

HCC INSURANCE HOLDINGS INC/DE/

Form 11-K

June 28, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 11-K**  
**FOR ANNUAL REPORTS OF EMPLOYEE STOCK PURCHASE, SAVINGS**  
**AND SIMILAR PLANS PURSUANT TO SECTION 15(d) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

(Mark one)

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the fiscal year ended December 31, 2005**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .**

**Commission file number 001-13790.**

A. Full title of the plan and address of the plan, if different from that of the issuer named below:

**HCC INSURANCE HOLDINGS, INC. 401(k) PLAN**

B. Name of issuer of the securities held pursuant to the plan and address of its principal executive office:

**HCC INSURANCE HOLDINGS, INC.**

**13403 Northwest Freeway**

**Houston, Texas 77040**

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**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
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\* Other supplemental schedules required by Section 2520-103.10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ( ERISA ) have been omitted because they are not applicable.

**Exhibit**

<b>Exhibit Number</b>	<b>Description</b>
23.1	Consent of Ham, Langston & Brezina, L.L.P.

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HAM,  
LANGSTON &  
BREZINA, L.L.P.  
Certified Public Accountants

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Plan Administrator

HCC Insurance Holdings, Inc. 401(k) Plan:

We have audited the accompanying Statements of Net Assets Available for Benefits of the HCC Insurance Holdings, Inc. 401(k) Plan (the Plan ) as of December 31, 2005 and 2004 and the related Statements of Changes in Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005 and 2004 and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule and fund information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Ham, Langston & Brezina, L.L.P.

Houston, Texas

June 21, 2006

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS  
December 31, 2005 and 2004**

	2005	2004
Assets:		
Money market funds	\$ 135	\$ 3,228
Investments at fair value:		
Registered investment companies (mutual funds)	34,239,001	26,393,160
Guaranteed interest contracts	13,972,182	13,837,107
HCC Insurance Holdings, Inc. common stock	3,426,857	2,379,694
Participant notes receivable, at cost	596,442	458,185
Total investments	52,234,482	43,068,146
Net assets available for benefits	\$ 52,234,617	\$ 43,071,374

The accompanying notes are an integral part of these financial statements.

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**For the Years Ended December 31, 2005 and 2004**

	2005	2004
Additions to net assets attributable to:		
Dividends and interest	\$ 503,493	\$ 475,171
Net appreciation in fair value of investments	3,199,408	2,781,260
Other		2,853
Total investment income	3,702,901	3,259,284
Contributions:		
Employer	2,643,356	2,295,631
Participants	4,246,190	3,781,613
Rollovers from other plans	1,069,734	1,214,098
Plan mergers	2,699,458	
Total contributions	10,658,738	7,291,342
Total additions	14,361,639	10,550,626
Deductions from net assets attributable to:		
Benefits to participants	5,176,937	5,572,168
Transaction charges	21,459	87,651
Total deductions	5,198,396	5,659,819
Net increase in net assets available for benefits	9,163,243	4,890,807
Net assets available for benefits, beginning of year	43,071,374	38,180,567
Net assets available for benefits, end of year	\$ 52,234,617	\$ 43,071,374

The accompanying notes are an integral part of these financial statements.

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS**

**1. Description of Plan**

The following description of the HCC Insurance Holdings, Inc. (the Company ) 401(k) Plan (the Plan ) (formerly the HCC Insurance Holdings 401(k) Plan), provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan s provisions. As a result of the merger of several other qualified plans of acquired companies, the Plan has been amended to include certain specific provisions applicable only to certain merged participants.

**General**

The Plan is a defined contribution plan established effective January 1, 1992 and most recently amended and restated in its entirety February 21, 2002, retroactively effective to January 1, 2002. Non-union, full-time employees of the Company become eligible to participate in the Plan on the later of their employment date or upon attaining the age of 21 and are eligible to make deferral contributions on the first day of the month following such eligibility date. All eligible employees must complete one year of service to become eligible for employer matching contributions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ( ERISA ).

Effective March 9, 2005, the Continental Underwriters Savings Plus Plan merged into the Plan. Affected participants became eligible to participate in the Plan, subject to the provisions of the Plan agreement.

**Administration**

CIGNA Retirement and Investment Services and CG Trust Company served as Custodian and Trustee, respectively, of the Plan until October 8, 2004. Effective October 8, 2004, Massachusetts Mutual Life Insurance Company ( Mass Mutual ) and Investors Bank and Trust Company serve as Custodian and Trustee, respectively, of the Plan.

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS, Continued**

**1. Description of Plan, continued**

**Contributions**

Each year, participants may contribute from 1% to 100% of their pre-tax annual compensation not to exceed the limitation set forth in Section 402(g) (\$14,000 in 2005 and \$13,000 in 2004) of the Internal Revenue Code. Participants may make catch-up contributions (pre-tax contributions that exceed the annual elective deferral limit) during any calendar year ending with or after the participant's 50<sup>th</sup> birthday. Participants' total catch-up contribution during 2005 and 2004 cannot exceed \$4,000 and \$3,000, respectively. Participants may also make rollover contributions from other qualified plans. Participants direct the investment of their contributions into various investment options offered by the Plan.

The Plan also provides for discretionary employer matching contributions for each \$1.00 contributed by a participant, up to a maximum of the lesser of six percent of the participant's Plan compensation or \$10,200. During 2005 and 2004, the Company made discretionary contributions of \$2,643,356 and \$2,295,631, respectively, to the Plan. Additionally, the Plan provides for discretionary non-elective contributions. The Company contributions are invested directly in the various investment options, as directed by the participant. Company matching contributions are generally computed monthly. Discretionary non-elective contributions would generally be computed annually. There were no discretionary qualified non-elective contributions made during 2005 or 2004.

**Participant Accounts**

Each participant's account is credited with the participant's contribution and allocation of the Company's contributions and Plan earnings. Earnings are allocated by fund based on the ratio of a participant's account invested in a particular fund to all participants' investments in that fund. Upon the occurrence of a distribution event, the benefit to which a participant is entitled is the benefit that can be provided from the participant's vested interest in his or her account.



**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS, Continued**

**1. Description of Plan, continued**

**Vesting**

Participants are immediately vested in their elective contributions, plus any earnings on such contributions. Vesting in the Company's contribution portion of their accounts is based on years of service. A participant becomes 20 percent vested after two years of service, 40 percent after three years, 60 percent after four years, 80 percent after five years and 100 percent after six years. However, if an active participant dies or terminates due to disability prior to attaining the normal retirement age, the participant's account becomes 100 percent vested.

**Participant Notes Receivable**

Participants may borrow from their fund accounts up to a maximum equal to the lesser of \$50,000 or 50 percent of the participant's vested account balance. Loans are calculated on a fully amortized basis. A loan is collateralized by the vested balance in the participant's account and bears interest at a rate commensurate with market rates for similar loans, as defined (4.75% to 9.50% for the years ended December 31, 2005 and 2004).

**Payments of Benefits**

Upon termination of employment, a participant (or his or her designated beneficiary in the event of death) may elect to receive either a lump-sum amount equal to the value of the participant's vested interest in his or her account or to have the account balance distributed in the form of an annuity. Distributions are subject to the applicable provisions of the Plan agreement.

**Forfeited Accounts**

All employer contributions credited to a participant's account, but not vested, are forfeited by the participant upon distribution of the fully vested value of his or her account (or his or her designated beneficiary in the event of death). Forfeitures are first used to pay administrative expenses under the Plan. Forfeitures not used to pay expenses are used to reduce future employer contributions. During 2005 and 2004, forfeited non-vested accounts of \$13,211 and \$146,828, respectively, were used to reduce administrative expenses and employer contributions. The balance of forfeited accounts available to reduce future employer contributions was \$230,060 and \$94,571 at December 31, 2005 and 2004, respectively.

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS, Continued**

**1. Description of Plan, continued**

**Administrative Expenses**

The Plan is responsible for payment of the trustee expenses and fees; however, the Company may pay the Plan expenses directly. No expenses were paid by the Company on behalf of the Plan during 2005 or 2004.

Transaction charges (for loan and benefit payment transactions) are paid by the Plan, reducing the balances of those participants initiating the transactions.

**Plan Termination**

Although the Company has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants become 100% vested in their total account balance.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements of the Plan are prepared under the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America ( GAAP ).

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of net assets available for benefits and changes therein. Actual results could differ from those estimates.

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS, Continued**

**2. Summary of Significant Accounting Policies, continued**

**Risks and Uncertainties**

The Plan provides for various investment options. These investment options are exposed to market risk, which generally means there is a risk of loss in the value of certain investment securities due to changes in interest rates, security and commodity prices and general market conditions. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is reasonably possible that changes in risks in the near term could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

**Investment Valuation**

Investments in registered investment companies (mutual funds) are stated at fair value. Investments in guaranteed interest contracts are generally benefit responsive (see Note 4) and are stated at contract value, which approximates fair value. Common stock is valued at fair value as determined by quoted market prices. Participant notes receivable are stated at cost plus accrued interest, which approximates fair value.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**Net Appreciation in Fair Value of Investments**

The Plan presents in the statement of changes in net assets available for benefits the net appreciation in the fair value of its investments, which consists of the realized gains or losses on sale of investments and unrealized appreciation or depreciation on those investments.

**Payment of Benefits**

Benefits are recorded when paid.

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS, Continued**

**2. Summary of Significant Accounting Policies, continued**

**Recently Issued Accounting Pronouncements**

In December 2005, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*, which affects defined contribution plans that hold fully benefit-responsive investment contracts. If an investment contract is considered fully benefit-responsive under the revised definition as of the last day of the year ending after December 15, 2006, that contract will be considered fully benefit-responsive for all periods presented. The financial statement presentation and disclosure guidance in the FSP is effective for financial statements for plan years ending after December 15, 2006. The FSP is to be applied retroactively to all periods presented. The Plan is currently studying the impact of the FSP on its financial statements.

**3. Investments**

The following individual investments each represent five percent or more of the Plan's net assets at December 31, 2005 and 2004:

	2005	2004
Guaranteed Interest Contract Fixed Income Fund	\$ 13,972,182	\$ 13,837,107
Select Small Company Value Fund	3,328,057	3,162,774
Oppenheimer Global Fund	3,152,854	2,303,132
Select Indexed Equity Fund	5,748,500	5,591,212
HCC Insurance Holdings, Inc. Common Stock	3,426,857	2,379,694

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**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS, Continued**

**3. Investments, continued**

During the years ended December 31, 2005 and 2004, the Plan's investments (including realized gains and losses on investments bought and sold, as well as held during the year) appreciated in fair value as follows:

	2005	2004
Mutual funds	\$ 2,387,722	\$ 2,184,327
Company common stock	811,686	101,327
Pooled separate accounts		495,606
Net appreciation in fair value of investments	\$ 3,199,408	\$ 2,781,260

**4. Investment Contracts with Insurance Company**

Effective October 8, 2004, the Plan participates in contracts with Mass Mutual via investment in the Mass Mutual Separate Account Guaranteed Interest Contract ( SAGIC ), which consists of a Book Value Account and a Market Value Account. The Book Value Account is credited a guaranteed rate that is reset semiannually. The interest rate was 4.2% for the period from October 8, 2004 through December 31, 2004 and ranged from 3.3% to 3.7% for the year ended December 31, 2005. Since the guaranteed crediting rate cannot be reset below zero percent, at a minimum, the participant's principal is guaranteed while the contract is in place. The Market Value Account is maintained at fair value, which included realized gains and losses and unrealized gains or losses of the underlying pooled separate investment account. The SAGIC is fully benefit responsive for all participant initiated withdrawals, including distributions, loans and transfers to other investment options.

Through October 8, 2004, the Plan participated in contracts with CG Life via investment in the CIGNA Guaranteed Long-Term Account ( Long-Term Account ). CG Life commingles the assets of the Long-Term Account with other assets. In certain instances, when total distributions or transfers in the Long-Term Account within a calendar year exceed certain pre-determined thresholds (e.g. 10% of the balance of the Fund on the first day of the year), transactions in the Long-Term Account may face certain restrictions, in accordance with the contract terms. This could potentially result in the Long-Term Account not being fully benefit responsive in certain instances. For the Plan's investment in the Long-Term Account, the Plan is credited with interest at various interest rates which ranged from 3.0% to 3.2% for the period January 1, 2004 through October 8, 2004. CG Life prospectively guaranteed the interest rates credited for the Long-Term Account for six months.

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS, Continued**

**4. Investment Contracts with Insurance Company, continued**

As discussed in Note 2, the Guaranteed Interest Account is included in the statement of net assets available for benefits at contract value, which because of the periodic interest rate reset process, approximates fair value.

**5. Party-In-Interest Transactions**

Plan assets include investment in funds managed by the Trustee and thus, such transactions qualify as party-in-interest transactions under ERISA. Personnel and facilities of the Company have been used to perform administrative functions for the Plan at no charge to the Plan.

The Plan invests in a unitized stock fund, HCC Insurance Holdings, Inc. Common Stock (the Fund), which is comprised of a short-term investment fund component and shares of common stock of HCC Insurance Holdings, Inc., the Plan sponsor. The total value of the Plan's interest in the Fund was \$3,426,857 and \$2,379,694 at December 31, 2005 and 2004, respectively.

**6. Tax Status**

The Internal Revenue Service has determined and informed the Company by a letter dated October 17, 2002, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). The Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC; therefore, the related trust is tax exempt as of the date of the financial statements.

**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN  
NOTES TO FINANCIAL STATEMENTS, Continued**

**7. Reconciliation of Plan Financial Statements to Form 5500**

The following is a reconciliation of the net increase in net assets available for benefits per the financial statements to the Form 5500 for the years ended December 31, 2005 and 2004:

	2005	2004
Net increase in net assets available for benefits per the financial statements	\$ 9,163,243	\$ 4,890,807
Plus: Contributions receivable from prior year		12,232
Net increase in net assets available for benefits per Form 5500	\$ 9,163,243	\$ 4,903,039

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**SUPPLEMENTAL SCHEDULE**

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**HCC INSURANCE HOLDINGS, INC. 401(K) PLAN**  
**SCHEDULE H, Item 4i SCHEDULE OF ASSETS (HELD AT END OF YEAR)**  
**DECEMBER 31, 2005**

EIN: 76-0336636

PN: 002

(a)	(b) Identity of Issue, Borrower, Lessor or Similar Party	(c) Description of Investment, Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(e) Current Value*	
**	HCC Insurance Holdings, Inc.	Common stock HCC Insurance Holdings, Inc.	\$ 3,426,857	***
**	Mass Mutual	Alliance Bern Small Mid Cap Value Fund	144,869	
**	Mass Mutual	American Funds EuroPacific Growth Fund	1,974,285	
**	Mass Mutual	American Funds Washington Mutual Investment Fund	549,865	
**	Mass Mutual	American Growth Fund of America Fund	1,841,561	
**	Mass Mutual	Calamos Financial Growth Fund	1,759,057	
**	Mass Mutual	Destination Retirement Income 2010 Fund	274,523	
**	Mass Mutual	Destination Retirement Income 2020 Fund	667,576	
**	Mass Mutual	Destination Retirement Income 2030 Fund	801,935	
**	Mass Mutual	Destination Retirement Income 2040 Fund	525,454	
**	Mass Mutual	Destination Retirement Income Fund	130,896	
**	Mass Mutual	Guaranteed Interest Contract Fixed Income Fund	13,972,182	***
**	Mass Mutual	Oakmark Equity & Income II Fund	1,532,427	
**	Mass Mutual	Oppenheimer Capital Appreciation Fund	1,710,506	
**	Mass Mutual	Oppenheimer Global Fund	3,152,854	***
**	Mass Mutual	PIMCO Total Return Fund	2,236,280	
**	Mass Mutual	Premier Diversified Bond Fund	362,665	
**	Mass Mutual	Select Aggressive Growth Fund	1,394,736	
**	Mass Mutual	Select Focused Value Fund	868,445	
**	Mass Mutual	Select Fundamental Value Fund	2,349,003	
**	Mass Mutual	Select Indexed Equity Fund	5,748,500	***
**	Mass Mutual	Select Mid Cap Growth Equity II Fund	1,233,256	
**	Mass Mutual	Select Overseas Fund	221,539	
**	Mass Mutual	Select Small Company Growth Fund	984,523	
**	Mass Mutual	Select Small Company Value Fund	3,328,057	***
**	Mass Mutual	Victory Diversified Stock Fund	446,189	
		Loans to participants bearing interest at rates ranging from 4.75% to 9.50%	596,442	
			\$52,234,482	

\* Cost information is not presented because all investments are

participant  
directed.

\*\* Represents  
party-in-interest  
transactions.

\*\*\* Represents  
investments  
comprising at  
least 5% of net  
assets available  
for benefits.

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**SIGNATURES**

*The Plan* Pursuant to the requirements of the Securities Exchange Act of 1934, the administrator of the HCC Insurance Holdings, Inc. 401(k) Plan has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Houston, State of Texas, on the 27th day of June, 2006.

HCC INSURANCE HOLDINGS, INC.  
401(k) PLAN

By: HCC Insurance Holdings, Inc.,  
Administrator

By: /s/ Christopher L. Martin

Christopher L. Martin,  
Executive Vice President, General  
Counsel  
and Secretary

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**Exhibit Index**

Exhibit	Description
23.1	Consent of Ham, Langston & Brezina L.L.P.