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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

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. 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.

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 |
|---|------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| 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 |
| | ===== | ===== |
| LIABILITIES | | |
| 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 |
| SHAREHOLDERS' EQUITY | | |
| 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, 2004 | | For the three months ended June 30, 2003 | |
|---|---|-----------|---|-----------|
| | 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

Christopher L. Martin
Executive Vice President
and General Counsel