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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.

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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

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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% |

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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 |

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| | | |
|--|-------------|-------------|
| 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 |

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| | | |
|--|---------|---------|
| 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 |

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| | | |
|---------------------------------------|----------|----------|
| 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 |

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| | | | |
|--------------------|-----------|-----------|-------|
| | 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

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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