

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

HCC INSURANCE HOLDINGS INC/DE/
Form 8-K
May 04, 2004

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)
May 4, 2004

HCC INSURANCE HOLDINGS, INC.
(EXACT NAME OF REGISTRANT SPECIFIED IN ITS CHARTER)

STATE OR OTHER
JURISDICTION
OF INCORPORATION:

COMMISSION
FILE NUMBER:

IRS EMPLOYER
IDENTIFICATION
NUMBER:

DELAWARE

001-13790

76-0336636

13403 NORTHWEST FREEWAY
HOUSTON, TEXAS 77040-6094
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER,
INCLUDING AREA CODE - (713) 690-7300

ITEM 12. Results of Operations and Financial Condition.

On May 4, 2004, HCC Insurance Holdings, Inc. announced its results for the First Quarter of 2004. A press release setting forth the announcement is set forth below.

HCC Reports Record First Quarter 2004
Results

HOUSTON--(BUSINESS WIRE)--May 4, 2004--HCC Insurance Holdings,
Inc. (NYSE:HCC) today released earnings for the first quarter of 2004.

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

Net earnings increased significantly for the first quarter of 2004 to \$44.6 million, or \$0.68 per diluted share, from \$23.8 million, or \$0.38 per diluted share, for the same period of 2003(a).

Stephen L. Way, Chairman and Chief Executive Officer, said, "Our first quarter results reflect the growth and continuing strong margins from all reporting segments in line with our 2004 business plan, and we anticipate achieving results near the top end of the range of the earnings guidance previously provided."

Total revenue grew 39% during the first quarter of 2004 to \$278.0 million compared to the first quarter of 2003. As last year, this increase was primarily due to the growth in our insurance company subsidiaries' earned premium, as market conditions in our specialty lines continue to be very strong. As we predicted last year, fee and commission revenue also grew substantially, as did investment income. Overall revenue is expected to continue to increase for the rest of this year and into 2005.

Gross written premium of our insurance company subsidiaries increased 21% to \$459.6 million during the first quarter of 2004 compared to the corresponding quarter of 2003. During the same period, net written premium increased by 23% to \$236.0 million and net earned premium increased by 34% percent to \$217.1 million. This growth over last year's record levels was achieved as a result of generally increased retentions and strong growth in our Diversified Financial Products line of business. We expect this premium growth to continue.

The GAAP combined ratio for the first three months of 2004 was 83.3% compared to 88.8% in the corresponding period of 2003 and 91.0% for the full year of 2003.

Mr. Way added, "Our recently affirmed S&P rating of AA (Very Strong) already gives us a competitive advantage, particularly on longer tail business, and as we move into the maintenance stage of the insurance cycle, we believe our superior underwriting skills will further differentiate our results from those of our peers."

Fee and commission income increased substantially during the first quarter of 2004 to \$43.8 million from \$25.7 million during the same period in 2003(a). This growth was fueled by strong performances at most of our underwriting agencies and intermediary subsidiaries.

Net investment income continues to increase rapidly, growing 31% in the first quarter of 2004 to \$14.4 million compared to the first quarter of 2003. Increased investment assets, a result of strong cash flow from operations and increased loss reserves as we retain more of our business, have fueled this increase and we anticipate this growth continuing for the rest of this year and into 2005.

As of March 31, 2004, total investments increased to \$1.93 billion, total assets exceeded \$5.0 billion for the first time, book value per share increased to \$17.12 and the Company's debt to total capital ratio was 22.0%. See attached tables.

HCC will hold an open conference call beginning at 4:00 p.m. Central Time on Tuesday, May 4. To participate, the number for domestic calls is 888-243-0813 and the number for international calls is 703-925-2400. In addition, there will be a live webcast available on a listen-only basis, that can be accessed through the HCC website at www.hcch.com. A replay of the webcast will be available on the website until Tuesday, May 11, 2004.

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 is traded on the NYSE (symbol:HCC), has assets exceeding \$5.0 billion and is rated AA (Very Strong) by Standard & Poor's and A+ (Superior) by A.M. Best Company.

(a) For comparative purposes, it should be noted that the 2003 net income includes \$0.02 per diluted share for discontinued operations

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

following the sale of a subsidiary, but is after \$0.06 per diluted share charge for the cumulative effect of the fourth quarter 2003 restatement to change certain accounting for fee and commission income. This change also decreased fee and commission income by \$6.5 million during the first quarter of 2003.

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

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.

HCC Insurance Holdings, Inc.
Financial Highlights
March 31, 2004
(amounts in thousands, except per share data)

Three Months Ended March 31,	2004	2003
-----	-----	-----
Gross written premium	\$459,581	\$379,448
Net written premium	235,955	192,501
Net earned premium	217,063	162,422
Fee and commission income	43,843	25,652
Net investment income	14,435	10,997
Other operating income	2,159	894
Total revenue	278,018	199,944
Net earnings	44,568	23,767
Earnings per share (diluted)	0.68	0.38
Cash flow from operations	100,865	101,871
Weighted average shares outstanding (diluted)	65,416	63,335
GAAP net loss ratio	58.0%	61.6%
GAAP combined ratio	83.3%	88.8%
	March 31, 2004	December 31, 2003
	-----	-----
Total investments	\$1,929,487	\$1,703,346
Total assets	5,190,547	4,864,296
Shareholders' equity	1,103,221	1,046,920
Debt to total capital	22.0%	22.9%

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

Book value per share \$17.12 \$16.37

HCC Insurance Holdings, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(unaudited, in thousands, except per share data)

	March 31, 2004	December 31, 2003
	-----	-----
ASSETS		
Investments:		
Fixed income securities, at market (cost: 2004 - \$1,236,538; 2003 - \$1,134,128)	\$1,275,619	\$1,164,166
Marketable equity securities, at market (cost: 2004 - \$16,369; 2003 - \$12,007)	16,382	12,002
Short-term investments, at cost, which approximates market	620,180	518,482
Other investments, at cost, which approximates fair value	17,306	8,696
	-----	-----
Total investments	1,929,487	1,703,346
Cash	25,382	96,416
Restricted cash and cash investments	182,009	210,301
Premium, claims and other receivables	1,007,745	899,031
Reinsurance recoverables	967,483	916,190
Ceded unearned premium	302,916	291,591
Ceded life and annuity benefits	76,065	77,548
Deferred policy acquisition costs	122,471	106,943
Goodwill	400,483	386,507
Other assets	176,506	176,423
	-----	-----
Total assets	\$5,190,547	\$4,864,296
	=====	=====
LIABILITIES		
Loss and loss adjustment expense payable	\$1,644,644	\$1,535,288
Life and annuity policy benefits	76,065	77,548
Reinsurance balances payable	298,786	296,916
Unearned premium	649,060	592,311
Deferred ceding commissions	86,880	88,129
Premium and claims payable	814,663	745,559
Notes payable	310,302	310,404
Accounts payable and accrued liabilities	206,926	171,221
	-----	-----
Total liabilities	4,087,326	3,817,376
SHAREHOLDERS' EQUITY		
Common stock, \$1.00 par value; 250.0 million shares authorized (shares issued and outstanding: 2004 - 64,437; 2003 - 63,964)	64,437	63,964
Additional paid-in capital	458,753	447,671
Retained earnings	548,892	509,159

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

Accumulated other comprehensive income	31,139	26,126
	-----	-----
Total shareholders' equity	1,103,221	1,046,920
	-----	-----
Total liabilities and shareholders' equity	\$5,190,547	\$4,864,296
	=====	=====

HCC Insurance Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(unaudited, in thousands, except per share data)

	For the three months ended March 31,	
	2004	2003
	-----	-----
REVENUE		
Net earned premium	\$217,063	\$162,422
Fee and commission income	43,843	25,652
Net investment income	14,435	10,997
Net realized investment gain (loss)	518	(21)
Other operating income	2,159	894
	-----	-----
Total revenue	278,018	199,944
EXPENSE		
Loss and loss adjustment expense, net	125,864	100,032
Operating expense:		
Policy acquisition costs, net	43,219	31,963
Compensation expense	22,813	18,746
Other operating expense	15,379	13,099
	-----	-----
Total operating expense	81,411	63,808
Interest expense	2,212	1,682
	-----	-----
Total expense	209,487	165,522
	-----	-----
Earnings from continuing operations before income tax provision	68,531	34,422
Income tax provision from continuing operations	23,729	12,082
	-----	-----
Earnings from continuing operations	44,802	22,340
Earnings (loss) from discontinued operations, net of income taxes (benefit) of \$(146) in 2004 and \$740 in 2003	(234)	1,427
	-----	-----
Net earnings	\$44,568	\$23,767
	=====	=====
Basic earnings per share data:		
Earnings from continuing operations	\$0.70	\$0.36

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

Earnings (loss) from discontinued operations	(0.01)	0.02
	-----	-----
Net earnings	\$0.69	\$0.38
	=====	=====
Weighted average shares outstanding	64,249	62,637
	=====	=====
Diluted earnings per share data:		
Earnings from continuing operations	\$0.68	\$0.36
Earnings from discontinued operations	--	0.02
	-----	-----
Net earnings	\$0.68	\$0.38
	=====	=====
Weighted average shares outstanding	65,416	63,335
	=====	=====
Cash dividends declared, per share	\$0.075	\$0.065
	=====	=====

HCC Insurance Holdings, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(unaudited, in thousands, except per share data)

	For the three months ended March 31,	
	2004	2003
	-----	-----
Cash flows from operating activities:		
Net earnings	\$44,568	\$23,767
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in premium, claims and other receivables	(102,988)	(62,217)
Change in reinsurance recoverables	(43,618)	(47,032)
Change in ceded unearned premium	(8,366)	(24,431)
Change in loss and loss adjustment expense payable	93,623	78,921
Change in reinsurance balances payable	37	28,835
Change in unearned premium	27,632	56,224
Change in premium and claims payable, net of restricted cash	97,445	39,880
Depreciation and amortization expense	3,390	2,976
Other, net	(10,858)	4,948
	-----	-----
Cash provided by operating activities	100,865	101,871
Cash flows from investing activities:		
Sales of fixed income securities	103,092	95,229
Maturity or call of fixed income securities	33,116	27,358
Sales of equity securities	300	983
Change in short-term investments	(59,045)	(148,199)
Cost of securities acquired	(213,354)	(164,237)
Payments for purchase of subsidiaries, net of cash received	(43,307)	--
Other, net	2,266	(1,523)
	-----	-----
Cash used by investing activities	(176,932)	(190,389)
Cash flows from financing activities:		
Issuance of notes payable, net of costs	--	134,845

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

Sale of common stock	9,924	3,731
Payments on notes payable	(91)	(67,527)
Dividends paid	(4,800)	(4,061)
	-----	-----
Cash provided by financing activities	5,033	66,988
	-----	-----
Net change in cash	(71,034)	(21,530)
	-----	-----
Cash at beginning of period	96,416	40,306
	-----	-----
Cash at end of period	\$25,382	\$18,776
	=====	=====

HCC Insurance Holdings, Inc.
Insurance Company Premium
March 31, 2004
(\$ in thousands)

	Year to Date 2004	Year to Date 2003	Change %
	-----	-----	-----
GROSS WRITTEN			
Group life, accident & health	\$146,654	\$139,320	5%
Diversified financial products	170,866	107,320	59
London market account	56,700	60,718	(7)
Aviation	43,133	44,531	(3)
Other specialty lines	31,020	1,464	n/a
	-----	-----	-----
	448,373	353,353	27%
Discontinued lines	11,208	26,095	(57)
	-----	-----	-----
	\$459,581	\$379,448	21%
	=====	=====	=====

NET WRITTEN

Group life, accident & health	\$77,967	\$76,185	2%
Diversified financial products	71,508	33,307	115
London market account	32,717	37,232	(12)
Aviation	20,950	20,679	1
Other specialty lines	18,905	39	n/a
	-----	-----	-----
	222,047	167,442	33%
Discontinued lines	13,908	25,059	(44)
	-----	-----	-----
	\$235,955	\$192,501	23%
	=====	=====	=====

NET EARNED PREMIUM

Group life, accident & health	\$79,389	\$71,983	10%
Diversified financial products	56,399	18,306	208
London market account	26,114	29,376	(11)
Aviation	24,269	23,882	2
Other specialty lines	12,571	54	n/a

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

	198,742	143,601	38%
Discontinued lines	18,321	18,821	(3)
	\$217,063	\$162,422	34%
	=====	=====	=====

HCC Insurance Holdings, Inc.
 Consolidated Insurance Companies
 Net Loss Ratios
 March 31, 2004
 (\$ in thousands)

Line of Business	Year to Date 2004			Full Year 2003		
	Net Earned Premium	Actual Losses	Loss Ratio	Net Earned Premium	Actual Losses	Loss Ratio
Group life, accident & health	\$79,389	\$49,898	62.9%	\$290,009	\$178,561	61.6%
Diversified financial products	56,399	26,106	46.3	123,562	59,112	47.8
London market account	26,114	7,738	29.6	137,572	73,254	53.2
Aviation	24,269	15,159	62.5	97,536	59,952	61.5
Other specialty lines	12,571	7,696	61.2	12,443	7,728	62.1
	198,742	106,597	53.6	661,122	378,607	57.3
Discontinued lines	18,321	19,267	105.2	77,150	110,045	142.6
Total	\$217,063	\$125,864	58.0%	\$738,272	\$488,652	66.2%

CONTACT: HCC Insurance Holdings, Inc., Houston
 L. Byron Way, 713-690-7300

The information contained herein shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

SIGNATURES

Edgar Filing: HCC INSURANCE HOLDINGS INC/DE/ - Form 8-K

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.

Dated: May 4, 2004

HCC INSURANCE HOLDINGS, INC.

By: /s/ Christopher L. Martin

Christopher L. Martin
Executive Vice President
and General Counsel