

ANNUITY & LIFE RE (HOLDINGS), LTD.

Form 8-K

January 18, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

**FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of report (Date of earliest event reported) January 17, 2006

Annuity and Life Re (Holdings), Ltd.

(Exact name of registrant as specified in its charter)

Bermuda

1-16561

66-0619270

(State or other jurisdiction
of incorporation)

(Commission
File Number)

(IRS Employer
Identification No.)

Cumberland House, 1 Victoria Street, Hamilton,
Bermuda

HM 11

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (441) 296-7667

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry Into a Definitive Material Agreement.

On August 10, 2005, Annuity and Life Reassurance America, Inc. and Annuity and Life Reassurance, Ltd. (collectively, the Annuity Subsidiaries), each a direct or indirect wholly owned operating subsidiary of Annuity and Life Re (Holdings), Ltd. (Annuity), entered into a Master Agreement (the Master Agreement) with Prudential Select Life Insurance Company of America (which has subsequently been renamed Wilton Reassurance Company) and Wilton Reinsurance Bermuda Limited (collectively, the Wilton Subsidiaries), each a direct or indirect wholly owned operating subsidiary of Wilton Re Holdings, Ltd. The Master Agreement provided for the novation to or 100% coinsurance by the Wilton Subsidiaries of all of the Annuity Subsidiaries' life and annuity reinsurance treaties identified in the Master Agreement (the Treaties), effective as of June 30, 2005 (the Effective Date).

As discussed in Item 2.01 below, the transactions contemplated by the Master Agreement were consummated on January 17, 2006 (the Closing Date). Because the Annuity Subsidiaries and the Wilton Subsidiaries did not obtain the consent of the counterparties to certain Treaties, which would have allowed those Treaties to be novated to the appropriate Wilton Subsidiary, on the Closing Date, the appropriate Annuity Subsidiary and Wilton Subsidiary entered into Coinsurance Agreements (the Coinsurance Agreements) providing for the 100% indemnity coinsurance of such Treaties, effective as of the Effective Date. Approximately \$1.1 billion of the Annuity Subsidiaries' life insurance in force as of the Effective Date has been 100% reinsured through the Coinsurance Agreements.

As a result of entering into a 100% indemnity coinsurance arrangement covering the Treaties that were not novated, the Annuity Subsidiaries continue to be bound, as reinsurers, by the original Treaties with the primary insurer. The appropriate Wilton Subsidiary is, in turn, subject to the terms and conditions of the applicable Coinsurance Agreement, obligated to reimburse the appropriate Annuity Subsidiary for any payments made under a coinsured Treaty. In addition, the Coinsurance Agreements provide that, beginning on the Transition Date (as defined below), the Wilton Subsidiaries will provide all administrative and management services necessary to administer and manage the Treaties covered by the Coinsurance Agreements, as well as any associated ancillary agreements or retrocession agreements.

The Master Agreement requires the Annuity Subsidiaries and the Wilton Subsidiaries to continue to use commercially reasonable efforts to obtain the consent of each counterparty to each of the Treaties that was not novated to allow the novation of such Treaties to the Wilton Subsidiaries. To the extent a Treaty is novated to the Wilton Subsidiaries after the Closing Date, it would no longer be covered by the Coinsurance Agreements.

For additional information regarding the closing of the transactions contemplated by the Master Agreement, please see Item 2.01.

Item 2.01. Completion of Acquisition or Disposition of Assets.

As noted in Item 1.01 above, on the Closing Date, the Annuity Subsidiaries and the Wilton Subsidiaries consummated the transactions contemplated by the Master Agreement, effective as of the Effective Date. As a result, each of the Treaties has been novated to, or coinsured by, the Wilton Subsidiaries. The Treaties comprised all of the Annuity Subsidiaries' remaining reinsurance treaties as of the Closing Date.

At the closing, the Annuity Subsidiaries transferred to the Wilton Subsidiaries the rights to certain funds withheld by ceding companies that, at the Effective Date, had a value of approximately \$58.4 million. Further, the Annuity Subsidiaries transferred to the Wilton Subsidiaries certain investment assets that had been purchased following the execution of the Master Agreement for approximately \$32.6 million, as well as cash in the net amount of approximately \$547,000. In addition, pursuant to the terms of the Master Agreement, within five business days following the Closing Date, the Annuity Subsidiaries shall calculate the cash flows arising from the Treaties and the earnings on the invested assets transferred to the Wilton Subsidiaries between the Effective Date and the Closing Date. If such cash flows are positive, such positive amount will be paid to the Wilton Subsidiaries. If such cash flows and earnings are negative, the negative of that amount will be credited to the Annuity Subsidiaries.

Pursuant to the terms of the Master Agreement and a supplemental letter agreement entered into between the Annuity Subsidiaries and the Wilton Subsidiaries, between the Closing Date and March 15, 2006 (the Transition Date), the Annuity Subsidiaries will continue to administer the Treaties in a manner consistent with current practices. The Wilton Subsidiaries will pay the Annuity Subsidiaries a fee of \$30,000 per month for these administration services and will reimburse the Annuity Subsidiaries to the extent that the cost of any approved third party engaged to provide such services exceeds the \$30,000 fee.

The Master Agreement also includes mutual indemnification provisions covering, among other things, all costs and expenses arising or resulting from any breach of any representation or warranty, any breach of any covenant and certain excluded liabilities. Neither the Annuity Subsidiaries nor the Wilton Subsidiaries will have any liability for indemnification with respect to losses relating to breaches of representations or warranties under the Master Agreement, unless and until the total of all such losses exceeds \$25,000, and then only for the amount by which such losses exceed \$25,000. The total liability for losses relating to breaches of representations or warranties under the Master Agreement shall not exceed \$2,000,000 in the aggregate for the Annuity Subsidiaries, on the one hand, or the Wilton Subsidiaries, on the other hand. In order to secure their indemnification obligations under the Master Agreement, each of the Annuity Subsidiaries is required to maintain statutory capital and surplus of at least \$2,000,000 for 18 months following the Closing Date, and Annuity has agreed not to take any action that would reduce the statutory capital and surplus of the Annuity Subsidiaries below such levels.

For a discussion of the pro forma impact of the transactions contemplated by the Master Agreement, please see Item 9.01.

Item 9.01. Financial Statements and Exhibits.

(a) Not applicable.

(b) Pro Forma Financial Information.

The following unaudited pro forma consolidated financial statements are presented for informational purposes to show the effect of the transactions with the Wilton Subsidiaries described in Items 1.01 and 2.01 of this Form 8-K. The pro forma information presented is based on assumptions and includes adjustments as explained in the notes to the unaudited pro forma consolidated financial statements. The unaudited pro forma information presented does not include any adjustments to reflect transaction costs or the cost of severance payments to Annuity's former Chief Executive Officer of approximately \$1.16 million.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2005 is intended to demonstrate how Annuity's unaudited condensed consolidated balance sheet would have looked had the transactions with the Wilton Subsidiaries been consummated on September 30, 2005. The unaudited pro forma condensed consolidated balance sheet is presented as of September 30, 2005 and reflects the novation to the Wilton Subsidiaries of 21 Treaties and the coinsurance by the Wilton Subsidiaries of 8 Treaties, pursuant to the Master Agreement. The Company can offer no estimate as to how many of the ceding companies under the Treaties reinsured by the Wilton Subsidiaries pursuant to the Coinsurance Agreements will ultimately consent to the novation of the treaties to the Wilton Subsidiaries.

Annuity and Life Re (Holdings), Ltd.
Pro Forma Condensed Consolidated Balance Sheet as of September 30, 2005
(Unaudited and in U.S. Dollars)

| | Reported | Adjustments | Pro Forma |
|--|--------------------|--------------------|------------------|
| | Assets | | |
| Cash & invested assets | \$ 92,899,685 | \$ (32,490,788)(A) | \$ 60,408,897 |
| Funds withheld at interest | 50,962,885 | (50,962,885)(B) | |
| Accrued investment income | 677,662 | | 677,662 |
| Receivable for reinsurance ceded | 77,016,411 | 1,237,429)(C) | 78,253,840 |
| Other reinsurance receivables | 3,021,878 | (2,586,522)(D) | 435,356 |
| Deferred policy acquisition costs | 5,592,316 | (5,592,316)(E) | |
| Other assets | 401,850 | | 401,850 |
| | | | |
| Total assets | \$ 230,572,687 | \$ (90,395,082) | \$ 140,177,605 |
| | Liabilities | | |
| Reserves for future policy benefits | \$ 103,758,582 | \$ (24,626,061)(F) | \$ 79,132,521 |
| Interest sensitive contracts liability | 50,691,337 | (50,691,337)(G) | |
| Other reinsurance liabilities | 13,202,482 | (5,767,747)(H) | 7,434,735 |
| Accounts payable and accrued expenses | 2,867,363 | (49,145)(I) | 2,818,218 |
| | | | |
| Total liabilities | \$ 170,519,764 | \$ (81,134,290) | \$ 89,385,474 |
| Stockholders' Equity | | | |
| Total Stockholders' Equity | \$ 60,052,923 | \$ (9,260,792)(J) | \$ 50,792,131 |
| | | | |
| Total Liabilities and Stockholders' Equity | \$ 230,572,687 | \$ (90,395,082) | \$ 140,177,605 |

- (A) To record the transfer of cash and invested assets to the Wilton Subsidiaries.
- (B) To record the transfer of Funds withheld at interest to the Wilton Subsidiaries.
- (C) To record ceded benefit reserves related to reinsurance agreements transferred to the Wilton Subsidiaries.
- (D) To record the transfer of premiums receivable related to the life reinsurance agreements novated to the Wilton Subsidiaries.
- (E) To write-off the Deferred policy acquisition costs associated with the Treaties novated to the Wilton Subsidiaries and to record Deferred policy acquisition costs related to life reinsurance agreements

coinsured by the
Wilton
Subsidiaries.

(F) To record the
transfer of
benefit reserves
associated with
the life
reinsurance
agreements
novated to the
Wilton
Subsidiaries.

(G) To record the
transfer of
Interest
sensitive
contracts
liabilities
associated with
the annuity
reinsurance
agreement
novated to one
of the Wilton
Subsidiaries.

(H) To record the
transfer of Other
reinsurance
liabilities
associated with
the life
reinsurance
agreements
novated to the
Wilton
Subsidiaries.

(I) To record the
transfer of
excise tax
payable
associated with
the life
reinsurance
agreements
novated to the
Wilton

Subsidiaries.

- (J) To record to net effect of the novation and coinsurance transactions with the Wilton Subsidiaries in Stockholders equity.

The unaudited pro forma condensed consolidated statement of operations for the nine months ended September 30, 2005 adjusts the reported GAAP statement of operations by assuming that (1) the effective date of the transactions with the Wilton Subsidiaries was January 1, 2005, and (2) there was no gain or loss from the transactions with the Wilton Subsidiaries. No attempt has been made to estimate the impact of the aforementioned adjustments on cash flow for the periods presented, on net investment income earned on assets transferred to third parties in connection with the novated life reinsurance agreements or on operating expenses. The unaudited pro forma information presented below is not necessarily indicative of the financial results that would have been attained had the transactions occurred on the dates referenced above and should not be viewed as indicative of operations in future periods.

Annuity & Life Re (Holdings) Ltd.

**Pro Forma Consolidated Statement of Operations for the Nine Months Ended September 30, 2005
(Unaudited and in U.S. Dollars)**

| | Reported | Wilton Transaction Adjustments | Pro Forma |
|---|--------------------|---|--------------------|
| Revenues | | | |
| Net premiums | \$ 12,001,008 | \$ (11,325,272)(A) | \$ 675,736 |
| Investment income, net of related expenses | 4,806,689 | (1,938,486)(B) | 2,868,203 |
| Net realized investment gains | 500,650 | | 500,650 |
| Net change in fair value of embedded derivatives | 1,105,853 | (1,105,853)(C) | |
| Surrender fees and other revenues | 94,887 | (94,887)(D) | |
| Total Revenues | \$ 18,509,087 | \$ (14,464,498) | \$ 4,044,589 |
| Benefits and Expenses | | | |
| Claims and policy benefits | \$ 10,781,404 | \$ (12,675,325)(E) | \$ (1,893,921) |
| Interest credited to interest sensitive products | 985,614 | (985,614)(F) | |
| Policy acquisition costs and other insurance expenses | 3,079,459 | (2,370,965)(G) | 708,494 |
| Operating expenses | 7,599,723 | | 7,599,723 |
| Total Benefits and Expenses | \$ 22,446,200 | \$ (16,031,904) | \$ 6,414,296 |
| Loss before cumulative effect of a change in accounting principal | \$ (3,937,113) | \$ 1,567,406 | \$ (2,369,707) |
| Cumulative effect of a change in accounting principal | | | |

| | | | |
|---|----------------|--------------|----------------|
| Net Loss | \$ (3,937,113) | \$ 1,567,406 | \$ (2,369,707) |
| Loss per common share before cumulative effect of change in accounting principal per common share: | | | |
| Basic | \$ (0.16) | \$ 0.06 | \$ (0.09) |

| | | Wilton Transaction | |
|--|-----------------|-------------------------------|----------------------|
| | Reported | Adjustments | Pro Forma |
| Diluted | \$ (0.16) | \$ 0.06 | \$ (0.09) |
| Cumulative effect of a change in accounting principal per common share: | | | |
| Basic | \$ | | \$ |
| Diluted | \$ | | \$ |
| Net loss per common share: | | | |
| Basic | \$ (0.16) | \$ 0.06 | \$ (0.09) |
| Diluted | \$ (0.16) | \$ 0.06 | \$ (0.09) |

(A) To reflect reduced Premiums as if the life reinsurance treaties novated to or coinsured by the Wilton Subsidiaries did not exist during the first nine months of 2005.

(B) To reflect reduced Net investment income as if the annuity reinsurance treaty novated to one of the Wilton Subsidiaries did not exist during the first nine months of 2005.

(C) To reflect no embedded derivative as if the annuity reinsurance treaty novated to one of the Wilton

Subsidiaries did not exist during the first nine months of 2005.

(D) To reflect reduced Surrender fees as if the annuity reinsurance treaty novated to one of the Wilton Subsidiaries did not exist during the first nine months of 2005.

(E) To reflect reduced Claim and Policy Benefits as if the life reinsurance treaties novated to or coinsured by the Wilton Subsidiaries did not exist during the first nine months of 2005.

(F) To reflect reduced Interest credited to interest sensitive products as if the annuity reinsurance treaty novated to one of the Wilton Subsidiaries did not exist during the first nine months of 2005.

(G) To reflect reduced Policy acquisition costs and other

insurance expenses as if the Treaties novated to or coinsured by the Wilton Subsidiaries did not exist during the first nine months of 2005.

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2004 adjusts the reported GAAP statement of operations by assuming that (1) all of Annuity's novation, recapture and termination transactions that had effective dates in 2004 occurred on January 1, 2004 (which removes from reported net (loss) the actual performance for each agreement through its novation, recapture or termination date), (2) the effective date of the transactions with the Wilton Subsidiaries was January 1, 2004, and (3) there was no gain or loss from the transactions with the Wilton Subsidiaries. No attempt has been made to estimate the impact of the aforementioned adjustments on cash flow for the periods presented, on net investment income earned on assets transferred to third parties in connection with the novated and coinsured life reinsurance agreements or on operating expenses. The unaudited pro forma information presented below is not necessarily indicative of the financial results that would have been attained had the transactions occurred on the dates referenced above and should not be viewed as indicative of operations in future periods.

Annuity and Life Re (Holdings), Ltd.
Pro Forma Consolidated Statement of Operations for the Year Ended December 31, 2004
(Unaudited and in U.S. Dollars)

| | Reported | Adjustments (for the 2004 transactions) | Pro Forma (as adjusted for the 2004 transactions) | Adjustments (for the Wilton transaction) | Pro Forma (as adjusted for the 2004 transactions and the Wilton transaction) |
|--|----------------------|--|--|---|---|
| Revenues | | | | | |
| Net premiums | \$ 48,297,706 | \$ (30,325,348)(A) | \$ 17,972,358 | \$ (15,898,984)(H) | \$ 2,073,374 |
| Investment income, net of related expenses | 21,697,563 | (13,439,098)(B) | 8,258,465 | (2,923,139)(I) | 5,335,326 |
| Net realized investment gains | 439,536 | | 439,536 | | 439,536 |
| Net change in fair value of embedded derivatives | 2,181,070 | | 2,181,070 | (2,181,070)(J) | |
| Surrender fees and other revenues | 4,475,691 | (4,257,721)(C) | 217,970 | (217,970)(K) | |
| Total Revenues | \$ 77,091,566 | \$ (48,022,167) | \$ 29,069,399 | \$ (21,221,163) | \$ 7,848,237 |
| Benefits and Expenses | | | | | |
| Claims and policy benefits | \$ 14,101,129 | (306,552)(D) | \$ 13,794,577 | (13,990,062)(L) | (195,485) |
| Interest credited to interest sensitive | 5,399,460 | (3,530,883)(E) | 1,868,577 | (1,868,577)(M) | |

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| | | | | | |
|---|-----------------------|----------------------|----------------------|------------------------|----------------------|
| products | | | | | |
| Policy acquisition costs and other insurance expenses | 110,922,948 | (105,602,277)(F) | 5,320,671 | (3,987,088)(N) | 1,333,583 |
| Operating expenses | 14,628,524 | | 14,628,524 | | 14,628,524 |
| Total Benefits and Expenses | \$ 145,052,061 | (109,439,712) | \$ 35,612,349 | \$ (19,845,727) | \$ 15,766,622 |

| | Reported | Adjustments (for the 2004 transactions) | Pro Forma (as adjusted for the 2004 transactions) | Adjustments (for the Wilton transaction) | Pro Forma (as adjusted for the 2004 transactions and the Wilton transaction) |
|---|-----------------|--|--|---|---|
| Loss before cumulative effect of a change in accounting principal | \$ (67,960,495) | 61,417,545 | \$ (6,542,950) | \$ (1,375,436) | \$ (7,918,386) |
| Cumulative effect of a change in accounting principal | (365,960) | 365,960(G) | | | |
| Net Loss | \$ (68,326,455) | \$ 61,783,505 | \$ (6,542,950) | \$ (1,375,436) | \$ (7,918,386) |
| Loss per common share before cumulative effect of change in accounting principal per common share: | | | | | |
| Basic | \$ (2.63) | \$ 2.38 | \$ (0.25) | \$ (0.05) | \$ (0.31) |
| Diluted | \$ (2.63) | \$ 2.38 | \$ (0.25) | \$ (0.05) | \$ (0.31) |
| Cumulative effect of a change in accounting principal per common share: | | | | | |
| Basic | \$ (0.01) | \$ 0.01 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Diluted | \$ (0.01) | \$ 0.01 | \$ 0.00 | \$ 0.00 | \$ 0.00 |
| Net loss per common share: | | | | | |
| Basic | \$ (2.64) | \$ 2.39 | \$ (0.25) | \$ (0.05) | \$ (0.31) |
| Diluted | \$ (2.64) | \$ 2.39 | \$ (0.25) | \$ (0.05) | \$ (0.31) |

(A) To reflect reduced Premiums as if the Scottish Re Limited (Scottish Re) and Fidelity and Guaranty Life Insurance Company (F&G) life reinsurance agreements

novated to
Transamerica
Occidental Life
Insurance
Company
(Transamerica)
and as if the
guaranteed
minimum death
benefits
(GMDB) and
guaranteed
minimum
income benefits
(GMIB)
agreement
recaptured by
Connecticut
General Life
Insurance
Company
(CIGNA) did
not exist in 2004

- (B) To reflect reduced Net investment income as if the Transamerica annuity agreement did not exist in 2004.
- (C) To reflect reduced Surrender fees and other revenues as if the Transamerica annuity agreement did not exist in 2004.
- (D) To reflect reduced Claim and Policy Benefits as if the Scottish Re

and F&G life reinsurance agreements novated to Transamerica and as if the GMDB/ GMIB agreement recaptured by CIGNA did not exist in 2004.

- (E) To reflect reduced Interest credited to interest sensitive products as if the Transamerica annuity agreement did not exist in 2004. Includes the release of interest sensitive contracts liability net of funds withheld at interest and the termination premium of \$14,000,000 paid to Transamerica in consideration of the termination of this agreement as of December 1, 2004.

- (F) To reflect reduced Policy acquisition costs and other insurance expenses as if the Transamerica annuity agreement, the

Scottish Re and F&G life reinsurance agreements novated to Transamerica and the GMDB/ GMIB agreement recaptured by CIGNA did not exist in 2004. Includes the write down of deferred acquisition costs of approximately \$63,100,000 associated with the termination of the Transamerica annuity agreement and approximately \$24,900,000 associated with the novation of Scottish Re and F&G life agreements as of December 31, 2004.

- (G) To reflect the reversal of the application of SOP 03-1 to the GMDB/ GMIB agreement recaptured by CIGNA and the Transamerica annuity agreement as if those agreements did not exist in 2004.

- (H) To reflect reduced Premiums as if the life reinsurance agreements novated to or coinsured by Wilton did not exist in 2004.
- (I) To reflect reduced Net investment income as if the annuity reinsurance agreement novated to one of the Wilton Subsidiaries did not exist in 2004.
- (J) To reflect no embedded derivative as if the annuity reinsurance treaty novated to one of the Wilton Subsidiaries did not exist in 2004.
- (K) To reflect reduced Surrender fees as if the annuity reinsurance agreement novated to one of the Wilton Subsidiaries did not exist in 2004.
- (L) To reflect reduced Claim and Policy

Benefits as if
the life
reinsurance
agreements
novated to or
coinsured by the
Wilton
Subsidiaries did
not exist in
2004.

(M) To reflect
reduced Interest
credited to
interest sensitive
products as if
the annuity
reinsurance
agreement
novated to one
of the Wilton
Subsidiaries did
not exist during
in 2004.

(N) To reflect
reduced Policy
acquisition costs
and other
insurance
expenses as if
the Treaties
novated to or
coinsured by the
Wilton
Subsidiaries did
not exist in
2004.

(c) Not applicable.

(d) Exhibits.

10.1* Coinsurance Agreement between Annuity and Life Reassurance America, Inc. and Wilton Reassurance Company (formerly known as Prudential Select Life Insurance Company of America), dated January 17, 2006.

10.2* Coinsurance Agreement between Annuity and Life Reassurance, Ltd. and Wilton Reinsurance Bermuda Limited, dated January 17, 2006.

*Exhibits and schedules omitted. The registrant will furnish a supplementary copy of any omitted exhibit or schedule to the SEC upon request.

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 hereunto duly authorized.

ANNUITY AND LIFE RE (HOLDINGS),
LTD.

Date: January 18, 2006

By: /s/ John W. Lockwood
John W. Lockwood
Chief Financial Officer

Exhibit Index

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