graph comparing the percentage change in the cumulative total shareholder return on the PMC Commercial Shares with the cumulative total return of the Russell 2000, the SNL All Hybrid REITs index and the PMC Commercial's peer group which consists of the publicly traded mortgage REITs listed on the NYSE, the AMEX and the NASDAQ for the period from January 1, 2000 through December 31, 2004 assuming an investment of \$100 on January 1, 2000 and the reinvestment of dividends. The SNL All Hybrid REITs index consists of those REITs identified by SNL Financial LC which own both mortgage loans and equity interests in real estate and are traded on the NYSE, the AMEX and the NASDAQ. The entities included in the SNL All Hybrid REITs index include substantially all of the members of PMC Commercial's peer group. The share price performance shown on the graph is not necessarily indicative of future price performance.

The graph shall not be deemed to be soliciting material or to be filed with the SEC under the Securities Act of 1933, or the Exchange Act, or incorporated by reference in any document so filed.

Six Months
 Ended
 June 30,

PROPOSAL ONE

ELECTION OF TRUST MANAGERS

At the Meeting, eight (8) trust managers will be elected by the shareholders, each trust manager to serve until his successor has been duly elected and qualified, or until the earliest of his death, resignation or retirement.

The persons named in the enclosed proxy will vote your shares as you specify on the enclosed proxy form. If you return your properly executed proxy but fail to specify how you want your shares voted, the shares will be voted in favor of the nominees listed below. Our board has proposed the following nominees for election as trust managers at the Meeting.

Nominees

Name	Age	Principal Occupation	Trust Manager Since
Nathan G. Cohen	59	Mr. Cohen has been President of Consultants Unlimited, a management and financial consulting firm, since August 2001. From November 1984 to 2001, he was the Controller of Atco Rubber Products, Inc.	May 1994
Martha R. Greenberg	53	Dr. Greenberg has practiced optometry for 31 years in Russellville, Alabama and is the President of the Alabama Optometric Association. Dr. Greenberg was a director of PMC Capital from 1984 to February 2004. Dr. Greenberg is not related to Roy H. Greenberg, but is the sister of Lance B. Rosemore and Andrew	May 1996

<u>Six Months Ended June 30,</u>				
	Roy H. Greenberg	47	S. Rosemore. Mr. Greenberg has been the President of Whitehall Real Estate, Inc., a real estate management firm, since December 1989. From June 1985 to December 1989, he was Vice President of GHR Realty Holding Group, Inc., a real estate management company.	September 1993
	Barry A. Imber	58	Mr. Imber has been a principal of Imber and Company, Certified Public Accountants, or its predecessor, since 1982. Mr. Imber was a trust manager of PMC Commercial from September 1993 to March 1995 and a director of PMC Capital from March 1995 to February 2004.	February 2004
	Irving Munn	56	Mr. Munn has been the President of Munn & Morris Financial Advisors, Inc. since July 1999. He has been a registered representative with Raymond James Financial Services since 1997. Mr. Munn was a principal of Kaufman, Munn and Associates, P.C., a public accounting firm, from 1991 to November 2000 and President from 1993 to November 2000. He is currently the President of Irving Munn, P.C., a public accounting firm. Mr. Munn is a	September 1993

**Six Months
Ended
June 30,**

certified public
accountant and
certified financial
planner.

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Six Months
Ended
June 30,

Andrew S. Rosemore	58	Dr. Rosemore has been Chairman of the Board of Trust Managers since January 1994 and has been Executive Vice President, Chief Operating Officer and Treasurer of PMC Commercial since June 1993. He was the Chief Operating Officer of PMC Capital from May 1992 to February 2004 and Executive Vice President of PMC Capital from 1990 to February 2004. Dr. Rosemore was a director of PMC Capital from 1989 to August 1999. Dr. Rosemore is the brother of Martha R. Greenberg and Lance B. Rosemore.	June 1993
Lance B. Rosemore	56	Mr. Rosemore has been President, Chief Executive Officer and Secretary of PMC Commercial since June 1993. He was the Chief Executive Officer of PMC Capital from May 1992 to February 2004 and President of PMC Capital from 1990 to February 2004. Mr. Rosemore was been Secretary of PMC Capital from 1983 to February 2004. Mr. Rosemore was a director of PMC Capital from 1983 to February 2004. Mr. Rosemore is the brother of Martha R. Greenberg and Andrew S. Rosemore.	June 1993
Ira Silver	60	Dr. Silver is Associate Professor of Professional Practice in Managerial Economics at TCU's Neeley School of Business where he teaches economics and finance to MBA and executive MBA students. He is also an economic	May 1996

Six Months
Ended
June 30,

consultant to the G7 Group, a political and economic research and advisory firm. Formerly, he was Assistant Director of Planning and Analysis and Chief Economist at JC Penney where he spent 22 years. Dr. Silver was a director of PMC Capital from 1992 through 1994. Dr. Silver holds a Ph.D. in Economics from the City University of New York.

The Board unanimously recommends that you vote FOR the election of trust managers as set forth in Proposal One. Proxies solicited by the Board will be so voted unless you specify otherwise in your proxy.

PROPOSAL TWO

APPROVAL OF PMC COMMERCIAL TRUST 2005 EQUITY INCENTIVE PLAN

Introduction

The Board has adopted the 2005 Equity Incentive Plan for officers, employees and independent Trust Managers of PMC Commercial Trust, subject to the approval of the 2005 Equity Incentive Plan by our shareholders.

The 2005 Equity Incentive Plan will be administered by the Compensation Committee of the Board. The Compensation Committee, in its discretion, may grant share-based awards (including Incentive Share Options, Non-Qualified Share Options and Restricted Shares) to officers, employees and Trust Managers under the 2005 Equity Incentive Plan.

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Subject to adjustment for share splits, share dividends and similar events, the total number of shares that can be issued under the 2005 Equity Incentive Plan is 500,000 common shares of beneficial interest. Based solely upon the closing price of our common shares as reported on the AMEX on April ___, 2005, the maximum aggregate market value of the securities to be issued under the 2005 Equity Incentive Plan would be \$___. The shares issued by the Company under the 2005 Equity Incentive Plan may be authorized but unissued shares, or shares reacquired by the Company. To the extent that awards under the 2005 Equity Incentive Plan do not vest or otherwise revert to the Company, the shares represented by such awards may be the subject of subsequent awards.

To satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), share options with respect to no more than 20,000 shares (subject to adjustment for share splits and similar events) may be granted to any one individual during any one calendar year.

Vote Required

There are two different sets of voting requirements for the 2005 Equity Incentive Plan to be approved:

Under Texas law, the affirmative vote of a majority of all the votes cast at the meeting is required to approve the 2005 Equity Incentive Plan. This means that, assuming a quorum is present, the number of yes votes cast at the meeting for the proposal must exceed the number of no votes cast at the meeting in order for this proposal to be approved. Votes may be cast FOR or AGAINST this proposal. Votes cast FOR the proposal will count as yes votes and votes cast AGAINST the proposal will count as no votes. Both yes votes and no votes are counted as votes cast. Neither abstentions nor broker non-votes are treated as votes cast under Texas law and, therefore, they have no effect on the outcome.

Under the rules of the AMEX, two separate thresholds must be met in order for the 2005 Equity Incentive Plan to be approved: (1) the number of yes votes cast at the meeting for this proposal must be at least a majority of all votes cast (including both no votes and abstentions); and (2) the total number of votes cast with respect to this proposal (regardless of whether they are yes votes, no votes or abstentions) must represent more than 50% of all of the shares entitled to vote on the proposal. The

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AMEX treats yes votes, no votes and abstentions as votes cast, but does not treat broker non-votes as votes cast. Because the proposal to approve the 2005 Equity Incentive Plan is a non-routine matter under AMEX rules, brokerage firms, banks and other nominees who hold shares on behalf of their clients in street name are not permitted to vote the shares if the clients do not provide instructions (either vote FOR, or vote AGAINST or ABSTAIN) on this proposal. Accordingly, if a majority of the shares entitled to vote are recorded as broker non-votes on this proposal, the proposal will not be approved even if all of the shares voted are yes votes.

Recommendation

The Board believes that share-based awards can play an important role in the success of the Company by encouraging and enabling the officers, employees and independent Trust Managers of the Company upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. The Board anticipates that providing such persons with a direct stake in the Company's welfare will assure a closer alignment of the interests of participants in the 2005 Equity Incentive Plan with those of the Company's shareholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with

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the Company. Our 1993 plan has expired, and we currently do not have the ability to make grants of share-based awards. In order to be competitive and to keep pace with changes in the market and our competitors, the Board believes that the Company should have a flexible equity plan.

The Board believes that the proposed 2005 Equity Incentive Plan will help the Company to achieve its goals by keeping the Company's incentive compensation program dynamic and competitive with those of other companies. Accordingly, the Board believes that the 2005 Equity Incentive Plan is in the best interests of the Company and its shareholders and recommends that the shareholders approve the 2005 Equity Incentive Plan.

The Board unanimously recommends that the 2005 Equity Incentive Plan be approved and, therefore, recommends a vote FOR this proposal.

Summary of the 2005 Equity Incentive Plan

The following description of certain features of the 2005 Equity Incentive Plan is intended to be a summary only. The summary is qualified in its entirety by the full text of the 2005 Equity Incentive Plan that is attached to this proxy statement as Appendix A.

2005 Equity Incentive Plan Administration. The 2005 Equity Incentive Plan provides for administration by the Compensation Committee of the Board (the Administrator). The Administrator has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the 2005 Equity Incentive Plan. The Administrator may permit common share, and other amounts payable pursuant to an award, to be deferred. In such instances, the Administrator may permit interest, dividend or deemed dividends to be credited to the amount of deferrals. In addition, the Administrator may not reprice outstanding options without prior shareholder approval, other than to appropriately reflect changes in the capital structure of the Company.

Eligibility and Limitations on Grants. All full-time officers and employees and non-employee trust managers of the Company are eligible to participate in the 2005 Equity Incentive Plan, subject to the discretion of the Administrator.

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The number of individuals potentially eligible to participate in the 2005 Equity Incentive Plan is currently approximately 50 persons.

The maximum award of Share Options granted to anyone individual will not exceed 20,000 shares (subject to adjustment for share splits and similar events) for any calendar year period.

No grants of Non-Qualified Share Options and other Awards may be made after the tenth anniversary of the effective date of the plan and no grants of Incentive Share Options may be made after the tenth anniversary of the March 5, 2005 approval of the 2005 Equity Incentive Plan by the Board.

Share Options. Options granted under the 2005 Equity Incentive Plan may be either Incentive Share Options (Incentive Options) (within the meaning of Section 422 of the Code) or Non-Qualified Share Options (Non-Qualified Options). Incentive Options may be granted only to employees of the Company. Options granted under the 2005 Equity Incentive Plan will be Non-Qualified Options if they (i) fail to qualify as Incentive Options, (ii) are granted to a person not eligible to receive Incentive Options under the Code, or (iii) otherwise so provide. Non-Qualified Options may be granted to any eligible participant.

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Other Option Terms. The Administrator has authority to determine the terms of options granted under the 2005 Equity Incentive Plan. Generally, options are granted with an exercise price that is not less than the fair market value of the common shares on the date of the option grant. The term of each option will be fixed by the Administrator and may not exceed ten years from the date of grant. The Administrator will determine at what time or times each option may be exercised and, subject to the provisions of the 2005 Equity Incentive Plan, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised. Options may be made exercisable in installments, and the exercisability of options may be accelerated by the Administrator. In general, unless otherwise permitted by the Administrator, no option granted under the 2005 Equity Incentive Plan is transferable by the optionee other than by will or by the laws of descent and distribution, and options may be exercised during the optionee's lifetime only by the optionee, or by the optionee's legal representative or guardian in the case of the optionee's incapacity.

Options granted under the 2005 Equity Incentive Plan may be exercised for cash or, if permitted by the Administrator, by transfer to the Company (either actually or by attestation) of common share that is not then subject to restrictions under any Company share plan, and that has been held by the optionee for at least one year or was purchased on the open market, and that have a fair market value equivalent to the option exercise price of the share being purchased, or, subject to applicable law, by compliance with certain provisions pursuant to which a securities broker delivers the purchase price for the share to the Company.

To qualify as Incentive Options, options must meet additional federal tax requirements, including a \$100,000 limit on the value of common shares subject to Incentive Options which first become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of significant shareholders.

Restricted Share Awards. The Administrator may grant common shares (at a purchase price, if any, determined by the Administrator) to any participant subject to such conditions and restrictions as the Administrator may determine. These conditions and restrictions may include the achievement of pre-established performance goals and/or continued employment with the Company through a specified vesting period. The vesting period shall be determined by the

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Administrator. If the applicable performance goals and other restrictions are not attained, the participant will forfeit his or her award of restricted shares. Recipients of restricted shares have the right to receive dividends with respect to those shares and to vote the shares.

Tax Withholding. Participants under the 2005 Equity Incentive Plan are responsible for the payment of any federal, state or local taxes that we are required by law to withhold upon any option exercise or vesting of other awards. Subject to approval by the Administrator, participants may elect to have the minimum tax withholding obligations satisfied either by authorizing us to withhold common shares to be issued pursuant to an option exercise or other award, or by transferring to the Company common shares having a value equal to the amount of such taxes.

Change of Control Provisions. The 2005 Equity Incentive Plan provides that in the event of a change of control as defined in the 2005 Equity Incentive Plan, except as otherwise provided in any award agreement, all outstanding Share Options will automatically become fully exercisable, and all conditions and restrictions on all outstanding Restricted Share Awards will be removed.

Adjustments for Share Dividends; Mergers, etc. The 2005 Equity Incentive Plan authorizes the Administrator to make appropriate adjustments to the number of common shares that are subject to the 2005 Equity Incentive Plan and to any outstanding Share Options to reflect share dividends, share splits and similar events. In the event of certain transactions, such as a merger, consolidation, dissolution or liquidation of the Company, all Share Options will automatically become fully exercisable and the

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restrictions and conditions on all other awards will automatically be deemed waived. In addition, the 2005 Equity Incentive Plan and all awards will terminate unless the parties to the transaction, in their discretion, provide for appropriate substitutions or adjustments of outstanding Share Options or other awards.

Amendments and Termination. The Board of Trust Managers may at any time amend or discontinue the 2005 Equity Incentive Plan and the Administrator may at any time amend or cancel any outstanding award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect the rights under any outstanding awards without the holder's consent. Any amendments that materially change the terms of the 2005 Equity Incentive Plan, including any amendments that increase the number of common shares reserved for issuance under the 2005 Equity Incentive Plan, expand the type of awards available, materially expand the eligibility to participate or materially extend the term of the 2005 Equity Incentive Plan, or materially change the method of determining fair market value, will be subject to approval by our shareholders. To the extent required by the Code to ensure that options granted under the 2005 Equity Incentive Plan qualify as Incentive Options, 2005 Equity Incentive Plan amendments shall be subject to approval by our shareholders.

New 2005 Equity Incentive Plan Benefits

No grants of share awards have been reserved for issuance under the 2005 Equity Incentive Plan. The number of shares that may be granted to executive officers and all employees including non-executive officers is indeterminable at this time, as such grants are subject to the discretion of the Administrator.

Equity Compensation Plan Information

The following table gives information about the common shares that may be issued upon the exercise of options under the 1993 Plan as of December 31, 2004. The table does not include any shares for which shareholder approval is being sought at the Meeting.

Equity Compensation Plan Information
Number
of Weighted Number of securities

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Plan Category	securities average to be exercised upon price of exercise of outstanding options, warrant and rights (a)	exercise price of outstanding warrants and rights (b)	remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	164,260	\$15.86	
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	164,260	\$15.86	

(1) Includes information related to our 1993 Plan.

Tax Aspects under the U.S. Internal Revenue Code

The following is a summary of the principal federal income tax consequences of transactions under the 2005 Equity Incentive Plan. It does not describe all federal tax consequences under the 2005 Equity Incentive Plan, nor does it describe state or local tax consequences.

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Incentive Options. No taxable income is generally realized by the optionee upon the grant or exercise of an Incentive Option. If common shares issued to an optionee pursuant to the exercise of an Incentive Option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (i) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (ii) there will be no deduction for the Company for federal income tax purposes. The exercise of an Incentive Option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee. Under current law, an optionee will not have any additional FICA (Social Security) taxes upon exercise of an Incentive Option.

If common shares acquired upon the exercise of an Incentive Option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a disqualifying disposition), generally (i) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the common shares at exercise (or, if less, the amount realized on a sale of such common shares) over the option price thereof, and (ii) the Company will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the Incentive Option is paid by tendering common shares.

If an Incentive Option is exercised at a time when it no longer qualifies for the tax treatment described above, the option is treated as a Non-Qualified Option. Generally, an Incentive Option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

Non-Qualified Options. With respect to Non-Qualified Options under the 2005 Equity Incentive Plan, no income is realized by the optionee at the time the option is granted. Generally (i) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the common shares on the date of exercise, and the Company receives a tax deduction for the same amount, and (ii) at disposition,

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appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares have been held. Special rules will apply where all or a portion of the exercise price of the Non-Qualified Option is paid by tendering common shares. Upon exercise, the optionee will also be subject to FICA taxes on the excess of the fair market value over the exercise price of the option.

Parachute Payments. The vesting of any portion of any option or other award that is accelerated due to the occurrence of a change of control may cause a portion of the payments with respect to such accelerated awards to be treated as parachute payments as defined in the Code. Any such parachute payments may be non-deductible to the Company, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

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Limitation on the Company's Deductions. As a result of Section 162(m) of the Code, the Company's deduction for certain awards under the 2005 Equity Incentive Plan may be limited to the extent that a Covered Employee (as defined in Section 162(m) of the Code) receives compensation in excess of \$1,000,000 in such taxable year of the Company (other than performance-based compensation that otherwise meets the requirements of Section 162(m) of the Code).

AUDIT COMMITTEE REPORT

The audit committee has reviewed and discussed the audited financial statements with management and PricewaterhouseCoopers LLP, our independent auditors. The audit committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, written communication from the independent auditors required by Independence Standards Board Standard No. 1, and has discussed their independence with the independent auditors.

Based on the foregoing review and discussions and relying thereon, we have recommended to our board of trust managers that the audited financial statement for the year ended December 31, 2004 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 for filing with the SEC.

The members of the audit committee are independent, as independence is defined in Section 803 of the American Stock Exchange Listing Standards.

The audit committee also recommended the appointment, subject to shareholder ratification, of PricewaterhouseCoopers LLP as our independent auditors for 2005 and our board of trust managers concurred with such recommendation.

This section of the proxy statement is not deemed filed with the SEC and is not incorporated by reference into our Annual Report on Form 10-K.

This audit committee report is given by the following members of the audit committee:

Nathan Cohen
Irvin G. Munn
Ira Silver

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PROPOSAL THREE

RATIFICATION OF INDEPENDENT AUDITORS

Based upon the recommendation of the Audit Committee, the shareholders are urged to ratify the appointment by our audit committee of PricewaterhouseCoopers LLP as independent auditors for the fiscal year ending December 31, 2005. PricewaterhouseCoopers LLP has served as our independent auditor since June 1993 and is familiar with our affairs and financial procedures. A representative of PricewaterhouseCoopers LLP is expected to be present at the Meeting.

Principal Accounting Firm Fees

Aggregate fees billed to the Company for the years ended December 31, 2004 and 2003 by the Company's principal accounting firm, PricewaterhouseCoopers LLP were as follows:

	2004	2003
Audit Fees and Quarterly Reviews (a)	\$ 515,500	\$ 225,430
Sarbanes Oxley 404 Fees	305,000	-
Tax Returns and Compliance (b)	73,353	32,351
Total fees	\$ 893,853	\$ 257,781

(a) Audit fees consisted of professional services performed in connection with (i) the audit of the Company's annual financial statements and internal control over financial reporting, (ii) review of financial statements included in its Form 10-Q's and (iii) review and consents issued in connection with the Form S-4 for the merger with PMC Capital, Inc.

(b) Tax returns and compliance consisted principally of assistance with matters related to tax compliance, tax planning, and tax advice.

Pre-Approval Policies

The Company's Audit Committee, pursuant to its exclusive authority, has reviewed and approved the Company's

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engagement of PricewaterhouseCoopers LLP as its independent auditors, and the incurrence of all of the fees described above, for 2004 and has selected PricewaterhouseCoopers LLP as independent auditors for 2005, subject to review and approval of the final terms of its engagement as such and its audit fees. The Audit Committee has also adopted Pre-Approval Policies for all other services PricewaterhouseCoopers LLP may perform for the Company in 2005. The Pre-Approval Policies detail with specificity the services that are authorized within each of the above-described categories of services and provide for aggregate maximum dollar amounts for such pre-approved services. Any additional services not described or otherwise exceeding the maximum dollar amounts prescribed by the Pre-Approval Policies for 2005 will require the further advance review and approval of the Audit Committee. The Audit Committee has delegated the authority to grant any such additional required approval to its Chairman between meetings of the Committee, provided that the Chairman report the details of the exercise of any such delegated authority at the next meeting of the Audit Committee.

The Board unanimously recommends that you vote FOR this proposal. Proxies solicited by the Board will be so voted unless you specify otherwise in your proxy.

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SHAREHOLDER PROPOSALS

To be included in the proxy statement, any proposals of holders of Shares intended to be presented at the Meeting of shareholders of the Company to be held in 2006 must be received by the Company, addressed to Mr. Lance B. Rosemore, Secretary of the Company, 17950 Preston Road, Suite 600, Dallas, Texas, 75252, no later than February 1, 2006 and must otherwise comply with the requirements of Rule 14a-8 under the Securities Exchange Act of 1934.

ANNUAL REPORT

We have provided without charge a copy of the annual report to shareholders for fiscal year 2004 which includes a copy of the Form 10-K as filed with the SEC (excluding exhibits) to each person being solicited by this proxy statement. **Upon the written request by any person being solicited by this proxy statement, we will provide without charge a copy of the annual report on Form 10-K as filed with the SEC (excluding exhibits, for which a reasonable charge shall be imposed).** All requests should be directed to: the Company's Investor Relations Department at 17950 Preston Road, Suite 600, Dallas, Texas 75252.

BY ORDER OF THE BOARD OF
TRUST MANAGERS

/s/ Lance B. Rosemore
Lance B. Rosemore
Chief Executive Officer and
Secretary