PXRE GROUP LTD
Form 10-Q
August 06, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from ______ to ______

Commission File Number 1-15259

PXRE GROUP LTD.

(Exact name of registrant as specified in its charter)

Bermuda **(State or other jurisdiction of Incorporation or Organization)**	**98-0214719** **(I.R.S. Employer Identification No.)**
PXRE House **110 Pitts Bay Road** **Pembroke HM08** **Bermuda** **(Address, including Zip Code, of Principal Executive Offices)**	**P.O. Box HM 1282** **Hamilton HM FX** **Bermuda** **(Mailing Address)**

(441) 296-5858

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o Accelerated Filer þ Non-accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of August 2, 2007, 72,569,840 common shares and convertible common shares, $1.00 par value per share, of the Registrant were outstanding.

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PXRE Group Ltd. **Consolidated Balance Sheets**
(Dollars in thousands, except par value per share)

		June 30, 2007 (Unaudited)	December 31, 2006
Assets	Investments:		
	Fixed maturities, at fair value:		
	Available-for-sale (amortized cost $461,714 and $502,307, respectively)	$ 460,858	$ 502,254
	Trading (cost $12,848 and $14,794, respectively)	13,720	15,497
	Short-term investments, at fair value	532,229	671,197
	Hedge funds, at fair value (cost $762 and $11,583, respectively)	1,077	12,766
	Other invested assets, at fair value (cost $1,068 and $1,717, respectively)	1,722	2,427
	Total investments	1,009,606	1,204,141
	Cash	12,468	12,251
	Accrued investment income	3,806	3,830
	Premiums receivable, net	57,391	93,325
	Other receivables	6,192	7,321
	Reinsurance recoverable on paid losses	4,861	3,324
	Reinsurance recoverable on unpaid losses	34,874	35,327
	Ceded unearned premiums	4,375	
	Deferred acquisition costs	76	8
	Other assets	35,099	41,816
	Total assets	$ 1,168,748	$ 1,401,343
Liabilities	Losses and loss expenses	$ 425,343	$ 603,241
	Unearned premiums	737	113
	Subordinated debt	167,095	167,089
	Reinsurance balances payable	8,930	34,649
	Deposit liabilities	52,001	54,425
	Income tax payable	575	597
	Other liabilities	37,981	44,462
	Total liabilities	692,662	904,576
Shareholders Equity	Serial convertible preferred shares, $1.00 par value, $10,000 stated value 30 million shares authorized, 0.01 million and 0.01 million shares issued and outstanding, respectively	58,132	58,132
		72,568	72,351

Common shares, $1.00 par value 350 million shares authorized, 72.6 million and 72.4 million shares issued and outstanding, respectively		
Additional paid-in capital	873,824	873,142
Accumulated other comprehensive loss	(650)	(100)
Accumulated deficit	(524,798)	(503,711)
Restricted shares at cost (0.4 million and 0.4 million shares, respectively)	(2,990)	(3,047)
Total shareholders equity	476,086	496,767
Total liabilities and shareholders equity	$ 1,168,748	$ 1,401,343

The accompanying notes are an integral part of these statements.

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PXRE Group Ltd. **Consolidated Statements of Operations and Comprehensive Operations**
(Dollars in thousands, except per share amounts)

		Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
		(Unaudited)			
Revenues	Net premiums earned	$ (7,111)	$ 15,309	$ (12,305)	$ 92,396
	Net investment income	13,078	13,249	26,758	31,161
	Net realized investment losses	(219)	(3,379)	(2,491)	(8,038)
	Fee income	16	27	79	218
		5,764	25,206	12,041	115,737
Losses and Expenses	Losses and loss expenses incurred	968	850	(2,214)	18,650
	Commission and brokerage	(35)	4,630	(428)	16,525
	Other reinsurance related expense	2,965	2,255	4,738	5,976
	Operating expenses	9,937	11,392	21,778	22,357
	Foreign exchange (gains) losses	(199)	338	(377)	1,265
	Interest expense	3,625	3,601	7,237	7,212
		17,261	23,066	30,734	71,985
	(Loss) income before income taxes and convertible preferred share dividends	(11,497)	2,140	(18,693)	43,752
	Income tax provision	68		69	
	Net (loss) income before convertible preferred share dividends	$ (11,565)	$ 2,140	$ (18,762)	$ 43,752
	Convertible preferred share dividends	1,162	1,375	2,325	2,538
	Net (loss) income to common shareholders	$ (12,727)	$ 765	$ (21,087)	$ 41,214
Comprehensive Operations, Net of Tax	Net (loss) income before convertible preferred share dividends	$ (11,565)	$ 2,140	$ (18,762)	$ 43,752
	Net change in unrealized depreciation on investments	(2,278)	(4,087)	(3,037)	(11,715)

	Reclassification adjustments for losses included in net (loss) income	215	3,374	2,487	8,033
	Minimum additional pension liability				123
	Comprehensive (loss) income	$ (13,628)	$ 1,427	$ (19,312)	$ 40,193
Per Share	Basic:				
	(Loss) income before convertible preferred share dividends	$ (0.16)	$ 0.03	$ (0.26)	$ 0.61
	Net (loss) income to common shareholders	$ (0.18)	$ 0.01	$ (0.29)	$ 0.57
	Average shares outstanding (000 s)	72,147	71,986	72,095	71,927
	Diluted:				
	Net (loss) income	$ (0.18)	$ 0.01	$ (0.29)	$ 0.57
	Average shares outstanding (000 s)	72,147	71,986	72,095	77,025

The accompanying notes are an integral part of these statements.

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PXRE Group Ltd. **Consolidated Statements of Shareholders Equity**
(Dollars in thousands)

		Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
		(Unaudited)			
Convertible Preferred Shares	Balance at beginning and end of period	$ 58,132	$ 58,132	$ 58,132	$ 58,132
Common Shares	Balance at beginning of period	$ 72,588	$ 72,410	$ 72,351	$ 72,281
	(Cancellation) issuance of common shares, net	(20)	(2)	217	127
	Balance at end of period	$ 72,568	$ 72,408	$ 72,568	$ 72,408
Additional Paid-in Capital	Balance at beginning of period	$ 873,929	$ 875,228	$ 873,142	$ 875,224
	(Cancellation) issuance of common shares, net	(105)	(580)	682	(576)
	Balance at end of period	$ 873,824	$ 874,648	$ 873,824	$ 874,648
Accumulated Other Comprehensive Operations	Balance at beginning of period	$ 1,413	$ (8,314)	$ (100)	$ (5,468)
	Change in unrealized losses on investments	(2,063)	(713)	(550)	(3,682)
	Change in minimum additional pension liability				123
	Balance at end of period	$ (650)	$ (9,027)	$ (650)	$ (9,027)
(Accumulated Deficit)	Balance at beginning of period	$ (512,071)	$ (486,900)	$ (503,711)	$ (527,349)
	Net (loss) income before convertible preferred share dividends	(11,565)	2,140	(18,762)	43,752
	Dividends to convertible preferred shareholders	(1,162)	(1,375)	(2,325)	(2,538)
	Balance at end of period	$ (524,798)	$ (486,135)	$ (524,798)	$ (486,135)

Restricted Shares	Balance at beginning of period	$ (3,694)	$ (6,846)	$ (3,047)	$ (7,502)
	Cancellation (issuance) of restricted shares, net	204	743	(825)	603
	Amortization of restricted shares	500	615	882	1,411
	Balance at end of period	$ (2,990)	$ (5,488)	$ (2,990)	$ (5,488)
Total Shareholders Equity	Balance at beginning of period	$ 490,297	$ 503,710	$ 496,767	$ 465,318
	(Cancellation) issuance of common shares, net	(125)	(582)	899	(449)
	Restricted shares, net	704	1,358	57	2,014
	Unrealized depreciation on investments	(2,063)	(713)	(550)	(3,682)
	Minimum additional pension liability				123
	Net (loss) income before convertible preferred share dividends	(11,565)	2,140	(18,762)	43,752
	Dividends to convertible preferred shareholders	(1,162)	(1,375)	(2,325)	(2,538)
	Balance at end of period	$ 476,086	$ 504,538	$ 476,086	$ 504,538

The accompanying notes are an integral part of these statements.

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PXRE Group Ltd. **Consolidated Statements of Cash Flows**
(Dollars in thousands)

		Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
		(Unaudited)			
Cash Flows from Operating Activities	Premiums collected, net of reinsurance	$ (17,383)	$ (6,157)	$ (5,841)	$ 136,501
	Losses and loss adjustment expenses paid, net of reinsurance	(47,496)	(139,269)	(176,768)	(402,590)
	Commission and brokerage (paid) received, net of fee income	(247)	4,179	41	(4,816)
	Operating expenses paid	(10,782)	(14,560)	(23,042)	(27,701)
	Net investment income received	11,959	9,472	24,075	27,400
	Interest paid	(1,372)	(1,360)	(7,166)	(7,154)
	Income taxes (paid) recovered		(123)	(91)	91
	Trading portfolio purchased		(52,175)		(101,714)
	Trading portfolio disposed	2,042	52,445	2,042	92,566
	Deposit liabilities paid	(1,462)	(8,275)	(2,424)	(11,812)
	Other	488	(726)	(2,521)	(3,607)
	Net cash used by operating activities	(64,253)	(156,549)	(191,695)	(302,836)
Cash Flows from Investing Activities	Fixed maturities available for sale purchased	(43,099)	(47)	(43,248)	(67,038)
	Fixed maturities available for sale disposed or matured	66,658	34,304	82,491	603,837
	Hedge funds purchased				(4,000)
	Hedge funds disposed	4,893	104,248	12,173	117,364
	Other invested assets purchased		(35)		(35)
	Other invested assets disposed	654	598	1,410	1,171
	Net change in short-term investments	38,001	19,704	138,968	(342,334)
	Payable for securities		100		100
	Net cash provided by investing activities	67,107	158,872	191,794	309,065
Cash Flows from Financing Activities	Proceeds from issuance of common shares	124	162	217	419
	Cash dividends paid to preferred shareholders		(1,375)		(2,538)

Cost of shares repurchased			(99)	(263)
Net cash provided (used) by financing activities	124	(1,213)	118	(2,382)
Net change in cash	2,978	1,110	217	3,847
Cash, beginning of period	9,490	17,241	12,251	14,504
Cash, end of period	$ 12,468	$ 18,351	$ 12,468	$ 18,351
Reconciliation of net (loss) income to net cash used by operating activities:				
Net (loss) income before convertible preferred share dividends	$ (11,565)	$ 2,140	$ (18,762)	$ 43,752
Adjustments to reconcile net (loss) income to net cash used by operating activities:				
Losses and loss expenses	(44,639)	(168,131)	(177,898)	(478,217)
Unearned premiums	7,593	(43,215)	(3,751)	(41,408)
Deferred acquisition costs	(76)	9,825	(68)	5,106
Receivables	7,706	24,902	37,063	102,161
Reinsurance balances payable	(25,043)	(2,365)	(25,719)	(7,916)
Reinsurance recoverable	(1,889)	29,711	(1,084)	59,125
Income taxes	68	(123)	(22)	91
Equity in earnings of limited partnerships	(654)	(167)	(1,188)	(6,039)
Trading portfolio purchased		(52,175)		(101,714)
Trading portfolio disposed	2,042	52,445	2,042	92,566
Deposit liability	(1,462)	(8,275)	(2,424)	(11,812)
Receivable on commutation				35,154
Other	3,666	(1,121)	116	6,315
Net cash used by operating activities	$ (64,253)	$ (156,549)	$ (191,695)	$ (302,836)

The accompanying notes are an integral part of these statements.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

1. Organization

PXRE Group Ltd. (the Company or collectively with its subsidiaries, PXRE) is an insurance holding company organized in Bermuda. PXRE has historically provided reinsurance products and services to a worldwide marketplace through its subsidiary operations located in Bermuda, Europe and the United States. PXRE s primary focus has historically been to provide property catastrophe reinsurance and retrocessional coverage. PXRE also provided marine, aviation and aerospace products and services. In February 2006, the Company s counterparty credit and financial strength ratings were downgraded by three rating agencies, after which the Company withdrew such ratings. Subsequent to the Company s ratings downgrades and through to March 31, 2007, PXRE did not renew any of its reinsurance contracts that expired or were cancelled, nor did PXRE write any new reinsurance contracts during the period between February 2006 and March 31, 2007.

On March 14, 2007, the Board of Directors concluded its strategic alternatives evaluation process and announced that we had entered into an Agreement and Plan of Merger (the Merger Agreement) with Argonaut Group, Inc. (Argonaut). Pursuant to the terms of the Merger Agreement, Argonaut will merge into a newly formed PXRE Group Ltd. subsidiary, PXMS, Inc. Upon completion of the merger, and subject to the terms and conditions of the Merger Agreement which has been unanimously approved by the Board of Directors and shareholders of both companies, Argonaut stockholders will receive, subject to certain adjustments, 6.4672 shares of PXRE common stock in exchange for each share of Argonaut common stock. Upon closing of the transaction, approximately 73% of PXRE s outstanding common stock will be owned by former Argonaut stockholders, and approximately 27% by former holders of PXRE s common stock and convertible voting preferred shares. The completion of the merger is expected to occur on August 7, 2007, subject to the satisfaction or waiver of the remaining closing conditions and other provisions of the Merger Agreement.

Concurrently with the announcement of the merger, we also announced the formation of a new Bermuda based subsidiary, Peleus Reinsurance Ltd. (Peleus Re). Peleus Re has been rated A- by A.M. Best & Company (A.M. Best) and has commenced operations. Peleus Re focuses on underwriting medium to small commercial property reinsurance risks on a pro rata and risk excess basis, and property catastrophe reinsurance risk on a controlled basis. It is also expected to provide reinsurance of casualty risks. Following the merger, Peleus Re will provide quota share reinsurance to Argonaut for its property and casualty risks. Peleus Re has written a limited number of new property catastrophe reinsurance contracts during the three months ended June 30, 2007. Peleus Re was initially capitalized during the first quarter of 2007 with $213 million contributed from the existing surplus of PXRE Reinsurance Ltd. (PXRE Bermuda). PXRE Bermuda and PXRE Reinsurance Company (PXRE Reinsurance) have been placed into an orderly voluntary runoff, except for providing intercompany reinsurance support to Peleus Re.

All information included in the interim consolidated financial statements and related notes reflects only the results of PXRE and does not reflect any impact of the proposed merger other than certain merger related expenses.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

2. Significant Accounting Policies

Basis of Presentation and Consolidation

The interim consolidated financial statements have been prepared in U.S. dollars in conformity with U.S. generally accepted accounting principles (GAAP). These statements reflect the consolidated operations of the Company and its wholly-owned subsidiaries, including Peleus Re, PXRE Bermuda, PXRE Corporation (PXRE Delaware), PXRE Reinsurance, PXRE Solutions, S.A. (PXRE Europe), PXRE Holding (Ireland) Limited (PXRE Ireland), PXRE Reinsurance (Barbados) Ltd. (PXRE Barbados), and Mid-Atlantic Risk Systems (MARS). All intercompany transactions have been eliminated in preparing these interim consolidated financial statements.

GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates which are significant include estimation of losses and loss expenses, estimation and recognition of premiums, valuation of investments and valuation of deferred tax assets.

The interim consolidated financial statements are unaudited. In the opinion of management, such interim consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. These interim consolidated financial statements should be read in conjunction with the 2006 audited consolidated financial statements and related notes. The preparation of interim consolidated financial statements relies significantly upon estimates. Use of such estimates and the seasonal nature of the reinsurance business necessitate caution in drawing specific conclusions from interim results.

New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement for uncertain tax positions taken or expected to be taken in income tax returns. The relevant company is to determine whether it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than a 50% likelihood of being realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 on January 1, 2007. Upon adoption and during the first six months of 2007, FIN 48 had no material effect on the Company s interim consolidated financial statements, and as of June 30, 2007, there were no material reserves for uncertain tax positions recorded in the Company s interim consolidated financial statements. The Company s accounting policy for reserves for uncertain tax positions recorded and related interest and penalties is to record these items as income tax expense in the Consolidated Statements of Operations and Comprehensive Operations. The Internal Revenue Service, in their normal course of performing examinations, is currently conducting an examination of the 2002 and later tax years. The examination remains open as of June 30, 2007.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

In September 2006, the FASB issued, Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement also provides guidance for using fair value to measure assets and liabilities. The Statement applies whenever assets or liabilities are required or permitted to be measured at fair value under U.S. generally accepted accounting principles. The Statement does not expand the use of fair value in any new circumstances. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating what impact, if any, the adoption of SFAS 157 will have on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157. The Company is currently evaluating what impact, if any, the adoption of SFAS 159 will have on its consolidated financial statements.

3. Underwriting

Premiums written and earned for the three and six months ended June 30, 2007 and 2006 are as follows:

	Three Months Ended June 30,		% Increase	Six Months Ended June 30,		% Increase
($000 s)	**2007**	**2006**	**(Decrease)**	**2007**	**2006**	**(Decrease)**
Premiums written						
Gross premiums written	$ (474)	$ (22,098)		$ (2,553)	$ 99,287	
Ceded premiums written	956	(5,808)		(13,503)	(48,300)	
Net premiums written	$ 482	$ (27,906)	102	$ (16,056)	$ 50,987	(131)
Premiums earned						
Gross premiums earned	$ (1,191)	$ 32,554		$ (3,177)	$ 128,198	
Ceded premiums earned	(5,920)	(17,245)		(9,128)	(35,802)	
Net premiums earned	$ (7,111)	$ 15,309	(146)	$ (12,305)	$ 92,396	(113)

PXRE has written a limited number of new property catastrophe reinsurance contracts during the second quarter of 2007 through its newly formed Bermuda subsidiary, Peleus Re, which decreased the negative amounts of both gross premiums written and gross premiums earned during the six months ended June 30, 2007 by $0.8 million and $0.1 million, respectively, as compared to the prior year comparable period. The negative gross premiums written and gross premiums earned in the three and six months ended June 30, 2007 are primarily due to adjustments of prior-year premiums, including reinstatement premiums.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

PXRE purchases catastrophe retrocessional coverage for its own protection, depending on market conditions. PXRE purchases reinsurance primarily to reduce its exposure to severe losses related to any one event or catastrophe. In the six months ended June 30, 2007, PXRE did not purchase any new retrocessional coverage. In 2007 and 2006, PXRE had reinsurance treaties in place with several different coverages, territories, limits and retentions that serve to reduce a large gross loss emanating from any one event. In 2007 and 2006, PXRE also had clash reinsurance protection which allows PXRE to recover losses ceded by more than one reinsured related to any one particular property, primarily related to PXRE s exposure assumed on per-risk treaties. In 2005, PXRE also sponsored two catastrophe bond transactions that supported two collateralized facilities which provide the Company with protection against certain severe catastrophe events and the occurrence of multiple significant catastrophe events during the same year. One of those two collateralized facilities was determined to be a derivative and is therefore recorded at fair value on PXRE s Interim Consolidated Balance Sheets with the changes in fair value reported in Other reinsurance related expense on PXRE s Interim Consolidated Statements of Operations and Comprehensive Operations for the three and six months ended June 30, 2007 and 2006. As PXRE s catastrophe exposures for 2007 are no longer expected to be significant, PXRE entered into an agreement for the period of July 1, 2007 to December 31, 2007, through which it sold catastrophe protection to a third party mirroring this collateralized facility in order to offset its expense for the last six months of 2007. The change in fair value that will not be offset amounting to $1.7 million was expensed in the second quarter of 2007. PXRE currently expects to utilize this facility in 2008. The other collateralized facility was terminated during the first quarter of 2007 and as a result termination charges and all remaining premiums due, which collectively totaled $24.2 million, were recognized as of December 31, 2006, when PXRE determined it had no likely future benefit from this collateralized facility.

The decrease in both ceded premiums written and ceded premiums earned during the three and six months ended June 30, 2007 as compared to the prior year comparable periods was largely due to a decrease of $7.2 million and $33.7 million in ceded premiums written, respectively, and $11.2 million and $25.4 million in ceded premiums earned, respectively, associated with excess of loss retrocessional catastrophe coverage, including one of the collateralized catastrophe facilities entered into during 2005 to protect the Company against a severe catastrophe event. That collateralized catastrophe facility was terminated as noted above, with termination charges recognized as of December 31, 2006.

In the event that retrocessionaires are unable to meet their contractual obligations, PXRE would remain liable for the underlying covered claims and therefore the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk. The Company records a provision for uncollectible underlying reinsurance recoverable when collection becomes unlikely.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

4. Investments

The following table summarizes investments with unrealized losses at fair value by length of continuous unrealized loss position as of June 30, 2007:

	One Year or Less		Over One Year	
($000 s)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
United States government securities	$ 1,673	$ (24)	$ 46,291	$ (932)
United States government sponsored agency debentures	8,359	(146)	21,877	(529)
United States government sponsored agency mortgage- backed securities			14,296	(691)
Other mortgage and asset-backed securities	780	(10)	39,833	(1,312)
Obligations of states and political subdivisions			1,035	(21)
Corporate securities	2,898	(33)	41,963	(1,372)
Total temporarily impaired securities	$ 13,710	$ (213)	$ 165,295	$ (4,857)

During the three months ended June 30, 2007, PXRE recorded $0.2 million in other than temporary impairment charges. During the six months ended June 30, 2007, PXRE recorded $2.5 million in other than temporary impairment charges, $2.3 million of which related to a single asset-backed security that suffered a collateral shortfall. The remaining $0.2 million of other than temporary impairment charges recorded during 2007 related to investments that the Company may not have the ability to hold to maturity or recovery.

Unrealized losses amounting to $1.3 million of the total unrealized loss on fixed maturity investments as of June 30, 2007 relate to investments that PXRE has deposited in a trust for the benefit of a cedent in connection with certain finite reinsurance transactions. The remaining unrealized losses are primarily due to increases in interest rates since the purchase dates for individual securities.

The following table summarizes investments with unrealized losses at fair value by length of continuous unrealized loss position as of December 31, 2006:

	One Year or Less		Over One Year	
($000 s)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
United States government securities	$ 1,051	$ (7)	$ 47,627	$ (1,180)
United States government sponsored agency debentures	7,715	(59)	22,021	(596)
United States government sponsored agency mortgage- backed securities			15,813	(588)
Other mortgage and asset-backed securities	359	(1)	47,254	(1,429)
Obligations of states and political subdivisions			1,044	(16)
Corporate securities	3,013	(20)	47,501	(1,464)
Total temporarily impaired securities	$ 12,138	$ (87)	$ 181,260	$ (5,273)

During the year ended December 31, 2006, PXRE recorded $7.3 million in other than temporary impairment charges, $0.4 million of which was recovered due to sales of securities during the third and fourth quarters of 2006.

The other than temporary impairment charges recorded during 2006 related to investments that the Company may not have had the ability to hold to maturity or recovery as a result of the ratings downgrades of PXRE that occurred in February 2006.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

Unrealized losses amounting to $1.1 million of the total unrealized loss on fixed maturity investments as of December 31, 2006 relate to investments that PXRE has deposited in a trust for the benefit of a cedent in connection with certain finite reinsurance transactions. The remaining unrealized losses were primarily due to increases in interest rates since the purchase dates for individual securities.

Under the terms of certain reinsurance agreements, irrevocable letters of credit in the amount of $194.7 million were issued at June 30, 2007 in respect of reported loss and loss expense reserves. Cash and investments with a fair value of $239.5 million have been pledged as collateral with issuing banks. In addition, securities with a par value of $9.7 million were on deposit with various state insurance departments at June 30, 2007 in order to comply with insurance laws.

PXRE has outstanding commitments for funding an investment in a limited partnership of $0.2 million at June 30, 2007.

At June 30, 2007, PXRE has deposited cash and securities with a fair value of $51.5 million in a trust for the benefit of a cedent in connection with certain finite reinsurance transactions.

5. Derivative Instruments

As discussed in Note 3, PXRE entered into an agreement that provided $250.0 million of collateralized catastrophe protection with Atlantic & Western Re Limited II (A&W II), a special purpose Cayman Islands reinsurance company which was funded through a catastrophe bond transaction. This coverage was effective January 1, 2006 and provided the Company with second event coverage arising from hurricanes in the Eastern and Gulf coasts of the United States, windstorms in northern Europe and earthquakes in California. The coverage is based on a modeled loss trigger. Upon the occurrence of a loss event, if the modeled loss exceeds the attachment point for the peril, the coverage is activated. Upon the occurrence of a second loss event during the same calendar year, if the modeled loss exceeds the attachment point, PXRE will make a recovery under the agreement. The recovery is based on modeled losses and is not limited to PXRE s ultimate net loss from the loss event. The coverage provided $250.0 million of protection for the period from January 1, 2006 to December 31, 2006 and provides $125.0 million for the period from January 1, 2007 to December 31, 2008. As PXRE s catastrophe exposures for 2007 are not expected to be significant, PXRE entered into an agreement for the period of July 1, 2007 to December 31, 2007, through which it sold catastrophe protection to a third party mirroring this collateralized facility in order to offset its expense for the last six months of 2007. The change in the fair value that will not be offset amounting to $1.7 million was expensed in the second quarter of 2007. PXRE currently expects to utilize this facility in 2008. The protections afforded by this collateralized catastrophe facility are expected to be utilized by Peleus Re in 2008.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

PXRE records this contract at fair value and such fair value is included in Other assets and Other liabilities in the Company s Interim Consolidated Balance Sheets with any changes in the value reflected in Other reinsurance related expense in the Interim Consolidated Statements of Operations and Comprehensive Operations. As there is no quoted market value available for this derivative, the fair value is estimated by management taking into account changes in the market for catastrophe bond reinsurance contracts with similar economic characteristics and potential for recoveries from events preceding the valuation date. The amount recognized could be materially different from the actual recoveries received under this contract.

The reinsurance company that is the counterparty to this transaction is a variable interest entity under the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46R). The Company is not the primary beneficiary of this entity and is therefore not required to consolidate it in its interim consolidated financial statements.

6. Earnings Per Share

A reconciliation of (loss) income before convertible preferred share dividends to (loss) income, and shares, which affect basic and diluted earnings per share, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
($000 s, except per share data)	**2007**	**2006**	**2007**	**2006**
Net (loss) income available to common shareholders:				
Net (loss) income before convertible preferred share dividends	$ (11,565)	$ 2,140	$ (18,762)	$ 43,752
Convertible preferred share dividends	(1,162)	(1,375)	(2,325)	(2,538)
Net (loss) income to common shareholders	$ (12,727)	$ 765	$ (21,087)	$ 41,214
Weighted average common shares outstanding:				
Weighted average common shares outstanding (basic)	72,147	71,986	72,095	71,927
Equivalent shares of underlying options	6		6	3
Equivalent number of convertible preferred shares	5,200	5,104	5,177	5,095
Weighted average common equivalent shares (diluted)	77,353	77,090	77,278	77,025
Weighted average common equivalent shares when anti-dilutive	72,147	71,986	72,095	
Per share amounts:				
Basic:				
(Loss) income before convertible preferred share dividends	$ (0.16)	$ 0.03	$ (0.26)	$ 0.61
Net (loss) income to common shareholders	$ (0.18)	$ 0.01	$ (0.29)	$ 0.57
Diluted:				
Net (loss) income	$ (0.18)	$ 0.01	$ (0.29)	$ 0.57

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

7. Income Taxes

PXRE is incorporated under the laws of Bermuda and, under current Bermuda law, is not obligated to pay any taxes in Bermuda based upon income or capital gains. PXRE has received an undertaking from the Supervisor of Insurance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966, which exempts PXRE from any Bermuda taxes computed on profits, income or any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, at least until the year 2016.

PXRE does not consider itself to be engaged in a trade or business in the United States and, accordingly, does not expect to be subject to direct U.S. income taxation.

The United States subsidiaries of PXRE file a consolidated U.S. federal income tax return.

8. Shareholders Equity

As of June 30, 2007, the Company had the following equity securities outstanding: (i) 63.7 million common shares, (ii) 8.9 million convertible voting common shares, and (iii) 5,813 convertible voting preferred shares.

On March 31, 2005, 5,840.6 Series A1 convertible voting preferred shares, 3,143.6 Series B1 convertible voting preferred shares and 1,393.6 Series C1 convertible voting preferred shares were mandatorily converted into 4.4 million class A convertible voting common shares, 2.4 million class B convertible voting common shares and 1.0 million class C convertible voting common shares, respectively. The conversion was effected based upon a conversion price of $13.27, which conversion price was agreed between the Company and holders of the Company s convertible voting preferred shares pursuant to a letter agreement dated as of March 31, 2005. All the remaining convertible preferred shares mandatorily convert by April 4, 2008.

Each convertible voting common share converts into one common share upon sale to a third party.

The convertible preferred shares accrue cumulative dividends per share at the rate per annum of 8% of the sum of the stated value of each share plus any accrued and unpaid dividend thereon payable on a quarterly basis. Commencing in the second quarter of 2005, the dividends paid on such convertible voting preferred shares are paid in cash, rather than in additional convertible voting preferred shares. No dividends were paid in the first quarter of 2006, and therefore overdue dividends were accrued at 10% per annum from April 1, 2006 until paid on May 30, 2006.

PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

As of June 30, 2007 and 2006, 5,813 convertible preferred shares were outstanding, which were convertible into 5.2 million common shares. Convertible preferred shares are convertible into convertible common shares at the option of the holder at any time at a conversion price equal to the original conversion price, subject to certain dilution adjustments. The number of convertible common shares issued upon the conversion of each convertible preferred share would be equal to the sum of the original purchase price ($10,000) of such convertible preferred share plus accrued but unpaid dividends divided by the adjusted conversion price. The conversion price is subject to adjustment to avoid dilution in the event of recapitalization, reclassification, stock split, consolidation, merger, amalgamation or other similar event or an issuance of additional common shares in a private placement below the fair market value or in a registered public offering below 95% of fair market value (in each case, fair market value being the value immediately prior to the date of announcement of such issuance) or without consideration. As a result of the issuance of 8.8 million common shares in October 2005 at the price of $13.25 per share pursuant to a public offering of common shares and the issuance of 34.1 million common shares upon the exchange of the Series D Perpetual Preferred Shares at the exchange price of $11.00 per share, the conversion price on the Preferred Shares was adjusted downwards by $1.75 in accordance with the terms of the underlying share purchase agreement.

In addition, the conversion price is subject to adjustment, for certain loss and loss expense development on reserves for losses incurred on or before September 30, 2001 (and loss adjustment expenses related thereto) and for any liability or loss arising out of pending material litigation (other than legal fees and expenses), on an after-tax basis, equal to an amount computed in accordance with a formula as set forth in the Description of Stock. Adjustments occur if the development exceeds a deductible after-tax threshold of $7.0 million and, with respect to all reserves other than reserves for certain discontinued operations and the events of September 11, 2001 and liability arising out of pending litigation, the adjustment is limited to $12.0 million of further development. At June 30, 2007, PXRE has incurred $43.4 million of net adverse development above this $7.0 million threshold. As a result of this, and the anti-dilution adjustment discussed above, as of June 30, 2007, the adjusted conversion price was $11.13.

On March 14, 2007, in connection with the execution of the Merger Agreement with Argonaut, the holders of the convertible preferred shares of PXRE (the Preferred Shareholders) and the holders of the convertible common shares of PXRE (the Convertible Common Shareholders and, together with the Preferred Shareholders, the Stockholders), entered into a Voting and Conversion Agreement (the Voting Agreement). Pursuant to the Voting Agreement, the Stockholders agreed to vote in favor of the Merger and the transactions contemplated thereby and PXRE has agreed to reduce the conversion price of the convertible preferred shares from $11.28 to $6.24 per convertible preferred share which will result in the issuance of an additional 4.2 million common shares upon the closing of the Merger. The parties agreed that the convertible preferred shares and convertible common shares would be converted into common shares of PXRE immediately prior to the Merger. In addition, the Stockholders agreed to waive any dividends that would have otherwise accrued on the Preferred Shares in accordance with the terms of the Description of Stock from and after December 31, 2006 (the Waived Dividends). Accordingly, as of June 30, 2007, dividends amounting to $2.3 million were accrued but not paid. If the Plan of Merger is consummated by August 31, 2007, then this accrual for dividends payable will be reversed. However, if the Merger Agreement is terminated, the Voting Agreement will also terminate and the conversion terms in effect prior to entering into the Voting Agreement shall apply and any Waived Dividends that become payable as a result thereof shall not be deemed past due dividends under Section 4(c) of the Description of Stock if paid on the next applicable Dividend Due Date.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

9. Segment Information

PXRE operates in two reportable property and casualty segments (i) catastrophe and risk excess and (ii) exited lines based on PXRE s approach to managing the business. The exited lines segment includes business previously written and classified by the Company as direct casualty, Lloyd s of London (Lloyd s), international casualty and finite. In addition, PXRE operates in two geographic segments North American, representing North American based risks written by North American based clients, and International (principally worldwide risks including the United States, United Kingdom, Continental Europe, Latin America, the Caribbean, Bermuda, Australia and Asia), representing all other premiums written.

If the Plan of Merger is consummated, management will re-evaluate the Company s segments in accordance with Statement of Financial Accounting Standards No. 131 Disclosures about Segments of an Enterprise and Related Information .

There are no differences among the accounting policies of the segments as compared to PXRE s interim consolidated financial statements.

PXRE does not maintain separate balance sheet data for each of its operating segments, nor does it allocate net investment income, net realized investment gains or losses, other fee income, other reinsurance related expense, operating expenses, foreign exchange gains or losses, or interest expense to these segments. Accordingly, PXRE does not review and evaluate the financial results of its operating segments based upon balance sheet data and these other income statement items.

The following tables summarize the net premiums written, net premiums earned and underwriting (loss) income by PXRE s business segments. The amounts shown for the North American and International geographic segments are presented net of proportional reinsurance and allocated excess of loss reinsurance cessions, but gross of corporate catastrophe excess of loss reinsurance cessions, which are separately itemized where applicable.

Net Premiums Written

	Three Months Ended June 30,		Six Months Ended June 30,	
($000 s)	**2007**	**2006**	**2007**	**2006**
Catastrophe and Risk Excess				
International	$ (2,291)	$ (8,197)	$ (4,391)	$ 71,359
North American	1,331	(12,914)	(27)	30,270
Excess of Loss Cessions	1,414	(6,661)	(11,680)	(50,595)
	454	(27,772)	(16,098)	51,034
Exited Lines				
International	28	(141)	21	(126)
North American		7	21	79
	28	(134)	42	(47)
Total	$ 482	$ (27,906)	$ (16,056)	$ 50,987

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

Net Premiums Earned

	Three Months Ended June 30,		Six Months Ended June 30,	
($000 s)	**2007**	**2006**	**2007**	**2006**
Catastrophe and Risk Excess				
International	$ (2,271)	$ 20,097	$ (4,277)	$ 86,872
North American	593	12,912	(765)	43,501
Excess of Loss Cessions	(5,461)	(17,567)	(7,305)	(37,935)
	(7,139)	15,442	(12,347)	92,438
Exited Lines				
International	28	(141)	21	(126)
North American		8	21	84
	28	(133)	42	(42)
Total	$ (7,111)	$ 15,309	$ (12,305)	$ 92,396

Underwriting (loss) income includes net premiums earned, losses and loss expenses incurred and commission and brokerage, net of fee income, but does not include net investment income, net realized investment gains or losses, other fee income, other reinsurance related expense, operating expenses, foreign exchange gains or losses, or interest expense.

Underwriting (Loss) Income

	Three Months Ended June 30,		Six Months Ended June 30,	
($000 s)	**2007**	**2006**	**2007**	**2006**
Catastrophe and Risk Excess				
International	$ (1,008)	$ 41,770	$ 370	$ 99,327
North American	(1,115)	(16,154)	(983)	(5,267)
Excess of Loss Cessions	(5,447)	(16,164)	(7,190)	(35,233)
	(7,570)	9,452	(7,803)	58,827
Exited Lines				
International	56	(40)	421	167
North American	(514)	444	(2,247)	(1,555)
	(458)	404	(1,826)	(1,388)
Total	$ (8,028)	$ 9,856	$ (9,629)	$ 57,439

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

The following table reconciles underwriting (loss) income for the operating segments to (loss) income before income taxes and convertible preferred share dividends as reported in the Interim Consolidated Statements of Operations and Comprehensive Operations.

($000 s)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Underwriting (loss) income	$ (8,028)	$ 9,856	$ (9,629)	$ 57,439
Net investment income	13,078	13,249	26,758	31,161
Net realized investment losses	(219)	(3,379)	(2,491)	(8,038)
Other fee income			45	
Other reinsurance related expense	(2,965)	(2,255)	(4,738)	(5,976)
Operating expenses	(9,937)	(11,392)	(21,778)	(22,357)
Foreign exchange gains (losses)	199	(338)	377	(1,265)
Interest expense	(3,625)	(3,601)	(7,237)	(7,212)
Income (loss) before income taxes and convertible preferred share dividends	$ (11,497)	$ 2,140	$ (18,693)	$ 43,752

10. Employee Benefits

The qualified and non-qualified defined benefit pension plans were curtailed effective March 31, 2004 and employees no longer accrue additional benefits thereunder.

The components of net pension (income) expense for these company-sponsored plans are as follows:

($000 s)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Components of net periodic benefit (income) expense:				
Interest cost	$ 72	$ 89	$ 144	$ 178
Expected return on assets	(89)	(83)	(178)	(166)
Recognized net actuarial costs	4	25	8	50
Net periodic benefit (income) expense	$ (13)	$ 31	$ (26)	$ 62

During the six months ended June 30, 2007, the Company made no contributions to its pension plans. In May 2007, the Company decided to terminate its U.S. defined benefit pension plans and therefore expects to make contributions of approximately $2.5 million after June 30, 2007. In conjunction with the termination of the pension plans the Company may incur a termination charge which is not currently estimable.

The assumptions used to determine the net periodic benefit (income) expense as outlined above are described in Note 11 to the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2006.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

11. Commitments and Contingencies

The Merger Agreement contains certain termination rights for both PXRE and Argonaut. Under certain circumstances, including those relating to competing business combination proposals, termination of the Merger Agreement could obligate PXRE to pay a termination fee of $20 million.

If the Plan of Merger is consummated, then certain obligations will be triggered in conjunction with the transaction, including accelerated vesting of certain share-based compensation, obligations under a Separation Agreement with our Chief Executive Officer and investment banking fees. With respect to share-based compensation, 0.3 million of the 0.4 million restricted shares at June 30, 2007 and all of the unvested options at June 30, 2007 will vest on the date of the closing of the Merger, resulting in up to $2.4 million of accelerated expense. With respect to the Separation Agreement with our Chief Executive Officer, an obligation for $1.8 million of lump sum payments payable six months after the closing of the Merger, in addition to any vesting of restricted shares or options expense included in the $2.4 million accelerated expense noted earlier, will become due. Lastly, investment banking fees of approximately $4.2 million will be payable upon the closing of the Merger.

Between May 3, 2006 and June 16, 2006 several class action lawsuits were filed against PXRE, Jeffrey Radke, the Company s Chief Executive Officer and John Modin, the Company s former Chief Financial Officer, in the United States District Court for the Southern District of New York on behalf of a putative class consisting of investors who purchased the publicly traded securities of PXRE between July 28, 2005 and February 16, 2006. Pursuant to an Opinion and Order of the United States District Court for the Southern District of New York dated March 30, 2007; these lawsuits have been consolidated into one proceeding.

On June 15, 2007, plaintiffs filed a Consolidated Amended Class Action Complaint on behalf of purchasers of PXRE common stock between September 11, 2005 and February 22, 2006 (the Amended Class Action Complaint). The Amended Class Action Complaint names PXRE s former Chief Operating Officer, Guy Hengesbaugh, as an additional defendant.

The Amended Class Action Complaint alleges that during the purported class period certain PXRE executives made a series of materially false and misleading statements or omissions about PXRE s business, prospects and operations, thereby causing investors to purchase PXRE s securities at artificially inflated prices, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the 1934 Act), and Rule 10b-5 promulgated under the 1934 Act. The Amended Class Action Complaint alleges, among other things, that the Company fraudulently understated the full impact of hurricanes Katrina, Rita and Wilma on PXRE s business. The Amended Class Action Complaint seeks an unspecified amount of damages, as well as attorneys fees and costs.

On February 21, 2007, PXRE entered into a Tolling and Standstill Agreement with certain institutional investors in connection with potential claims arising out of the Private Placement of Series D Perpetual Non-voting Preferred Shares of PXRE that were sold pursuant to the Private Placement Memorandum dated on or about September 28, 2005. The parties have agreed to extend the term of the tolling agreement to October 1, 2007.

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PXRE Group Ltd. Notes to Consolidated Financial Statements (Unaudited)

PXRE has not established any reserves for any potential liability relating to the class action lawsuits other than $1.0 million for legal fees. The Company has insurance coverage with respect to claims such as the class action lawsuits, but it is not currently possible to determine whether such insurance coverage will be adequate to cover the Company s defense costs and any losses. Unfavorable outcomes in the class action lawsuits, resulting in the payment of substantial damages or fines or criminal penalties, could have a material adverse effect on the Company s business, cash flows, results of operations, financial position and prospects.

12. Subsequent Events

On July 25, 2007, PXRE shareholders voted to approve the issuance of common shares of PXRE and the other items that shareholders had been asked to vote on as contemplated by the previously announced Merger Agreement by and among PXRE, PXMS Inc. and Argonaut dated as of March 14, 2007, as amended and restated as of June 8, 2007. PXRE and Argonaut expect to complete the proposed merger on August 7, 2007, subject to the satisfaction or waiver of the remaining closing conditions and other provisions of the Merger Agreement.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

Unless the context otherwise requires, references in this Form 10-Q to PXRE, we, us and our include PXRE Gro Ltd., a Bermuda holding company (the Company) and its subsidiaries, which principally include Peleus Reinsurance Ltd. (Peleus Re), PXRE Reinsurance Ltd. (PXRE Bermuda), PXRE Corporation (PXRE Delaware), PXRE Reinsurance Company (PXRE Reinsurance), PXRE Solutions, S.A. (PXRE Europe), PXRE Holding (Ireland) Limited (PXRE Ireland), PXRE Reinsurance (Barbados) Ltd. (PXRE Barbados), and Mid-Atlantic Risk Systems (MARS). References to GAAP refer to U.S. generally accepted accounting principles (GAAP). References to SAP refer to statutory accounting principles (SAP) in either, Bermuda, where Peleus Re and PXRE Bermuda are domiciled, or the State of Connecticut, where PXRE Reinsurance is domiciled, as applicable.

The following is a discussion and analysis of PXRE s results of operations for the three and six months ended June 30, 2007 compared with the three and six months ended June 30, 2006, and also a discussion of our financial condition as of June 30, 2007. This discussion and analysis should be read in conjunction with the attached unaudited interim consolidated financial statements and notes thereto and PXRE s Annual Report on Form 10-K for the year ended December 31, 2006 (the 10-K), including the audited consolidated financial statements and notes thereto, the discussion of Certain Risks and Uncertainties and the discussion of Critical Accounting Policy Disclosures contained in the 10-K.

Overview

PXRE Group Ltd. is an insurance holding company organized in Bermuda. We have historically provided reinsurance products and services to a worldwide marketplace through our wholly owned subsidiary operations located in Bermuda, Europe and the United States. Our primary business has been catastrophe and risk excess reinsurance, which accounted for substantially all of our net premiums earned during the three months ended June 30, 2007 and 2006.

On February 16, 2006, we announced that we would be increasing our estimates of the net pre-tax impact of Hurricanes Katrina, Rita and Wilma on our results of operations for the year ended December 31, 2005. We also announced our intention to explore strategic alternatives due to concerns about the hurricane losses and the resulting potential negative impact on our credit ratings. Following these announcements, in February 2006 our counterparty credit and financial strength ratings were downgraded by the major rating agencies to a level that was unacceptable to many of our reinsurance clients. These ratings downgrades have had a significant negative impact on our results of operations and profitability because they have impaired our ability to retain and renew our existing reinsurance business. In light of the negative consequences of rating downgrades, our Board of Directors determined that we should evaluate strategic alternatives to our operating approach at that time and decided to retain Lazard Frères & Co. LLC (Lazard) (which has since been succeeded by Keefe, Bruyette &Woods, Inc. (KBW)) as a financial advisor to assist in the strategic exploration process.

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Since the downgrade and withdrawal of our credit ratings in early 2006 and through to March 31, 2007, we did not underwrite any material new reinsurance contracts or renew any of our expiring reinsurance contracts. During 2006, most of our clients exercised their contractual rights to terminate their reinsurance contracts with us as a result of the decline in our ratings and capital. In order to manage our peak zone catastrophe exposures, the Company had also selectively allowed extra-contractual cancellations on certain contracts that did not contain cancellation provisions triggered by rating downgrades. During the three months ended June 30, 2007, we have written a limited number of new property catastrophe reinsurance contracts through our newly formed Bermuda subsidiary, Peleus Re.

We had a net loss before convertible preferred share dividends of $11.6 million for the second quarter ended June 30, 2007 compared to net income before convertible preferred share dividends of $2.1 million in the comparable prior year period largely due to the decrease in net premiums earned as we had written a limited number of property catastrophe reinsurance contracts during the second quarter of 2007 as compared to the prior-year comparable period, while continuing to have ceded earned premiums from in force ceded reinsurance contracts. The Company had negative $7.1 million in net premiums earned during the quarter ended June 30, 2007, as compared to $15.3 million in the comparable prior year period.

Proposed Merger with Argonaut Group, Inc.

On March 14, 2007, the Board of Directors concluded its strategic alternatives evaluation process and announced that we had entered into the Merger Agreement with Argonaut. Pursuant to the terms of the Merger Agreement, Argonaut will merge into a newly formed PXRE Group Ltd. subsidiary, PXMS, Inc. Upon completion of the merger, and subject to the terms and conditions of the Merger Agreement which has been unanimously approved by the Board of Directors and shareholders of both companies, Argonaut stockholders will receive, subject to certain adjustments, 6.4672 PXRE common shares in exchange for each share of Argonaut common stock. Upon closing of the transaction, approximately 73% of PXRE s outstanding common shares will be owned by former Argonaut stockholders, and approximately 27% by former holders of PXRE s common shares and convertible voting preferred shares. Argonaut stock options and other equity awards will automatically convert upon completion of the merger into stock options and equity awards with respect to PXRE common stock, subject to adjustment to reflect the exchange ratio.

Upon completion of the merger, PXRE will be renamed Argo Group International Holdings, Ltd. and its common shares will be delisted from the New York Stock Exchange and relisted on the NASDAQ. The completion of the merger is expected to occur on August 7, 2007, subject to the satisfaction or waiver of the remaining closing conditions and other provisions of the Merger Agreement.

The Merger Agreement contains certain termination rights for both us and Argonaut. Under certain circumstances, including those relating to competing business combination proposals, termination of the Merger Agreement could obligate PXRE to pay a termination fee of $20 million.

If the Plan of Merger is consummated, then certain obligations will be triggered in conjunction with the transaction, including accelerated vesting of certain share-based compensation, obligations under a Separation Agreement with our Chief Executive Officer and investment banking fees. With respect to share-based compensation, 0.3 million of the 0.4 million restricted shares at June 30, 2007 and all of the unvested options at June 30, 2007 will vest on the date of the closing of the Merger, resulting in up to $2.4 million of accelerated expense. With respect to the Separation Agreement with our Chief Executive Officer, an obligation for $1.8 million of lump sum payments payable six months after the closing of the Merger, in addition to any vesting of restricted shares or options expense included in the $2.4 million accelerated expense noted earlier, will become due. Lastly, investment banking fees of approximately $4.2 million will be payable upon the closing of the Merger.

On March 14, 2007, in connection with the execution of the Merger Agreement with Argonaut, the holders of the convertible preferred shares of PXRE (the Preferred Shareholders) and the holders of the convertible common shares of PXRE (the Convertible Common Shareholders and, together with the Preferred Shareholders, the Stockholders), entered into a Voting and Conversion Agreement (the Voting Agreement). Pursuant to the Voting Agreement, the Stockholders agreed to vote in favor of the Merger and the transactions contemplated thereby and PXRE has agreed to reduce the conversion price of the convertible preferred shares from $11.28 to $6.24 per convertible preferred share which will result in the issuance of an additional 4.2 million common shares upon the closing of the Merger. The parties agreed that the convertible preferred shares and convertible common shares would be converted into common shares of PXRE immediately prior to the Merger. In addition, the Stockholders agreed to waive any dividends that would have otherwise accrued on the Preferred Shares in accordance with the terms of the Description of Stock from and after December 31, 2006. Accordingly, as of June 30, 2007, dividends amounting to $2.3 million were accrued but not paid. If the Plan of Merger is consummated by August 31, 2007, then this accrual for dividends payable will be reversed. However, if the Merger Agreement is terminated, the Voting Agreement will also terminate and the conversion terms in effect prior to entering into the Voting Agreement shall apply and any Waived Dividends that become payable as a result thereof shall not be deemed past due dividends under Section 4(c) of the Description of Stock if paid on the next applicable Dividend Due Date.

Concurrently with the announcement of the merger, we also announced the formation of a new Bermuda based subsidiary, Peleus Re, which has been rated A- by A.M. Best and has commenced operations. Peleus Re focuses on underwriting medium to small commercial property reinsurance risks on a pro rata and risk excess basis, and property catastrophe reinsurance risk on a controlled basis. It is also expected to provide reinsurance of casualty risks. Following the merger, Peleus Re will provide quota share reinsurance to Argonaut for its property and casualty risks. Peleus Re had written a limited number of new property catastrophe reinsurance contracts during the three months ended June 30, 2007. Peleus Re was initially capitalized during the first quarter of 2007 with $213 million contributed from the existing surplus of PXRE Bermuda. PXRE Bermuda and PXRE Reinsurance have been placed into an orderly voluntary runoff, except for providing intercompany reinsurance support to Peleus Re.

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Status of Credit and Financial Strength Ratings

Immediately following our February 16, 2006 announcement, Standard & Poor s Ratings Services (S&P), a division of the McGraw-Hill Companies, Inc., downgraded its counterparty credit and financial strength rating on PXRE Reinsurance and PXRE Bermuda from A- to BBB+ and placed these ratings on CreditWatch with negative implications. A.M. Best, an independent insurance industry rating organization, also downgraded its financial strength rating from A- to B++ with a negative outlook. On February 17, 2006, Moody s Investor Services (Moody s) downgraded its insurance financial strength rating of PXRE Reinsurance from Baa1 to Baa2 and placed this rating under review for possible further downgrade.

On February 22, 2006, we announced our financial results for the quarter ended December 31, 2005. We also announced a further increase in our estimates of the net pre-tax impact of Hurricanes Katrina, Rita and Wilma.

Subsequently in February 2006, S&P further downgraded its counterparty credit and financial strength rating on PXRE Reinsurance and PXRE Bermuda from BBB+ to BBB- , and A.M. Best further downgraded its financial strength rating on these entities from B++ to B+ with a negative implication. Moody s further downgraded its insurance financial strength rating of PXRE Reinsurance from Baa2 to Baa3 and placed this rating under review for possible further downgrade.

In April, 2006, after finding that operational ratings below the critical A category provided little value for a reinsurer, we announced that we had requested that the major credit rating agencies withdraw their financial strength and claims paying ratings of the Company and its operating subsidiaries. In the wake of this request, A.M. Best downgraded its financial strength ratings of PXRE Reinsurance and PXRE Bermuda from B+ to B and withdrew these ratings; S&P downgraded its counterparty credit and financial strength rating on PXRE Reinsurance and PXRE Bermuda from BBB- to BB+ and then withdrew these ratings; and Moody s downgraded its insurance financial strength rating of PXRE Reinsurance from Baa3 to Ba2 and then withdrew this rating.

Ratings have become an increasingly important factor in establishing the competitive position of reinsurance companies. Due to these ratings downgrades and withdrawal in 2006 of the operational ratings of our reinsurance subsidiaries by A.M. Best, S&P and Moody s, our competitive position in the reinsurance industry has suffered, with ceding companies and brokers having moved business to other reinsurers with higher ratings. As of December 31, 2006, virtually all of the Company s reinsurance contracts had either been cancelled, non-renewed or expired.

On March 15, 2007, Peleus Re received a rating of A- from A.M. Best. Also on March 15, 2007, our existing reinsurance subsidiaries, PXRE Bermuda and PXRE Reinsurance were re-rated B+ by A.M. Best.

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Comparison of Second Quarter Results for 2007 with 2006

For the quarter ended June 30, 2007, net loss before convertible preferred share dividends was $11.6 million compared to net income before convertible preferred share dividends of $2.1 million for the comparable period of 2006. The decrease in net income during the quarter ended June 30, 2007 as compared to the prior year comparable period was largely due to a $22.4 million decrease in net premiums earned during the quarter ended June 30, 2007 as PXRE had written a limited number of new property catastrophe reinsurance contracts during the second quarter of 2007. Net premiums earned during the three months ended June 30, 2007 were negative $7.1 million primarily as a result of ceded premiums and adjustments of prior-year reinstatement premiums.

Net loss per diluted common share was $0.18 for the second quarter of 2007 compared to net income per diluted common share of $0.01 for the second quarter of 2006, based on diluted average shares outstanding of approximately 72.1 million in the second quarter of 2007 and approximately 72.0 million in the second quarter of 2006. As the Company incurred a loss from continuing operations in the quarter ended June 30, 2007, in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share, it did not include approximately 5.2 million of average shares in its calculation of net loss per diluted common shares that are anti-dilutive, as shown in Note 6 to the Interim Consolidated Financial Statements.

Premiums

Gross and net premiums written for the three months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,		$ Increase	% Increase
($000 s)	2007	2006	(Decrease)	(Decrease)
Gross premiums written	$ (474)	$ (22,098)	$ 21,624	98
Ceded premiums written	956	(5,808)	(6,764)	(116)
Net premiums written	$ 482	$ (27,906)	$ 28,388	102

Gross and net premiums earned for the three months ended June 30, 2007 and 2006 were as follows:

	Three Months Ended June 30,		$ Increase	% Increase
($000 s)	2007	2006	(Decrease)	(Decrease)
Gross premiums earned	$ (1,191)	$ 32,554	$ (33,745)	(104)
Ceded premiums earned	(5,920)	(17,245)	(11,325)	(66)
Net premiums earned	$ (7,111)	$ 15,309	$ (22,420)	(146)

The reduced amount of negative gross premiums written during the quarter ended June 30, 2007 compared to the quarter ended June 30, 2006 was due to the high level of return premium due to cancellation or non-renewal of many of our reinsurance contracts in the second quarter of 2006 following our ratings downgrades in 2006 as well as the termination of one pro rata contract which resulted in a reduction of written premium of $14.8 million during the second quarter of 2006. The decrease in gross premiums earned during the quarter ended June 30, 2007 as compared to the prior year comparable period is due to PXRE underwriting only a limited number of new property catastrophe reinsurance contracts during the second quarter of 2007 amounting to $0.1 million of gross earned premium. Gross premiums written and gross premiums earned during the second quarter of 2007 were negative $0.5 million and negative $1.2 million, respectively, primarily as a result of adjustments of prior-year premiums, including reinstatement premiums.

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The decrease in both ceded premiums written and ceded premiums earned during the quarter ended June 30, 2007 was due to a decrease in ceded premiums associated with excess of loss retrocessional catastrophe coverage during 2007, including one of the collateralized catastrophe facilities entered into during the fourth quarter of 2005 to protect the Company against a severe catastrophe event which was terminated during the first quarter of 2007 with termination charges recognized as of December 31, 2006. PXRE has maintained some retrocessional coverage in 2007 despite underwriting a limited number of new property catastrophe reinsurance contracts during the second quarter of 2007, in anticipation of Peleus Re assuming new reinsurance risks during the course of 2007 and future periods. Ceded premium for retrocessional coverage not expected to be exposed to loss for the balance of 2007 were expensed during the second quarter of 2007 amounting to an additional expense of $2.8 million.

The increase in net premiums written during the three months ended June 30, 2007 was a result of the increase in gross premiums written of $21.6 million and the decrease in ceded premiums written of $6.8 million. The increase in gross premiums written is related to cancellations of treaties in the second quarter of 2006 that had been bound in the first quarter of 2006 or third quarter of 2005. The decrease in net premiums earned during the three months ended June 30, 2007 was a result of the decrease in gross premiums earned of $33.7 million, offset, in part, by the decrease in ceded premiums earned of $11.3 million.

A summary of our net premiums written and earned by business segment for the three months ended June 30, 2007 and 2006 is included in Note 9 to the Interim Consolidated Financial Statements.

Ratios

The underwriting results of a property and casualty insurer are discussed frequently by reference to its loss ratio, expense ratio and combined ratio. The loss ratio is the result of dividing losses and loss expenses incurred by net premiums earned. The expense ratio is the result of dividing underwriting expenses (including amortization of expenses previously deferred, commission and brokerage, net of fee income, and operating expenses) by net premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio less than 100% indicates underwriting profits and a combined ratio greater than 100% indicates underwriting losses. The combined ratio does not reflect the effect of investment income, other reinsurance related expense or other fee income on underwriting results. The ratios discussed below have been calculated on a GAAP basis.

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The following table summarizes the loss ratio, expense ratio and combined ratio for the quarters ended June 30, 2007 and 2006, respectively:

	Three Months Ended June 30,	
(%)	2007	2006
Loss ratio	NM	5.6%
Expense ratio	NM	104.5
Combined ratio	NM	110.1%
Catastrophe and risk excess loss ratio	NM	10.7%

As a result of the minimal amount of new reinsurance business underwritten in the second quarter of 2007 and the resulting lack of any significant net premiums earned, the loss ratios, expense ratio and combined ratio are not meaningful (NM) for the three months ended June 30, 2007.

Losses and Loss Expenses

Losses and loss expenses incurred amounted to $1.0 million in the second quarter of 2007 compared to $0.9 million in the second quarter of 2006. Our loss ratio was not meaningful, as noted above, for the second quarter of 2007 as compared to 5.6% for the comparable prior year period. There were no significant property catastrophe losses during either the second quarter of 2007 or 2006. The incurred loss amount of $1.0 million in the second quarter of 2007 was primarily due to net adverse development of $1.0 million on prior year losses and loss expenses. Net adverse development of $1.0 million for prior-year losses and loss expenses, was comprised of $0.5 million of net adverse development on our catastrophe and risk excess segment and $0.5 million of net adverse development on our exited lines segment. There was no material development on Hurricanes Katrina, Rita and Wilma during the second quarter of 2007.

During the second quarter of 2006, we experienced net favorable development of $7.5 million for prior-year losses and loss expenses, comprised of $6.7 million of favorable development on our catastrophe and risk excess segment and $0.8 million of favorable development on our exited lines segment. The $6.7 million of favorable catastrophe and risk excess development was primarily related to an increase in reinsurance recoveries associated with reported loss activity and industry loss data.

Underwriting Expenses

The expense ratio was not meaningful, as noted above, for the second quarter of 2007 compared to 104.5% during the comparable year-earlier period. The commission and brokerage ratio, net of fee income, was not meaningful for the second quarter of 2007 compared with 30.1% for the second quarter of 2006. Commission and brokerage, net of fee income for the second quarter of 2007 decreased 101%, or $4.7 million, to negative $0.1 million from $4.6 million in the second quarter of 2006 due to the decrease in net premiums earned as only a limited amount of new business was underwritten in the three months ended June 30, 2007. Commission and brokerage, net of fee income, during the second quarter of 2007 was negative $0.1 million as a result of adjustments of net premiums earned on prior-year premiums.

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The operating expense ratio was not meaningful, as noted above, for the three months ended June 30, 2007 compared with 74.4% for the comparable period of 2006. Operating expenses decreased 13%, or $1.5 million, to $9.9 million in the second quarter of 2007 from $11.4 million in the second quarter of 2006 due primarily to decreased human resource and facility related costs. Operating expenses include $1.6 million and $1.7 million in legal and financial advisory costs for the three months ended June 30, 2007 and 2006, respectively, which were principally related to the proposed merger with Argonaut Group, Inc.

Other Reinsurance Related Expense

In the fourth quarter of 2005, PXRE sponsored a catastrophe bond transaction which was determined to be a derivative and recorded at fair value. During the quarter ended June 30, 2007, other reinsurance related expense increased $0.7 million to $3.0 million for the three months ended June 30, 2007 from $2.3 million in the comparable period of 2006. The increase in expense was mainly due to a decrease in fair value of this derivative asset. This was offset, in part, by the decrease in protection provided by the derivative to $125.0 million in 2007 from $250.0 million in 2006.

Net Investment Income

Net investment income for the second quarter of 2007 decreased 1%, or $0.1 million, to $13.1 million for the three months ended June 30, 2007 from $13.2 million in the comparable period of 2006. The slight decrease in net investment income was due to a $3.1 million decrease in income from our fixed maturity and short-term investment portfolios. The decrease in income from our fixed maturity and short-term investment portfolios was due to a decrease in the average invested balances in our fixed maturity and short-term investment portfolio as a result of cash flow used principally for the payment of claims. The net return of the fixed maturity and short-term investment portfolios, excluding realized and unrealized capital gains, increased to 5.3% during the second quarter of 2007, on an annualized basis, compared with 5.1% during the comparable prior-year period due to improved yields throughout the portfolio. This decrease in income from our fixed maturity and short-term investment portfolios was offset by a $2.4 million decrease in investment expenses as a result of the commutation of several reinsurance contracts that required PXRE to credit interest to the counterparties to these transactions, when these contracts were in place in 2006, and a $0.6 million increase in income from our hedge fund and other invested asset portfolios during the second quarter of 2007. Subsequent to, and as a result of the ratings downgrades in 2006, redemption orders were executed for all of the Company s hedge fund investments and as a result income from hedge funds is expected to continue to decrease in future quarters as we receive the proceeds from our various hedge fund investments, expected to be received in full by the end of 2007.

Net Realized Investment Losses

Net realized investment losses for the second quarter of 2007 were $0.2 million compared to $3.4 million in the second quarter of 2006 as write-downs of investment securities due to other than temporary impairment charges totaled $0.2 million in the second quarter of 2007 versus $3.3 million in the second quarter of 2006.

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Income Taxes

The tax expense recognized during the second quarter of 2007 was minimal foreign tax. There was no tax expense recognized during the second quarter of 2006.

Management has reviewed PXRE s deferred tax asset as of June 30, 2007, and due to uncertainty with respect to the amount of future taxable income that will be generated following the downgrades of PXRE s credit rating in February 2006, has concluded that a full valuation allowance continues to be required for its entire deferred tax asset.

Comparison of Year-to-Date Results for 2007 with 2006

For the six months ended June 30, 2007, net loss before convertible preferred share dividends was $18.8 million compared to net income before convertible preferred share dividends of $43.8 million for the comparable period of 2006. The decrease in net income during the six months ended June 30, 2007 as compared to the prior year comparable period was largely due to a $104.7 million decrease in net premiums earned during the six months ended June 30, 2007 as PXRE has written a limited number of new property catastrophe reinsurance contracts during the second quarter of 2007. Net premiums earned during the six months ended June 30, 2007 were negative $12.3 million primarily as a result of ceded premiums and adjustments of prior-year reinstatement premiums. The decrease in net premiums earned was offset, in part, by a $20.9 million decrease in net losses and loss expenses incurred as the Company had no material exposure to catastrophe events in the first six months of 2007 and a $17.0 million decrease in commissions and brokerage associated with decreased premium.

Net loss per diluted common share was $0.29 for the six months ended June 30, 2007 compared to net income per diluted common share of $0.57 for the comparable period of 2006, based on diluted average shares outstanding of approximately 72.1 million in the first six months of 2007 and approximately 77.0 million in the first six months of 2006. As the Company incurred a loss from continuing operations in the six months ended June 30, 2007, in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share, it did not include approximately 5.2 million of average shares in its calculation of net loss per diluted common shares that are anti-dilutive, as shown in Note 6 to the Interim Consolidated Financial Statements.

Premiums

Gross and net premiums written for the six months ended June 30, 2007 and 2006 were as follows:

	Six Months Ended June 30,			%
($000 s)	**2007**	**2006**	**$ Increase (Decrease)**	**Increase (Decrease)**
Gross premiums written	$ (2,553)	$ 99,287	$ (101,840)	(103)
Ceded premiums written	(13,503)	(48,300)	(34,797)	(72)
Net premiums written	$ (16,056)	$ 50,987	$ (67,043)	(131)

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Gross and net premiums earned for the six months ended June 30, 2007 and 2006 were as follows:

($000 s)	Six Months Ended June 30, 2007	2006	$ Increase (Decrease)	% Increase (Decrease)
Gross premiums earned	$ (3,177)	$ 128,198	$ (131,375)	(102)
Ceded premiums earned	(9,128)	(35,802)	(26,674)	(75)
Net premiums earned	$ (12,305)	$ 92,396	$ (104,701)	(113)

PXRE has written a limited number of new property catastrophe reinsurance contracts during the second quarter of 2007 which decreased both gross premiums written and gross premiums earned during the six months ended June 30, 2007 as compared to the prior year comparable period. Gross premiums written and gross premiums earned during the six months ended June 30, 2007 were negative $2.6 million and negative $3.2 million, respectively, primarily as a result of adjustments of prior-year premiums, including reinstatement premiums.

The decrease in both ceded premiums written and ceded premiums earned during the six months ended June 30, 2007 was due to a decrease in ceded premiums associated with excess of loss retrocessional catastrophe coverage during 2007, including one of the collateralized catastrophe facilities entered into during the fourth quarter of 2005 to protect the Company against a severe catastrophe event which was terminated during the first quarter of 2007 with termination charges recognized as of December 31, 2006. PXRE has maintained some retrocessional coverage in 2007 despite underwriting relatively few reinsurance contracts during the first six months of 2007, in anticipation of Peleus Re assuming new reinsurance risks during the course of 2007 and future periods.

The decrease in both net premiums written and net premiums earned during the six months ended June 30, 2007 was a result of the decrease in gross premiums written and gross premiums earned of $101.8 million and $131.4 million, respectively, offset, in part, by the decrease in ceded premiums written and ceded premiums earned of $34.8 million and $26.7 million, respectively.

A summary of our net premiums written and earned by business segment for the six months ended June 30, 2007 and 2006 is included in Note 9 to the Interim Consolidated Financial Statements.

Ratios

The following table summarizes the loss ratio, expense ratio and combined ratio for the six months ended June 30, 2007 and 2006, respectively:

(%)	Six Months Ended June 30, 2007	2006
Loss ratio	NM	20.2%
Expense ratio	NM	41.8
Combined ratio	NM	62.0%
Catastrophe and risk excess loss ratio	NM	19.0%

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As a result of the minimal amount of new reinsurance business in the first six months of 2007 and the resulting lack of significant net premiums earned, the loss ratios, expense ratio and combined ratio are not meaningful for the six months ended June 30, 2007.

Losses and Loss Expenses

Losses and loss expenses incurred amounted to negative $2.2 million in the first six months of 2007 compared to $18.7 million in the corresponding prior-year period. Our loss ratio was not meaningful, as noted above, for the first six months of 2007 as compared to 20.2% for the comparable prior year period. There were no significant property catastrophe losses during either the first six months of 2007 or 2006. The incurred loss amount of negative $2.2 million in the first six months of 2007 was due to net favorable development of $2.2 million on prior year losses and loss expenses. Net favorable development of $2.2 million for prior-year losses and loss expenses, was comprised of $4.1 million of net favorable development on our catastrophe and risk excess segment and $1.9 million of net adverse development on our exited lines segment. The $4.1 million of favorable catastrophe and risk excess development was primarily related to $9.1 million of favorable reported loss activity on our prior-year non-significant catastrophe losses, offset by $5.0 million of adverse development on Hurricanes Katrina, Rita and Wilma, primarily related to a late reported loss by a cedent in run-off.

During the first six months of 2006, we experienced net favorable development of $10.1 million for prior-year losses and loss expenses, comprised of $11.2 million of favorable development on our catastrophe and risk excess segment, offset by $1.1 million of adverse development on our exited lines segment. The $11.2 million of favorable catastrophe and risk excess development was primarily related to an increase in ceded reinsurance recoveries associated with reported loss activity and industry loss data.

Underwriting Expenses

The expense ratio was not meaningful, as noted above, for the first six months of 2007 compared to 41.8% during the comparable year-earlier period. The commission and brokerage ratio, net of fee income, was not meaningful for the first six months of 2007 compared with 17.6% for the first six months of 2006. Commission and brokerage, net of fee income for the first six months of 2007 decreased 103%, or $16.8 million, to negative $0.5 million from $16.3 million in the corresponding prior-year period of 2006 due to the decrease in net premiums earned as only a limited amount of new business was underwritten in the six months ended June 30, 2007. Commission and brokerage, net of fee income, during the first six months of 2007 was negative $0.5 million as a result of adjustments of net premiums earned on prior-year reinstatement premiums.

The operating expense ratio was not meaningful, as noted above, for the six months ended June 30, 2007 compared with 24.2% for the comparable period of 2006. Operating expenses decreased 3%, or $0.6 million, to $21.8 million from $22.4 million in the first six months of 2007 due primarily to decreased human resource and facility related costs, offset by increased legal and financial advisory costs. Operating expenses include $5.5 million and $3.7 million in legal and financial advisory costs in the first six months of 2007 and 2006, respectively, which were principally related to the proposed merger with Argonaut Group, Inc.

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Other Reinsurance Related Expense

In the fourth quarter of 2005, PXRE sponsored a catastrophe bond transaction which was determined to be a derivative and recorded at fair value. During the six months ended June 30, 2007, other reinsurance related expense decreased $1.3 million to $4.7 million for the six months ended June 30, 2007 from $6.0 million in the comparable period of 2006 mainly due to the decrease in protection provided by the derivative to $125.0 million in 2007 from $250.0 million in 2006 which was offset, in part, by a decrease in fair value of this derivative asset.

Net Investment Income

Net investment income for the six months ended June 30, 2007 decreased $4.4 million, or 14%, to $26.8 million from $31.2 million in the comparable prior-year period. This decrease is primarily a result of a $4.5 million decrease in income from our hedge funds and a $3.8 million decrease in income from our fixed maturity and short-term investment portfolio, offset, in part, by a $4.0 million decrease in investment expenses. The average invested balances in our fixed maturity and short-term investment portfolio decreased due to cash flow used principally for the payment of claims. The net return of the fixed maturity and short-term investment portfolios, excluding realized and unrealized capital gains, increased to 5.2% during the six months ended June 30, 2007, on an annualized basis, compared with 4.6% during the comparable prior-year period due to improved yields throughout the portfolio. Subsequent to, and as a result of the ratings downgrades in 2006, redemption orders were executed for all of the Company s hedge fund investments and as a result income from hedge funds is expected to continue to decrease in future quarters as we receive the proceeds from our various hedge fund investments, expected to be received in full by the end of 2007. The decrease in investment expenses resulted from the commutation of several reinsurance contracts that required PXRE to credit interest to the counterparties to these transactions, when these contracts were in place in 2006.

Net Realized Investment Losses

Net realized investment losses for the first six months of 2007 were $2.5 million compared to $8.0 million in the first six months of 2006. The decrease in net realized investment losses relates primarily to the write-down of $2.5 million of investment securities due to other than temporary impairment charges during the six months ended June 30, 2007 compared to $7.1 million of other than temporary impairment charges incurred during the comparable prior year period.

Income Taxes

The tax expense recognized during the first six months of 2007 was minimal foreign tax. There was no tax expense recognized during the first six months of 2006.

Management has reviewed PXRE s deferred tax asset as of June 30, 2007, and due to uncertainty with respect to the amount of future taxable income that will be generated following the downgrades of PXRE s credit rating in February 2006, has concluded that a full valuation allowance continues to be required for its entire deferred tax asset.

If the Plan of Merger is consummated, management will re-assess the Company s ability to utilize its net operating losses in future periods.

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FINANCIAL CONDITION

Capital Resources

The Company and PXRE Delaware rely primarily on dividend payments or capital distributions from PXRE Bermuda, Peleus Re and PXRE Reinsurance to pay their operating expenses, to meet their debt service obligations and to pay dividends. In the wake of losses incurred as a result of Hurricanes Katrina, Rita and Wilma during 2005, PXRE Reinsurance has an accumulated deficit and, therefore, may not declare and pay any dividends without regulatory approval. Based on the statutory surplus of PXRE Bermuda as of December 31, 2006, the aggregate dividends or capital distributions that are available to be paid during 2007, without prior regulatory approval are $104.6 million. Since our recent ratings downgrades we have been actively communicating with the Bermuda Monetary Authority (BMA) and we do not intend to make any further dividends or capital distributions from PXRE Bermuda without prior notification to the BMA. We also do not intend to make any dividend or capital distributions from Peleus Re in 2007. Neither Peleus Re nor PXRE Reinsurance paid any dividends in the first six months of 2007. PXRE Bermuda paid a capital distribution of $174.0 million to the Company in 2007 with the consent of the BMA. In addition, the Company made a capital contribution of $163.0 million to Peleus Re and PXRE Bermuda made a capital contribution of $50.0 million to Peleus Re during the first quarter of 2007 with the consent of the BMA. The capital distribution and capital contributions did not impact or limit the $104.6 million of aggregate dividends or capital distributions that PXRE Bermuda may pay during 2007. We anticipate that this remaining dividend and capital distribution capacity (with notification to the BMA) will be sufficient to fund our liquidity needs during 2007.

PXRE also agreed with the BMA that effective March 12, 2007, PXRE Bermuda, before reducing its total statutory capital by 10% or more, in the aggregate, as set out in its previous year s financial statements, in any calendar year, shall obtain the BMA s approval. PXRE Bermuda may reduce its total statutory capital, as set out in its previous year s financial statements, by less than 10% in the aggregate in any calendar year, provided that at least fourteen days before payment of such distribution it files with the BMA a certificate signed by the insurer s principal representative and two of its directors which states that, in the opinion of those signing the certificate, the return and reduction of statutory capital will not cause the insurer to fail to meet its relevant margins.

Additionally, PXRE Bermuda, before declaring a dividend in respect of any financial year which would exceed 20% of its total statutory capital and surplus as shown on its statutory balance sheet in relation to the previous financial year, must obtain the BMA s approval. PXRE Bermuda may declare and pay dividends in respect of any financial year which would not exceed 20% of its total statutory capital and surplus as shown on its statutory balance sheet in relation to the previous financial year, provided that at least fourteen days before payment of such dividend it files with the BMA a certificate signed by its principal representative and two of its directors which states that, in the opinion of those signing the certificate, the payment of such dividend will not cause PXRE Bermuda to fail to meet its relevant margins.

PXRE Bermuda is prohibited from declaring or paying any dividends during any financial year it is in breach of its minimum solvency margin or minimum liquidity ratio or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. If it fails to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, the insurer will be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year. If its total statutory capital and surplus falls to $75.0 million or less, it will have to comply with additional reporting requirements as mandated by the BMA.

Liquidity

The primary sources of liquidity for our principal operating subsidiaries have historically been net cash flows from operating activities (including interest income from investments), the maturity or sale of investments, borrowings, capital contributions and advances. Funds are applied primarily to the payment of claims, operating expenses and to the purchase of investments. Premiums are typically received in advance of related claim payments.

As a result of our ratings downgrades in 2006, we have underwritten a limited amount of new reinsurance business in the three months ended June 30, 2007, which has significantly decreased cash flows associated with the receipt of reinsurance premiums. In addition, paid losses primarily from the 2005 Hurricanes have resulted in net cash used by operating activities. Subsequent to, and as a result of, the downgrades, we sold approximately $490.5 million of fixed income securities held by PXRE Bermuda, and additionally executed redemption orders for all of the Company s hedge fund investments. The proceeds of the sales of the fixed income securities were all received by the first week of March 2006 and were reinvested in commercial paper and other short term investments. With respect to the proceeds of the sales of the hedge fund investments, approximately 99.4% of such proceeds were received by June 30, 2007 and the balance is expected to be received in full by the end of 2007.

Financings

As of June 30, 2007, PXRE had $167.1 million in subordinated debt securities outstanding as follows:

($000 s)	**June 30, 2007**
8.85% fixed rate due February 1, 2027	$ 102,660
7.35% fixed/floating rate due May 15, 2033	18,042
9.75% fixed rate due May 23, 2033	15,464
7.70% fixed/floating rate due October 29, 2033	20,619
7.58% fixed/floating rate due September 30, 2033	10,310
	$ 167,095

Share Dividends and Book Value

There were no dividends to common shareholders declared in the second quarter of 2007 and 2006.

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The Board of Directors does not intend to declare dividends on our common shares during the pendency of the proposed merger with Argonaut.

Pursuant to the Voting Agreement, the Preferred Stockholders agreed to waive any dividends that would have otherwise accrued on the Preferred Shares in accordance with the terms of the Description of Stock from and after December 31, 2006 (the Waived Dividends). Accordingly, as of June 30, 2007, dividends amounting to $2.3 million were accrued but not paid. If the Plan of Merger is consummated by August 31, 2007, then this accrual for dividends payable will be reversed. However, if the Merger Agreement is terminated, the Voting Agreement will also terminate and the conversion terms in effect prior to entering into the Voting Agreement shall apply and any Waived Dividends that become payable as a result thereof shall not be deemed past due dividends under Section 4(c) of the Description of Stock if paid on the next applicable Dividend Due Date.

Book value per common share was $6.12 at June 30, 2007 after considering convertible preferred shares at a conversion price of $11.13 and the accrual of the convertible preferred share dividend as of June 30, 2007. Book value per common share would be $5.84 at June 30, 2007 after considering convertible preferred shares at a conversion price of $6.24, the conversion price agreed upon by PXRE and the Preferred Stockholders pursuant to the Voting Agreement, and reversal of the $2.3 million dividend accrued but not due if the Merger closes by August 31, 2007.

Cash Flows

Net cash flows used by operations were $64.3 million in the second quarter of 2007 compared to $156.5 million in the second quarter of 2006 primarily due to a decrease in losses and loss expenses paid and a decrease in premiums collected as the Company has underwritten only a limited amount of new business in 2007.

Because of the nature of the coverages we provide, which typically can produce infrequent losses of high severity, it is not possible to predict accurately our future cash flows from operating activities. As a consequence, cash flows from operating activities may fluctuate, perhaps significantly, between individual quarters and years.

Net cash provided by investing activities were $67.1 million in the second quarter of 2007 compared to $158.9 million in the second quarter of 2006. This decrease reflects the decreased cash flows used by operations.

If the merger with Argonaut is not consummated and our Board of Directors concludes that no other feasible strategic alternative would be in the best interests of our shareholders, it may determine that the best course of action is to place the reinsurance operations of PXRE into runoff. If runoff is chosen, the only sources of liquidity for our principal operating subsidiaries will be the maturity or sale of investments, as we will no longer expect to have net positive cash flows from operating activities, borrowings, capital contributions or advances. As of June 30, 2007, we have $532.2 million of short term investments and $477.4 million of other investments. The overall duration of the Company s fixed income and short-term investment strategy is 1.1 years. Based upon our current estimates of losses and loss expenses and other liabilities on our June 30, 2007 interim consolidated balance sheet, we believe we have sufficient liquidity to meet the currently foreseen needs of our counterparties should we elect to go into runoff, however the nature and timing of cash flows could be highly uncertain in this scenario.

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PXRE has three letter of credit (LOC) facilities that allow it to provide LOCs to its ceding companies if such LOC is required under the terms of the contract. All of the facilities require the Company to provide collateral in the form of fixed maturity securities or cash to the issuing bank as security for outstanding LOCs. The first is a $110.0 million committed facility with Barclays Bank plc under which the Company pays the issuing bank an annual standby commitment fee of 0.15% per annum. The second is a $200.0 million committed facility with Citibank Ireland Financial Services plc under which the Company pays the issuing bank an annual standby commitment fee of 0.10% per annum. The third is an uncommitted facility with Merrill Lynch that allows for LOCs to be issued subject to satisfactory collateral being provided to the issuing bank by the Company. There is no commitment fee for the third facility. The Company must transfer eligible assets to collateral accounts prior to each respective bank issuing an LOC. Since eligible assets include fixed income investments, such securities need not be sold in order to qualify as eligible collateral. As of June 30, 2007, the Company has pledged assets with a fair value of $239.5 million to support outstanding letters of credit.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements. We do have the following commitments, contingencies and contractual obligations. Payments due by period in the following table reflect liabilities recorded at June 30, 2007 and future commitments.

Commitments, Contingencies and Contractual Obligations

PAYMENT DUE BY PERIOD

Contractual Obligations ($000 s)	**Total**	**Less Than 1 Year (1)**	**1 3 Years**	**3 5 Years**	**More Than 5 Years**
Long-term debt obligations	$ 167,095	$	$	$	$ 167,095
Interest on debt obligations	318,742	7,164	28,653	28,654	254,271
Losses and loss expenses assumed	425,343	100,838	171,468	88,804	64,233
Capital (finance) lease obligations					
Operating lease obligations	3,654	550	1,719	1,385	
Purchase obligations					
Dividends on convertible preferred shares	3,540	2,325	1,215		
Other long-term liabilities reflected on the balance sheet under GAAP	2,970	2,669	301		
Total	$ 921,344	$ 113,546	$ 203,356	$ 118,843	$ 485,599

(1) Represents liabilities due through to December 31, 2007.

Loss and loss expense reserves represent management s best estimate of the ultimate cost of settling the underlying reinsurance claims. As more fully discussed in *Critical Accounting Policy Disclosures Estimation of Losses and Loss Expenses* below, the estimation of loss and loss expense reserves is based on various complex and subjective judgments. Actual losses and loss expenses paid may deviate, perhaps substantially, from the reserve estimates reflected in our interim consolidated financial statements. Similarly, the timing for payment of our estimated losses is not fixed and is not determinable on an individual or aggregate basis. The assumptions used in estimating the likely payments due by periods are based on the Company s historical claims payment experience, but due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different than the amounts disclosed above.

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As noted under *Capital Resources* above, we expect to be able to meet the contractual obligations over the remainder of 2007 with the dividend paying capacity of the Company s subsidiary, PXRE Bermuda. PXRE Reinsurance, PXRE Bermuda and Peleus Re expect to be able to meet their contractual obligations over the remainder of 2007 with operating and investing cash flows.

As of June 30, 2007, other commitments and pledged assets include (a) LOCs of $194.7 million which are secured by cash and securities with a fair value of $239.5 million, (b) securities with a par value of $9.7 million which were on deposit with various state insurance departments in order to comply with insurance laws, (c) cash and securities with a fair value of $51.5 million deposited in a trust for the benefit of a cedent in connection with certain deposit liabilities, (d) funding commitments to a limited partnership of $0.2 million, (e) commitments under the subordinated debt securities discussed above, and (f) commitment fees of $0.4 million per annum under the two committed LOC facilities discussed above under *Cash Flows.*

In order to better protect PXRE against the risk of the occurrence of multiple significant catastrophe events, we sponsored a catastrophe bond transaction that closed during the fourth quarter of 2005. The transaction was a $250.0 million collateralized transaction with A&W II, a Cayman Island reinsurance company, which is accounted for as a derivative. It is designed to provide coverage to PXRE for second event losses in the same calendar year arising from hurricanes in the Eastern and Gulf coasts of the United States, windstorms in northern Europe and earthquakes in California. The agreement with A&W II provides two tranches of protection to PXRE for the risk that a second significant catastrophe loss arising from a hurricane in the Eastern and Gulf coasts of the United States, a windstorm in northern Europe or earthquake in California occurs following the occurrence of a first significant hurricane, windstorm or earthquake loss. The coverage provided $250.0 million of protection from January 1, 2006 to December 31, 2006 and provides $125.0 million of protection for the period from January 1, 2007 to December 31, 2008. As PXRE s catastrophe exposures for 2007 are not expected to be significant, PXRE entered into an agreement for the period of July 1, 2007 to December 31, 2007, through which it sold catastrophe protection to a third party mirroring this collateralized facility in order to offset its expense for the last six months of 2007. The change in fair value that will not be offset amounting to $1.7 million was expensed in the second quarter of 2007. PXRE currently expects to utilize this facility in 2008. The annual premium payments with respect to the A&W II facility are approximately $4.0 million in 2007, net of the premium to be received from the agreement, and approximately $8.0 million in 2008.

The A&W II coverage is based on a modeled loss trigger. PXRE created a series of notional portfolios of reinsurance contracts designed to closely mimic the exposures in PXRE s assumed reinsurance portfolio at the time the transaction incepted. Upon the occurrence of a hurricane, windstorm or earthquake in the covered territories, the parameters of the catastrophe event are determined and modeled against the notional portfolios. If the modeled loss to the notional portfolio exceeds the attachment point for the peril at issue, then the coverage is activated. Upon the occurrence of a second catastrophe event in the covered territories during that calendar year, the parameters of the catastrophe event are determined and modeled against the notional portfolios. If the modeled loss to the notional portfolio for the second event exceeds the attachment point for the peril at issue, then PXRE will make a recovery under the agreement. The recovery is based on modeled losses and is not limited to PXRE s ultimate net loss from the loss event.

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On December 21, 2005, A&W II financed the coverage through the issuance of $250.0 million in catastrophe bonds pursuant to Rule 144A under the Securities Act of 1933.

The reinsurance company that is a counterparty to the A&W II agreement is a variable interest entity under the provisions of FIN 46R. The Company is not the primary beneficiary of this entity and is therefore not required to consolidate this entity in its interim consolidated financial statements.

The Merger Agreement contains certain termination rights for both PXRE and Argonaut. Under certain circumstances, including those relating to competing business combination proposals, termination of the Merger Agreement could obligate PXRE to pay a termination fee of $20 million.

If the Plan of Merger is consummated, then certain obligations will be triggered in conjunction with the transaction, including accelerated vesting of certain share-based compensation, obligations under a Separation Agreement with our Chief Executive Officer and investment banking fees. With respect to share-based compensation, 0.3 million of the 0.4 million restricted shares at June 30, 2007 and all of the unvested options at June 30, 2007 will vest on the date of the closing of the Merger, resulting in up to $2.4 million of accelerated expense. With respect to the Separation Agreement with our Chief Executive Officer, an obligation for $1.8 million of lump sum payments payable six months after the closing of the Merger, in addition to any vesting of restricted shares or options expense included in the $2.4 million accelerated expense noted earlier, will become due. Lastly, investment banking fees of approximately $4.2 million will be payable upon the closing of the Merger.

On March 14, 2007, in connection with the execution of the Merger Agreement with Argonaut, the holders of the convertible preferred shares of PXRE (the Preferred Shareholders) and the holders of the convertible common shares of PXRE (the Convertible Common Shareholders and, together with the Preferred Shareholders, the Stockholders), entered into a Voting and Conversion Agreement (the Voting Agreement). Pursuant to the Voting Agreement, the Stockholders agreed to vote in favor of the Merger and the transactions contemplated thereby and PXRE has agreed to reduce the conversion price of the convertible preferred shares from $11.28 to $6.24 per convertible preferred share which will result in the issuance of an additional 4.2 million common shares upon the closing of the Merger. The parties agreed that the convertible preferred shares and convertible common shares would be converted into common shares of PXRE immediately prior to the Merger. In addition, the Stockholders agreed to waive any dividends that would have otherwise accrued on the Preferred Shares in accordance with the terms of the Description of Stock from and after December 31, 2006. Accordingly, as of June 30, 2007, dividends amounting to $2.3 million were accrued but not paid. If the Plan of Merger is consummated by August 31, 2007, then this accrual for dividends payable will be reversed. However, if the Merger Agreement is terminated, the Voting Agreement will also terminate and the conversion terms in effect prior to entering into the Voting Agreement shall apply and any Waived Dividends that become payable as a result thereof shall not be deemed past due dividends under Section 4(c) of the Description of Stock if paid on the next applicable Dividend Due Date.

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Investments

As of June 30, 2007, our investment portfolio, at fair value, was allocated 47.0% in fixed maturity debt instruments, 52.7% in short-term investments, 0.1% in hedge funds and 0.2% in other invested assets.

The following table summarizes our investments at June 30, 2007 and December 31, 2006 at carrying value:

	Analysis of Investments			
	June 30, 2007		**December 31, 2006**	
($000 s, except percentages)	**Amount**	**Percent**	**Amount**	**Percent**
Fixed maturities:				
United States government securities	$ 53,510	5.3%	$ 54,200	4.5%
Foreign denominated securities	13,721	1.4	15,497	1.3
United States government sponsored agency debentures	53,550	5.3	53,426	4.4
United States government sponsored agency mortgage-backed securities	118,951	11.8	131,069	10.9
Other mortgage and asset-backed securities	148,081	14.6	166,765	13.9
Obligations of states and political subdivisions	1,234	0.1	1,243	0.1
Corporate securities	85,531	8.5	95,551	7.9
Total fixed maturities	474,578	47.0	517,751	43.0
Short-term investments	532,229	52.7	671,197	55.7
Total fixed maturities and short-term investments	1,006,807	99.7	1,188,948	98.7
Hedge funds	1,077	0.1	12,766	1.1
Other invested assets	1,722	0.2	2,427	0.2
Total investment portfolio	$ 1,009,606	100.0%	$ 1,204,141	100.0%

At June 30, 2007, 97.6% of the fair value of our fixed maturities and short-term investments portfolio was in obligations rated A- or better by Moody s or S&P. Mortgage and asset-backed securities accounted for 26.5% of fixed maturities and short-term investments or 26.4% of our total investment portfolio based on fair value at June 30, 2007. The average yield to maturity on our fixed maturities portfolio, including short-term investments, at both June 30, 2007 and 2006 was 5.4%.

Fixed maturity investments, other than trading securities, are reported at fair value, with the net unrealized gain or loss, net of tax, reported in other comprehensive income as a separate component of shareholders equity. Fixed maturity investments classified as trading securities are reported at fair value, with the net unrealized gain or loss reported as investment income. At June 30, 2007 an after-tax unrealized gain of $0.1 million (a gain of $0.00 per share, after considering convertible preferred shares) was included in shareholders equity.

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Short-term investments are carried at amortized cost, which approximates fair value. Our short-term investments, principally U.S. treasury bills and agency securities, amounted to $532.2 million at June 30, 2007, compared to $671.2 million at December 31, 2006.

A significant component of our investment strategy had, in prior periods, been investing a portion of our invested assets in a diversified portfolio of hedge funds. At June 30, 2007, total hedge fund investments amounted to $1.1 million, representing 0.1% of the total investment portfolio. At December 31, 2006, total hedge fund investments amounted to $12.8 million, representing 1.1% of the total investment portfolio. As noted above, under the caption *Cash Flows,* the Company executed redemption orders for all of its hedge funds during the first quarter of 2006.

As of June 30, 2007, our investment portfolio also included $1.7 million of other invested assets which is in two mezzanine bond funds. The remaining aggregate cash call commitments in respect of such investments are $0.2 million.

Hedge funds and other limited partnership investments are accounted for under the equity method. Total investment income for the six months ended June 30, 2007, included $1.2 million attributable to hedge funds and other investments.

Taxes

PXRE Delaware files U.S. income tax returns for itself and all of its direct or indirect U.S. subsidiaries that satisfy the stock ownership requirements for consolidation. PXRE Delaware is party to a tax allocation agreement concerning filing of consolidated federal income tax returns pursuant to which each of these U.S. subsidiaries makes tax payments to PXRE Delaware in an amount equal to the federal income tax payment that would have been payable by the relevant U.S. subsidiary for the year if it had filed a separate income tax return for that year. PXRE Delaware is required to provide payment of the consolidated federal income tax liability for the entire group. If the aggregate amount of tax payments made in any tax year by one of these U.S. subsidiaries is less than (or greater than) the annual tax liability for that U.S. subsidiary on a stand-alone basis for that year, the U.S. subsidiary will be required to make up the deficiency to PXRE Delaware (or will be entitled to receive a credit if payments exceed the separate return tax liability of that U.S. subsidiary). PXRE Delaware will review its tax allocation agreements once the Plan of Merger is consummated.

PXRE does not consider itself to be engaged in a trade or business in the United States and accordingly, does not expect to be subject to direct U.S. income taxation. PXRE currently does not expect to be subject to direct U.S. income taxation once the Plan of Merger is consummated.

Update on Critical Accounting Policy Disclosures

The Company s Annual Report on Form 10-K for the year ended December 31, 2006 contains a discussion concerning critical accounting policy disclosures (*See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policy Disclosures contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2006*). We disclose our significant accounting policies in the notes to the Consolidated Financial Statements which should be read in conjunction with the notes to the Interim Consolidated Financial Statements and the 2006 audited Consolidated Financial Statements and notes. Certain of these policies are critical to the portrayal of our financial condition and results since they require management to establish estimates based on complex and subjective judgments, including those related to our estimation of losses and loss expenses, estimation and recognition of premiums and valuation of deferred tax assets.

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Estimation of Losses and Loss Expenses

As a property catastrophe reinsurer, incurred losses are inherently more volatile than those of primary insurers and reinsurers of risks that have an established historical pattern of losses. In addition, with respect to insured events that occur near the end of a reporting period, as well as with respect to our retrocessional book of business, the significant delay in losses being reported to insurance carriers, reinsurers and finally retrocessionaires require us to make estimates of losses based on limited information from our clients, industry loss estimates and our own underwriting data. Because of the uncertainty in the process of estimating our losses from insured events, there is a risk that our liabilities for losses and loss expenses could prove to be inadequate, with a consequent adverse impact on our earnings and shareholders equity in future periods.

In establishing our loss and loss expense liabilities, PXRE records reserves as management s best estimate of liabilities as of the balance sheet date. Management believes that the Company s estimated liability for unpaid losses and loss expenses as of June 30, 2007 is adequate. Since year-end 2004, all of our loss and loss expense estimates have been reviewed annually by an independent internationally recognized actuarial firm, and their conclusions have not, in any period, been materially different than those of the Company.

Significant Uncertainties

The most significant uncertainty in our reserves involves our estimates of catastrophe losses. In reserving for catastrophe losses, our estimates are influenced by underwriting information provided by our clients, industry catastrophe models, industry loss estimates and our internal analyses of this information. This reserving approach can cause significant development from initial loss estimates in the immediate wake of a catastrophe event due to the limited information available to us as a reinsurer and retrocessionaire regarding the actual underlying losses. This process can cause our ultimate estimates to differ significantly from initial projections.

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Historically, there has been significant variability in the development of catastrophe losses during the twelve month period immediately following the catastrophe event with such variability reducing after the initial twelve month period. To further illustrate the variability of setting catastrophe loss estimates, the following chart outlines the changes in the initial loss estimates for recent costly catastrophes in the United States over a three-year period based on industry insured loss:

Recent U.S. Catastrophes
Subsequent Development After Initial Estimates

		Percent Change from Initial PCS Industry Loss Estimates [(2)]				Percent Change from Initial PXRE Loss Estimates [(2)]				
Date	**Event**	**@ 6 Mos.**	**@ 12 Mos.**	**@ 2 Yrs.**	**@ Final**	**@ 6 Mos.**	**@ 12 Mos.**	**@ 2 Yrs.**	**@ 3 Yrs.**	**@ Final**
Aug-92	Hurricane Andrew [(1)]	37%	99%	99%	99%	0%	46%	68%	59%	69%
Jan-94	Northridge Earthquake	22%	131%	178%	178%	49%	100%	145%	151%	153%
Sep-98	Hurricane George	16%	16%	16%	16%	8%	63%	41%	28%	39%
Sep-01	September 11 Events	0%	23%	23%	13%	1%	2%	2%	4%	6%
Aug-04	Florida Hurricanes[(3)]	6%	11%	11%	11%	1%	28%	32%	31%	NA

(1) Hurricane Andrew s initial PXRE loss estimate is at September 30, 1992. We have extrapolated this loss estimate based on the best available information.

(2) Initial estimates are as of quarter-end immediately following an event. Property Claims Services (PCS) is a division of the Insurance Services Office (ISO).

(3) PXRE s at three years loss

estimate for the Florida Hurricanes excludes a $4.7 million loss reallocation from Typhoon Songda to the Florida Hurricanes on an aggregate deductible contract which occurred during calendar year 2007.

Reserving Methodologies

We establish loss and loss expense liabilities (to cover expenses related to settling claims, including legal and other fees) to provide for the ultimate cost of settlement and administration of claims for losses, including claims that have been reported to us by our reinsureds and claims for losses that have occurred but have not yet been reported to us.

For reported losses, we establish reserves (liabilities for formally reported claims) when we receive notice of the claim, which we refer to as case reserves. It is our general policy to establish liabilities for reported losses in an amount equal to the liability set by the reinsured. In certain but infrequent instances, such as the receipt of inconsistent, incorrect or inadequate supporting documentation, we will conduct an investigation to determine if the amount established by the reinsured is appropriate or if it should be adjusted in the form of an additional case reserve.

PXRE also records reserves for losses that have been incurred but not yet reported, which are referred to as IBNR reserves. For IBNR reserves, a variety of methods have been developed in the insurance industry and are generally accepted for use in determining the appropriate provision for such liabilities. In general, these methods involve the extrapolation of reported loss data to estimate ultimate losses. Our loss calculation methods generally rely upon a projection of ultimate losses based upon the historical patterns of reported loss development.

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Our methods for establishing loss and loss expense liabilities vary depending upon the nature of the losses, which can generally be divided into three categories: (1) non-catastrophe losses in our catastrophe and risk excess segment, (2) catastrophe losses in our catastrophe and risk excess segment, and (3) losses in our exited lines segment. The Company generally considers reserves for each of these categories to be mature as follows (1) for non-catastrophe losses in our catastrophe and risk excess segment, generally anywhere between eighteen and thirty-six months after the accident year, (2) for catastrophe losses in our catastrophe and risk excess segment, generally anywhere between six to twelve months after the event occurs, and (3) losses in our exited lines segment, depending upon the nature of the underlying business, generally anywhere from five to seven years after the accident year.

(1) Non-Catastrophe Losses

In reserving for non-catastrophe losses in our catastrophe and risk excess segment, we use three different methods to estimate IBNR reserves: the loss ratio method; the incurred Bornhuetter-Ferguson method, which we refer to as the BF method; and the incurred loss development method, the latter two of which are loss development approaches. Initially, at the inception of an accident year, when there is little reported loss information, we use the loss ratio method. This method computes IBNR, as the product of an expected loss ratio and assumed earned premium minus reported loss to date. The expected loss ratio is primarily established for each line of business based on the Company s historical loss ratios. In determining the expected loss ratio, we also consider information provided by our clients and estimates provided by our underwriters and actuary concerning the impact of pricing and coverage changes. As the accident year matures further and reported loss activity begins to emerge (usually at the end of the second or third quarter following the loss) we change to the BF method.

The BF method is a premium based method of computing IBNR which blends the loss ratio method with the loss development method. The BF method computes IBNR for an accident year as the product of expected loss (earned premium multiplied by an expected loss ratio) and an expected percentage of unreported losses. This expected percentage of unreported loss is a function of the loss development factors developed by our corporate actuary from our annual analysis of the Company s historical loss development patterns by line of business. As experience emerges and accident years mature further (generally eighteen to thirty-six months after the accident year given the short-tailed nature of these property reinsurance lines) we transition to the incurred loss development method, which relies solely on our clients reported loss information and indicated historical loss development patterns to estimate ultimate losses.

Other alternate loss reserving methods developed in the insurance industry include the paid loss development method and the paid Bornhuetter-Ferguson method. We do not use these methods to establish our IBNR reserves. We believe that incurred loss methods are more reliable because they rely on a much larger, more stable and credible source of information, which is not influenced by the occurrence of one or more large payments. We do, however, use these alternate loss reserving methods to evaluate the reasonableness of the IBNR reserves that we establish using the incurred loss methods.

Our loss development factors and expected loss ratios are monitored regularly and updated as appropriate but at least once a year. These are the key assumptions that materially affect our estimates for reserves for losses and loss expenses. The expected loss ratio is primarily established for each line of business based on the Company s historical loss ratios. In determining the expected loss ratio, we also consider information provided by our clients and estimates provided by our underwriters and actuary concerning the impact of pricing and coverage changes. Loss development factors are developed from our annual analysis of our Company s historical loss development patterns by line of business. These key assumptions did not materially change from December 31, 2006 to June 30, 2007.

(2) Catastrophe Losses

In reserving for catastrophe losses in our catastrophe and risk excess segment, there is initially little reported loss information in the immediate wake of a catastrophe event, as was the case with the 2005 Hurricanes, Katrina, Rita and Wilma (KRW). The loss estimation process begins with the identification of events with characteristics similar to the recent catastrophe (geographic location, wind speed, damageability etc.), which then results in a list of the expected losses by contract from our proprietary risk management system. Third party modeling software is embedded in our proprietary risk management system.

Concurrently, our underwriting team performs a thorough contract by contract analysis to identify potential changes to the expected loss estimates including IBNR by contract. With respect to the 2005 Hurricanes, our underwriters estimates were subject to a high level of uncertainty. Specifically for Hurricane Katrina, this high level of uncertainty arose out of extremely complex and unique causation and coverage issues, including the appropriate attribution of losses to wind or flood damage as opposed to other perils such as fire, business interruption or civil commotion. In order to address these uncertainties, at that time, for contracts exposed to Hurricane Katrina losses in our most volatile lines of business (retrocessional and direct and facultative reinsurance) we recorded reserves for a significant percentage of occurrence limits as of December 31, 2005. These lines of business represented approximately 60% of our gross loss amount on Hurricane Katrina. The underwriters knowledge of the clients underlying books of business is considered in establishing loss estimates by contract. The combination of catastrophe modeling and underwriting review of affected contracts then forms the basis of our initial loss estimates for catastrophe losses.

In light of the limited loss data available from clients in the wake of catastrophes, our actuary uses our most current internally generated catastrophe loss development factors to assess the reasonableness and adequacy of our catastrophe loss reserves in the immediate wake of a catastrophe. These significant catastrophe loss development factors reflect the historical variability of prior catastrophe loss reserves in the industry and PXRE s specific experience.

The results of this initial process are updated when additional information is available. This information comes in the form of publicly available announcements, informal contact with brokers and/or clients, submission data and formal claim notices. As catastrophic events mature and reporting loss methods become more credible (usually six to twelve months after the event) actuarial methods implementing historical patterns can be assigned more credibility. In evaluating the loss estimates for catastrophic events, our actuary utilizes our internal database to establish projected reporting patterns and payment patterns. This database includes data dating back to the 1980 s consisting of well over one hundred catastrophic events, of which over twenty are hurricanes. Our actuary also employs industry patterns from the Reinsurance Association of America (RAA), an insurance industry organization. Using this information, we have developed loss development factors for significant catastrophes. Our internal significant catastrophe loss development factors are analyzed as appropriate and at least once per year to reflect updated industry benchmarks and changes in PXRE s specific loss history. The volume of reported loss activity in interim quarterly periods is monitored by the Company to determine consistency with expected loss activity based on PXRE and industry historical patterns. For individual storms, PXRE specific loss development factors are applied to reported losses to estimate IBNR reserves. However these may be weighted with industry factors or judgmental adjustments for individual significant catastrophes based upon the nature of the particular catastrophe and the underwriters knowledge.

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This catastrophe reserving process can cause our ultimate estimates to differ significantly from initial projections. For example, as part of our year-end closing process for the year ended December 31, 2005, we reassessed our ultimate liability for losses and loss expenses arising from Hurricanes Katrina, Rita and Wilma. During the course of our 2005 year-end assessment, we increased our estimate of the ultimate incurred gross losses and loss expenses arising from Hurricane Katrina by $214.6 million to $771.0 million and from Hurricane Rita by $48.1 million to $68.9 million, in each case as compared to the gross incurred losses recorded as of September 30, 2005. Our initial loss estimates for each of the hurricanes were based, in part, on insured industry loss estimates for each event, catastrophe modeling, preliminary discussions with clients and a review of potentially exposed contracts by our underwriters. In our 2005 year-end assessment of the liability for the 2005 hurricane losses, we determined that claims reported by clients relating to Hurricanes Katrina and Rita were significantly higher than expected, especially following a significant influx of reported claims from late November 2005 to February 2006. In part, the additional claims arose from a reassessment by clients of their original loss estimates for the hurricane events. For example, various clients, who advised our underwriters in the immediate wake of the hurricanes that they did not expect to experience significant losses to the reinsurance contracts in the upper layers of their reinsurance programs, reassessed their losses and submitted notices of claim for the contracts that they had previously indicated would not be impacted by the catastrophes.

In addition, in reviewing underwriting information provided by clients during December 2005 as part of the January 1, 2006 renewal process, we found that certain clients were anticipating higher losses from Hurricanes Katrina and Rita than had been reported through the formal claims channels.

As of June 30, 2007, our estimate of ultimate incurred net losses and loss expenses arising from Hurricanes Katrina, Rita and Wilma is $856.2 million. Ninety-five percent of our projected net ultimate incurred loss for these hurricanes has been formally reported to us as paid or case reserves. However, as of June 30, 2007, we have paid 75% of our net incurred loss amounts with respect to these hurricanes. Initially, our estimate of the ultimate liability arising from these catastrophes was based on preliminary claims notices received from clients, catastrophe modeling, a review of exposed reinsurance contracts, discussions with numerous clients and a review of the underwriting information provided by clients with reinsurance contracts that renewed as of January 1, 2006. As of June 30, 2007, these events are reasonably mature to extrapolate projected ultimate loss based on historical reporting patterns, both industry and company specific. Our estimates fall within a reasonable actuarial range produced by these methods.

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However, specifically for Hurricane Katrina, our estimates are subject to a high level of uncertainty arising out of extremely complex and unique causation and coverage issues, including the appropriate attribution of losses to wind or flood damage as opposed to other perils such as fire, business interruption or civil commotion. The underlying personal lines policies generally contain exclusions for flood damage; however, water damage caused by wind may be covered. We expect that causation and coverage issues may not be resolved for a considerable period of time and may be influenced by evolving legal and regulatory developments.

Our actual losses from Hurricanes Katrina, Rita and Wilma may exceed our best estimate as a result of, among other things, the receipt of additional information from clients, the attribution of losses to coverages that for the purpose of our estimates we assumed would not be exposed, and inflation in repair costs due to the limited availability of labor and materials, in which case our financial results could be further materially adversely affected.

In developing our best estimate for Hurricane Katrina, we have also assumed flood damage exclusions contained in our cedent s underlying insurance policies will be effective. We understand that various lawsuits are pending seeking to invalidate such flood damage exclusions on various grounds. If such lawsuits were to successfully invalidate the underlying flood damage exclusions or if the court or a jury were to find that an insurer had not adequately established that a loss was attributable to flood rather than wind, our liabilities for losses and loss expenses relating to Hurricane Katrina could prove to be inadequate, with a consequent adverse impact on our earnings and shareholders equity in future periods. Based on reports in the press, we understand that State Farm, one of the nation s largest insurers, has been engaging in various settlement discussions concerning claims involving the controversies over the flood exclusion. We do not reinsure State Farm and therefore are not directly exposed to future loss reports from State Farm in the event these discussions result in additional claim liabilities for State Farm. However, it is unclear at this time how any potential settlements by State Farm would impact or influence our cedents, and consequently our loss and loss expense reserve estimates.

Most recently, reports in the press have disclosed that Nationwide Insurance (Nationwide) has agreed to reevaluate its Hurricane Katrina claims related to Mississippi homes that were completely destroyed by the 2005 storm, which in fact has resulted in additional payments. PXRE does reinsure Nationwide but, to date, has no reported loss to its 2005 catastrophe reinsurance program with respect to Hurricane Katrina. We believe that should a loss be reported by Nationwide, that such a report would not have a significant impact on the Company s current overall estimate of ultimate incurred net losses and loss expenses arising from Hurricanes Katrina. However, it is still too early to fully quantify the impact of Nationwide s recent actions.

A number of our clients have already exhausted all coverage available for losses arising from Hurricane Katrina. If other clients were to incur widespread additional losses as a result of settlements or adverse litigation results involving the flood versus wind controversy, it is possible that our current best estimate for Hurricane Katrina will be exceeded. The remaining limits table below displays the potential impact to PXRE as of June 30, 2007 should the aggregate amount of losses reported by our clients from the ground up (FGU) from all cedents that still have remaining limits increase uniformly by various percentages:

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($000 s, except percentages)

X% FGU Increase of:	Catastrophe	D&F	Retro	Risk Excess	Total	Total excluding Risk Excess
	Hurricane Katrina Remaining Limits Lines of Business					
5%	$ 7,980	$2,655	$ 2,955	$1,508	$ 15,098	$13,590
10%	16,217	5,924	5,499	3,135	30,775	27,640
15%	24,666	7,528	7,948	4,777	44,919	40,142
20%	32,856	7,789	10,154	6,032	56,831	50,799
50%	69,950	8,695	20,406	9,668	108,719	99,051

If clients report increased losses this may not result in a linear increase in PXRE s assumed loss position as the Company s IBNR may cover such increases. In addition, the results are showing limited amounts of development at the various FGU percentages presented for certain lines of business due to the fact that as ground up losses are increased, an increasing number of underlying contracts have reached their contractual limits. Additionally, total losses are shown excluding risk excess business as this line primarily involves commercial exposures and is not expected to experience material development due to adverse personal lines litigation results in Louisiana, Mississippi and Alabama.

(3) Exited Lines Segment Losses

In reserving for losses on our exited lines segment, there is great uncertainty due to its composition of casualty and finite businesses, which produce losses that are slower to be reported and paid than the property losses of our catastrophe and risk excess segment. Moreover, given our limited experience in the casualty and finite businesses, we do not have established historical loss development patterns that can be used to estimate these loss liabilities. We must therefore rely on the historical loss development patterns reported by our clients and industry loss development data in estimating our liabilities including IBNR. Accident years for this segment take a longer period of time to mature than for our catastrophe and risk excess segment, therefore, we primarily utilize the loss ratio method and BF method to establish our initial exited lines loss estimates including IBNR. When the amount of reported losses become a more reliable means for setting reserve estimates, generally five to seven years after the relevant accident year, PXRE places more weight on these reported losses to estimate its loss reserves including IBNR and less weight on the BF method.

Interim reporting

With respect to the methods outlined above, estimation of IBNR in interim quarterly periods follows the same process as that done at annual reporting periods. The incurred loss development factors that are developed at year-end are interpolated to generate factors applicable for quarterly evaluation periods. Generally, the expected loss ratios which were selected at year-end are used in interim periods.

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Additional Uncertainties

PXRE has historically been involved in very few disputes with ceding companies, especially those that enter into contracts that the Company includes in its catastrophe and risk excess segment; nevertheless contract disputes in the property casualty reinsurance industry have increased in recent years.

There is an additional risk of uncertainty in PXRE s estimation of losses due to the fact that PXRE writes only reinsurance business and no insurance business. As a result, losses, unearned premiums and premiums written are all recorded based on reports received from the ceding companies. PXRE does not receive loss information from the underlying insureds; however, because the Company s reinsurance business has focused on short-tail lines such as property catastrophe, retrocessional property catastrophe, risk-excess and aerospace, the delay from the time of the underlying loss to the report date to PXRE is not as significant a risk as it would be if the Company underwrote a significant amount of casualty business. However, with respect to insured events that occur near the end of a reporting period, as well as with respect to our retrocessional book of business, a delay in losses being reported to insurance carriers, reinsurers and finally retrocessionaires may require us to make estimates of losses based on limited information from our clients, industry loss estimates and our own underwriting data.

We have a system of controls in place that assists us in evaluating the completeness of the data received from cedents. PXRE derives almost all of its business from reinsurance intermediaries. As a result, the ceding company reports claims to the intermediary and the intermediary in turn reports the data to all the reinsurers included in the underlying program. Controls in place require that certain claims must be approved by the underwriter or a member of senior management to validate the reported loss data before recorded as a case reserve. The underwriter, based on his knowledge and judgment, may question the broker or ceding company if he did not expect a loss of a certain magnitude to impact a certain layer. Because many of PXRE s losses are from events that are well known, such as large hurricanes and earthquakes, the underwriter may in fact expect losses to pierce certain layers and therefore would not question the accuracy of such loss reports. If the underwriter does question the loss data, PXRE may perform audits at the underlying ceding company in order to determine the accuracy of the amounts ceded. PXRE s risk management and underwriting systems provide a list of impacted or potentially impacted contracts by peril and by geographic zone. This assists PXRE in determining the completeness of losses, as we will contact intermediaries and the ceding companies for whom we believe underlying contracts are impacted subsequent to an event to request information.

Currently, PXRE does not have any backlog related to the processing of assumed reinsurance information. When a large loss occurs, the Company shifts personnel from various functions to assist the claims personnel in the processing and evaluation of claims data.

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Status of Loss Reserves as of June 30, 2007

The following chart sets forth the allocation of our net liabilities for unpaid losses and loss expenses between case reserves and IBNR reserves as of June 30, 2007:

($000 s)	2006 and Prior Accident Years	2007 Accident Year	Total
Catastrophe & Risk Excess Segment			
Case	$ 276,290	$	$ 276,290
IBNR	69,600	9	69,609
Total	345,890	9	345,899
Exited Lines Segment			
Case	28,900		28,900
IBNR	15,670		15,670
Total	44,570		44,570
All Segments			
Case	305,190		305,190
IBNR	85,270	9	85,279
Total	$ 390,460	$ 9	$ 390,469

On an overall basis, the low and high ends of our selected range of reasonable net loss and loss expense reserves are $25.3 million below and $26.2 million above the $390.5 million best estimate. The range around the overall estimate is not the sum of the ranges about the component segments due to the impact of diversification when the reserve levels are considered in total. The impact of diversification reflects the fact that not all lines with very low correlations are expected to develop well or poorly at the same time.

The low and high ends of a range of reasonable net loss and loss expense liabilities around the best estimate displayed in the table below with respect to each segment are shown as of June 30, 2007. This range was produced using two different methods, one for KRW and one for the remainder of our carried loss and loss expense liabilities.

Net Loss and Loss Expense Liabilities Range at June 30, 2007

($000 s)	Low End	Best Estimate	High End
Catastrophe and Risk Excess, KRW only	$ 201,586	$ 211,586	$ 221,586
Catastrophe and Risk Excess, excluding KRW	120,607	134,313	148,973
Catastrophe and Risk Excess, Total	322,193	345,899	370,559
Exited Lines	38,181	44,570	51,655
Impact of Diversification	4,808		(5,557)
Total	$ 365,182	$ 390,469	$ 416,657

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For the 2005 Hurricanes, the range was calculated by varying key assumptions regarding PXRE and industry loss reporting patterns. These assumptions include assuming one quarter acceleration/deceleration around expected historical reporting patterns, incorporating the most recent RAA industry reporting patterns as well as observing the monthly patterns exhibited by the 2004 Florida Hurricanes with the assumption that this composite event may serve as a proxy for the 2005 Hurricanes. A selected range of $10.0 million below and $10.0 million above our net carried reserves was determined in the aggregate for all three events combined, after considering the sensitivity analysis outlined above, our best loss estimates, and actuarial judgment. This range of reasonable estimates does not represent a range of all possible outcomes, but it is intended to reflect the inherent variability in actuarial reserving methodologies. Assuming the flood exclusion is effective, we believe that results outside this range are unlikely, and can not assign probabilities with certainty to any points within this range.

For the remainder of our carried loss and loss expense liabilities, we used a statistical model to simulate a range of results about our best estimates assuming probability distributions believed to reasonably reflect potential for favorable and unfavorable loss development. The simulation results indicate that a five percent probability exists that the net loss reserves will be below the low estimate and a five percent probability exists that the net loss reserves will be above the high estimate. However, no assurance can be given that our ultimate losses will not be significantly different than the simulation.

The low end and high end of the range of reasonable net loss and loss expense reserves around the best estimate have decreased from December 31, 2006 principally because of the reduction in the Company s net loss reserve amount due to the payment of claims during the six months ended June 30, 2007, as well as the passage of time since the occurrences of Hurricanes Katrina, Rita and Wilma and the resulting increase in formal loss reports and decrease in actuarial variability surrounding the best estimate.

Estimation and Recognition of Premiums

Our premiums on reinsurance business assumed are recorded as earned evenly over the contract period based upon estimated subject premiums. PXRE s assumed premium is comprised of both minimum and deposit premium and an estimate of premium. Minimum and deposit premium is billed and collected in accordance with the provisions of the contracts and is usually billed quarterly or semi-annually. A premium estimate is also recorded if the estimate of the ultimate premium is greater than the minimum and deposit premium. The final or ultimate premium for most contracts is the product of the provisional rate and the ceding company s subject net earned premium income (SNEPI). Because this portion of the premium is reasonably estimable, the Company records and recognizes it as revenue over the period of the contract in the same manner as the minimum and deposit premium. The key assumption related to the premium estimate is the estimate of the amount of the ceding company s SNEPI, which is a significant element of PXRE s overall underwriting process. Because of the inherent uncertainty in this process, there is the risk that premiums and related receivable balances may turn out to be higher or lower than reported.

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The estimated premium receivable, net of commission and brokerage, included in Premiums receivable, net on the Interim Consolidated Balance Sheets at June 30, 2007 of $57.4 million, is $40.3 million, including assumed reinstatement premiums of $38.1 million.

We record an allowance for doubtful accounts that we believe approximates the exposure for all potential uncollectible assets, after considering other balances that mitigate the exposure.

The premiums on reinsurance business ceded are recorded as incurred evenly over the contract period. Certain ceded reinsurance contracts contain provisions requiring us to pay additional premiums or reinstatement premiums in the event that losses of a significant magnitude are ceded under such contracts. Under GAAP, we are not permitted to establish reserves for these potential additional premiums until a loss occurs that would trigger the obligation to pay such additional or reinstatement premiums. As a result, the net amount recoverable from our reinsurers in the event of a loss may be reduced by the payment of additional premiums and reinstatement premiums. Frequently, the impact of such premiums will be offset by additional premiums and reinstatement premiums payable to us by our clients on our assumed reinsurance business. No assurance can be given however, that assumed reinstatement and additional premiums will offset ceded reinstatement and additional premiums. For example, in the case of the September 11, 2001 terrorist attacks, our net premiums earned during 2001 were reduced by $26.3 million as a result of net additional premiums and reinstatement premiums. In the case of Hurricanes Katrina, Rita and Wilma our net premiums earned were increased by $43.9 million in 2005 as a result of net additional premiums and reinstatement premiums.

Assumed reinstatement premiums that reinstate coverage are written and earned at the time the associated loss event occurs. Under the contract terms of certain of our excess of loss contracts, reinstatement premiums are mandatorily due PXRE following a ceding company s loss, based on pre-defined contract terms. Terms principally include a pro-rata amount of the original contract premium relative to the proportion of the contractual limit exhausted by the associated loss, without respect to time remaining in the term of the original limit, that is, the amount due is 100% as to time and pro-rata as to amount. Less frequently, terms can vary to incorporate a percentage of the original premium that is more or less than the original premium or can be pro-rata as to time remaining in the term of the original limit.

Ceded additional premiums are less uniform in their terms than assumed reinstatement premiums. The single largest additional premium in 2005, accounting for 80% of the additional premium written and earned for the year ended December, 2005 events, was triggered by an event in excess of $165.0 million of losses incurred.

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Assumed reinstatement and additional premiums written and earned in the three and six months ended June 30, 2007 and 2006, as reflected in the Interim Consolidated Statements of Operations and Comprehensive Operations, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
($000 s)	**2007**	**2006**	**2007**	**2006**
Assumed reinstatement premiums:				
Reported paid losses and case reserves	$ 632	$ 9,676	$ 758	$ 49,548
IBNR	(1,498)	(11,673)	(4,320)	(52,102)
Total	$ (866)	$ (1,997)	$ (3,562)	$ (2,554)
Ceded reinstatement and additional premiums:				
Reported paid losses and case reserves	$ (39)	$ 12	$ 45	$ 101
IBNR	10	13	27	32
Total	$ (29)	$ 25	$ 72	$ 133
Net reinstatement and additional premiums	$ (895)	$ (1,972)	$ (3,490)	$ (2,421)

Assumed reinstatement premiums receivable, net of commission and brokerage, associated with our case reserves and incurred but not reported loss and loss expense liabilities, as reflected in Premiums receivable, net in the Interim Consolidated Balance Sheets, are as follows:

	June 30, 2007		December 31, 2006	
($000 s, except percentages)	**$**	**%**	**$**	**%**
Assumed reinstatement premiums receivable:				
Case reserves	$ 27,998	73%	$ 55,121	79%
IBNR reserves	10,129	27	14,410	21
Total	$ 38,127	100%	$ 69,531	100%

We accrue assumed reinstatement premiums based upon contract terms applied to the amount estimated to settle ultimate incurred losses. The primary factor that could affect our estimate of assumed reinstatement premiums is management s best estimate of ultimate incurred losses. See the Update on Critical Accounting Policy Disclosures relating to the estimation of losses and loss expenses with regards to the uncertainty, historical accuracy and sensitivity of this estimate. While premiums stated relative to limit (rates on line) have an effect on the estimate of assumed reinstatement premiums, those associated with case reserves are based on actual contract rate on line terms, and those estimates associated with IBNR are based on weighted average rate on line terms, of the book of business for a given underwriting year by line of business. Therefore the primary factor that could change our estimate of assumed reinstatement premium is management s best estimate of ultimate incurred losses and the mix of treaties along with their respective rate on lines that ultimately incur losses. Assumed reinstatement premiums receivable are settled on a net basis when loss payments are made to cedents. Accordingly, there is an insignificant amount of credit risk associated with this asset as of any given period end date.

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Additional ceded premiums occur less frequently, and were incurred by the Company in 2005 due to the significance of the losses from Hurricanes Katrina and Wilma. In 2005, these ceded losses were full limit losses, resulting in additional ceded premiums. These additional ceded premiums are not expected to vary from the estimate in 2005.

Valuation of Deferred Tax Asset

Deferred tax assets and liabilities reflect the expected tax consequences of temporary differences between carrying amounts and the tax bases of PXRE s United States subsidiaries assets and liabilities. At June 30, 2007, PXRE had a deferred tax asset net of deferred income tax liability of $50.4 million, offset by a valuation allowance of $50.4 million. Management reviewed the net deferred tax asset as of June 30, 2007, and as a result of the ratings downgrades of PXRE that occurred subsequent to December 31, 2005, and the related uncertainty with respect to the amount of future taxable income that will be generated by the Company, have concluded that the full valuation allowance established at December 31, 2005 continues to be required for the entire deferred tax asset as of June 30, 2007.

PXRE s management will evaluate this valuation allowance on an ongoing basis and will make any necessary adjustments to it based upon any changes in management s expectations of future taxable income.

Cautionary Statement Regarding Forward-Looking Statements

This report contains various forward-looking statements and includes assumptions concerning our operations, future results and prospects. Statements included herein, as well as statements made by us or on our behalf in press releases, written statements or other documents filed with the SEC, or in our communications and discussions with investors and analysts in the normal course of business through meetings, phone calls and conference calls, which are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934 as amended. These forward-looking statements, identified by words such as intend, believe, anticipate, or expects or variations of such words or similar expressions are based on current expectations, speak only as of the date thereof, and are subject to risk and uncertainties. In light of the risks and uncertainties inherent in all future projections, the forward-looking statements in this report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. We caution investors and analysts that actual results or events could differ materially from those set forth or implied by the forward-looking statements and related assumptions, depending on the outcome of certain important factors including, but not limited to, the following:

(i) we face risks related to our proposed merger with Argonaut Group, Inc.;

(ii) if the merger with Argonaut is not completed, unless the Board of Directors identifies and implements a different operating strategic solution, we will not write or earn any material premiums in the future and, as a result, we expect to incur material operating losses, since our remaining revenue is insufficient to cover our projected operating and other expenses;

(iii) if the merger is not consummated, we may not be able to identify or implement a strategic alternative for PXRE;

(iv) if the merger is not consummated and our Board of Directors concludes that no other feasible strategic alternative would be in the best interests of our shareholders, it may determine that the best course of action is to place the reinsurance operations of PXRE into runoff and eventually commence an orderly winding up and liquidation of PXRE operations over some period of time that is not currently determinable;

(v) if the merger is not consummated and the Board of Directors elects to pursue a strategic alternative that does not involve the continuation of meaningful property catastrophe reinsurance business, there is a risk that the Company could incur additional material charges or termination fees in connection with our collateralized catastrophe facility and certain multiyear ceded reinsurance agreements;

(vi) our ability to continue to operate our business, consummate the merger and to identify, evaluate and complete any other strategic alternative is dependent on our ability to retain our management and other key employees, and we may not be able to do so;

(vii) adverse events in 2006 negatively affected the market price of our common shares, which may lead to further securities litigation, administrative proceedings or both being brought against us;

(viii) reserving for losses includes significant estimates, which are also subject to inherent uncertainties;

(ix) because of potential exposure to catastrophes in the future, our financial results may vary significantly from period to period;

(x) we operate in a highly competitive environment and no assurance can be given that we will be able to compete effectively in this environment;

(xi) reinsurance prices may decline, which could affect our profitability;

(xii) we may require additional capital in the future;

(xiii) our investment portfolio is subject to significant market and credit risks which could result in an adverse impact on our financial position or results;

(xiv) we have exited the finite reinsurance business, but claims in respect of finite reinsurance could have an adverse effect on our results of operations;

(xv) our reliance on reinsurance brokers exposes us to their credit risk;

(xvi) we may be adversely affected by foreign currency fluctuations;

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(xvii) retrocessional reinsurance subjects us to credit risk and may become unavailable on acceptable terms;

(xviii) we have exhausted our retrocessional coverage with respect to Hurricane Katrina, leaving us exposed to further losses;

(xix) recoveries under our collateralized facility are triggered by modeled loss to a notional portfolio, rather than our actual losses arising from a catastrophe event, which creates a potential mismatch between the risks assumed through our inwards reinsurance business and the protection afforded by this facility;

(xx) our inability to provide the necessary collateral could affect our ability to offer reinsurance in certain markets;

(xxi) the insurance and reinsurance business is historically cyclical, and we may experience periods with excess underwriting capacity and unfavorable premium rates; conversely, we may have a shortage of underwriting capacity when premium rates are strong;

(xxii) regulatory constraints may restrict our ability to operate our business;

(xxiii) any determination by the United States Internal Revenue Service (IRS) that we or our offshore subsidiaries are subject to U.S. taxation could result in a material adverse impact on our financial position or results; and

(xxiv) any changes in tax laws, tax treaties, tax rules and interpretations could result in a material adverse impact on our financial position or results.

In addition to the factors outlined above that are directly related to our business, we are also subject to general business risks, including, but not limited to, adverse state, federal or foreign legislation and regulation, adverse publicity or news coverage, changes in general economic factors and the loss of key employees. The factors listed above should not be construed as exhaustive.

We undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have reviewed our exposure to market risks at June 30, 2007 and the changes in exposure since December 31, 2006. The principal market risks which we are exposed to continue to be interest rate risk and credit risk.

The composition of our fixed maturity portfolio did not change materially during the first six months of 2007. There were no material changes in our exposure to market risks or our risk management strategy during the first six months of 2007.

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Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by our management, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934) occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially effect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Between May 3, 2006 and June 16, 2006 several class action lawsuits were filed against PXRE, Jeffrey Radke, the Company s Chief Executive Officer and John Modin, the Company s former Chief Financial Officer, in the United States District Court for the Southern District of New York on behalf of a putative class consisting of investors who purchased the publicly traded securities of PXRE between July 28, 2005 and February 16, 2006. Pursuant to an Opinion and Order of the United States District Court for the Southern District of New York dated March 30, 2007, these lawsuits have been consolidated into one proceeding.

On June 15, 2007, plaintiffs filed a consolidated Amended Class Action Complaint on behalf of purchasers of PXRE common stock between September 11, 2005 and February 22, 2006 (the Amended Class Action Complaint). The Amended Class Action Complaint names PXRE s former Chief Operating Officer, Guy Hengesbaugh, as an additional defendant.

The Amended Class Action Complaint alleges that during the purported class period certain PXRE executives made a series of materially false and misleading statements or omissions about PXRE s business, prospects and operations, thereby causing investors to purchase PXRE s securities at artificially inflated prices, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the 1934 Act), and Rule 10b-5 promulgated under the 1934 Act. The Amended Class Action Complaint alleges, among other things, that the Company fraudulently understated the full impact of hurricanes Katrina, Rita and Wilma on PXRE s business. The Amended Class Action Complaint seeks an unspecified amount of damages, as well as attorneys fees and costs.

On February 21, 2007, PXRE entered into a Tolling and Standstill Agreement with certain institutional investors in connection with potential claims arising out of the Private Placement of Series D Perpetual Non-voting Preferred Shares of PXRE that were sold pursuant to the Private Placement Memorandum dated on or about September 28, 2005. The parties have agreed to extend the term of the tolling agreement to October 1, 2007.

We are subject to litigation and arbitration in the ordinary course of business. Management does not believe that the eventual outcome of any such pending ordinary course of business litigation or arbitration is likely to have a material effect on our financial condition or business. Pursuant to our insurance and reinsurance arrangements, disputes are generally required to be finally settled by binding arbitration.

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Item 1A. Risk Factors.

There has been no material change in the risk factors previously disclosed under Item 1A of the Company s 2006 10K for the fiscal year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

a. Exhibits

A list of exhibits required to be filed as part of this report is set forth in the Exhibit Index of this Form 10-Q, which immediately precedes such exhibits, and is incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification by the Chief Executive Officer Relating to a Periodic Report Containing Financial Statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer Relating to a Periodic Report Containing Financial Statements Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Periodic Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report or amendment thereto to be signed on its behalf by the undersigned thereunto duly authorized.

PXRE GROUP LTD.

August 6, 2007

By: /s/ Robert P. Myron
Robert P. Myron
Executive Vice President
Chief Financial Officer and Treasurer

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