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HCC INSURANCE HOLDINGS INC/DE/  
Form 8-K  
August 03, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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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)  
August 3, 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

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### ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

On August 3, 2004, HCC Insurance Holdings, Inc. announced its results for the Second Quarter of 2004. A press release setting forth the announcement is set forth below.

#### HCC Reports Strong Second Quarter and First Six Months 2004 Results

HOUSTON--(BUSINESS WIRE)--Aug. 3, 2004--HCC Insurance Holdings, Inc. (NYSE:HCC) today released earnings for the second quarter of 2004.

Net earnings increased substantially during the second quarter of 2004, rising 41% to \$46.4 million from \$33.0 million and diluted earnings per share grew 37% to \$0.71 from \$0.52, both compared to the same period in 2003. Net earnings increased significantly during the first six months of 2004, rising 60% to \$91.0 million compared to \$56.7 million and diluted earnings per share grew 56% to \$1.39 from \$0.89, both compared to the first six months of 2003.

Stephen L. Way, Chairman and Chief Executive Officer, commenting on the results said, "The Company's record second quarter 2004 earnings are as a result of the continuing bottom line improvement across all of our reporting segments. We continue to outperform our peers and barring any major catastrophe loss, expect earnings to continue to grow through 2005."

Total revenue grew substantially during the first six months of 2004, rising 36% to \$595.3 million from \$437.8 million in the corresponding period in 2003. Revenue continues to increase strongly across all of the Company's reporting segments.

Net earned premium of the Company's insurance company subsidiaries continues to grow substantially, rising by 36% to \$469.1 million during the first six months of 2004 compared to \$345.9 million in the first half of 2003. During the same period net written premium increased by 23% to \$544.8 million from \$443.6 million. These record levels were achieved as a result of strong growth in new business, increased retentions and higher rates in some lines of business.

The GAAP combined ratio of the Company's insurance company subsidiaries was 85.0% for the first six months of 2004 compared to 88.9% in the corresponding period of 2003. Mr. Way added, "This continuing strong underwriting performance was achieved while keeping our loss reserves at very conservative levels, well above the mid-point of the actuarial range. We expect earned premium growth with this level of underwriting success to continue into 2005."

Management fee and commission income increased significantly during the first six months of 2004 rising 41% to \$89.9 million, from \$63.7 million in the first half of 2003. These increased revenues came from new business and an acquisition made in 2003.

Net investment income increased by 29% in the first half of 2004 to \$29.4 million compared to \$22.9 million in the corresponding period in 2003. This growth was due to increased investment assets, which grew 18% from year-end 2003. The Company maintains a very short duration investment portfolio of fixed income securities and therefore, the negative effect of rising interest rates and the resulting unrealized loss in value of those securities has a much reduced effect on the Company's shareholders' equity. Conversely, if rates continue to rise, this will provide the Company with opportunities to rapidly extend durations and allow investment income to continue to grow substantially.

As of June 30, 2004, total investments surpassed \$2.0 billion for the first time in the Company's history; total assets were \$5.3

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billion; book value per share increased 7% to \$17.46 despite a \$0.22 per share reduction in unrealized investment gains from the Company's fixed-income investment portfolio; and the Company's debt to total capital ratio reduced to 22.2%; all compared to December 31, 2003. See attached tables.

HCC will hold an open conference call beginning at 4:00 p.m. (CDT) on Tuesday, August 3, to discuss these results. To participate, the number for domestic calls is 888-806-9459 and the number for international calls is 703-871-3093. 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](http://www.hcch.com). A replay of the webcast will be available on the website until Tuesday, August 10, 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 has assets of \$5.3 billion, shareholders' equity of over \$1.1 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.hcch.com](http://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 June 30, 2004

(amounts in thousands, except per share data)

Three Months Ended June 30,	2004	2003
Gross written premium	\$521,190	\$477,279
Net written premium	308,861	251,091
Net earned premium	252,070	183,492
Fee and commission income	46,102	38,063
Net investment income	14,967	11,868
Other operating income	4,080	4,240
Total revenue	317,270	237,868
Net earnings	46,415	32,968
Earnings per share (diluted)	0.71	0.52
Cash flow from operations	112,769	97,401
Weighted average shares outstanding (diluted)	65,686	63,990
GAAP net loss ratio	58.7%	65.4%

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GAAP combined ratio 86.3% 89.1%

	June 30, 2004	December 31, 2003
	-----	
Total investments	\$2,001,452	\$1,703,346
Total assets	5,285,274	4,864,296
Shareholders' equity	1,128,690	1,046,920
Debt to total capital	22.2%	22.9%
Book value per share	\$17.46	\$16.37

HCC Insurance Holdings, Inc.  
Financial Highlights  
June 30, 2004

(amounts in thousands, except per share data)

Six Months Ended June 30,	2004	2003
	-----	
Gross written premium	\$980,771	\$856,727
Net written premium	544,816	443,592
Net earned premium	469,133	345,914
Fee and commission income	89,945	63,715
Net investment income	29,402	22,865
Other operating income	6,239	5,134
Total revenue	595,288	437,812
Net earnings	90,983	56,735
Earnings per share (diluted)	1.39	0.89
Cash flow from operations	213,634	199,272
Weighted average shares outstanding (diluted)	65,557	63,667
GAAP net loss ratio	58.4%	63.6%
GAAP combined ratio	85.0%	88.9%

	June 30, 2004	December 31, 2003
	-----	
Total investments	\$2,001,452	\$1,703,346
Total assets	5,285,274	4,864,296
Shareholders' equity	1,128,690	1,046,920
Debt to total capital	22.2%	22.9%

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Book value per share \$17.46 \$16.37

HCC Insurance Holdings, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(unaudited, in thousands, except per share data)

	June 30, 2004	December 31, 2003
	-----	-----
<b>ASSETS</b>		
Investments:		
Fixed income securities, at market (cost: 2004 - \$1,395,833; 2003 - \$1,134,128)	\$1,401,867	\$1,164,166
Marketable equity securities, at market (cost: 2004 - \$12,007; 2003 - \$12,007)	12,055	12,002
Short-term investments, at cost, which approximates market	570,024	518,482
Other investments, at cost, which approximates fair value	17,506	8,696
	-----	-----
Total investments	2,001,452	1,703,346
Cash	37,968	96,416
Restricted cash and cash investments	188,087	210,301
Premium, claims and other receivables	969,851	899,031
Reinsurance recoverables	985,677	916,190
Ceded unearned premium	301,193	291,591
Ceded life and annuity benefits	75,412	77,548
Deferred policy acquisition costs	136,584	106,943
Goodwill	400,795	386,507
Other assets	188,255	176,423
	-----	-----
Total assets	\$5,285,274	\$4,864,296
	=====	=====
<b>LIABILITIES</b>		
Loss and loss adjustment expense payable	\$1,720,050	\$1,535,288
Life and annuity policy benefits	75,412	77,548
Reinsurance balances payable	269,842	296,916
Unearned premium	705,572	592,311
Deferred ceding commissions	88,311	88,129
Premium and claims payable	797,450	745,559
Notes payable	322,396	310,404
Accounts payable and accrued liabilities	177,551	171,221
	-----	-----
Total liabilities	4,156,584	3,817,376
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$1.00 par value; 250.0 million shares authorized (shares issued and outstanding: 2004 - 64,643; 2003 - 63,964)	64,643	63,964
Additional paid-in capital	463,937	447,671

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Retained earnings	590,458	509,159
Accumulated other comprehensive income	9,652	26,126
	-----	-----
Total shareholders' equity	1,128,690	1,046,920
	-----	-----
Total liabilities and shareholders' equity	\$5,285,274	\$4,864,296
	=====	=====

HCC Insurance Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(unaudited, in thousands, except per share data)

	For the six months ended June 30,		For the three months ended June 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
REVENUE				
Net earned premium	\$469,133	\$345,914	\$252,070	\$183,492
Fee and commission income	89,945	63,715	46,102	38,063
Net investment income	29,402	22,865	14,967	11,868
Net realized investment gain	569	184	51	205
Other operating income	6,239	5,134	4,080	4,240
	-----	-----	-----	-----
Total revenue	595,288	437,812	317,270	237,868
EXPENSE				
Loss and loss adjustment expense, net	273,762	220,112	147,898	120,080
Operating expense:				
Policy acquisition costs, net	98,641	65,964	55,422	34,001
Compensation expense	46,438	38,611	23,625	19,865
Other operating expense	33,175	26,038	17,796	12,939
	-----	-----	-----	-----
Total operating expense	178,254	130,613	96,843	66,805
Interest expense	3,958	3,596	1,746	1,914
	-----	-----	-----	-----
Total expense	455,974	354,321	246,487	188,799
	-----	-----	-----	-----
Earnings from continuing operations before income tax provision	139,314	83,491	70,783	49,069
Income tax provision from continuing operations	48,132	30,037	24,403	17,955
	-----	-----	-----	-----
Earnings from continuing operations	91,182	53,454	46,380	31,114
Earnings (loss) from discontinued operations,				

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net of income taxes (benefit) of \$(110), \$1,905, \$36 and \$1,165	(199)	3,281	35	1,854
Net earnings	\$90,983	\$56,735	\$46,415	\$32,968
Basic earnings per share data:				
Earnings from continuing operations	\$1.42	\$0.85	\$0.72	\$0.49
Earnings (loss) from discontinued operations	(0.01)	0.05	--	0.03
Net earnings	\$1.41	\$0.90	\$0.72	\$0.52
Weighted average shares outstanding				
	64,399	62,753	64,538	62,867
Diluted earnings per share data:				
Earnings from continuing operations	\$1.39	\$0.84	\$0.71	\$0.49
Earnings from discontinued operations	--	0.05	--	0.03
Net earnings	\$1.39	\$0.89	\$0.71	\$0.52
Weighted average shares outstanding				
	65,557	63,667	65,686	63,990
Cash dividends declared, per share				
	\$0.15	\$0.13	\$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 six months ended June 30,		For the three months ended June 30,	
	2004	2003	2004	2003
Cash flows from operating activities:				
Net earnings	\$90,983	\$56,735	\$46,415	\$32,968
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Change in premium, claims and other receivables	(65,155)	(169,946)	37,833	(107,729)
Change in reinsurance recoverables	(64,772)	(64,084)	(21,154)	(17,052)
Change in ceded unearned premium	(6,642)	(65,813)	1,724	(41,382)

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Change in loss and loss adjustment expense payable	169,225	149,833	75,602	70,912
Change in reinsurance balances payable	(28,803)	64,265	(28,840)	35,430
Change in unearned premium	86,183	166,720	58,551	110,496
Change in premium and claims payable, net of restricted cash	74,105	58,845	(23,340)	18,965
Depreciation and amortization expense	7,368	5,564	3,978	2,588
Other, net	(48,858)	(2,847)	(38,000)	(7,795)
	-----	-----	-----	-----
Cash provided by operating activities	213,634	199,272	112,769	97,401
Cash flows from investing activities:				
Sales of fixed income securities	133,694	123,181	30,602	27,952
Maturity or call of fixed income securities	72,340	69,086	39,224	41,728
Sales of equity securities	4,671	1,165	4,371	182
Other proceeds	--	16,846	--	16,846
Change in short-term investments	(8,807)	(89,563)	50,238	58,636
Cost of securities acquired	(406,263)	(407,875)	(192,909)	(243,638)
Payments for purchase of subsidiaries, net of cash received	(71,038)	(4,079)	(27,731)	(4,079)
Other, net	72	(3,135)	(2,194)	(1,612)
	-----	-----	-----	-----
Cash used by investing activities	(275,331)	(294,374)	(98,399)	(103,985)
Cash flows from financing activities:				
Issuance of notes payable, net of costs	2,000	134,845	2,000	--
Sale of common stock	13,070	11,969	3,146	8,238
Payments on notes payable	(2,185)	(67,622)	(2,094)	(95)
Dividends paid	(9,636)	(8,137)	(4,836)	(4,076)
	-----	-----	-----	-----
Cash provided (used) by financing activities	3,249	71,055	(1,784)	4,067
	-----	-----	-----	-----
Net change in cash	(58,448)	(24,047)	12,586	(2,517)
	-----	-----	-----	-----
Cash at beginning of period	96,416	40,306	25,382	18,776
	-----	-----	-----	-----
Cash at end of period	\$37,968	\$16,259	\$37,968	\$16,259
	=====	=====	=====	=====

HCC Insurance Holdings, Inc.  
Insurance Company Premium  
June 30, 2004  
(\$ in thousands)

2nd Qtr      2nd Qtr      Change

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	2004	2003	%
	-----	-----	-----
GROSS WRITTEN			
Group life, accident & health	\$147,201	\$144,162	2%
Diversified financial products	220,797	143,106	54
London market account	60,644	79,434	(24)
Aviation	53,860	64,429	(16)
Other specialty lines	32,974	5,381	nm
	-----	-----	-----
	515,476	436,512	18%
Discontinued lines	5,714	40,767	nm
	-----	-----	-----
	\$521,190	\$477,279	9%
	=====	=====	=====

NET WRITTEN

Group life, accident & health	\$83,345	\$81,168	3%
Diversified financial products	96,306	48,907	97
London market account	49,169	65,322	(25)
Aviation	54,131	30,525	77
Other specialty lines	19,904	2,183	nm
	-----	-----	-----
	302,855	228,105	33%
Discontinued lines	6,006	22,986	nm
	-----	-----	-----
	\$308,861	\$251,091	23%
	=====	=====	=====

NET EARNED PREMIUM

Group life, accident & health	\$80,501	\$75,526	7%
Diversified financial products	73,714	26,512	178
London market account	35,408	37,081	(5)
Aviation	32,998	24,355	35
Other specialty lines	15,720	153	nm
	-----	-----	-----
	238,341	163,627	46%
Discontinued lines	13,729	19,865	nm
	-----	-----	-----
	\$252,070	\$183,492	37%
	=====	=====	=====

HCC Insurance Holdings, Inc.  
Insurance Company Premium  
June 30, 2004  
(\$ in thousands)

	Year to Date 2004	Year to Date 2003	Change %
	-----	-----	-----
GROSS WRITTEN			
Group life, accident & health	\$293,855	\$283,482	4%
Diversified financial products	391,663	250,426	56

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London market account	117,344	140,152	(16)
Aviation	96,993	108,960	(11)
Other specialty lines	63,994	6,845	nm
	-----	-----	-----
	963,849	789,865	22%
Discontinued lines	16,922	66,862	nm
	-----	-----	-----
	\$980,771	\$856,727	14%
	=====	=====	=====

NET WRITTEN

Group life, accident & health	\$161,312	\$157,353	3%
Diversified financial products	167,814	82,214	104
London market account	81,886	102,554	(20)
Aviation	75,081	51,204	47
Other specialty lines	38,809	2,222	nm
	-----	-----	-----
	524,902	395,547	33%
Discontinued lines	19,914	48,045	nm
	-----	-----	-----
	\$544,816	\$443,592	23%
	=====	=====	=====

NET EARNED PREMIUM

Group life, accident & health	\$159,890	\$147,509	8%
Diversified financial products	130,113	44,818	190
London market account	61,522	66,457	(7)
Aviation	57,267	48,237	19
Other specialty lines	28,291	207	nm
	-----	-----	-----
	437,083	307,228	42%
Discontinued lines	32,050	38,686	nm
	-----	-----	-----
	\$469,133	\$345,914	36%
	=====	=====	=====

HCC Insurance Holdings, Inc.  
Consolidated Insurance Companies  
Net Loss Ratios  
June 30, 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	\$159,890	\$100,248	62.7%	\$290,009	\$178,561	61.6%
Diversified financial						

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products	130,113	59,461	45.7	123,562	59,112	47.8
London market account	61,522	27,976	45.5	137,572	73,254	53.2
Aviation	57,267	33,826	59.1	97,536	59,952	61.5
Other specialty lines	28,291	17,091	60.4	12,443	7,728	62.1
	-----	-----	-----	-----	-----	-----
	437,083	238,602	54.6	661,122	378,607	57.3
Discontinued lines	32,050	35,160	109.7	77,150	110,045	142.6
	-----	-----	-----	-----	-----	-----
Total	\$469,133	\$273,762	58.4%	\$738,272	\$488,652	66.2%
	=====	=====	=====	=====	=====	=====

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

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

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: August 3, 2004

HCC INSURANCE HOLDINGS, INC.

By: /s/ Christopher L. Martin

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Christopher L. Martin  
Executive Vice President  
and General Counsel