

HCC INSURANCE HOLDINGS INC/DE/
Form 10-Q
November 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2012.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from _____ to _____

Commission file number 001-13790

HCC Insurance Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization) 13403 Northwest Freeway, Houston, Texas (Address of principal executive offices)	76-0336636 (IRS Employer Identification No.) 77040-6094 (Zip Code)
(713) 690-7300	

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

On October 26, 2012, there were approximately 101.3 million shares of common stock outstanding.

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HCC Insurance Holdings, Inc. and Subsidiaries

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FORWARD-LOOKING STATEMENTS

This Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. These forward-looking statements reflect our current expectations and projections about future events and include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included or incorporated by reference in this Report that address activities, events or developments that we expect or anticipate may occur in the future, including such things as growth of our business and operations, business strategy, competitive strengths, goals, plans, future capital expenditures and references to future successes may be considered forward-looking statements. Generally, words such as anticipate, believe, estimate, expect, intend, plan, probably or similar expressions indicate forward-looking statements.

Many risks and uncertainties may have an impact on the matters addressed in these forward-looking statements, which could affect our future financial results and performance, including, among other things:

the effects of catastrophe losses,

the cyclical nature of the insurance business,

inherent uncertainties in the loss estimation process, which can adversely impact the adequacy of loss reserves,

the impact of past and future potential credit market downturns, including any potential additional ratings downgrade and/or impairment or perceived impairment of the debt securities of sovereign issuers, including the United States of America,

the effects of emerging claim and coverage issues,

the effects of extensive governmental regulation of the insurance industry,

changes to the country's health care delivery system,

the effects, if any, of climate change, on the risks we insure,

potential credit risk with brokers,

the effects of industry consolidations,

our assessment of underwriting risk,

our retention of risk, which could expose us to potential losses,

the adequacy of reinsurance protection,

the ability and willingness of reinsurers to pay balances due us,

the occurrence of terrorist activities,

our ability to maintain our competitive position,

fluctuations in securities markets, including defaults, which may reduce the value of our investment assets, reduce investment income or generate realized investment losses,

changes in our assigned financial strength ratings,

our ability to raise capital and funds for liquidity in the future,

attraction and retention of qualified employees,

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our ability to successfully expand our business through the acquisition of insurance-related companies,

impairment of goodwill,

the ability of our insurance company subsidiaries to pay dividends in needed amounts,

fluctuations in foreign exchange rates,

failure of, or loss of security related to, our information technology systems,

difficulties with outsourcing relationships, and

change of control.

We describe these risks and uncertainties in greater detail in Item 1A, Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2011.

These events or factors could cause our results or performance to differ materially from those we express in our forward-looking statements. Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements that are included in this Report, our inclusion of this information is not a representation by us or any other person that our objectives or plans will be achieved.

Our forward-looking statements speak only at the date made, and we will not update these forward-looking statements unless the securities laws require us to do so. In light of these risks, uncertainties and assumptions, any forward-looking events discussed in this Report may not occur.

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

	September 30, 2012	December 31, 2011 (as adjusted)
ASSETS		
Investments		
Fixed maturity securities available for sale, at fair value (amortized cost: 2012 \$5,385,432 and 2011 \$5,847,178)	\$ 6,315,365	\$ 5,718,834
Fixed maturity securities held to maturity, at amortized cost (fair value: \$163,136)	-	161,102
Equity securities available for sale, at fair value (cost: \$197,469)	202,864	-
Short-term investments, at cost (approximates fair value)	160,138	133,917
Other investments, at fair value (amortized cost: 2012 \$31,550 and 2011 \$38,230)	34,044	35,897
Total investments	6,712,411	6,049,750
Cash	64,293	104,550
Restricted cash	125,974	229,821
Premium, claims and other receivables	604,881	688,732
Reinsurance recoverables	1,013,957	1,056,068
Ceded unearned premium	262,168	222,300
Ceded life and annuity benefits	58,771	61,061
Deferred policy acquisition costs	199,401	189,633
Goodwill	885,860	872,814
Other assets	152,668	122,549
Total assets	\$ 10,080,384	\$ 9,597,278
LIABILITIES		
Loss and loss adjustment expense payable	\$ 3,692,250	\$ 3,658,317
Life and annuity policy benefits	58,771	61,061
Reinsurance, premium and claims payable	321,064	366,499
Unearned premium	1,118,094	1,031,034
Deferred ceding commissions	74,441	62,364
Notes payable	548,906	478,790
Accounts payable and accrued liabilities	762,038	665,231
Total liabilities	6,575,564	6,323,296
SHAREHOLDERS EQUITY		
Common stock, \$1.00 par value; 250,000 shares authorized (shares issued: 2012 124,459 and 2011 104,101); outstanding: 2012 122,720 and 2011 101,297	124,459	122,720
Additional paid-in capital	1,046,435	1,001,308
Retained earnings	2,664,745	2,429,818
Accumulated other comprehensive income	318,239	227,659
Treasury stock, at cost (shares: 2012 23,162 and 2011 18,619)	(649,058)	(507,523)

Total shareholders equity	3,504,820	3,273,982
Total liabilities and shareholders equity	\$ 10,080,384	\$ 9,597,278

See Notes to Consolidated Financial Statements.

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

	Nine months ended September 30,		Three months ended September 30,	
	2012	2011	2012	2011
REVENUE				
Net earned premium	\$ 1,676,122	\$ 1,576,987	\$ 563,650	\$ 544,256
Net investment income	166,642	158,782	56,342	54,765
Other operating income	23,229	23,625	10,840	8,829
Net realized investment gain	8,519	3,169	1,472	2,674
Other-than-temporary impairment credit losses	(1,028)	(3,479)	(631)	-
Total revenue	1,873,484	1,759,084	631,673	610,524
EXPENSE				
Loss and loss adjustment expense, net	969,767	1,062,240	304,014	380,372
Policy acquisition costs, net	211,554	193,180	67,620	57,496
Other operating expense	268,164	244,491	100,458	84,254
Interest expense	19,101	16,597	5,962	5,610
Total expense	1,468,586	1,516,508	478,054	527,732
Earnings before income tax expense	404,898	242,576	153,619	82,792
Income tax expense	121,759	65,671	46,557	22,355
Net earnings	\$ 283,139	\$ 176,905	\$ 107,062	\$ 60,437
Earnings per common share				
Basic	\$ 2.77	\$ 1.58	\$ 1.06	\$ 0.56
Diluted	\$ 2.76	\$ 1.57	\$ 1.05	\$ 0.56

See Notes to Consolidated Financial Statements.

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HCC Insurance Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(unaudited, in thousands)

	Nine months ended September 30,		Three months ended September 30,	
	2012	2011	2012	2011
Net earnings	\$ 283,139	\$ 176,905	\$ 107,062	\$ 60,437
Other comprehensive income:				
Investment gains:				
Investment gains during the period	152,498	155,933	91,185	100,555
Income tax charge				