

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

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

FOR THE QUARTERLY PERIOD ENDED:  
**June 30, 2007**

Commission file number:  
**1-14527**

**EVEREST REINSURANCE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**22-3263609**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**477 Martinsville Road**  
**Post Office Box 830**  
**Liberty Corner, New Jersey 07938-0830**  
**(908) 604-3000**

(Address, including zip code, and telephone number, including area code,  
of registrant's principal executive office)

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

YES   X   NO           

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        Accelerated filer        Non-accelerated filer   X  

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

YES            NO       X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

<u>Class</u>	Number of Shares Outstanding <u>at August 1, 2007</u>
<b>Common Stock, \$.01 par value</b>	<b>1,000</b>

**EVEREST REINSURANCE HOLDINGS, INC.**

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EVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value per share)

	June 30, 2007 (unaudited)	December 31, 2006
<b>ASSETS:</b>		
Fixed maturities - available for sale, at market value (amortized cost: 2007, \$5,762,014; 2006, \$5,959,228)	\$ 5,846,001	\$ 6,137,410
Equity securities - available for sale, at market value (cost: 2007, \$16,393; 2006, \$874,289)	16,393	1,189,341
Equity securities - at fair value	826,845	-
Short-term investments	1,495,720	657,674
Other invested assets (cost: 2007, \$417,686; 2006, \$329,914)	420,353	330,875
Other invested assets, at fair value	228,035	-
Cash	95,320	136,535
Total investments and cash	8,928,667	8,451,835
Accrued investment income	84,771	85,447
Premiums receivable	890,102	939,625
Reinsurance receivables - unaffiliated	702,605	751,121
Reinsurance receivables - affiliated	1,652,360	1,511,856
Funds held by reinsureds	118,840	133,965
Deferred acquisition costs	228,929	240,346
Prepaid reinsurance premiums	366,673	391,336
Deferred tax asset	253,136	248,214
Federal income tax recoverable	12,468	-
Other assets	161,868	134,550
<b>TOTAL ASSETS</b>	<b>\$ 13,400,419</b>	<b>\$ 12,888,295</b>
<b>LIABILITIES:</b>		
Reserve for losses and adjustment expenses	\$ 7,265,131	\$ 7,397,270
Unearned premium reserve	1,321,090	1,423,677
Funds held under reinsurance treaties	113,789	112,658
Losses in the course of payment	63,425	62,943
Commission reserves	32,653	22,483
Other net payable to reinsurers	447,472	385,926
Current federal income taxes payable	-	32,010
8.75% Senior notes due 3/15/2010	199,621	199,560
5.4% Senior notes due 10/15/2014	249,670	249,652
6.6% Long term notes due 05/01/2067	399,637	-
Junior subordinated debt securities payable	546,393	546,393
Accrued interest on debt and borrowings	14,368	10,041
Other liabilities	230,690	227,298
Total liabilities	10,883,939	10,669,911
Commitments and Contingencies (Note 5)		
<b>STOCKHOLDER'S EQUITY:</b>		
Common stock, par value: \$0.01; 3,000 shares authorized; 1,000 shares issued and outstanding (2007 and 2006)	-	-
Additional paid-in capital	304,585	300,764
Accumulated other comprehensive income, net of deferred income taxes of \$41.8 million at 2007 and \$179.1 million at 2006	77,560	332,578
Retained earnings	2,134,335	1,585,042
Total stockholder's equity	2,516,480	2,218,384
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 13,400,419</b>	<b>\$ 12,888,295</b>

The accompanying notes are an integral part of the consolidated financial statements.

EVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
REVENUES:				
Premiums earned	\$ 565,426	\$ 501,488	\$ 1,135,264	\$ 1,105,166
Net investment income	106,852	91,922	202,786	175,827
Net realized capital gains	89,585	2,204	123,459	11,224
Other (expense) income	(13,277)	7,013	(14,440)	(6,034)
Total revenues	748,586	602,627	1,447,069	1,286,183
CLAIMS AND EXPENSES:				
Incurred losses and loss adjustment expenses	315,332	307,334	641,347	772,845
Commission, brokerage, taxes and fees	121,927	95,567	235,902	220,046
Other underwriting expenses	27,114	24,736	51,861	45,138
Interest expense on senior notes	7,790	7,787	15,579	15,573
Interest expense on long term notes	4,327	-	4,327	-
Interest expense on junior subordinated debt	9,362	9,362	18,724	18,724
Amortization of bond issue costs	2,687	234	2,922	469
Interest and fee expense on credit facility	26	47	53	94
Total claims and expenses	488,565	445,067	970,715	1,072,889
INCOME BEFORE TAXES	260,021	157,560	476,354	213,294
Income tax expense	74,830	36,178	131,845	48,407
NET INCOME	\$ 185,191	\$ 121,382	\$ 344,509	\$ 164,887
Other comprehensive loss, net of tax	(47,086)	(61,914)	(50,234)	(55,114)
COMPREHENSIVE INCOME	\$ 138,105	\$ 59,468	\$ 294,275	\$ 109,773

The accompanying notes are an integral part of the consolidated financial statements.

EVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF  
CHANGES IN STOCKHOLDER'S EQUITY

(Dollars in thousands, except share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
COMMON STOCK (shares outstanding):				
Balance, beginning of period	1,000	1,000	1,000	1,000
Balance, end of period	1,000	1,000	1,000	1,000
ADDITIONAL PAID-IN CAPITAL:				
Balance, beginning of period	\$ 301,373	\$ 296,199	\$ 300,764	\$ 292,281
Share-based compensation plans	3,212	192	3,821	4,110
Balance, end of period	304,585	296,391	304,585	296,391
ACCUMULATED OTHER COMPREHENSIVE INCOME, NET OF DEFERRED INCOME TAXES:				
Balance, beginning of period	124,646	253,085	332,578	246,285
Cumulative effect to adopt FAS 159, net of tax	-	-	(204,784)	-
Net decrease during the period	(47,086)	(61,914)	(50,234)	(55,114)
Balance, end of period	77,560	191,171	77,560	191,171
RETAINED EARNINGS:				
Balance, beginning of period	1,949,144	1,295,641	1,585,042	1,252,136
Cumulative effect to adopt FAS 159, net of tax	-	-	204,784	-
Net income	185,191	121,382	344,509	164,887
Balance, end of period	2,134,335	1,417,023	2,134,335	1,417,023
TOTAL STOCKHOLDER'S EQUITY, END OF PERIOD	\$ 2,516,480	\$ 1,904,585	\$ 2,516,480	\$ 1,904,585

The accompanying notes are an integral part of the consolidated financial statements.

EVEREST REINSURANCE HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2007	2006	2007	2006
	(unaudited)		(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 185,191	\$ 121,382	\$ 344,509	\$ 164,887
Adjustments to reconcile net income to net cash provided by operating activities:				
Decrease in premiums receivable	21,997	86,276	51,492	82,283
Decrease (increase) in funds held by reinsureds, net	13,805	(19,586)	16,227	(87,084)
(Increase) decrease in reinsurance receivables	(28,528)	1,552	(87,778)	3,815
Decrease (increase) in deferred tax asset	5,642	3,963	22,128	(3,283)
Decrease in reserve for losses and loss adjustment expenses	(32,438)	(175,976)	(159,415)	(166,349)
Decrease in unearned premiums	(93,203)	(19,119)	(106,561)	(8,739)
Change in other assets and liabilities, net	(31,938)	78,645	37,689	176,365
Amortization of bond premium	(1,935)	2,630	(2,015)	5,752
Amortization of underwriting discount on senior notes	41	37	80	73
Realized capital gains	(89,585)	(2,204)	(123,459)	(11,224)
Net cash (used in) provided by operating activities	(50,951)	77,600	(7,103)	156,496
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from fixed maturities matured/called - available for sale	182,237	108,465	347,120	208,573
Proceeds from fixed maturities sold - available for sale	6,822	386	11,947	40,862
Proceeds from equity securities sold - fair value	506,501	66,597	672,560	93,582
Proceeds from other invested assets sold	3,933	20,821	23,732	24,087
Cost of fixed maturities acquired - available for sale	(91,092)	(26,323)	(133,118)	(349,619)
Cost of equity securities acquired - fair value	(102,453)	(94,976)	(231,912)	(120,045)
Cost of other invested assets acquired	(58,404)	(23,642)	(90,493)	(52,076)
Cost of other invested assets acquired, at fair market value	-	-	(200,080)	-
Net (purchases) sales of short-term securities	(747,504)	(115,398)	(822,285)	7,665
Net (increase) decrease in unsettled securities transactions	(22,450)	8,371	(4,490)	(1,256)
Net cash used in investing activities	(322,410)	(55,699)	(427,019)	(148,227)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Tax benefit from share-based compensation	3,212	192	3,821	4,110
Net proceeds from issuance of long term notes	395,637	-	395,637	-
Net cash provided by financing activities	398,849	192	399,458	4,110
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(7,325)	798	(6,551)	6,143
Net increase (decrease) in cash	18,163	22,891	(41,215)	18,522
Cash, beginning of period	77,157	61,825	136,535	66,194
Cash, end of period	\$ 95,320	\$ 84,716	\$ 95,320	\$ 84,716
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash transactions:				
Income taxes paid (recovered)	\$ 120,955	\$ 24,640	\$ 134,784	\$ (27,799)
Interest paid	\$ 16,138	\$ 16,160	\$ 34,277	\$ 34,319
Non-cash financing transaction:				
Non-cash tax benefit from stock options exercised	\$ 3,212	\$ 192	\$ 3,821	\$ 4,110

The accompanying notes are an integral part of the consolidated financial statements.

**EVEREST REINSURANCE HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

**For the Three and Six Months Ended June 30, 2007 and 2006**

**1. General**

As used in this document, “Holdings” means Everest Reinsurance Holdings, Inc.; “Group” means Everest Re Group, Ltd. (Holdings’ parent); “Bermuda Re” means Everest Reinsurance (Bermuda), Ltd., a subsidiary of Group; “Everest Re” means Everest Reinsurance Company, a subsidiary of Holdings, and its subsidiaries (unless the context otherwise requires); and the “Company” means Holdings and its subsidiaries.

The unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2007 and 2006 include all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results on an interim basis. Certain financial information, which is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), has been omitted since it is not required for interim reporting purposes. The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three and six months ended June 30, 2007 and 2006 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2006, 2005 and 2004 included in the Company’s most recent Form 10-K filing.

**2. New Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board (“FASB”) released FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (“FIN 48”), which is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes” (“FAS 109”). FIN 48 prescribes the recognition and measurement criteria for the financial statements for tax positions taken or expected to be taken in a tax return. Further, FIN 48 expands the required disclosures associated with uncertain tax positions. As a result of the implementation of FIN 48, the Company recorded no adjustment in the liability for unrecognized income tax benefits and no adjustment to beginning retained earnings.

In September 2006, the FASB issued Statement of Financial Accounting Standards (“FAS”) No. 157 “Fair Value Measurements” (“FAS 157”), which is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FAS 157 defines fair value, establishes a framework for measuring fair value consistently in GAAP and expands disclosures about fair value measurements. As early adoption is an option, the Company adopted FAS 157 as of January 1, 2007.

In September 2006, the FASB issued FAS No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (“FAS 158”), which is effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. FAS 158 requires an employer to (a) recognize in its financial statements an asset for a plan’s over funded status or a liability for a plan’s under funded status, (b) measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur as other comprehensive income. The Company adopted FAS 158 for the reporting period ended December 31, 2006.

In February 2007, the FASB issued FAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment to FASB Statement No. 115” (“FAS 159”), which is effective for employers with publicly traded equity securities as of the end of the fiscal year ending after November 15, 2007.



FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company adopted FAS 159 as of January 1, 2007.

### 3. Investments, Fair Value

Effective January 1, 2007, the Company adopted and implemented FAS 159 and FAS 157 for its equity securities available for sale and other invested assets, which are publicly traded equity securities. In conjunction with the Company implementing a more active management strategy for these specific investments, FAS 159 and FAS 157 provided an appropriate accounting and presentation of these investments in the Company's consolidated financial statements. The Company did not elect FAS 159 for those equity investments in affiliated non-consolidated special purpose vehicles and non-publicly traded limited partnership investments. Upon adoption, the Company recognized a \$204.8 million cumulative-effect adjustment to retained earnings, net of \$110.3 million of tax. The Company recorded a \$101.0 million realized gain in net realized capital gains in the consolidated statements of operations and comprehensive income due to fair value re-measurement for the six months ended June 30, 2007.

The following table presents the equity securities fair value measurements as of June 30, 2007:

		Fair Value Measurement Using		
(Dollars in thousands)	June 30, 2007	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	\$ 826,845	\$ 826,845	\$ -	\$ -
Other invested assets	228,035	228,035	-	-

### 4. Capital Transactions

On December 1, 2005, Group and Holdings filed a shelf registration statement on Form S-3ASR with the Securities and Exchange Commission ("SEC"), as a Well Known Seasoned Issuer under the new registration and offering revisions to the Securities Act of 1933. Generally, under this shelf registration statement, Group is authorized to issue common shares, preferred shares, debt securities, warrants and hybrid securities, Holdings is authorized to issue debt securities and Everest Re Capital Trust III ("Capital Trust III") is authorized to issue trust preferred securities.

- On December 1, 2005, Group issued 2,298,000 of its common shares at a price of \$102.89 per share, which resulted in \$236.4 million of proceeds before expenses and Holdings sold Group shares it acquired in 2002 at a price of \$102.89 per share, which resulted in \$46.5 million of proceeds before expenses. Expenses incurred for this transaction were approximately \$0.3 million.
- On April 26, 2007, Holdings completed a public offering of \$400.0 million principal amount of 6.6% fixed to floating rate long term subordinated notes with a scheduled maturity date of May 15, 2037 and a final maturity date of May 1, 2067. The net proceeds from the offering are expected to be used to redeem all of the outstanding 7.85% junior subordinated debt securities as soon as possible after November 14, 2007 and for general corporate purposes.

## 5. Contingencies

In the ordinary course of business, the Company is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine the Company's rights and obligations under insurance, reinsurance and other contractual agreements. In some disputes, the Company seeks to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Company is resisting attempts by others to collect funds or enforce alleged rights. These disputes arise from time to time and are ultimately resolved through both informal and formal means, including negotiated resolution, arbitration and litigation. In all such matters, the Company believes that its positions are legally and commercially reasonable. While the final outcome of these matters cannot be predicted with certainty, the Company does not believe that any of these matters, when finally resolved, will have a material adverse effect on the Company's financial position or liquidity. However, an adverse resolution of one or more of these items in any one quarter or fiscal year could have a material adverse effect on the Company's results of operations in that period.

The Company does not believe that there are any material pending legal proceedings to which it or any of its subsidiaries is a party or of which any of their properties are the subject.

The Company continues to receive claims under expired contracts, both insurance and reinsurance, asserting alleged injuries and/or damages relating to or resulting from environmental pollution and hazardous substances, including asbestos (i.e. asbestos and environmental ("A&E")). The Company's asbestos claims typically involve potential liability for bodily injury from exposure to asbestos or for property damage resulting from asbestos or products containing asbestos. The Company's environmental claims typically involve potential liability for (a) the mitigation or remediation of environmental contamination or (b) bodily injury or property damages caused by the release of hazardous substances into the land, air or water.

As of June 30, 2007, approximately 9% of the Company's gross reserves are an estimate of the Company's ultimate liability for A&E claims. This estimate is made based on judgmental assessment of the underlying exposures as the result of (1) long and variable reporting delays, both from insureds to insurance companies and from ceding companies to reinsurers; (2) historical data, which is more limited and variable on A&E losses than historical information on other types of casualty claims; and (3) unique aspects of A&E exposures for which ultimate value cannot be estimated using traditional reserving techniques. There are significant uncertainties in estimating the amount of the Company's potential losses from A&E claims. Among the uncertainties are: (a) potentially long waiting periods between exposure and manifestation of any bodily injury or property damage; (b) difficulty in identifying sources of asbestos or environmental contamination; (c) difficulty in properly allocating responsibility and/or liability for asbestos or environmental damage; (d) changes in underlying laws and judicial interpretation of those laws; (e) the potential for an asbestos or environmental claim to involve many insurance providers over many policy periods; (f) questions concerning interpretation and application of insurance and reinsurance coverage; and (g) uncertainty regarding the number and identity of insureds with potential asbestos or environmental exposure.

With respect to asbestos claims in particular, several additional factors have emerged in recent years that further compound the difficulty in estimating the Company's liability. These developments include: (a) continued growth in the number of claims filed, in part reflecting a much more aggressive plaintiff bar and including claims against defendants who may only have a "peripheral" condition to asbestos; (b) a disproportionate percentage of claims filed by individuals with no functional injury, which should have little to no financial value but that have increasingly been considered in jury verdicts and settlements; (c) the growth in the number and significance of bankruptcy filings by companies as a result of asbestos claims (including, more recently, bankruptcy filings in which companies attempt to resolve their asbestos liabilities in a manner that is prejudicial to insurers and forecloses insurers from the negotiation of asbestos related bankruptcy reorganization plans); (d) the concentration of claims in a small number of states that favor plaintiffs; (e) the growth in the number of claims

that might impact the general liability portion of insurance policies rather than the product liability portion; (f) measures adopted by specific courts to ameliorate the worst procedural abuses; (g) an increase in settlement values being paid to asbestos claimants, especially those with cancer or functional impairment; (h) legislation in some states to address asbestos litigation issues; and (i) the potential that other states or the U.S. Congress may adopt legislation on asbestos litigation. Anecdotal evidence suggests that new claims filing rates have decreased, that new filings of asbestos-driven bankruptcies have decreased and that various procedural and legislative reforms are beginning to diminish the potential ultimate liability for asbestos losses.

Management believes that these uncertainties and factors continue to render reserves for A&E and particularly asbestos losses significantly less subject to traditional actuarial analysis than reserves for other types of losses. Given these uncertainties, management believes that no meaningful range for such ultimate losses can be established particularly for asbestos. Further, A&E reserves may be subject to more variability than non-A&E reserves and such variation could have a material adverse effect on the Company's financial condition, results of operations and/or cash flows. The Company establishes reserves to the extent that, in the judgment of management, the facts and prevailing law reflect an exposure for the Company or its ceding companies.

The following table summarizes incurred losses with respect to A&E on both a gross and net of retrocessional basis for the periods indicated:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Gross basis:				
Beginning of period reserves	\$ 632,239	\$ 639,635	\$ 650,134	\$ 649,460
Incurred losses	40,000	6,400	40,000	16,400
Paid losses	(34,351)	(26,156)	(52,246)	(45,981)
End of period reserves	<u>\$ 637,888</u>	<u>\$ 619,879</u>	<u>\$ 637,888</u>	<u>\$ 619,879</u>
Net basis:				
Beginning of period reserves	\$ 303,985	\$ 301,034	\$ 313,308	\$ 311,552
Incurred losses	16,475	640	16,475	1,246
Paid losses	(14,364)	(3,413)	(23,687)	(14,537)
End of period reserves	<u>\$ 306,096</u>	<u>\$ 298,261</u>	<u>\$ 306,096</u>	<u>\$ 298,261</u>

The Company's gross A&E liabilities stem from Mt. McKinley Insurance Company's ("Mt. McKinley") direct excess insurance business and Everest Re's assumed business. At June 30, 2007, the gross reserves for A&E losses were comprised of \$132.6 million representing case reserves reported by ceding companies, \$143.0 million representing additional case reserves established by the Company on assumed reinsurance claims, \$209.4 million representing case reserves established by the Company on direct excess insurance claims, including Mt. McKinley, and \$152.9 million representing incurred but not reported reserves ("IBNR"). Approximately 89%, or \$570.4 million, of gross A&E reserves relate to asbestos, of which \$310.1 million was for assumed business and \$260.3 million was for direct excess business.

In connection with the acquisition of Mt. McKinley, which has significant exposure to A&E claims, LM Property and Casualty Insurance Company ("LM") provided reinsurance to Mt. McKinley covering 80% (\$160.0 million) of the first \$200.0 million of any adverse development of Mt. McKinley's reserves as of September 19, 2000 and The Prudential Insurance Company of America ("The Prudential") guaranteed LM's obligations to Mt. McKinley. Cessions under this reinsurance agreement exhausted the limit available under the contract at December 31, 2003.

With respect to Mt. McKinley, where the Company has a direct relationship with policyholders, the Company's aggressive litigation posture and the uncertainties inherent in the asbestos coverage and bankruptcy litigation have provided an opportunity to actively engage in settlement negotiations with a number of those policyholders who have potentially significant asbestos liabilities. Those discussions are oriented toward achieving reasonable negotiated settlements that limit Mt. McKinley's liability to a given policyholder to a sum certain. Since 2004 the Company concluded such settlements or reached agreement in principle with some of its high profile policyholders. The Company has identified policyholders based on their past claim activity and/or potential future liabilities as "High Profile Policyholders" and its settlement efforts are generally directed at such policyholders, in part because their exposures have developed to the point where both the policyholder and the Company have sufficient information to be motivated to settle. The Company believes that this active approach will ultimately result in a more cost-effective liquidation of Mt. McKinley's liabilities than a passive approach, although it may also introduce additional variability in Mt. McKinley's losses and cash flows as reserves are adjusted to reflect the development of negotiations and, ultimately, potentially accelerated settlements.

There is less potential for similar settlements with respect to the Company's reinsurance asbestos claims. Ceding companies, with their direct obligation to insureds and overall responsibility for claim settlements, are not consistently aggressive in developing claim settlement information and conveying this information to reinsurers, which can introduce significant and perhaps inappropriate delays in the reporting of asbestos claims/exposures to reinsurers. These delays not only extend the timing of reinsurance claim settlements, but also restrict the information available to estimate the reinsurers' ultimate exposure.

Due to the uncertainties discussed above, the ultimate losses may vary materially from current loss reserves and, depending on coverage under the Company's various reinsurance arrangements, could have a material adverse effect on the Company's future financial condition, results of operations and/or cash flows.

In 1993 and prior, the Company had a business arrangement with The Prudential wherein, for a fee, the Company accepted settled claim payment obligations of certain property and casualty insurers, and, concurrently, became the owner of the annuity or assignee of the annuity proceeds funded by the property and casualty insurers specifically to fulfill these fully settled obligations. In these circumstances, the Company would be liable if The Prudential, which has an A+ (Superior) financial strength rating from A.M. Best Company ("A.M. Best"), were unable to make the annuity payments. The estimated cost to replace all such annuities for which the Company was contingently liable at June 30, 2007 was \$151.4 million.

Prior to its 1995 initial public offering, the Company purchased annuities from an unaffiliated life insurance company with an A+ (Superior) financial strength rating from A.M. Best to settle certain claim liabilities of the company. Should the life insurance company become unable to make the annuity payments, the Company would be liable for those claim liabilities. The estimated cost to replace such annuities at June 30, 2007 was \$20.8 million.

## 6. Other Comprehensive Loss

The following table presents the components of other comprehensive loss for the periods indicated:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net unrealized depreciation of investments, net of deferred income taxes	\$ (57,181)	\$ (66,630)	\$ (60,117)	\$ (63,101)
Currency translation adjustments, net of deferred income taxes	10,095	4,716	9,883	7,987
Other comprehensive loss, net of deferred income taxes	<u>\$ (47,086)</u>	<u>\$ (61,914)</u>	<u>\$ (50,234)</u>	<u>\$ (55,114)</u>

## 7. Trust Agreements

A subsidiary of the Company, Everest Re, has established a trust agreement as security for assumed losses payable to a non-affiliated ceding company, which effectively uses Everest Re's investments as collateral. At June 30, 2007, the total amount on deposit in the trust account was \$22.7 million.

## 8. Senior Notes

On October 12, 2004, Holdings completed a public offering of \$250.0 million principal amount of 5.40% senior notes due October 15, 2014. On March 14, 2000, Holdings completed a public offering of \$200.0 million principal amount of 8.75% senior notes due March 15, 2010.

Interest expense incurred in connection with these senior notes was \$7.8 million for the three months ended June 30, 2007 and 2006, and \$15.6 million and for the six months ended June 30, 2007 and 2006. Market value, which is based on quoted market price at June 30, 2007 and December 31, 2006, was \$239.6 million and \$248.1 million, respectively, for the 5.40% senior notes and \$214.5 million and \$219.8 million, respectively, for the 8.75% senior notes.

## 9. Long Term Subordinated Notes

On April 26, 2007, Holdings completed a public offering of \$400.0 million principal amount of 6.6% fixed to floating rate long term subordinated notes with a scheduled maturity date of May 15, 2037 and a final maturity date of May 1, 2067. During the fixed rate interest period from May 3, 2007 through May 14, 2017, interest will be at the annual rate of 6.6%, payable semi-annually in arrears on November 15 and May 15 of each year, commencing on November 15, 2007, subject to Holdings' right to defer interest on one or more occasions for up to ten consecutive years. During the floating rate interest period from May 15, 2017 through maturity, interest will be based on the 3 month London Interbank Offered Rate ("LIBOR") plus 238.5 basis points, reset quarterly, payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, subject to Holdings' right to defer interest on one or more occasions for up to ten consecutive years. Deferred interest will accumulate interest at the applicable rate compounded semi-annually to the period prior to May 15, 2017, and compounded quarterly with respect to the period from and including May 15, 2017.

Holdings can redeem the long term subordinated notes prior to May 15, 2017, in whole but not in part at the applicable redemption price, which will equal the greater of (a) 100% of the principal amount being redeemed and (b) the present value of the principal payment on May 15, 2017 and scheduled payments of interest that would have accrued from the redemption date to May 15, 2017 on the long term subordinated notes being

redeemed, discounted to the redemption date on a semi-annual basis at a discount rate equal to the treasury rate plus an applicable spread of either 0.25% or 0.50%, in each case plus accrued and unpaid interest. Holdings may redeem the long term subordinated notes on or after May 15, 2017, in whole or in part at 100% of the principal amount plus accrued and unpaid interest; however, redemption on or after the scheduled maturity date and prior to May 1, 2047 are subject to a replacement capital covenant. This covenant is for the benefit of certain senior note holders such that these notes cannot be redeemed except to the extent that Holdings has received proceeds from the sale of replacement capital securities.

Interest expense incurred in connection with these long term notes was \$4.3 million for the three and six months ended June 30, 2007. Market value, which is based on quoted market price at June 30, 2007, was \$381.8 million for the 6.6% long term subordinated notes.

#### **10. Junior Subordinated Debt Securities Payable**

On March 29, 2004, Holdings issued \$329.9 million of 6.20% junior subordinated debt securities due March 29, 2034 to Everest Re Capital Trust II ("Capital Trust II"). Holdings can redeem the junior subordinated debt securities before their maturity at 100% of their principal amount plus accrued interest as of the date of redemption, in whole or in part, on one or more occasions at any time on or after March 30, 2009; or at any time, in whole, but not in part, within 90 days of the occurrence and continuation of a determination that the Trust may become subject to tax or the Investment Company Act.

On November 14, 2002, Holdings issued \$216.5 million of 7.85% junior subordinated debt securities due November 15, 2032 to Everest Re Capital Trust ("Capital Trust"). Holdings can redeem the junior subordinated debt securities before their maturity at 100% of their principal amount plus accrued interest as of the date of redemption, in whole or in part, on one or more occasions at any time on or after November 14, 2007; or at any time, in whole, but not in part, within 90 days of the occurrence and continuation of a determination that the Trust may become subject to tax or the Investment Company Act.

Fair value, which is primarily based on quoted market price of the related trust preferred securities at June 30, 2007 and December 31, 2006, was \$302.4 million and \$316.3 million, respectively, for the 6.20% junior subordinated debt securities and \$220.4 million and \$221.2 million, respectively, for the 7.85% junior subordinated debt securities.

Interest expense incurred in connection with these junior subordinated notes was \$9.4 million for the three months ended June 30, 2007 and 2006 and \$18.7 million for the six months ended June 30, 2007 and 2006.

Capital Trust and Capital Trust II are wholly owned finance subsidiaries of the Company.

Holdings considers that the mechanisms and obligations relating to the trust preferred securities, taken together, constitute a full and unconditional guarantee by Holdings of Capital Trust and Capital Trust II's payment obligations with respect to their respective trust preferred securities.

Capital Trust and Capital Trust II will redeem all of the outstanding trust preferred securities when the junior subordinated debt securities are paid at maturity on November 15, 2032 and March 29, 2034, respectively. The Company may elect to redeem the junior subordinated debt securities, in whole or in part, at any time on or after November 14, 2007 and March 30, 2009, respectively. If such an early redemption occurs, the outstanding trust preferred securities would also be proportionately redeemed.

There are certain regulatory and contractual restrictions on the ability of the Company's operating subsidiaries to transfer funds to the Company in the form of cash dividends, loans or advances. The insurance laws of the State

of Delaware, where the Company's direct insurance subsidiaries are domiciled, require regulatory approval before those subsidiaries can pay dividends or make loans or advances to the Company that exceed certain statutory thresholds. In addition, the terms of Holdings Credit Facility (discussed in Note 11) require Everest Re, the Company's principal insurance subsidiary, to maintain a certain statutory surplus level as measured at the end of each fiscal year. At December 31, 2006, \$2,451.4 million of the \$3,102.6 million in net assets of the Company's consolidated subsidiaries were subject to the foregoing regulatory restrictions.

## **11. Credit Line**

Effective August 23, 2006, Holdings entered into a new five year, \$150.0 million senior revolving credit facility with a syndicate of lenders, replacing the October 10, 2003 three year senior revolving credit facility, which expired on October 10, 2006. Both the August 23, 2006 and October 10, 2003 senior revolving credit agreements, which have similar terms, are referred to as the "Holdings Credit Facility". Citibank N.A. is the administrative agent for the Holdings Credit Facility. The Holdings Credit Facility is used for liquidity and general corporate purposes. The Holdings Credit Facility provides for the borrowing of up to \$150.0 million with interest at a rate selected by Holdings equal to either, (1) the Base Rate (as defined below) or (2) a periodic fixed rate equal to the Eurodollar Rate plus an applicable margin. The Base Rate means a fluctuating interest rate per annum in effect from time to time to be equal to the higher of (a) the rate of interest publicly announced by Citibank as its prime rate or 0.5% per annum above the Federal Funds Rate, in each case plus the applicable margin. The amount of margin and the fees payable for the Holdings Credit Facility depends upon Holdings' senior unsecured debt rating.

The Holdings Credit Facility requires Holdings to maintain a debt to capital ratio of not greater than 0.35 to 1 and Everest Re to maintain its statutory surplus at \$1.5 billion plus 25% of future aggregate net income and 25% of future aggregate capital contributions after December 31, 2005. As of June 30, 2007, Holdings was in compliance with these covenants.

For the three and six months ended June 30, 2007 and 2006, there were no outstanding borrowings under the Holdings Credit Facility.

Interest expense and fees incurred in connection with the Holdings Credit Facility were \$0.03 million and \$0.05 million for the three and six months ended June 30, 2007, respectively. Interest expense and fees incurred in connection with the Holdings Credit Facility were \$0.05 million and \$0.1 million for the three and six months ended June 30, 2006, respectively.

## **12. Segment Results**

The Company, through its subsidiaries, operates in four segments: U.S. Reinsurance, U.S. Insurance, Specialty Underwriting and International. The U.S. Reinsurance operation writes property and casualty reinsurance, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies within the U.S. The U.S. Insurance operation writes property and casualty insurance primarily through general agents and surplus lines brokers within the U.S. The Specialty Underwriting operation writes accident and health ("A&H"), marine, aviation and surety business within the U.S. and worldwide through brokers and directly with ceding companies. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada and Singapore and offices in Miami and New Jersey.

These segments are managed in a coordinated fashion with respect to pricing, risk management, control of aggregate catastrophe exposures, capital, investments and support operations. Management generally monitors and evaluates the financial performance of these operating segments based upon their underwriting results.

Underwriting results include earned premium less losses and loss adjustment expenses (“LAE”) incurred, commission and brokerage expenses and other underwriting expenses. Underwriting results are measured using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commission and brokerage and other underwriting expenses by earned premium.

The Company does not maintain separate balance sheet data for its operating segments. Accordingly, the Company does not review and evaluate the financial results of its operating segments based upon balance sheet data.

The following tables present the relevant underwriting results for the operating segments for the periods indicated:

	<u>U.S. Reinsurance</u>			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands)	2007	2006	2007	2006
Gross written premiums	\$ 271,670	\$ 262,018	\$ 626,022	\$ 656,415
Net written premiums	202,995	193,529	463,976	489,215
Premiums earned	\$ 238,970	\$ 206,600	\$ 502,155	\$ 496,317
Incurred losses and LAE	80,436	136,869	167,318	355,357
Commission and brokerage	61,142	46,941	115,789	114,338
Other underwriting expenses	7,321	6,366	13,812	11,142
Underwriting gain	<u>\$ 90,071</u>	<u>\$ 16,424</u>	<u>\$ 205,236</u>	<u>\$ 15,480</u>

	<u>U.S. Insurance</u>			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands)	2007	2006	2007	2006
Gross written premiums	\$ 161,637	\$ 195,390	\$ 379,010	\$ 413,396
Net written premiums	94,492	115,924	234,075	272,245
Premiums earned	\$ 121,580	\$ 127,886	\$ 262,145	\$ 268,863
Incurred losses and LAE	84,084	87,726	225,113	193,709
Commission and brokerage	17,149	10,390	38,322	28,927
Other underwriting expenses	12,013	11,389	24,378	22,094
Underwriting gain (loss)	<u>\$ 8,334</u>	<u>\$ 18,381</u>	<u>\$ (25,668)</u>	<u>\$ 24,133</u>



(Dollars in thousands)	<u>Specialty Underwriting</u>			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Gross written premiums	\$ 76,377	\$ 53,087	\$ 131,058	\$ 117,113
Net written premiums	55,602	35,579	92,052	83,906
Premiums earned	\$ 56,346	\$ 35,620	\$ 94,960	\$ 87,354
Incurred losses and LAE	36,935	8,064	66,778	65,122
Commission and brokerage	9,371	8,277	18,675	22,391
Other underwriting expenses	1,775	1,637	3,364	2,942
Underwriting gain (loss)	<u>\$ 8,265</u>	<u>\$ 17,642</u>	<u>\$ 6,143</u>	<u>\$ (3,101)</u>

(Dollars in thousands)	<u>International</u>			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Gross written premiums	\$ 202,626	\$ 179,835	\$ 375,970	\$ 355,357
Net written premiums	142,762	131,190	264,034	257,106
Premiums earned	\$ 148,530	\$ 131,382	\$ 276,004	\$ 252,632
Incurred losses and LAE	113,877	74,675	182,138	158,657
Commission and brokerage	34,265	29,959	63,116	54,390
Other underwriting expenses	4,332	3,685	8,050	6,363
Underwriting (loss) gain	<u>\$ (3,944)</u>	<u>\$ 23,063</u>	<u>\$ 22,700</u>	<u>\$ 33,222</u>

The following table reconciles the underwriting results for the operating segments to income before tax as reported in the consolidated statements of operations and comprehensive income for the periods indicated:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Underwriting gain	\$ 102,726	\$ 75,510	\$ 208,411	\$ 69,734
Net investment income	106,852	91,922	202,786	175,827
Net realized capital gain	89,585	2,204	123,459	11,224
Corporate expense	(1,673)	(1,659)	(2,257)	(2,597)
Interest, fee and bond issue cost				
amortization expense	(24,192)	(17,430)	(41,605)	(34,860)
Other (expense) income	<u>(13,277)</u>	<u>7,013</u>	<u>(14,440)</u>	<u>(6,034)</u>
Income before taxes	<u>\$ 260,021</u>	<u>\$ 157,560</u>	<u>\$ 476,354</u>	<u>\$ 213,294</u>

The Company produces business in its U.S. and international operations. The net income and assets of the individual foreign countries in which the Company writes business are not identifiable in the Company's financial records. Other than the U.S., no other country represented more than 5% of the Company's revenues.

### 13. Related-Party Transactions

During the normal course of business, the Company, through its affiliates, engages in reinsurance and brokerage and commission business transactions, which management believes to be at arm's length, with companies controlled by or affiliated with certain of its outside directors. Such transactions, individually and in the aggregate, are not material to the Company's financial condition, results of operation and cash flow.

The Company engages in reinsurance transactions with Bermuda Re and Everest International Reinsurance, Ltd. ("Everest International"), affiliates, primarily driven by capital management considerations under which business is ceded for arm's length consideration. These transactions include:

- Effective September 19, 2000, Mt. McKinley and Bermuda Re entered into a loss portfolio transfer reinsurance agreement, whereby Mt. McKinley transferred all of its net insurance exposures and reserves to Bermuda Re.
- Effective October 1, 2001, Everest Re and Bermuda Re entered into a loss portfolio reinsurance agreement, whereby Everest Re transferred all of its Belgium branch net insurance exposures and reserves to Bermuda Re.
- For premiums earned and losses incurred for the period January 1, 2002 through December 31, 2002, Everest Re, Everest National Insurance Company and Everest Security Insurance Company entered into an Excess of Loss Reinsurance Agreement with Bermuda Re, covering workers' compensation losses occurring on and after January 1, 2002, as respects new, renewal and in force policies effective on that date through December 31, 2002. Bermuda Re is liable for any loss exceeding \$100,000 per occurrence, with its liability not to exceed \$150,000 per occurrence.
- Effective January 1, 2002 for the 2002 underwriting year, Everest Re ceded 20% of its net retained liability to Bermuda Re through a quota share reinsurance agreement ("whole account quota share").
- Effective January 1, 2003, Everest Re and Bermuda Re amended the whole account quota share, through which Everest Re previously ceded 20% of its business to Bermuda Re so that effective January 1, 2003 Everest Re ceded 25% to Bermuda Re of the net retained liability on all new and renewal policies underwritten during the term of this agreement.
- Effective January 1, 2003, Everest Re entered into a whole account quota share with Bermuda Re, whereby Everest Re's Canadian branch cedes to Bermuda Re 50% of its net retained liability on all new and renewal property business.
- Effective January 1, 2004, Everest Re and Bermuda Re amended the whole account quota share through which Everest Re previously ceded 25% of its business to Bermuda Re so that effective January 1, 2004 Everest Re cedes 22.5% to Bermuda Re and 2.5% to Everest International of the net retained liability on all new and renewal covered business written during the term of this agreement. This amendment remained in effect through December 31, 2005.
- Effective January 1, 2006, Everest Re, Bermuda Re and Everest International amended the whole account quota share so that for all new and renewal business recorded on or after January 1, 2006, Everest Re cedes 31.5% and 3.5% of its casualty business to Bermuda Re and Everest International, respectively, and Everest Re cedes 18.0% and 2.0% of its property business to Bermuda Re and Everest International, respectively. However, in no event shall the loss cessions to Bermuda Re and Everest

International relating to any one occurrence on the property business exceed \$125.0 million (20% of \$625.0 million).

- Effective January 1, 2007, Everest Re and Bermuda Re amended the whole account quota share so that for all new and renewal business recorded on or after January 1, 2007, Everest Re cedes 60% of its Canadian branch property business to Bermuda Re.
- Effective January 1, 2007, Everest Re, Bermuda Re and Everest International amended the whole account quota share so that for all new and renewal property business recorded on or after January 1, 2007, Everest Re cedes 22.5% and 2.5% to Bermuda Re and Everest International, respectively. However, in no event shall the loss cessions to Bermuda Re and Everest International relating to any one occurrence on the property business exceed \$130.0 million.

The following table summarizes the premiums and losses ceded by the Company to Bermuda Re and Everest International, respectively, for the periods indicated:

(Dollars in thousands)	<u>Bermuda Re</u>			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Ceded written premiums	\$ 180,840	\$ 169,985	\$ 374,890	\$ 345,155
Ceded earned premiums	193,069	157,228	384,011	342,117
Ceded losses and LAE (a)	146,790	94,400	249,082	195,511

(Dollars in thousands)	<u>Everest International</u>			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Ceded written premiums	\$ 18,746	\$ 13,649	\$ 39,323	\$ 32,435
Ceded earned premiums	19,889	11,390	40,279	30,450
Ceded losses and LAE	12,315	7,100	23,185	18,525

(a) Ceded losses and LAE include the Mt. McKinley loss portfolio transfer that constitutes losses ceded under retroactive reinsurance and therefore, in accordance with FAS 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts," a deferred gain on retroactive reinsurance is reflected in other expenses on the consolidated statement of operations and comprehensive income.

Everest Re sold the net assets of its UK branch to Bermuda Re and provided Bermuda Re with a reserve indemnity agreement allowing for indemnity payments of up to 90% of £25.0 million in the event December 31, 2002 losses and LAE reserves develop adversely. The limit available under this agreement was fully exhausted at December 31, 2004.

#### 14. Income Taxes

The Company uses a projected annual effective tax rate in accordance with FAS 109 to calculate its quarterly tax expense. Under this methodology, when an interim quarter's pre-tax income (loss) varies significantly from a full year's income (loss) projection, the tax impact resulting from the income (loss) variance is effectively spread between the impacted quarter and the remaining quarters of the year, except for discreet items impacting an individual quarter.

The Company adopted the provisions of FIN 48 as of January 1, 2007. As a result of the implementation of FIN 48, the Company recorded no adjustment in the liability for unrecognized income tax benefits and no adjustment to beginning retained earnings.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. At the date of adoption, January 1, 2007, the Company had \$1.3 million of accrued interest related to uncertain tax positions.

Tax years 2003-2006 remain open to examination by the major taxing jurisdictions to which the Company is subject.

## **PART I - Item 2**

### **EVEREST REINSURANCE HOLDINGS, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

#### **RESULTS OF OPERATIONS**

##### **Industry Conditions**

The worldwide reinsurance and insurance businesses are highly competitive, as well as cyclical by product and market. As a result, financial results tend to fluctuate with periods of constrained availability, high rates and strong profits followed by periods of abundant capacity, low rates and constrained profitability. Competition in the types of reinsurance and insurance business that we underwrite is based on many factors, including the perceived overall financial strength of the reinsurer or insurer, ratings of the reinsurer or insurer by A.M. Best Company ("A.M. Best") and/or Standard & Poor's Rating Services ("Standard & Poor's"), underwriting expertise, the jurisdictions where the reinsurer or insurer is licensed or otherwise authorized, capacity and coverages offered, premiums charged, other terms and conditions of the reinsurance and insurance business offered, services offered, speed of claims payment and reputation and experience in lines written. Furthermore, the market impact from these competitive factors related to reinsurance and insurance is generally not consistent across lines of business, domestic and international geographical areas and distribution channels.

We compete in the U.S. and international reinsurance and insurance markets with numerous global competitors. Our competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain insurance companies and domestic and international underwriting operations, including underwriting syndicates at Lloyd's. Some of these competitors have greater financial resources than we do and have established long-term and continuing business relationships, which can be a significant competitive advantage. In addition, the lack of strong barriers to entry into the reinsurance business and the potential for securitization of reinsurance and insurance risks through capital markets provide additional sources of potential reinsurance and insurance capacity and competition.

Through the second quarter of 2007, we observed increased competition with slightly reduced premiums, higher commissions and demands by cedants for improved terms and conditions. The extent of the increased competition and its affect on rates, terms and conditions varied widely by market and coverage type. One of the lesser impacted markets was property catastrophe retrocession coverage in regions that were most affected by the catastrophe events of 2005, principally Hurricanes Katrina, Rita and Wilma. Reinsurance capacity in areas including southeastern U.S. exposures and energy lines continued to be constrained. In January 2007, the state of Florida passed legislation that increased coverage provided by the Florida Hurricane Catastrophe Fund, thus potentially reducing the amount of reinsurance that Florida companies will purchase from the private reinsurance market. In addition, the legislature broadened the mandate of the state sponsored homeowners' insurance company to render it a fully competitive market participant. Although we are unable to predict the impact on future market conditions from the increased competition and legislative developments, we believe that our clients continue to write profitable business in Florida and will continue to purchase both quota share and catastrophe coverage, although at likely lower volumes. The balance of the U.S. and international property lines experienced mostly modest price declines but are still adequately priced.

Our U.S. and international casualty lines experienced weaker market conditions led by the medical stop loss and D&O reinsurance classes, as well as the California workers' compensation insurance line. We believe that U.S. casualty reinsurance generally remains adequately priced. We also believe that increased primary price competition and cedants' increased appetite for retaining more profitable business net, following several years of

hard-market conditions, has resulted in modestly softer, but profitable, reinsurance pricing. Our U.S. insurance operation was also affected, although somewhat less so, by these primary casualty insurance market conditions given the specialty nature of its program orientated business.

We are unable to predict the impact on future market conditions from the increased competition and legislative initiatives. In addition to these market forces, reinsurers continue to reassess their risk appetites and rebalance their property portfolios to obtain a better spread of risk against the backdrop of: (i) recent revisions to the industry's catastrophe loss projection models, which are indicating significantly higher loss potentials and consequently higher pricing requirements and (ii) elevated rating agency scrutiny and capital requirements for many catastrophe exposed companies.

In light of our 2005 catastrophe experience, we have re-examined our risk management practices and concluded that our control framework operated generally as intended. We rebalanced our property portfolio, particularly within peak catastrophe zones, including the Southeast U.S., Mexico and Gulf of Mexico. This effort has enabled us to benefit from market dislocations by carefully shifting the mix of our writings toward the most profitable classes, lines, customers and territories and by enhancing our portfolio balance and diversification.

Overall, we believe that current marketplace conditions offer solid opportunities for us given our strong ratings, distribution system, reputation and expertise. We continue to employ our strategy of targeting business that offers the greatest profit potential, while maintaining balance and diversification in our overall portfolio.

## **Consolidated Financial Results**

We monitor and evaluate our overall performance based upon financial results. The following table displays a summary of the consolidated net income, ratios and stockholder's equity for the periods indicated:

(Dollars in thousands)	Three Months Ended June 30,		Percentage Increase/ (Decrease)	Six Months Ended June 30,		Percentage Increase/ (Decrease)
	2007	2006		2007	2006	
Gross written premiums	\$ 712,310	\$ 690,330	3.2%	\$ 1,512,060	\$ 1,542,281	-2.0%
Net written premiums	495,851	476,222	4.1%	1,054,137	1,102,472	-4.4%
REVENUES:						
Premiums earned	\$ 565,426	\$ 501,488	12.7%	\$ 1,135,264	\$ 1,105,166	2.7%
Net investment income	106,852	91,922	16.2%	202,786	175,827	15.3%
Net realized capital gains	89,585	2,204	NM	123,459	11,224	NM
Other (expense) income	(13,277)	7,013	NM	(14,440)	(6,034)	139.3%
Total revenues	<u>748,586</u>	<u>602,627</u>	24.2%	<u>1,447,069</u>	<u>1,286,183</u>	12.5%
CLAIMS AND EXPENSES:						
Incurred losses and LAE	315,332	307,334	2.6%	641,347	772,845	-17.0%
Commission, brokerage, taxes and fees	121,927	95,567	27.6%	235,902	220,046	7.2%
Other underwriting expenses	27,114	24,736	9.6%	51,861	45,138	14.9%
Interest expense	24,192	17,430	38.8%	41,605	34,860	19.3%
Total claims and expenses	<u>488,565</u>	<u>445,067</u>	9.8%	<u>970,715</u>	<u>1,072,889</u>	-9.5%
INCOME BEFORE TAXES	260,021	157,560	65.0%	476,354	213,294	123.3%
Income tax expense	<u>74,830</u>	<u>36,178</u>	106.8%	<u>131,845</u>	<u>48,407</u>	172.4%
NET INCOME	<u>\$ 185,191</u>	<u>\$ 121,382</u>	52.6%	<u>\$ 344,509</u>	<u>\$ 164,887</u>	108.9%
RATIOS:						
			Point Change			Point Change
Loss ratio	55.8%	61.3%	(5.5)	56.5%	69.9%	(13.4)
Commission and brokerage ratio	21.6%	19.1%	2.5	20.8%	19.9%	0.9
Other underwriting expense ratio	4.7%	4.9%	(0.2)	4.5%	4.1%	0.4
Combined ratio	<u>82.1%</u>	<u>85.3%</u>	<u>(3.2)</u>	<u>81.8%</u>	<u>93.9%</u>	<u>(12.1)</u>

	As of June 30, 2007	As of December 31, 2006	Percentage Increase/ (Decrease)
(Dollars in millions, except per share amounts)			
Balance sheet data:			
Total investments and cash	\$ 8,928.7	\$ 8,451.8	5.6%
Total assets	13,400.4	12,888.3	4.0%
Loss and LAE reserves	7,265.1	7,397.3	-1.8%
Total debt	1,395.3	995.6	40.1%
Total liabilities	10,883.9	10,669.9	2.0%
Stockholder's equity	2,516.5	2,218.4	13.4%

(NM, not meaningful)

**Revenues.**

Premiums. Gross written premiums increased \$22.0 million, or 3.2%, for the three months ended June 30, 2007 compared to the three months ended June 30, 2006, reflecting \$55.7 million of growth in the worldwide reinsurance business, partially offset by a \$33.8 million decline in the U.S. insurance business. Net written premiums increased \$19.6 million, or 4.1%, for the three months ended June 30, 2007 compared to the three months ended June 30, 2006, as reinsurance on our program business increased slightly. Net earned premium increased \$63.9 million, or 12.7%, for the three months ended June 30, 2007 compared to the three months ended June 30, 2006, principally due to the growth in the worldwide reinsurance gross written premiums, particularly in the treaty property, marine and aviation and international reinsurance classes of business.

Net Investment Income. Net investment income increased 16.2% for the three months ended June 30, 2007 compared to the three months ended June 30, 2006, primarily due to an increase of \$6.9 million in short-term investment income and \$5.7 million of additional investment income from our limited partnership investments. The growth in invested assets, emanated from the net proceeds of the \$400.0 million long term note issuance and positive net cash flow from operations over the past twelve months. Investment income from equity investments in limited partnerships fluctuates period over period depending on the performance of the individual investments made by the partnerships as well as movements in the equity markets. The average investment portfolio yields for the three months ended June 30, 2007 were 5.1% pre-tax and 3.9% after-tax compared to the three months ended June 30, 2006 average investment portfolio yields of 4.8% pre-tax and 3.8% after-tax.

Net Realized Capital Gains. Net realized capital gains were \$89.6 million and \$2.2 million for the three months ended June 30, 2007 and 2006, respectively, and \$123.5 million and \$11.2 million for the six months ended June 30, 2007 and 2006, respectively. The increase in 2007 is primarily attributable to our adoption of Statement of Financial Accounting Standards (“FAS”) No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment to FASB statement No. 115” (“FAS 159”) for our publicly traded equity securities investment portfolio. For the three and six months ended June 30, 2007, we recorded \$96.1 million and \$129.0 million, respectively, of net realized capital gains due to fair value adjustments. Because we reported our realized gains and losses in accordance with FAS No. 115 “Accounting for Certain Investments in Debt and Equity Securities” in 2006, we did not record any fair value adjustments in 2006.

Other (Expense) Income. Other expense for the three months ended June 30, 2007 was \$13.3 million compared to other income of \$7.0 million for the three months ended June 30, 2006. The change, period over period, was principally due to the increase in deferred gains on a retroactive reinsurance agreement with an unconsolidated affiliate and fluctuations in foreign currency exchange rates.



## Claims and Expenses.

**Incurred Losses and Loss Adjustment Expenses.** The following table presents our incurred losses and loss adjustment expenses (“LAE”) for the three and six months ended June 30, 2007 and 2006.

<u>Incurred Losses and LAE</u>												
(Dollars in millions)	Three Months Ended						Six Months Ended					
	June 30,						June 30,					
	2007			2006			2007			2006		
	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total
	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred
<b>All Segments</b>												
Attritional (a)	\$ 302.5	\$ (38.0)	\$ 264.5	\$ 226.9	\$ 4.8	\$ 231.6	\$ 607.5	\$ (21.4)	\$ 586.0	\$ 637.8	\$ 8.8	\$ 646.6
Catastrophes	33.2	1.1	34.4	4.3	70.7	75.1	37.5	1.4	38.8	4.3	120.6	125.0
A&E	-	16.5	16.5	-	0.6	0.6	-	16.5	16.5	-	1.2	1.2
Total All segments	\$ 335.7	\$ (20.3)	\$ 315.3	\$ 231.2	\$ 76.1	\$ 307.3	\$ 644.9	\$ (3.6)	\$ 641.3	\$ 642.1	\$ 130.7	\$ 772.8
Loss Ratio	59.4%	-3.6%	55.8%	46.1%	15.2%	61.3%	56.8%	-0.3%	56.5%	58.1%	11.8%	69.9%

(a) Attritional losses exclude catastrophe and A&E losses.

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased \$8.0 million, or 2.6%, for the three months ended June 30, 2007 as compared to the same period in 2006. This increase period over period was principally due to a \$32.9 million increase in attritional losses, of which a \$75.6 million increase for the current year losses was partially offset by a \$42.8 million favorable change for prior years’ losses. In addition, catastrophe losses, both current and prior years’, decreased \$40.7 million, primarily from a decrease in prior years’ loss development, partially offset by a \$15.9 million increase in asbestos and environmental (“A&E”) losses.

**Commission, Brokerage, Taxes and Fees.** Commission, brokerage and tax expenses increased \$26.4 million, or 27.6%, for the three months ended June 30, 2007 compared to the same period in 2006. The increase in net earned premiums was the principal driver of the increase in this directly variable expense, as well as an increase in profit commission on some of the program business. In addition, the three months ended June 30, 2006 included an accrual adjustment, which decreased commission, brokerage, taxes and fees.

**Other Underwriting Expenses.** Other underwriting expenses for the three months ended June 30, 2007 increased \$2.4 million, or 9.6%, compared to the same period in 2006, primarily due to growth in salaries and benefits from an increase in staff. Included in other underwriting expenses were corporate underwriting expenses, which are expenses that are not allocated to segments, of \$1.7 million for the three months ended June 30, 2007 and 2006.

**Interest expense.** Interest expense was \$24.2 million and \$17.4 million for the three months ended June 30, 2007 and 2006. Interest expense for the three months ended June 30, 2007 included \$9.4 million related to junior subordinated debt, \$7.8 million related to senior notes, \$4.3 million related to long term notes, \$2.7 million related to bond issue costs and \$0.03 million related to the credit line under the credit facility. The increase is primarily due to the new long term notes and the acceleration of the bond amortization costs associated with the expected early retirement of a portion of the junior subordinated debt.

**Income Tax Expense.** Our income tax expense was \$74.8 million (28.8% effective tax rate) for three months ended June 30, 2007 compared to \$36.2 million (23.0% effective tax rate) for the three months ended June 30,

2006. The increase was due to a higher proportion of pre-tax income, in particular, higher net realized capital gains, with an effective tax rate of 35%.

#### **Net Income.**

Net income increased 52.6% to \$185.2 million for the three months ended June 30, 2007 from \$121.4 million for the three months ended June 30, 2006, primarily due to the increased net realized capital gains, underwriting results and net investment income, partially offset by an increase in income taxes and other expense.

#### **Ratios.**

Our loss ratio decreased by 5.5 points to 55.8% for the three months ended June 30, 2007 compared to the three months ended June 30, 2006. Current accident year attritional losses were 8.3 points higher than in the same quarter last year and A&E losses were 2.8 points higher. These increases in the loss ratio were more than offset by 8.9 points lower catastrophe losses and 7.7 points of improvement from development on prior years' attritional losses. The combined ratio decreased by 3.2 points to 82.1%, primarily due to the loss ratio decrease, partially offset by the 2.5 point increase in the commission and brokerage ratio.

#### **Stockholder's Equity.**

Stockholder's equity increased by \$298.1 million to \$2,516.5 million at June 30, 2007 from \$2,218.4 million at December 31, 2006, principally as a result of \$344.5 million of net income generated for the period, \$9.9 million of currency translation gains and \$3.8 million share-based compensation additions, partially offset by \$60.1 million of net unrealized losses.

### **Consolidated Investment Results**

#### **Net Investment Income.**

Net investment income increased 16.2% to \$106.9 million for the three months ended June 30, 2007 from \$91.9 million for the three months ended June 30, 2006, primarily reflecting growth in limited partnership income, growth in short-term investments and a reduction in interest credited on funds held.

The following table shows the components of net investment income for the periods indicated:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands)	2007	2006	2007	2006
Fixed maturities	\$ 75,788	\$ 76,447	\$ 150,932	\$ 151,351
Equity securities	1,797	2,904	4,637	5,709
Short-term investments	12,864	5,896	21,337	9,978
Other investment income	18,109	11,349	29,247	18,085
Total gross investment income	108,558	96,596	206,153	185,123
Interest credited and other expense	(1,706)	(4,674)	(3,367)	(9,296)
Total net investment income	\$ 106,852	\$ 91,922	\$ 202,786	\$ 175,827

The following tables show a comparison of various investment yields for the periods indicated:

	At June 30, 2007		At December 31, 2006	
Imbedded pre-tax yield of cash and invested assets	4.6%		4.5%	
Imbedded after-tax yield of cash and invested assets	3.6%		3.6%	

  

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
Annualized pre-tax yield on average cash and invested assets	5.1%	4.8%	4.8%	4.6%
Annualized after-tax yield on average cash and invested assets	3.9%	3.8%	3.8%	3.7%

### **Net Realized Capital Gains.**

Net realized capital gains of \$89.6 million and \$123.5 million for the three and six months ended June 30, 2007, respectively, reflected gross realized capital gains on our investments of \$0.9 million and \$3.6 million, resulting principally from gains on the sale of equity securities of \$0.5 million and \$2.6 million and fixed maturities of \$0.4 million and \$1.0 million, more than offset by \$7.5 million and \$9.1 million of realized capital losses on the sale of equity securities and fixed maturities. In addition, \$96.1 million and \$129.0 million of fair value adjustment for equity securities added to realized gains for the three and six months ended June 30, 2007, respectively. Net realized capital gains were \$2.2 million for the three months ended June 30, 2006, which reflected gains of \$5.1 million on the sale of equity securities, partially offset by \$2.9 million of realized losses. Net realized capital gains were \$11.2 million for the six months ended June 30, 2006, which reflected gains of \$10.0 million on the sale of equity securities and \$4.3 million on the sale of fixed maturities, partially offset by \$2.8 million of realized capital losses.

### **Segment Results**

Through our subsidiaries, we operate in four segments: U.S. Reinsurance, U.S. Insurance, Specialty Underwriting and International. The U.S. Reinsurance operation writes property and casualty reinsurance, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies within the U.S. The U.S. Insurance operation writes property and casualty insurance primarily through general agents and surplus lines brokers within the U.S. The Specialty Underwriting operation writes accident and health ("A&H"), marine, aviation and surety business within the U.S. and worldwide through brokers and directly with ceding companies. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada and Singapore and offices in Miami and New Jersey.

We coordinate the operations of our segments with respect to pricing, risk management, control of catastrophe exposures, capital, investments and support operations. Management generally monitors and evaluates the financial performance of these operating segments based upon their underwriting results.

Underwriting results include earned premium less losses and LAE incurred, commission and brokerage expenses and other underwriting expenses. We measure our underwriting results using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by earned premium.

Our loss and LAE reserves represent our best estimate of our ultimate liability for unpaid claims. We re-evaluate our estimates on an ongoing basis, including re-estimates of prior period reserves, taking into consideration all available information and, in particular, recently reported loss and claim experience related to prior periods. Such re-evaluations are recorded in incurred losses in the period in which the re-evaluation is made.

The following discusses the underwriting results for each of our segments for the periods indicated:

### **U.S. Reinsurance**

The following table presents the underwriting results and ratios for the U.S. Reinsurance segment for the three and six months ended June 30, 2007 and 2006.

(Dollars in thousands)	<u>Underwriting Results and Ratios</u>							
	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	2007	2006	Variance	% Change	2007	2006	Variance	% Change
Gross written premiums	\$ 271,670	\$ 262,018	\$ 9,652	3.7%	\$ 626,022	\$ 656,415	\$ (30,393)	-4.6%
Net written premiums	202,995	193,529	9,466	4.9%	463,976	489,215	(25,239)	-5.2%
Premiums earned	\$ 238,970	\$ 206,600	\$ 32,370	15.7%	\$ 502,155	\$ 496,317	\$ 5,838	1.2%
Incurred losses and LAE	80,436	136,869	(56,433)	-41.2%	167,318	355,357	(188,039)	-52.9%
Commission and brokerage	61,142	46,941	14,201	30.3%	115,789	114,338	1,451	1.3%
Other underwriting expenses	7,321	6,366	955	15.0%	13,812	11,142	2,670	24.0%
Underwriting gain	<u>\$ 90,071</u>	<u>\$ 16,424</u>	<u>\$ 73,647</u>	<u>NM</u>	<u>\$ 205,236</u>	<u>\$ 15,480</u>	<u>\$ 189,756</u>	<u>NM</u>
				<u>Point Chg</u>				<u>Point Chg</u>
Loss ratio	33.7%	66.2%		(32.5)	33.3%	71.6%		(38.3)
Commission and brokerage ratio	25.6%	22.7%		2.9	23.1%	23.0%		0.1
Other underwriting expense ratio	3.0%	3.2%		(0.2)	2.7%	2.3%		0.4
Combined ratio	<u>62.3%</u>	<u>92.1%</u>		<u>(29.8)</u>	<u>59.1%</u>	<u>96.9%</u>		<u>(37.8)</u>

(NM, not meaningful)

**Premiums.** Gross written premiums increased 3.7% to \$271.7 million for the three months ended June 30, 2007 from \$262.0 million for the three months ended June 30, 2006, primarily due to an \$82.0 million (101.7%) increase in written treaty property business, partially offset by a \$57.0 million (44.8%) decrease in written treaty casualty business and a \$15.7 million (29.1%) decrease in written facultative business. The increase in treaty property writings was the result of new quota share treaties. The more competitive environment for U.S. casualty business is resulting in reduced opportunities to write this business at what we deem to be adequate rates.

Net written premiums increased 4.9% to \$203.0 million for the three months ended June 30, 2007 compared to \$193.5 million for the three months ended June 30, 2006, primarily due to the \$9.7 million increase in gross written premiums, discussed above, partially offset by a \$0.2 million increase in ceded premiums.

Net earned premiums increased 15.7% to \$239.0 million for the three months ended June 30, 2007 compared to \$206.6 million for the three months ended June 30, 2006. The greater growth in net earned premiums relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are reflected at the initiation of the coverage period.

**Incurred Losses and LAE.** The following table presents the incurred losses and LAE for the U.S. Reinsurance segment for the three and six months ended June 30, 2007 and 2006.

<u>Incurred Losses and LAE</u>												
(Dollars in millions)	Three Months Ended						Six Months Ended					
	June 30,						June 30,					
	2007			2006			2007			2006		
	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total
	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred
Attritional	\$ 99.4	\$ (29.0)	\$ 70.5	\$ 73.3	\$ (3.9)	\$ 69.5	\$ 213.5	\$ (48.5)	\$ 164.9	\$ 250.0	\$ 21.9	\$ 271.9
Catastrophes	-	(6.5)	(6.5)	-	66.8	66.8	-	(14.1)	(14.1)	-	82.2	82.2
A&E	-	16.5	16.5	-	0.6	0.6	-	16.5	16.5	-	1.2	1.2
Total segment	\$ 99.4	\$ (19.0)	\$ 80.4	\$ 73.3	\$ 63.5	\$ 136.9	\$ 213.5	\$ (46.2)	\$ 167.3	\$ 250.0	\$ 105.4	\$ 355.4
Loss Ratio	41.6%	-8.0%	33.7%	35.5%	30.8%	66.2%	42.5%	-9.2%	33.3%	50.4%	21.2%	71.6%

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased 41.2% to \$80.4 million for the three months ended June 30, 2007, compared to \$136.9 million for the three months ended June 30, 2006. The segment loss ratio for the three months ended June 30, 2007, improved by 32.5 points. The largest factor driving the improvement in the reported loss ratio was unfavorable development in last year's second quarter, principally caused by upward movement in the reserves for prior years' catastrophe losses, which added 32.3 points to last year's reported loss ratio compared to 2.7 points of favorable development in this year's second quarter.

**Segment Expenses.** Underwriting expenses increased 28.4% to \$68.5 million for the three months ended June 30, 2007 from \$53.3 million for the three months ended June 30, 2006. Commission and brokerage increased by \$14.2 million, principally due to increased earned premium volume. Segment other underwriting expenses for the three months ended June 30, 2007 increased to \$7.3 million from \$6.4 million for the three months ended June 30, 2006, also driven by the growth in earned premiums.

## U.S. Insurance

The following table presents the underwriting results and ratios for the U.S. Insurance segment for the three and six months ended June 30, 2007 and 2006.

### Underwriting Results and Ratios

	Three Months Ended June 30,				Six Months Ended June 30,			
	2007	2006	Variance	% Change	2007	2006	Variance	% Change
(Dollars in thousands)								
Gross written premiums	\$ 161,637	\$ 195,390	\$ (33,753)	-17.3%	\$ 379,010	\$ 413,396	\$ (34,386)	-8.3%
Net written premiums	94,492	115,924	(21,432)	-18.5%	234,075	272,245	(38,170)	-14.0%
Premiums earned	\$ 121,580	\$ 127,886	\$ (6,306)	-4.9%	\$ 262,145	\$ 268,863	\$ (6,718)	-2.5%
Incurred losses and LAE	84,084	87,726	(3,642)	-4.2%	225,113	193,709	31,404	16.2%
Commission and brokerage	17,149	10,390	6,759	65.1%	38,322	28,927	9,395	32.5%
Other underwriting expenses	12,013	11,389	624	5.5%	24,378	22,094	2,284	10.3%
Underwriting gain (loss)	<u>\$ 8,334</u>	<u>\$ 18,381</u>	<u>\$ (10,047)</u>	<u>-54.7%</u>	<u>\$ (25,668)</u>	<u>\$ 24,133</u>	<u>\$ (49,801)</u>	<u>-206.4%</u>
				<u>Point Chg</u>				<u>Point Chg</u>
Loss ratio	69.2%	68.6%		0.6	85.9%	72.0%		13.9
Commission and brokerage ratio	14.1%	8.1%		6.0	14.6%	10.8%		3.8
Other underwriting expense ratio	9.8%	8.9%		0.9	9.3%	8.2%		1.1
Combined ratio	<u>93.1%</u>	<u>85.6%</u>		<u>7.5</u>	<u>109.8%</u>	<u>91.0%</u>		<u>18.8</u>

(NM, not meaningful)

**Premiums.** Gross written premiums decreased 17.3% to \$161.6 million for the three months ended June 30, 2007 from \$195.4 million for the three months ended June 30, 2006. The decrease is primarily the result of continued decline in our workers' compensation writings in response to increased competition and lower rates.

Net written premiums decreased 18.5% to \$94.5 million for the three months ended June 30, 2007 compared to \$115.9 million for the three months ended June 30, 2006, primarily due to a \$33.8 million decrease in gross written premiums and a corresponding \$12.3 million decrease in ceded premiums.

Net earned premiums decreased 4.9% to \$121.6 million for the three months ended June 30, 2007 from \$127.9 million for the three months ended June 30, 2006.

**Incurred Losses and LAE.** The following table presents the incurred losses and LAE for the U.S. Insurance segment for the three and six months ended June 30, 2007 and 2006.

<u>Incurred Losses and LAE</u>												
(Dollars in millions)	Three Months Ended						Six Months Ended					
	June 30,						June 30,					
	2007			2006			2007			2006		
	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total
	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred
Attritional	\$ 93.2	\$ (8.9)	\$ 84.3	\$ 78.1	\$ 9.5	\$ 87.6	\$ 190.6	\$ 34.8	\$ 225.4	\$ 205.3	\$ (12.1)	\$ 193.2
Catastrophes	-	(0.2)	(0.2)	-	0.2	0.2	-	(0.3)	(0.3)	-	0.5	0.5
Total segment	\$ 93.2	\$ (9.1)	\$ 84.1	\$ 78.1	\$ 9.6	\$ 87.7	\$ 190.6	\$ 34.5	\$ 225.1	\$ 205.3	\$ (11.6)	\$ 193.7
Loss Ratio	76.7%	-7.5%	69.2%	61.1%	7.5%	68.6%	72.7%	13.2%	85.9%	76.4%	-4.3%	72.0%

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased to \$84.1 million for the three months ended June 30, 2007 from \$87.7 million for the three months ended June 30, 2006, primarily because we experienced favorable loss development on workers' compensation reserves in this year's second quarter, which offset most of the increase in the current accident year loss ratio.

**Segment Expenses.** Underwriting expenses increased 33.9% to \$29.2 million for the three months ended June 30, 2007 from \$21.8 million for the three months ended June 30, 2006. Commission and brokerage increased by \$6.8 million, or 65.1%, for the three months ended June 30, 2007, principally due to an increase in profit commissions. Segment other underwriting expenses for the three months ended June 30, 2007 increased to \$12.0 million as compared to \$11.4 million for the three months ended June 30, 2006, primarily due to an increase in compensation costs associated with an increase in staff.

## Specialty Underwriting

The following table presents the underwriting results and ratios for the Specialty Underwriting segment for the three and six months ended June 30, 2007 and 2006.

	<u>Underwriting Results and Ratios</u>							
	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
(Dollars in thousands)	2007	2006	Variance	% Change	2007	2006	Variance	% Change
Gross written premiums	\$ 76,377	\$ 53,087	\$ 23,290	43.9%	\$ 131,058	\$ 117,113	\$ 13,945	11.9%
Net written premiums	55,602	35,579	20,023	56.3%	92,052	83,906	8,146	9.7%
Premiums earned	\$ 56,346	\$ 35,620	\$ 20,726	58.2%	\$ 94,960	\$ 87,354	\$ 7,606	8.7%
Incurred losses and LAE	36,935	8,064	28,871	NM	66,778	65,122	1,656	2.5%
Commission and brokerage	9,371	8,277	1,094	13.2%	18,675	22,391	(3,716)	-16.6%
Other underwriting expenses	1,775	1,637	138	8.4%	3,364	2,942	422	14.3%
Underwriting gain (loss)	\$ 8,265	\$ 17,642	\$ (9,377)	-53.2%	\$ 6,143	\$ (3,101)	\$ 9,244	NM
				<u>Point Chg</u>				<u>Point Chg</u>
Loss ratio	65.6%	22.6%		43.0	70.3%	74.5%		(4.2)
Commission and brokerage ratio	16.6%	23.2%		(6.6)	19.7%	25.6%		(5.9)
Other underwriting expense ratio	3.1%	4.7%		(1.6)	3.5%	3.4%		0.1
Combined ratio	85.3%	50.5%		34.8	93.5%	103.5%		(10.0)

(NM, not meaningful)

**Premiums.** Gross written premiums increased 43.9% to \$76.4 million for the three months ended June 30, 2007 from \$53.1 million for the three months ended June 30, 2006. Contributing to this growth was an increase of \$22.5 million (117.1%) in marine writings and \$7.5 million (39.6%) in A&H writings, partially offset by a \$6.8 million (45.6%) decrease in surety writings. The marine premium growth emanated from increases on existing quota share business as well as new quota share business. We continue to decrease our surety writings, in response to much tougher market conditions.

Net written premiums increased 56.3% to \$55.6 million for the three months ended June 30, 2007 compared to \$35.6 million for the three months ended June 30, 2006, due to the \$23.3 million increase in gross written premiums and a \$3.3 million increase in ceded premiums.

Net earned premiums increased 58.2% to \$56.3 million for the three months ended June 30, 2007 compared to \$35.6 million for the three months ended June 30, 2006, primarily due to increased net written premiums.



**Incurred Losses and LAE.** The following table presents the incurred losses and LAE for the Specialty Underwriting segment for the three and six months ended June 30, 2007 and 2006.

<u>Incurred Losses and LAE</u>												
(Dollars in millions)	Three Months Ended						Six Months Ended					
	June 30,						June 30,					
	2007			2006			2007			2006		
	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total
	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred
Attritional	\$ 30.5	\$ 0.3	\$ 30.9	\$ 16.5	\$ (9.7)	\$ 6.8	\$ 53.8	\$ 0.3	\$ 54.1	\$ 53.7	\$ (13.2)	\$ 40.5
Catastrophes	-	6.1	6.1	-	1.3	1.3	-	12.7	12.7	-	24.6	24.6
Total segment	\$ 30.5	\$ 6.4	\$ 36.9	\$ 16.5	\$ (8.4)	\$ 8.1	\$ 53.8	\$ 13.0	\$ 66.8	\$ 53.7	\$ 11.4	\$ 65.1
Loss Ratio	54.2%	11.3%	65.6%	46.2%	-23.6%	22.6%	56.6%	13.7%	70.3%	61.5%	13.1%	74.5%

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased to \$36.9 million for the three months ended June 30, 2007, compared to \$8.1 million for the three months ended June 30, 2006. The current accident year loss ratio was higher in the second quarter 2007 compared to 2006, principally due to the change in business mix. During last year's second quarter, we experienced \$8.4 million of favorable loss development, principally in the marine, aviation and A&H lines. However, during this year's second quarter, we incurred \$6.4 million of unfavorable development.

**Segment Expenses.** Underwriting expenses increased 12.4% to \$11.1 million for the three months ended June 30, 2007 from \$9.9 million for the three months ended June 30, 2006. Commission and brokerage increased by \$1.1 million for the three months ended June 30, 2007, principally due to the increase in premium volume.

## International

The following table presents the underwriting results and ratios for the International segment for the three and six months ended June 30, 2007 and 2006.

<u>Underwriting Results and Ratios</u>								
	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
(Dollars in thousands)	2007	2006	Variance	% Change	2007	2006	Variance	% Change
Gross written premiums	\$ 202,626	\$ 179,835	\$ 22,791	12.7%	\$ 375,970	\$ 355,357	\$ 20,613	5.8%
Net written premiums	142,762	131,190	11,572	8.8%	264,034	257,106	6,928	2.7%
Premiums earned	\$ 148,530	\$ 131,382	\$ 17,148	13.1%	\$ 276,004	\$ 252,632	\$ 23,372	9.3%
Incurred losses and LAE	113,877	74,675	39,202	52.5%	182,138	158,657	23,481	14.8%
Commission and brokerage	34,265	29,959	4,306	14.4%	63,116	54,390	8,726	16.0%
Other underwriting expenses	4,332	3,685	647	17.6%	8,050	6,363	1,687	26.5%
Underwriting (loss) gain	<u>\$ (3,944)</u>	<u>\$ 23,063</u>	<u>\$ (27,007)</u>	<u>-117.1%</u>	<u>\$ 22,700</u>	<u>\$ 33,222</u>	<u>\$ (10,522)</u>	<u>-31.7%</u>
			<u>Point Chg</u>				<u>Point Chg</u>	
Loss ratio	76.7%	56.8%	19.9		66.0%	62.8%	3.2	
Commission and brokerage ratio	23.1%	22.8%	0.3		22.9%	21.5%	1.4	
Other underwriting expense ratio	2.9%	2.8%	0.1		2.9%	2.5%	0.4	
Combined ratio	<u>102.7%</u>	<u>82.4%</u>	<u>20.3</u>		<u>91.8%</u>	<u>86.8%</u>	<u>5.0</u>	

**Premiums.** Gross written premiums increased 12.7% to \$202.6 million for the three months ended June 30, 2007 from \$179.8 million for the three months ended June 30, 2006. Business written through the Miami and New Jersey offices increased \$18.2 million (17.7%), Asian branch premiums increased \$3.7 million (8.9%) and Canadian branch premiums increased \$1.2 million (3.4%). We have seen more business opportunities in the international market as a result of industry consolidation and some competitors' financial ratings downgrades.

Net written premiums increased 8.8% to \$142.8 million for the three months ended June 30, 2007 compared to \$131.2 million for the three months ended June 30, 2006, primarily due to the increase in gross written premiums, partially offset by an \$11.2 million increase in ceded written premiums.

Net earned premiums increased 13.1% to \$148.5 million for the three months ended June 30, 2007 compared to \$131.4 million for the three months ended June 30, 2006, consistent with the increase in net written premiums.

**Incurred Losses and LAE.** The following table presents the incurred losses and LAE for the International segment for the three and six months ended June 30, 2007 and 2006.

<u>Incurred Losses and LAE</u>												
(Dollars in millions)	Three Months Ended						Six Months Ended					
	June 30,						June 30,					
	2007			2006			2007			2006		
	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total	Current	Prior	Total
	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred	Year	Years	Incurred
Attritional	\$ 79.3	\$ (0.4)	\$ 78.8	\$ 59.0	\$ 8.8	\$ 67.8	\$ 149.6	\$ (8.0)	\$ 141.5	\$ 128.9	\$ 12.2	\$ 141.1
Catastrophes	33.2	1.8	35.0	4.3	2.5	6.8	37.5	3.1	40.6	4.3	13.3	17.6
Total segment	\$ 112.5	\$ 1.4	\$ 113.9	\$ 63.3	\$ 11.4	\$ 74.7	\$ 187.0	\$ (4.9)	\$ 182.1	\$ 133.2	\$ 25.5	\$ 158.7
Loss Ratio	75.7%	0.9%	76.7%	48.2%	8.7%	56.8%	67.8%	-1.8%	66.0%	52.7%	10.1%	62.8%

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased 52.5% to \$113.9 million for the three months ended June 30, 2007, compared to \$74.7 million for the three months ended June 30, 2006. The segment loss ratio increased by 19.9 points, primarily due to increased current year catastrophe losses, principally emanating from Australia and Jakarta.

**Segment Expenses.** Underwriting expenses increased 14.7% to \$38.6 million for the three months ended June 30, 2007 from \$33.6 million for the three months ended June 30, 2006. Commission and brokerage increased by \$4.3 million for the three months ended June 30, 2007, in line with the increase in premiums. Segment other underwriting expenses for the three months ended June 30, 2007 increased to \$4.3 million compared to \$3.7 million for the three months ended June 30, 2006, also generally in line with the growth in premium.

**Market Sensitive Instruments.** The Securities and Exchange Commission's Financial Reporting Release #48 requires registrants to clarify and expand upon the existing financial statement disclosure requirements for derivative financial instruments, derivative commodity instruments and other financial instruments (collectively, "market sensitive instruments"). We do not generally invest in market sensitive instruments for trading purposes.

Our investment strategy seeks to maximize after-tax income through a high quality, diversified, taxable and tax-preferred fixed maturity portfolio, while maintaining an adequate level of liquidity. Our mix of taxable and tax-preferred investments is adjusted periodically, consistent with our current and projected operating results, market conditions and our tax position. The fixed maturities in the investment portfolio are comprised of available for sale securities. Additionally, we invest in equity securities, which we believe will enhance the risk-adjusted total return of the investment portfolio.

The overall investment strategy considers the scope of present and anticipated Company operations. In particular, estimates of the financial impact resulting from non-investment asset and liability transactions, together with our capital structure and other factors, are used to develop a net liability analysis. This analysis includes estimated payout characteristics for which our investments provide liquidity. This analysis is considered in the development of specific investment strategies for asset allocation, duration and credit quality. The change in overall market sensitive risk exposure principally reflects the asset changes that took place during the period.

**Interest Rate Risk.** Our \$8.9 billion investment portfolio at June 30, 2007 is principally comprised of fixed maturity securities, which are subject to interest rate risk and foreign currency exchange rate risk, and equity securities, which are subject to price fluctuations. The impact of the foreign exchange risks on the investment portfolio is generally mitigated by changes in the dollar value of foreign currency denominated liabilities and their associated income statement impact.

Interest rate risk is the potential change in value of the fixed maturity portfolio, including short-term investments, from a change in market interest rates. In a declining interest rate environment, it includes prepayment risk on the \$196.0 million of mortgage-backed securities. Prepayment risk results from potential accelerated principal payments that shorten the average life and thus the expected yield of a security.

The table below displays the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including \$1,495.7 million of short-term investments) as of June 30, 2007 based on upward and downward parallel and immediate 100 and 200 basis point shifts in interest rates. For legal entities with a U.S. dollar functional currency, this modeling was performed on each security individually. To generate appropriate price estimates on mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with a non-U.S. dollar functional currency, the effective duration of the involved portfolio of securities was used as a proxy for the market value change under the various interest rate change scenarios. All amounts are in U.S. dollars and are presented in millions.

	As of June 30, 2007				
	Interest Rate Shift in Basis Points				
	-200	-100	0	100	200
Total Market Value	\$ 7,955.7	\$ 7,652.9	\$ 7,341.7	\$ 6,988.9	\$ 6,620.0
Market Value Change from Base (%)	8.4 %	4.2 %	0.0 %	-4.8 %	-9.8 %
Change in Unrealized Appreciation					
After-tax from Base (\$)	\$ 399.1	\$ 202.3	\$ -	\$ (229.3)	\$ (469.1)

We had \$7,265.1 million and \$7,397.3 million of reserves for losses and LAE as of June 30, 2007 and December 31, 2006, respectively. These amounts are recorded at their nominal value as opposed to fair value, which would reflect a discount adjustment to reflect the time value of money. Since losses are paid out over a period of time, the fair value of the reserves is less than the nominal value. As interest rates rise, the fair value of the reserves decreases and, conversely, as interest rates decline, the fair value increases. These movements are the opposite of the interest rate impacts on the fair value of investments. While the difference between fair value and nominal value is not reflected in our financial statements, our financial results will include investment income over time from the investment portfolio until the claims are paid. Our loss and loss reserve obligations have an expected duration that is reasonably consistent with our fixed income portfolio.

**Equity Risk.** Equity risk is the potential change in market value of the common stock and preferred stock portfolios arising from changing equity prices. Our equity investments are mainly exchange traded and mutual funds, which invest principally in high quality common and preferred stocks that are traded on the major exchanges in the U.S. The primary investment objective of the equity portfolio is to obtain greater total return relative to bonds over time through market appreciation and income.

The table below displays the impact on market value and after-tax change in fair value of a 10% and 20% change in equity prices up and down for the period indicated. All amounts are in U.S. dollars and are presented in millions.

As of June 30, 2007					
Change in Equity Values in Percent					
	-20%	-10%	0%	10%	20%
Fair Value of the Equity Portfolio	\$ 661.5	\$ 744.2	\$ 826.8	\$ 909.5	\$ 992.2
After-tax Change in Fair Value	\$ (107.5)	\$ (53.7)	\$ -	\$ 53.7	\$ 107.5

Foreign currency exchange rate risk is the potential change in value, income and cash flow arising from adverse changes in foreign currency exchange rates. Each of our non-U.S. (“foreign”) operations maintains capital in the currency of the country of its geographic location consistent with local regulatory guidelines. Generally, we prefer to maintain the capital of our foreign operations in U.S. dollar assets, although this varies by regulatory jurisdiction in accordance with market needs. Each of our foreign operations may conduct business in its local currency, as well as the currency of other countries in which it operates. The primary foreign currency exposures for our foreign operations are the Canadian Dollar, the British Pound Sterling and the Euro. We mitigate foreign exchange exposure by generally matching the currency and duration of our assets to our corresponding operating liabilities. In accordance with Financial Accounting Standards Board Statement No. 52 “Foreign Currency Translation”, we translate the assets, liabilities and income of non-U.S. dollar functional currency legal entities to the U.S. dollar. This translation amount is reported as a component of other comprehensive income. As of June 30, 2007 there has been no material change in exposure to foreign exchange rates as compared to December 31, 2006.

**Safe Harbor Disclosure.** This report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, these statements can be identified by the use of forward-looking words such as “may”, “will”, “should”, “could”, “anticipate”, “estimate”, “expect”, “plan”, “believe”, “predict”, “potential” and “intend”. Forward-looking statements contained in this report include information regarding our reserves for losses and LAE, the adequacy of our provision for uncollectible balances, estimates of our catastrophe exposure, the effects of catastrophic events on our financial statements and the ability of our subsidiaries to pay dividends. Forward-looking statements only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Important factors that could cause our actual events or results to be materially different from our expectations include the uncertainties that surround the estimating of reserves for losses and LAE, those discussed in Note 5 of Notes to Consolidated Financial Statements (unaudited) included in this report and the risks described under the caption “Risk Factors” in our most recent Annual Report on Form 10-K, Part I, Item 1A. We undertake no obligation to update or revise publicly any forward looking statements, whether as a result of new information, future events or otherwise.

**PART I – Item 3.**

**EVEREST REINSURANCE HOLDINGS, INC.  
QUANTITATIVE AND QUALITATIVE DISCLOSURES  
ABOUT MARKET RISK**

**Market Risk Instruments.** See “Market Sensitive Instruments” in PART I – Item 2.

**PART I – Item 4.**

**EVEREST REINSURANCE HOLDINGS, INC.  
CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, our management carried out an evaluation, with the participation of the 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 (the “Exchange Act”)). Based on their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission’s rules and forms. Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

**EVEREST REINSURANCE HOLDINGS, INC.**  
**OTHER INFORMATION**

**PART II – Item 1. Legal Proceedings**

In the ordinary course of business, we are involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine our rights and obligations under insurance, reinsurance and other contractual agreements. In some disputes, we seek to enforce its rights under an agreement or to collect funds owing to it. In other matters, we are resisting attempts by others to collect funds or enforce alleged rights. These disputes arise from time to time and are ultimately resolved through both informal and formal means, including negotiated resolution, arbitration and litigation. In all such matters, we believe that our positions are legally and commercially reasonable. While the final outcome of these matters cannot be predicted with certainty, we do not believe that any of these matters, when finally resolved, will have a material adverse effect on our financial position or liquidity. However, an adverse resolution of one or more of these items in any one quarter or fiscal year could have a material adverse effect on our results of operations in that period.

In May 2005, we received and responded to a subpoena from the SEC seeking information regarding certain loss mitigation insurance products. Group, our parent, has stated that we will fully cooperate with this and any future inquiries and that we do not believe that it has engaged in any improper business practices with respect to loss mitigation insurance products.

Our insurance subsidiaries have also received and have responded to broadly distributed information requests by state regulators including among others, from Delaware and Georgia.

**PART II – Item 1A. Risk Factors**

No material changes.

**PART II – Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**PART II – Item 3. Defaults Upon Senior Securities**

None.

**PART II – Item 4. Submission of Matters to a Vote of Security Holders**

None.

**PART II – Item 5. Other Information**

None.



## **Part II – Item 6. Exhibits**

Exhibit Index:

<u>Exhibit No.</u>	<u>Description</u>
31.1	Section 302 Certification of Joseph V. Taranto
31.2	Section 302 Certification of Craig Eisenacher
32.1	Section 906 Certification of Joseph V. Taranto and Craig Eisenacher

# Everest Reinsurance Holdings, Inc.

## Signatures

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

Everest Reinsurance Holdings, Inc.  
(Registrant)

/s/ CRAIG EISENACHER

Craig Eisenacher  
Executive Vice President and  
Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

Dated: August 14, 2007