

HCC INSURANCE HOLDINGS INC/DE/
Form 8-K/A
November 08, 2006
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)

November 1, 2006

HCC INSURANCE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---------------------------------------------------|-----------------------------|--------------------------------------|
| Delaware | 001-13790 | 76-0336636 |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|------------------------------------------|------------|
| 13403 Northwest Freeway | |
| Houston, Texas | 77040-6094 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (713) 690-7300

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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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Explanatory Note

This Form 8-K/A (Amendment No. 1) of the HCC Insurance Holdings, Inc. (the Company) Form 8-K originally filed on November 1, 2006 is filed solely for the purpose of including the forward looking statement disclaimer language set forth herein.

Except as stated above, this Amendment No. 1 does not otherwise update any information included in the Company s prior filing on November 1, 2006.

Item 2.02 Results of Operations and Financial Condition.

Item 7.01 Regulation FD Disclosure.

Item 8.01 Other Events.

HOUSTON (November 1, 2006) . . .

HCC Insurance Holdings, Inc. (NYSE symbol: HCC) announced today that the independent review of the Company s option granting practices, initiated by management, was proceeding and a report from the independent counsel to the Audit Committee, acting as an independent special committee of the Board of Directors, is expected during November. The Company intends to announce the Board s findings and conclusions when the Board s review of the Audit Committee s recommendations is completed. Under review are ten years of the Company s stock option granting practices. Management continues to cooperate fully with the independent counsel, the Company s auditors and the Securities and Exchange Commission (SEC).

The filing of the Company s Form 10-Q for second quarter 2006 was delayed pending the Board s evaluation of any accounting changes or possible restatement of financial statements for prior periods that may be addressed in this independent review. As a result of this on-going review, the Company s third quarter 2006 Form 10-Q will also be delayed. On a preliminary basis, the Company is disclosing selected financial information, which it believes would not be materially affected by possible results of the independent review, for the third quarter and year to date. See the attached tables.

Highlights of third quarter 2006:

Premium grew during the quarter compared to the same period in 2005, with gross written rising 2% to \$536.1 million; net written rising 14% to \$422.6 million; and net earned rising 25% to \$421.1 million.

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Net loss ratios were generally as anticipated but with improvement in the London market account and other of the Company's specialty lines due to the lack of hurricane activity compared to third quarter 2005.

Fee and commission income rose 21% to \$38.9 million, which was the first improvement in period to period comparison since 2004.

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Net investment income grew 45% to \$36.2 million and other operating income increased 20% to \$20.3 million, both compared to third quarter 2005. Total investments rose 17% to \$3.8 billion compared to year end 2005.

Certain items affected the selected financial information for the current quarter and/or its comparability with the same quarter in 2005, as follows: included in incurred losses is a charge of \$2.1 million for the commutation of all recoverables due from a reinsurer in run-off and a credit for a reduction in overall reserves of \$6.7 million following a review of our loss reserves in certain lines of business; included in fee and commission income is profit commission income of \$5.1 million resulting from reserve releases.

Total revenue increased 25% to \$516.7 million from the same period in 2005. Cash flow was down substantially in the quarter, primarily due to payment of 2005 hurricane claims and the timing of receipt of receivables and the payment of related payables. In addition, a large commutation resulted in positive cash flow of \$120.0 million in the prior year quarter.

Stephen L. Way, Chairman and Chief Executive Officer, commenting on these results, said, "The record third quarter underwriting results reflect the lack of catastrophe claims, but more importantly, the diversity and strength of our operating businesses." Mr. Way added, "We anticipate a very strong fourth quarter excluding any catastrophe activity and despite increased competition, we are optimistic about 2007."

Mr. Way added the following comments on market conditions in the Company's specialty lines of business.

In diversified financial products, domestic D&O remains stable with potential for some growth in 2007, while international business is soft and rate reductions continue. Thus far we have not seen any material change in policy terms or conditions. Our E&O business is seeing more competition particularly in the UK and Spain. Surety is generally very stable with domestic growth expected next year. Our financial guarantee business continues to grow profitably.

Group life, accident and health business is competitive but our margins remain very acceptable. We anticipate strong growth in 2007 due to recent acquisitions.

Aviation remains stable domestically, but competition continues in our international business, although overall margins are good.

The London market account is enjoying its best year ever and we are optimistic that the market will stay strong in 2007. Although this line is subject to unpredictable catastrophes, we continue to protect our capital with substantial reinsurance based upon conservative estimates of our aggregate exposures. While we have very profitable results through the third quarter 2006, the upside potential is less than most of our peers who are more likely to impact their capital in the event of major losses. Energy business continues to be our main focus where policy terms and conditions are expected to remain favorable.

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Other specialty lines are more competitive but margins remain very acceptable.

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As a result of the delay in filing its third quarter Form 10-Q with the SEC, the previously announced conference call for November 2, 2006 has been postponed. The Company intends to have a conference call after the second and third quarter Form 10-Q s have been filed.

HCC is an international insurance holding company and a leading specialty insurance group since 1974, based in Houston, Texas with offices across the USA and in Bermuda, England and Spain. HCC has assets exceeding \$7 billion and is rated AA (Very Strong) by Standard & Poor s and A+ (Superior) by A. M. Best Company.

For more information, visit our website at www.hcc.com.

Contact: L. Byron Way, Vice President
HCC Insurance Holdings, Inc.
Telephone: (713) 690-7300

Forward-looking statements contained in this press release are made under safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. The types of risks and uncertainties which may affect the Company are set forth in its periodic reports filed with the Securities and Exchange Commission. In addition, the completion of the independent review of the Company's option granting practices and any remedial decisions instituted by the Board of Directors might have a material affect on the risks and uncertainties of the Company's future results.

* * * * *

HCC Insurance Holdings, Inc. and Subsidiaries
Selected Financial Highlights
September 30, 2006
(Unaudited, in thousands except per share data)

| | Three Months Ended September 30, 2006 | 2005 |
|-----------------------|------------------------------------------|-----------|
| Gross written premium | \$536,101 | \$525,447 |
| Net written premium | 422,581 | 371,698 |
| Net earned premium | 421,050 | 338,058 |

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| | | |
|------------------------------------|-----------|-----------|
| Fee and commission income | 38,862 | 32,073 |
| Net investment income | 36,205 | 24,998 |
| Other operating income | 20,276 | 16,864 |
| Total revenue | 516,697 | 412,031 |
| GAAP net loss ratio | 56.1% | 87.5% |
| Cash flow from operations | \$ 99,661 | \$334,417 |
| Cash dividends declared, per share | 0.100 | 0.075 |

HCC Insurance Holdings, Inc. and Subsidiaries
 Selected Financial Highlights
 September 30, 2006
 (Unaudited, in thousands except per share data)

| | Nine Months Ended September 30, 2006 | 2005 |
|------------------------------------|-----------------------------------------|-------------|
| | ----- | ----- |
| Gross written premium | \$1,628,213 | \$1,540,002 |
| Net written premium | 1,299,114 | 1,107,443 |
| Net earned premium | 1,204,941 | 995,901 |
| Fee and commission income | 104,208 | 102,452 |
| Net investment income | 108,959 | 70,039 |
| Other operating income | 59,071 | 26,116 |
| Total revenue | 1,475,986 | 1,196,546 |
| GAAP net loss ratio | 57.1% | 68.3% |
| Cash flow from operations | \$ 359,416 | \$ 453,254 |
| Cash dividends declared, per share | 0.275 | 0.207 |

HCC Insurance Holdings, Inc. and Subsidiaries
 Insurance Company Premium
 September 30, 2006
 (Unaudited, in thousands)

| | 3rd Qtr 2006 | 3rd Qtr 2005 | Change % |
|--------------------------------|-----------------|-----------------|-------------|
| | ----- | ----- | ----- |
| GROSS WRITTEN | | | |
| Diversified financial products | \$ 240,046 | \$ 241,781 | (1)% |
| Group life, accident & health | 142,457 | 147,236 | (3) |
| Aviation | 50,976 | 53,090 | (4) |
| London market account | 44,799 | 32,366 | 38 |
| Other specialty lines | 57,837 | 49,991 | 16 |
| Discontinued lines | (14) | 983 | nm |

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| | | | |
|--------------------------------|------------------------------|------------------------------|-----------------------|
| | ----- \$ 536,101 ===== | ----- \$ 525,447 ===== | ----- 2% ===== |
| NET WRITTEN | | | |
| Diversified financial products | \$ 200,333 | \$ 184,931 | 8% |
| Group life, accident & health | 130,007 | 124,358 | 5 |
| Aviation | 38,446 | 31,597 | 22 |
| London market account | 20,761 | (370) | nm |
| Other specialty lines | 32,963 | 30,220 | 9 |
| Discontinued lines | 71 | 962 | nm |
| | ----- \$ 422,581 ===== | ----- \$ 371,698 ===== | ----- 14% ===== |
| NET EARNED PREMIUM | | | |
| Diversified financial products | \$ 189,744 | \$ 143,084 | 33% |
| Group life, accident & health | 129,234 | 125,079 | 3 |
| Aviation | 40,430 | 35,008 | 15 |
| London market account | 31,590 | 8,784 | 260 |
| Other specialty lines | 30,033 | 25,023 | 20 |
| Discontinued lines | 19 | 1,080 | nm |
| | ----- \$ 421,050 ===== | ----- \$ 338,058 ===== | ----- 25% ===== |

nm - Not meaningful comparison

HCC Insurance Holdings, Inc. and Subsidiaries
Insurance Company Premium
September 30, 2006
(Unaudited, in thousands)

| | Year to Date 2006 | Year to Date 2005 | Change % |
|--------------------------------|--------------------------------|--------------------------------|-----------------------|
| | ----- | ----- | ----- |
| GROSS WRITTEN | | | |
| Diversified financial products | \$ 690,779 | \$ 665,400 | 4% |
| Group life, accident & health | 415,215 | 453,558 | (8) |
| Aviation | 166,072 | 159,446 | 4 |
| London market account | 202,964 | 124,134 | 64 |
| Other specialty lines | 152,960 | 133,766 | 14 |
| Discontinued lines | 223 | 3,698 | nm |
| | ----- \$ 1,628,213 ===== | ----- \$ 1,540,002 ===== | ----- 6% ===== |
| NET WRITTEN | | | |
| Diversified financial products | \$ 574,098 | \$ 480,405 | 20% |
| Group life, accident & health | 388,895 | 381,367 | 2 |
| Aviation | 128,810 | 99,879 | 29 |
| London market account | 111,278 | 64,938 | 71 |
| Other specialty lines | 96,056 | 78,542 | 22 |
| Discontinued lines | (23) | 2,312 | nm |
| | ----- \$ 1,299,114 ===== | ----- \$ 1,107,443 ===== | ----- 17% ===== |
| NET EARNED PREMIUM | | | |

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| | | | |
|--------------------------------|--------------|------------|-------|
| Diversified financial products | \$ 538,063 | \$ 371,414 | 45% |
| Group life, accident & health | 385,257 | 380,681 | 1 |
| Aviation | 112,661 | 101,817 | 11 |
| London market account | 80,455 | 66,402 | 21 |
| Other specialty lines | 88,569 | 69,574 | 27 |
| Discontinued lines | (64) | 6,013 | nm |
| | ----- | ----- | ----- |
| | \$ 1,204,941 | \$ 995,901 | 21% |
| | ===== | ===== | ===== |

nm - Not meaningful comparison

HCC Insurance Holdings, Inc. and Subsidiaries
 Consolidated Insurance Companies
 Net Loss Ratios
 September 30, 2006
 (Unaudited, in thousands)

| Line of Business | Year to Date 2006 | | | Full Year 2005 | | |
|--------------------------------|--------------------|-----------------|------------|--------------------|-----------------|------------|
| | Net Earned Premium | Incurred Losses | Loss Ratio | Net Earned Premium | Incurred Losses | Loss Ratio |
| Diversified financial products | \$ 538,063 | \$263,647 | 49.0% | \$ 531,136 | \$255,570 | 48.1% |
| Group life, accident & health | 385,257 | 274,748 | 71.3 | 504,382 | 361,289 | 71.6 |
| Aviation | 112,661 | 62,964 | 55.9 | 136,197 | 91,720 | 67.3 |
| London market account | 80,455 | 35,806 | 44.5 | 93,017 | 98,638 | 106.0 |
| Other specialty lines | 88,569 | 49,965 | 56.4 | 97,721 | 72,436 | 74.1 |
| Discontinued lines | (64) | 492 | nm | 7,535 | 41,544 | nm |
| Total | \$1,204,941 | \$687,622 | 57.1% | \$1,369,988 | \$921,197 | 67.2% |

nm - Not meaningful comparison

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.

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HCC INSURANCE HOLDINGS, INC.

Date: November 7, 2006

By: /s/ Christopher L. Martin

Christopher L. Martin,

Executive Vice President and

General Counsel