QUANTA CAPITAL HOLDINGS LTD
Form 424B3
December 08, 2005
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This addendum is not, and under no circumstances is it to be construed as, an advertisement or a public offering of the securities referred to herein in Austria, Belgium, Denmark, Finland, France, Germany, Iceland, the Republic of Ireland, Israel, the Republic of Italy, Luxembourg, the Netherlands, Norway, Spain, Switzerland, and the United Kingdom (the ''Countries''). No securities commission or similar authority in the Countries has reviewed or in any way passed on the merits of the securities described herein.

3,000,000 Series A Preferred Shares
Quanta Capital Holdings Ltd.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each underwriter has represented and agreed, and each further underwriter appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Securities to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Securities to the public in that Relevant Member State:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
(c) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an ''offer of Securities to the public'' in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Securities to be offered so as to enable an investor to decide to purchase or subscribe the Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

AUSTRIA

The description in this document is no investment advice but serves as description of certain aspects of the security only. In particular this document is not a recommendation to invest in the security. An investment decision should only be made after review of the binding security documentation and after consultation by the potential investor of its legal, tax, business or other advisors.

Past performance does not permit reliable conclusions to be drawn as to the future performance of a security.

No public offer within the meaning of section 24 of the Austrian Investment Funds Act (Investmentfondsgesetz) or section 1 para 1 no 1 of the Austrian Capital Market Act (Kapitalmarktgesetz) of the Securities is made in Austria. The Securities are not registered or authorized for distribution under the Austrian Investment Funds Act.

The Securities are offered by way of a private placement in Austria to not more than 250 addressees in Austria whereby the offeror specified the addressees by specific criteria and laid down the identity of the addressees of the offer by name before the offer.

Neither the fund nor its manager are under the supervision of the Austrian Financial Market Authority (Finanzmarktaufsichtsbehörde) or any other Austrian supervision authority.

Neither this document nor any other document in connection with the fund is a prospectus according to the Austrian Investment Funds Act or the Austrian Capital Markets Act and has therefore not been drawn up, audited and published in accordance with such acts.

BELGIUM

This Prospectus has not been submitted for approval to the Belgian Banking, Finance and Insurance Commission and accordingly, the Securities may not be distributed in Belgium by way of a public offering, as defined for the purposes of the law of 22 April 2003 on public offerings of Securities and the royal decree of 7 July 1999 on the public nature of financial transactions, as amended or replaced from time to time.

DENMARK

This prospectus has not been filed with or approved by the Danish Financial Supervisory Authority (''Finanstilsynet'') or any other regulatory authority in Denmark.

The Securities have not been offered or sold and may not be offered, sold or delivered directly or indirectly in Denmark, unless in compliance with Part 12 of the Danish Act on Trading in Securities and Executive Orders issued pursuant hereto.

FINLAND

This prospectus has not been prepared to comply with the standards and requirements regarding public offering prospectuses set forth in the Finnish Securities Markets Act (26 May 1989/495, as amended) and underlying Finnish regulation, and it has not been approved by the Finnish Financial Supervision Authority. No action has been taken in Finland that would permit the public offering of the Securities. The Securities may not be offered, sold, advertised or otherwise marketed in Finland under circumstances, which constitute a public offering of Securities under Finnish law.

FRANCE

This Invitation has not been submitted to the registration procedures of the French Autorité des Marchés Financiers and, accordingly, the offer described therein shall not be made to the public in France. Offers may be made only to qualified investors (investisseurs qualifiés), acting for their account, all as defined in, and in accordance with articles L.411-1, L.411-2 and D.411-1 of the French Code monétaire et financier. This Invitation or any other offering materials relating to the transactions contained herein may not be distributed in France to any person other than qualified investors or a restricted group of investors as defined therein.

GERMANY

Each underwriter has confirmed that it is aware of the fact that no German sales prospectus (Verkaufsprospekt) within the meaning of the Securities Sales Prospectus Act (Wertpapier-Verkaufsprospektgesetz, the ''Act'') of the Federal Republic of Germany has been or will been published with respect to the Securities and that it will comply with the Act. In particular, each of the underwriters has represented that it has not engaged and has agreed that it will not engage in a public offering (öffentliches Angebot) within the meaning of the Act with respect to any Securities otherwise than in accordance with the Act and all other applicable legal and regulatory requirements.

ICELAND

THIS DOCUMENT HAS BEEN ISSUED TO YOU FOR YOUR PERSONAL USE ONLY AND EXCLUSIVELY FOR THE PURPOSES OF THE INVESTMENT SCHEME. ACCORDINGLY, THIS DOCUMENT MAY NOT BE USED FOR ANY OTHER PURPOSE NOR PASSED ON TO ANY

OTHER PERSON IN ICELAND. THE SECURITIES OFFERING DESCRIBED IN THIS MEMORANDUM IS AN UNREGULATED INVESTMENT SCHEME. THE SECURITIES WHICH ARE THE OBJECT OF THIS MEMORANDUM ARE NOT REGISTERED FOR PUBLIC DISTRIBUTION IN ICELAND WITH THE FINANCIAL SUPERVISORY AUTHORITY PURSUANT TO THE ICELANDIC ACT ON SECURITIES TRANSACTIONS NO. 33/2003 OR THE ICELANDIC ACT ON UCITS-FUNDS AND OTHER INVESTMENT FUNDS NO. 30/2003 AND SUPPLEMENTARY REGULATIONS. THE SECURITIES MAY NOT BE OFFERED OR SOLD BY MEANS OF THIS MEMORANDUM OR ANYWAY LATER RESOLD TO OTHER THAN ENTITIES OR PERSONS DEFINED AS INSTITUTIONAL INVESTORS IN THE MEANING OF ITEM NO. 7. IN ARTICLE 2 OF THE ICELANDIC ACT ON SECURITIES TRANSACTIONS AND THE REGULATION OF THE TRANSACTIONS OF SECURITIES NO. 233/2003. ANY RESALE OF THE SECURITIES IN ICELAND WILL NEED TO TAKE PLACE IN ACCORDANCE WITH THE PROVISIONS OF THE ICELANDIC ACT ON SECURITIES TRANSACTIONS.

ISRAEL

This Offer is intended solely for investors listed in the First Supplement of the Israeli Securities Law, 1968. A prospectus has not been prepared or filed, and will not be prepared or filed, in Israel relating to the Securities offered hereunder. Subject to all other provisions of the Israeli Securities Law, 1968, the Securities to be offered hereunder may not be offered or sold to more than thirty-five offerees, in the aggregate, who are resident of the State of Israel, except to entities who qualify to any of the exemptions under Section 15A(b) of the Israeli Securities Law, 1968.

IRELAND

This offering document has not been and will not be registered with any regulatory or other authorities in Ireland. It does not constitute an invitation to the public or any section thereof to subscribe for or purchase any Securities in any corporation or company and accordingly is not a prospectus within the meaning of the Companies Act, 1963 (as amended) of Ireland or the European Communities (Transferable Securities and Stock Exchange) Regulations, 1992 of Ireland. The information contained herein relates to an offering of Securities to certain persons whose ordinary business is to buy or sell shares and to whom the Securities are offered in the context of their trades, professions or occupations. This offering document may not be reproduced, redistributed or passed on to any other person(s) in Ireland. If you are not interested or you are not the intended recipient please return to Friedman, Billings, Ramsey International, Ltd.

ITALY

This prospectus has not been submitted to the clearance procedures of Commissione Nazionale per le Società e la Borsa (‘‘Consob’’) and has not been and will not be subject to the formal review or clearance procedures of Consob and accordingly may not be used in connection with any offering of Shares in the Republic of Italy (‘‘Italy’’) other than to ‘‘Professional Investors’’ (as defined below and in accordance with applicable Italian securities laws and regulations).

Any offer or issue of Shares in Italy in relation to the offering is being made only to professional investors (each a ‘‘Professional Investor’’), pursuant to Article 30, paragraph 2 and Article 100 a) of Legislative Decree No. 58 of 24 February 1998, as amended (‘‘Decree No. 58’’) and as defined in Articles 25 and 31, paragraph 2 of Consob Regulation No. 11522 of 1 July 1998, as amended (‘‘Regulation No. 11522’’), and excluding individuals as defined pursuant to the aforementioned Article 31, paragraph 2, who meet the requirements in order to exercise administrative, managerial or supervisory functions at a registered securities dealing firm (a società di intermediazione mobiliare, or ‘‘SIM’’), asset management companies authorised to manage individual portfolios on behalf of third parties (società di gestione del risparmio, or ‘‘SGR’’) and fiduciary companies (società fiduciarie) managing portfolio investments regulated by Article 60, paragraph 4 of Legislative Decree No. 415 of 23 July 1996 and otherwise in accordance with applicable Italian laws and regulations provided therein. Any such offer or issue or any distribution of this prospectus within Italy and in connection with the offering must be conducted by banks, investment firms (as defined

in Decree No. 58) or financial intermediaries enrolled in the special register provided for by Article 107 of Legislative Decree No. 385 of 1 September 1993, as amended, to the extent duly authorised to engage in the placement and/or underwriting of financial instruments in Italy in accordance with the relevant provisions of Decree No. 58.

LUXEMBOURG

THIS OFFERING SHOULD NOT BE CONSIDERED A PUBLIC OFFERING IN THE GRAND DUCHY OF LUXEMBOURG. THIS PROSPECTUS MAY NOT BE REPRODUCED OR USED FOR ANY PURPOSE OTHER THAN THIS PRIVATE PLACEMENT, NOR PROVIDED TO ANY PERSON OTHER THAN THE RECIPIENT THEREOF.

NETHERLANDS

The Securities may only be offered or sold in The Netherlands, as part of their initial distribution or as part of any re-offering, and this Prospectus may only be distributed and circulated, and any offer of these Securities shall only be announced in writing (whether electronically or otherwise) in The Netherlands, to individuals or legal entities who or which trade in securities in the conduct of a business or profession (‘‘Professional Investors’’, which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institutions, central governments, large international and supranational organisations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities) provided that it will be made clear upon making any such offers and from any and all documents or advertisements in which the forthcoming offering of the Securities is publicly announced in The Netherlands that the offer is exclusively made to such Professional Investors in The Netherlands.

NORWAY

In Norway, the Shares will only be offered to institutional investors with a minimum subscription and allotment amount per investor of EUR 40,000. This prospectus has neither been approved or disapproved by the Oslo Stock Exchange nor filed with the Norwegian Companies Register.

SPAIN

The Securities may not be offered, sold or distributed in Spain save in accordance with the requirements of Law 24/1988, of 28 July, on the Securities Market Law (Ley 24/1988, de 28 de julio, del Mercado de Valores), as amended and restated, and Royal Decree 291/1992, of 27 March, on Issues and Public Offerings of Securities (Real Decreto 291/1992, de 27 de marzo, sobre Emisiones y Ofertas Públicas de Venta de Valores), as amended and restated, and the decrees and regulations made thereunder. Accordingly, the Securities may not be offered, sold or distributed in Spain except in circumstances which do not constitute a public offer of Securities in Spain within the meaning of Spanish securities laws and regulations or without complying with all legal and regulatory requirements in relation thereto.

This Prospectus has not been verified or registered with the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores), and therefore it is not intended for any public offer of the securities in Spain.

SWITZERLAND

THIS OFFERING DOCUMENT MAY ONLY BE USED BY THOSE PERSONS TO WHOM IT HAS BEEN HANDED OUT IN CONNECTION WITH THE OFFER DESCRIBED THEREIN. THE SECURITIES ARE NOT OFFERED TO THE PUBLIC IN SWITZERLAND. THIS OFFERING DOCUMENT CONSTITUTES NEITHER A PUBLIC OFFER IN SWITZERLAND NOR A PROSPECTUS IN ACCORDANCE WITH THE RESPECTIVE SWISS LEGISLATION. ACCORDINGLY, THIS OFFERING DOCUMENT MAY NOT BE USED IN CONNECTION WITH ANY OTHER OFFER AND SHALL IN PARTICULAR NOT BE DISTRIBUTED TO THE PUBLIC IN SWITZERLAND.

UNITED KINGDOM

Each underwriter represents, warrants and agrees that:

(i) it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any Securities to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers at Securities Regulations 1995;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the ‘‘FSMA’’)) received by it in connection with the issue or sale of any Securities or GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United

Kingdom.

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 5, 2005

PROSPECTUS SUPPLEMENT
(To Prospectus dated November 2, 2005)

3,000,000 Shares

Quanta Capital Holdings Ltd.

% Series A Preferred Shares
(Liquidation Preference $25 Per Share)

We are selling 3,000,000 shares of our % series A preferred shares, par value $0.01 per share.

Upon liquidation, dissolution or winding-up, the holders of the series A preferred shares will be entitled to receive from our assets legally available for distribution to shareholders a liquidation preference of $25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date fixed for distribution. Dividends on the series A preferred shares will be payable on a non-cumulative basis only when, as and if declared by our board of directors, quarterly in arrears on the fifteenth day of March, June, September and December of each year, commencing on March 15, 2006. Dividends declared on the series A preferred shares will be payable at an initial rate equal to % of the liquidation preference per annum (equivalent to $ per share) up to but not including June 15, 2006. On June 15, 2006, December 15, 2006, June 15, 2007 and December 15, 2007, the dividend rate will reset to the dividend rate per annum in effect immediately prior to the reset plus % of the liquidation preference per annum (equivalent to $ per share). From and after December 15, 2007, dividends declared on the series A preferred shares will be payable at a rate equal to % of the liquidation preference per annum (equivalent to $ per share).

On and after December 15, 2010, we may redeem the series A preferred shares, in whole or in part, at any time, at the redemption price described in this prospectus supplement, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption. We may not redeem the series A preferred shares before December 15, 2010 except that we may redeem the series A preferred shares before that date at a redemption price of $26 per share, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption, if we submit to the holders of our common shares a proposal for an amalgamation, consolidation, merger, arrangement, reconstruction, reincorporation, de-registration or any other similar transaction involving Quanta Capital Holdings Ltd. that requires, or if we submit any proposal for any other matter that, as a result of any change in Bermuda law after the date of this prospectus supplement (whether by enactment or official interpretation) that requires, in either case, a vote of the holders of the series A preferred shares at the time outstanding, whether voting as a separate series or together with any other series or class of preferred shares as a single class. If we experience a change of control, we may be required to make offers to redeem the series A preferred shares at a price of $25.25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption and on the terms described in this prospectus supplement. The series A preferred shares have no stated maturity and will not be subject to any sinking fund and will not be convertible into any of our other securities or property.

There is currently no public market for the series A preferred shares. We have applied to list the series A preferred shares on the Nasdaq National Market System, or Nasdaq, under the symbol "QNTAP." If the application is approved, trading in the series A preferred shares is expected to commence within 30 days after the initial delivery of the series A preferred shares. Our common shares are listed on Nasdaq under the symbol "QNTA."

You are urged to carefully read the "Risk Factors" section beginning on page S-19 of this prospectus supplement and on page 6 of the accompanying prospectus where specific risks associated with the series A preferred shares are described, along with the other information in this prospectus supplement and the accompanying prospectus, before you make your investment decision.

	Per Share	Total
Initial Public Offering Price[1]	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to Quanta Capital Holdings Ltd. (before expenses)	$	$

[1] Plus declared dividends, if any, from and including the date of the original issuance.

None of the Securities and Exchange Commission, any state securities and insurance regulators, the Registrar of Companies in Bermuda or the Bermuda Monetary Authority has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful and complete. Any representation to the contrary is a criminal offense.

We have granted the underwriters a 30-day option to purchase up to an additional 450,000 preferred shares solely to cover over-allotments, if any. The above table does not include the shares that we will issue upon the exercise of the over-allotment option.

The underwriters expect to deliver the series A preferred shares to purchasers on or about , 2005.

Friedman Billings Ramsey

BB&T Capital Markets
A division of Scott & Stringfellow, Inc.

The date of this prospectus supplement is , 2005

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus relate to the offer and sale by us of the series A preferred shares. You should rely only on the information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the underwriters are not making an offer to sell the series A preferred shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, results of operations, financial condition and prospects may have changed since those dates.

This prospectus supplement contains basic information about us and the series A preferred shares. This prospectus supplement may add, update or change information contained in or incorporated by reference into the accompanying prospectus. In addition, the information incorporated by reference into the accompanying prospectus may have added, updated or changed information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with any information in the accompanying prospectus or any information incorporated therein by reference, this prospectus supplement will apply and will supersede such information in the accompanying prospectus. It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the additional information under the caption "Where You Can Find More Information" and "Incorporation of Certain Information by Reference" in this prospectus supplement.

Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act of 2003 of Bermuda, which regulates the sale of securities in Bermuda. In addition, the Bermuda Monetary Authority, or the BMA, must approve all issuances and transfers of securities of a Bermuda exempted company. Where any equity securities (meaning shares which entitle the holder to vote for or appoint one or more directors or securities which by their terms are convertible into shares which entitle the holder to vote for or appoint one or more directors) of a Bermuda company are listed on an appointed stock exchange (which includes Nasdaq) the BMA has given general permission for the issue and subsequent transfer of any securities of the company from and/or to a non-resident for so long as any such equity securities of the company remain so listed. A copy of this prospectus must be filed with the Registrar of Companies in Bermuda in accordance with Bermuda law. The BMA and the Registrar of Companies accept no responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed in this prospectus supplement or in the accompanying prospectus.

As used in this prospectus supplement and the accompanying prospectus, references to the "company," "we," "us" or "our" refer to Quanta Capital Holdings Ltd. and its subsidiaries and U.K. branch, which include, Quanta Reinsurance Ltd., Quanta U.S. Holdings Inc., Quanta Reinsurance U.S. Ltd., Quanta Indemnity Company, Quanta Specialty Lines Insurance Company, Quanta Europe Ltd., Quanta 4000 Ltd., Environmental Strategies Consulting LLC, Quanta Technical Services LLC and Quanta Europe Ltd.'s branch in the United Kingdom, unless the context suggests otherwise. We refer to Quanta Reinsurance Ltd., Quanta Reinsurance U.S. Ltd., Quanta Indemnity Company, Quanta Specialty Lines Insurance Company, Quanta Europe Ltd., Environmental Strategies Consulting LLC, Quanta Europe Ltd.'s branch in the United Kingdom and our Lloyd's syndicate as Quanta Bermuda, Quanta U.S. Re, Quanta Indemnity, Quanta Specialty Lines, Quanta Europe, ESC, Quanta U.K. and Syndicate 4000, as the case may be. References to Quanta Holdings refer solely to Quanta Capital Holdings Ltd.

Unless otherwise indicated, all information presented herein assumes that the underwriters' over-allotment option is not exercised.

In this prospectus supplement and the accompanying prospectus, amounts are expressed in U.S. dollars, except as otherwise indicated, and the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. We have registered the mark "Quanta" in the U.S. Patent and Trademark Office. All other brand names or trade names appearing in this prospectus supplement and the accompanying prospectus are the property of their respective holders.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information that you should consider before deciding to invest in our series A preferred shares. We urge you to read this entire prospectus supplement and the accompanying prospectus carefully, including the "Risk Factors" sections and the consolidated financial statements and related notes included elsewhere in or incorporated into this prospectus supplement. Concurrently with this offering we intend to offer our common equity, which offerings are part of our plan that is designed to maintain our current rating with A.M. Best. See "Recent Developments."

Our Company

We are a Bermuda holding company that provides specialty insurance, specialty reinsurance, risk assessment and risk consulting products and services on a global basis through our subsidiaries. We were incorporated in May 2003 and began conducting our business in September 2003. We focus on writing coverage for specialized classes of risk through a team of experienced, technically qualified underwriters. Our specialty lines insurance and reinsurance products differ significantly from products written in the standard market. In the standard market, insurance rates and forms are highly regulated, products and coverages are largely uniform and have relatively predictable exposures, and companies tend to compete for customers on the basis of price and service. In contrast, the specialty insurance and reinsurance markets provide coverage for risks that are often unusual or difficult to place and do not fit the underwriting criteria of standard commercial products carriers. As a result, our insurance and reinsurance products require extensive technical underwriting skills and risk assessment resources and, in many cases, engineering expertise, in order to be profitably underwritten. We also provide risk assessment and risk consulting products and services to our clients.

We organize our business on a matrix of five product lines and three geographies. Our two traditional product lines are specialty insurance and specialty reinsurance. We also have programs, structured products and technical services product lines. Our products currently include professional liability, environmental liability, fidelity and crime, surety, trade credit, property, casualty, warranty and marine and aviation. We have recently discontinued writing any new and most renewal business in our property reinsurance and technical risk property insurance lines, except for our residential builders' and contractors' program, or HBW program, and other program businesses. Products we offer can be written as traditional insurance or reinsurance or combined on a structured or program basis. Some of our product lines are aggregated for purposes of financial reporting.

Our geographies are the United States, Bermuda and Europe. We started our business in Bermuda and expanded into the United States shortly after we commenced operations. Since December 2004, we participate in the Lloyd's of London market, or Lloyd's, through our subsidiary, Syndicate 4000, which currently writes traditional specialty insurance products, including professional liability (professional indemnity and directors' and officers' coverage), fidelity and crime (financial institutions). We have also begun writing European Union sourced insurance and reinsurance business through Quanta Europe, our Irish subsidiary, since the fourth quarter of 2004, as well as insurance and reinsurance business in the London market through Quanta U.K., our U.K. branch, since February 2005.

Our objective is to target insurance and reinsurance products and areas where we believe we can derive a competitive advantage from our technical underwriting skills and risk assessment resources and that meet our risk and long-term profitability criteria. We proactively manage our allocation of capital and resources among our insurance and reinsurance product lines and among areas within those product lines. We intend to focus on our specialty insurance and reinsurance product lines where we believe we can take advantage of our technical expertise and have the ability to realize an underwriting profit. We plan to assess market conditions on an ongoing basis to selectively seek out opportunities to expand our business as well as reduce our capacity in product lines which we believe no longer afford attractive returns. While we expect our returns to be impacted by the cyclical nature of the insurance and reinsurance industry, we believe that products and policies within specialty insurance and reinsurance lines that require technical underwriting and risk assessment expertise experience less competitive pricing pressure and volatility over a period of time because of barriers to entering these markets, which exist principally due to the difficulty of acquiring experienced and specialized personnel with these skills.

Quanta Holdings' principal executive offices are located at Cumberland House, 1 Victoria Street, Hamilton HM 11, Bermuda, and its telephone number is (441) 294-6350.

Recent Developments

On October 26, 2005, we announced that our total estimated net losses net of reinsurance recoveries and reinstatement premiums related to Hurricanes Katrina and Rita are expected to be approximately $68.5 million, including reinstatement premiums. Our estimate of net losses is derived from a combination of a review of in-force contracts and preliminary loss information from our clients, brokers and loss adjusters and the output of industry models. Our actual losses from Hurricanes Katrina and Rita may ultimately differ materially from our estimated losses.

Hurricane Wilma will impact our results for the fourth quarter of 2005, especially in our property reinsurance and technical risk property business. At this time, we estimate that our net losses related to Hurricane Wilma will be between approximately $8 million and $15 million. Because this event is so recent and assessments of damages are preliminary, we are unable to estimate with any accuracy our net losses related to Hurricane Wilma. Our actual losses from Hurricane Wilma may ultimately differ materially from our preliminary assessment of losses. We have additional reinsurance coverage which we expect would cover losses from Hurricane Wilma that exceed our current estimated losses. However, if our actual losses from Hurricane Wilma are substantially greater than our preliminary assessment of losses, this reinsurance may not fully cover the additional losses and our business, results of operations and financial condition could be materially adversely affected.

As a result of the losses we expect due to Hurricanes Katrina and Rita, on October 5, 2005, A.M. Best Company, or A.M. Best, placed the financial strength rating assigned to Quanta Bermuda and its subsidiaries and Quanta Europe, currently "A–" (excellent), under review with negative implications. A.M. Best ratings are based on a company's available and required rated capital to support its operations considering a quantitative evaluation of a company's performance with respect to profitability, leverage, and liquidity and a qualitative evaluation of spread of risk, investments, reinsurance programs, reserves and management. In addition, its ratings of us take into consideration the fact that we have recently commenced our operations and an assessment of the legal and inflationary environments within which we operate. Due to the nature, frequency and severity of the hurricanes in 2004 and 2005, we believe A.M. Best has reassessed certain variables, including the capital adequacy ratio, that are considered in its quantitative analyses in assessing both required and available rated capital. As a result of this reassessment, we believe that the capital requirements for property and casualty reinsurers have generally been increased and a number of these companies have been downgraded due to their inability to meet A.M. Best's new requirements.

Based on our discussions with A.M. Best, upon implementation of the plan described below, we believe that A.M. Best will conclude its review, remove us from negative watch and initially ascribe a negative outlook to our current "A–" rating. The plan designed to retain our current rating of "A–" (excellent) has two elements. The first element of our plan is the completion of the Property Transaction and Casualty Reinsurance Transaction described below, which is intended to reduce our capital requirements in light of A.M. Best's revised capital requirements and the probable maximum losses associated with our business. The second element of this plan is the completion of this offering and the concurrent offering described below to increase our available rated capital. We expect that the qualification of our rating with a negative outlook will adversely affect our business, our opportunities to write new and renewal business and our ability to retain key employees. We will continue to work with A.M. Best in 2006 and intend to actively seek the return of our rating to "A−" (excellent)

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without any qualification. There is no assurance as to what rating actions A.M. Best may take now or in the future or whether A.M. Best will remove any qualification of our rating. See "Risk Factors—A downgrade or qualification in our rating by A.M. Best will adversely affect our ability to execute our business strategy."

Property Transaction

We have recently discontinued writing any new and most renewal property business in our property reinsurance and technical risk property business, except for our HBW program and other program business. In addition, we have retroceded substantially all the in-force business, as of October 1, 2005, in these lines (other than our program business) by a portfolio transfer to a third party reinsurer, which we refer to as the Property Transaction. The Property Transaction limits our property reinsurance and technical risk property losses to those relating to Hurricane Wilma and those we have incurred through September 30, 2005 (including incurred but not reported losses), which includes losses relating to Hurricanes Katrina and Rita. Under the Property Transaction, we also transferred all future premiums earned for that business and loss and acquisition expenses incurred from and after October 1, 2005 to the third party reinsurer. As a result, we expect the probable maximum loss for our property reinsurance businesses will be significantly reduced resulting in an increase in our available rated capital and a decrease in our net required capital providing a net credit from A.M. Best with respect to the capital they require us to have. The impact of the Property Transaction, to be recorded in our results of operations in the fourth quarter of 2005, is a net expense to us of approximately $1.2 million and results from ceding approximately $44.4 million of net unearned premium reserves as of October 1, 2005 at a price of approximately $45.6 million reflecting the agreed value of the business. With respect to the transfer of the technical property risk business subject to the Property Transaction, the reinsurer has also charged additional premiums of approximately $2.1 million, which will be expensed over the term of the retrocession agreement (October 1, 2005 to December 31, 2006) in proportion to the amount of protection provided by the retrocession agreement. Additionally, reinsurance protections associated with the technical risk property business subject to the Property Transaction that were in-force as of October 1, 2005 will inure to the benefit of the third party reinsurer. To the extent these reinsurance agreements expire during the term of the retrocession agreement, we will be required to purchase additional reinsurance from the third party reinsurer on August 1, 2006 for a premium of $750,000 and may be required to purchase additional new reinsurance protections.

The property reinsurance and technical risk property product lines subject to the Property Transaction accounted for gross premiums written and net premiums written of approximately $108.0 million and $107.0 million for the year ended December 31, 2004 and approximately $91.1 million and $72.0 million for the nine months ended September 30, 2005. Our net underwriting losses for the product lines subject to the Property Transaction were approximately $47.4 million for the year ended December 31, 2004 and approximately $33.9 million for the nine months ended September 30, 2005.

Casualty Reinsurance Transaction

As part of the first element of our plan, we also commuted two of our casualty reinsurance treaties back to the insurance company which had reinsured it with us, which we refer to as the Casualty Reinsurance Transaction. This reduces the amount of casualty reinsurance business we have and results in a lower capital requirement from A.M. Best. The impact of the Casualty Reinsurance Transaction to be recorded in our results of operations in the fourth quarter of 2005, is a net expense to us of approximately $1.4 million and results from us returning approximately $15.3 million of premium to the company which had reinsured the business with us as well as the settlement of losses of approximately $26.7 million related to the applicable treaties. The difference between the settlement of losses of $26.7 million and the carried losses reserves of $25.3 million as of September 30, 2005 reflects the agreed upon allocation of historical profit of the business. In addition to settling all of our existing loss and loss expense reserves with respect to the treaties subject to the Casualty

Reinsurance Transaction as of September 30, 2005, we have been released from all future obligations associated with the underlying reinsurance treaties.

The two casualty reinsurance treaties subject to the Casualty Reinsurance Transaction accounted for gross premiums written and net premiums written of approximately $36.7 million for the year ended December 31, 2004 and approximately $22.7 million for the nine months ended September 30, 2005. Our net underwriting income relating to those two casualty reinsurance treaties was approximately $1.6 million for the year ended December 31, 2004 and approximately $3.3 million for the nine months ended September 30, 2005.

We refer to the Property Transaction and the Casualty Reinsurance Transaction collectively as the Transactions. Certain financial aspects of the Transactions described above that will be recorded in our results of operations during the fourth quarter of 2005 are set forth in the table below:

	Estimated Impact of Transactions		
	Property Line Subject to the Property Transaction	Casualty Reinsurance Subject to the Property Transaction	Total
	($ in thousands)		
Gross premiums written	$ —	$ (15,333)	$ (15,333)
Premiums ceded	(45,644)	—	(45,644)
Net premiums written	(45,644)	(15,333)	(60,977)
Change in net unearned premiums	44,489	15,333	59,822
Net premiums earned	(1,155)	—	(1,155)
Losses paid	—	(26,726)	(26,726)
Change in loss and loss expense reserves	—	25,341	25,341
Net losses and loss expenses	—	(1,385)	(1,385)
Acquisition expenses	—	—	—
Net (cost) of the Transactions	(1,155)	(1,385)	(2,540)

Following the Transactions, we will focus on our specialty insurance and reinsurance product lines where we believe we can take advantage of our technical underwriting and risk assessment expertise and have the ability to realize an underwriting profit, including professional liability and environmental liability. We also intend to continue to expand our business to help diversify our business mix and mitigate our exposure and our risks to any one product or territory, including through our Lloyd's syndicate and our European Union and London sourced business through Quanta Europe and Quanta U.K.

Offerings

The second element of our plan designed to maintain our current rating with A.M. Best is the completion of this offering and a concurrent offering of our common equity to increase our available rated capital. We estimate that we will receive aggregate gross proceeds (before underwriting discounts and other offering expenses) of approximately $120 million from these two offerings.

Changes in Corporate Governance and Management

On November 21, 2005, our board of directors appointed Robert Lippincott III as Interim Chief Executive Officer and President. Mr. Lippincott succeeded Tobey J. Russ who resigned as our chief executive officer and president and as a director. Mr. Lippincott has served as a director of our company since March 2005. He has over 36 years experience in the insurance industry, including as President of a consulting firm for insurance and reinsurance industries, Executive Vice President of Towers Perrin Reinsurance and Chairman, President and Chief Executive Officer of AXA Re Property and Casualty Insurance Company. For further information concerning Mr. Lippincott's

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experience in the insurance and reinsurance industries, see "Directors and Executive Officers." Our board of directors has also concluded its search for a permanent Chief Financial Officer and has appointed our Interim Chief Financial Officer, Jonathan J.R. Dodd, to that position. Mr. Dodd has been our Interim Chief Financial Officer since July 2005 and has been with us since October 2003, previously serving as our Group Controller.

On October 24, 2005, our board of directors elected James J. Ritchie as its Chairman of the Board. In his new role, Mr. Ritchie leads the work of our board of directors, particularly with respect to our strategy development and the monitoring of its execution. The board of directors also established an executive committee consisting of Mr. Ritchie, who serves as its chairman, and Robert Lippincott III, our Interim Chief Executive Officer and President. The executive committee has been charged to work with management on the execution of our core strategies.

As a result of the appointment of Mr. Lippincott as our Interim Chief Executive Officer and President, a majority of our board of directors is no longer comprised of independent directors as defined in the Nasdaq Marketplace Rules. Pursuant to the Nasdaq Marketplace Rules, we must regain compliance with the requirement by the earlier of our next annual shareholders' meeting or one year from the occurrence of the event that caused the failure to comply with this requirement. Our Governance and Nominating Committee has commenced a search for an independent director and intends to fill that vacancy prior to our annual general meeting of shareholders in 2006.

Strategy and Competitive Strengths

We believe that the insurance industry has experienced a significant loss of capital to support insurance business due to recognition of reserve deficiencies resulting from historical liability exposures, an adverse investment environment and credit downgrades of many insurers. We believe we can capitalize on the opportunities created by this continuing dislocation in the insurance marketplace. Our strategy is to operate an insurance company, with a solid capital base, strong management and an experienced team of specialty line underwriters. We are developing advanced risk assessment and loss control capabilities, applying those capabilities in the more technically demanding lines of insurance and deploying capital to what we believe will be the most attractive business lines at the most opportune times.

We are committed to building a diversified product portfolio and a cost-effective underwriting platform that will allow us to react quickly to changing market dynamics. Our competitive strengths and the key elements of this strategy are:

- Portfolio of Specialty Products with Strong Margins through Different Business Cycles. We offer specialty insurance, reinsurance and program lines that require technical proficiency to underwrite, such as professional liability, environmental liability, casualty, marine and aviation, fidelity and crime and surety. We believe that specialty lines tend to have some of the highest barriers to entry in the insurance industry. While we expect our returns to be impacted by the cyclical nature of the industry, we believe that specialty lines have the potential to offer high risk-adjusted returns on capital through different business cycles compared to insurers and reinsurers in other lines of business. Because we participate in multiple lines of business, we intend to develop a diversified book of business across product lines and geographies and maintain our flexibility to timely allocate our capital and resources to product lines that we believe will offer high risk-adjusted returns on capital through different business cycles.
- Disciplined Capital Management and Allocation. We intend to flexibly increase and decrease the amount of capital we allocate among product lines in response to our changing business needs and with the objective of maximizing our risk-adjusted return on capital. We allocate capital to product lines based on the characteristics, nature of underlying risks and net retention for each line, as well as its prospects for premium growth and profitability, which will be reviewed at least annually. We have implemented a plan that ties our underwriting officers' compensation to the long-term returns on allocated capital of their respective product

lines in order to incentivize them to achieve optimal returns on allocated capital and create accountability within each product line. We have also purchased and plan to continue to purchase reinsurance, retrocessional protection and other forms of protection to more efficiently manage the allocation of our capital and intend to continue to purchase these forms of protection when we deem it appropriate.
- Technical Risk Assessment and Loss Control Capabilities. We use our technical underwriting capabilities to help us assess risk, attempt to control potential losses and to price the risks we intend to insure and reinsure. We currently use ESC to provide diversified risk management services to assist customers in environmental remediation, regulatory analyses, technical support for environmental claims, merger and acquisition due diligence, environmental audits and risk assessments and engineering and information management services. ESC provides risk evaluation services to our underwriters in the environmental liability product line. We intend to use Quanta Technical Services to provide similar services for our other specialty lines so that we may use them as the platform for developing those capabilities in our other product lines. We believe that this will increase our ability to price risks in a manner that will produce superior underwriting results.
- Experienced Underwriters and Extensive Specialized Underwriting Capabilities. We have assembled a group of underwriting officers, underwriters and other professionals to write insurance and reinsurance policies. We have assembled teams of experienced professionals with specialized knowledge of their respective business lines. Each team is led by an experienced

underwriting officer with demonstrated performance in his/her specialty line. We support these underwriting officers with experienced underwriters who are also specialists in their respective product lines. We believe that the extensive depth and knowledge of our professionals and underwriting officers will provide us with the ability to successfully select, price and manage complex risks.

- Innovative and Customer-Focused Underwriting and Structured Insurance Products. We believe that the traditional insurance market does not take full advantage of opportunities to profit on individually tailored insurance transactions that combine capital markets and insurance techniques. The structured insurance market, which is often referred to as the alternative risk transfer or convergence market, focuses on clients whose risk transfer needs may not be efficiently met through traditional insurance products. We have established a structured insurance and reinsurance team that works closely with each of our product line teams to develop alternative risk products that meet our clients' needs. We believe our management team has extensive experience in developing customized structured products.
- Strong Market Relationships. We market our products principally through independent brokers and agents. Our senior management team and underwriting officers have industry relationships with major industry brokers. While many of the brokers that we use or intend to use have had longer-term relationships with our competitors than with us, we believe our industry relationships are allowing us to establish our presence in the global insurance and reinsurance markets.
- International Operations. We organize our business across five product lines and three geographies, which include the United States, Bermuda and Europe. Our Bermuda-based insurance operations allow us to access clients who seek Bermuda-based capacity to meet their insurance and reinsurance needs, as well as provide us access to Bermuda's well-developed network of insurance and reinsurance brokers. Our Lloyd's syndicate also provides us access to the A.M. Best "A" rated Lloyd's market in London as well as other jurisdictions. Through Quanta Europe, our Irish-based insurance operations are permitted to carry on the classes of insurance business for which it is authorized in any European Union

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member states as well as Iceland, Liechtenstein and Norway. We believe we benefit from our access to a pool of experienced professionals in Bermuda, Ireland and London with significant insurance expertise and its responsive regulatory environment that allows for the development and sale of innovative insurance and reinsurance products.

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The Offering

The description of the terms of the series A preferred shares in this section is only a summary of the terms of the series A preferred shares. Because the following summary is not complete, you should refer to the Certificate of Designation relating to the series A preferred shares for a complete description of the terms of the series A preferred shares. You should also refer to the sections entitled "Description of the Series A Preferred Shares" in this prospectus supplement and "Description of Share Capital" in the accompanying prospectus.

Issuer	Quanta Capital Holdings Ltd.
Securities Offered	% Series A Preferred Shares
Dividends	Dividends on the series A preferred shares, only when, as and if declared by our board of directors, will accumulate and be payable on the liquidation preference amount on a non-cumulative basis, quarterly in arrears on each dividend payment date. Dividends declared on the series A preferred shares will be payable at an initial rate equal to % of the liquidation preference per annum (equivalent to $ per share) up to but not including June 15, 2006. On June 15, 2006, December 15, 2006, June 15, 2007 and December 15, 2007, the dividend rate will reset to the dividend rate per annum in effect immediately prior to the reset plus % of the liquidation preference per annum (equivalent to $ per share). From and after December 15, 2007, dividends declared on the series A preferred shares will be payable at a rate equal to % of the liquidation preference per annum (equivalent to $ per share). See "Description of the Series A Preferred Shares — Dividends" in this prospectus supplement and "Description of Share Capital — Preferred Shares — Dividends" in the accompanying prospectus.
	Because dividends on the series A preferred shares are non-cumulative, if our board of directors does not authorize and declare a dividend for any dividend period, holders of the series A preferred shares will not be entitled to receive a dividend for such period, and such undeclared dividend will not accumulate and be payable. We will have no obligation to pay dividends for a dividend period after the dividend payment date for such period if our board of directors has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to the series A preferred shares.
	We believe that dividends paid by us to non-corporate holders on the series A preferred shares before 2009 should be eligible for reduced rates of tax up to a maximum of 15% as "qualified dividend income" if, as is intended, we successfully list the series A preferred shares on Nasdaq. Qualified dividend income is subject to tax at capital gain rates. Dividends paid by us to corporate

	holders on the series A preferred shares will not be eligible for a dividends received deduction. For further information, see "Material Tax Considerations — Taxation of Dividends" in this prospectus supplement.

Redemption	On and after December 15, 2010, we may redeem the series A preferred shares, in whole or in part, at any time, at the redemption price described in "Description of the Series A Preferred Shares — Redemption" in this prospectus supplement, plus declared but unpaid dividends and additional amounts, if any, without accumulation of any undeclared dividends to the date of redemption. At any time prior to December 15, 2010, if we submit to the holders of our common shares a proposal for an amalgamation, consolidation, merger, arrangement, reconstruction, reincorporation, de-registration or any other similar transaction involving Quanta Holdings that requires, or if we submit any proposal for any other matter that, as a result of any change in Bermuda law after the date of this prospectus supplement (whether by enactment or official interpretation) requires, in either case, a vote of the holders of the series A preferred shares at the time outstanding, whether voting as a separate series or together with any other series or class of preferred shares as a single class (alone or with one or more other classes or series of preferred shares), we have the option to redeem all of the outstanding series A preferred shares at a redemption price of $26 per share, plus declared but unpaid dividends and additional amounts, if any, without accumulation of any undeclared dividends to the date of redemption. We may also redeem the series A preferred shares before December 15, 2010 as described under "Description of the Series A Preferred Shares — Tax Redemption" in this prospectus supplement. See "Description of the Series A Preferred Shares — Redemption" in this prospectus supplement and "Description of Share Capital — Preferred Shares — Redemption" and "Description of Share Capital — Preferred Shares — Restrictions in Event of Default in Dividends on Preferred Shares" in the accompanying prospectus.
Redemption at the Option of the Holder	Upon the occurrence of specified change of control events, each holder of preferred shares will, subject to legally available funds and the terms and conditions of our bye-laws and memorandum of association, have the right to require us to redeem any or all of its shares at a redemption price equal to $25.25 per share, plus an

amount equal to any declared and unpaid dividends and additional amounts, if any, without accumulation of any undeclared dividends to, but excluding, the date of

	redemption. We will pay the redemption price in cash. Holders will have no other right to require us to redeem the preferred shares at any time. See "Description of the Series A Preferred Shares — Redemption at the Option of Holders" in this prospectus supplement.
Ranking	The series A preferred shares: • rank senior to our junior stock with respect to the payment of dividends and distributions upon our liquidation, dissolution or winding-up. Junior stock includes our common shares and any other class of our shares that ranks junior to the series A preferred shares either as to the payment of dividends or as to the distribution of assets upon any liquidation, dissolution or winding-up; • rank at least equally with any class of our shares ranking on parity with the series A preferred shares as to dividends and distributions upon our liquidation, dissolution or winding-up, which we refer to as parity stock. As of the date of this prospectus supplement, no series of parity stock or stock ranking senior to the series A preferred shares has been issued; and • are equity interests and do not constitute indebtedness and rank junior to all of our indebtedness and other non-equity claims against us with respect to assets available to satisfy claims, including in the event of our liquidation, dissolution or winding-up.
Liquidation Rights	Upon any liquidation, holders of the series A preferred shares are entitled to receive from our assets legally available for distribution to shareholders, before any distribution is made to holders of common shares or other junior stock, a liquidation preference in the amount of $25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date fixed for distribution without accumulation of any undeclared dividends. See "Description of the Series A Preferred Shares — Liquidation Rights" in this prospectus supplement and "Description of Share Capital — Preferred Shares — Liquidation, Dissolution or Winding Up" in the accompanying prospectus.
Voting Rights	Generally, the holders of the series A preferred shares will not have any voting rights. Whenever dividends on the series A preferred shares have not been declared by the board of directors and paid for an aggregate of six full dividend periods (whether or not consecutive), the holders of the series A preferred shares, together with the holders

	of all other current or future classes or series of parity stock, will vote together as a single class to elect two directors to our board of directors. The terms of office of such additional directors will terminate whenever dividends on the series A preferred shares and the parity stock then outstanding have been paid in full, or declared and sufficient funds have been set aside, for at least four dividend periods. In addition, certain transactions that would vary the rights of holders of the series A preferred shares cannot be made without the approval in writing of the holders of 75% of the series A preferred shares then outstanding or the sanction of a resolution passed by a majority of the votes cast at a separate meeting of the holders of the series A preferred shares. See "Description of the Series A Preferred Shares — Voting Rights" in this prospectus supplement and "Description of Share Capital — Preferred Shares — Voting Rights" in the accompanying prospectus.
Limitations on Transfer and Ownership	Our bye-laws and Certificate of Designation provide generally that any shareholder owning, directly, indirectly or, in the case of any U.S. Person (as defined herein), constructively or by attribution, shares with more than 9.5% of the total voting power of all shares (including the series A preferred shares) entitled to vote generally at an election of directors will have the voting rights attached to such shares reduced so that it may not exercise more than 9.5% of the total voting rights. The reduction in votes is generally to be applied proportionately among all shareholders who are members of the first shareholder's "control group" (as defined herein). See "Description of the Series A Preferred Shares — Limitations on Voting Rights and Restrictions on Transfer" in this prospectus supplement and "Description of Share Capital — Limitation on Voting Rights" and "— Restrictions on Transfer" in the accompanying prospectus.
Maturity	The series A preferred shares do not have any maturity date, and, except as described above, we are not required to redeem the series A preferred shares. Accordingly, the series A preferred shares will remain outstanding indefinitely, unless and until we decide or are required to redeem them.
Listing	We have applied to list the series A preferred shares on Nasdaq under the symbol "QNTAP." We expect that, if approved, trading of the series A preferred shares on Nasdaq will commence within a 30-day period after initial delivery of the series A preferred shares. See "Underwriting" in this prospectus supplement.
Ratings	The series A preferred shares have not been rated.

Use of Proceeds	We estimate that net proceeds to us from the sale of the series A preferred shares will be approximately $71.8 million, after expenses and underwriting discounts and commissions. We intend to use the net proceeds from the sale of the series A preferred shares for general corporate purposes.
Conversion	The series A preferred shares are not convertible into or exchangeable for any of our other securities or property.
Risk Factors	See "Risk Factors" beginning on page S-19 in this prospectus supplement and on page 6 in the accompanying prospectus for a discussion of factors you should consider carefully before deciding to invest in the series A preferred shares.
Concurrent Offering	Concurrently with this offering, we plan to offer our common equity. We plan to complete this offering and the concurrent offering to increase our available rated capital as part of our plan designed to maintain our current rating from A.M. Best.

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Summary Historical Consolidated Financial Information

The following summary historical consolidated financial information and other financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page S-34 in this prospectus supplement and the audited consolidated financial statements for the year ended December 31, 2004 and the unaudited condensed consolidated financial statements for the nine months ended September 30, 2005 and related notes beginning on page F-1 of this prospectus supplement.

The following tables set forth our summary historical consolidated financial information for the periods ended and as of the dates indicated and certain financial information relating to our product lines subject to the Property Transaction and our other product lines. The summary statement of operations data for the year ended December 31, 2004 and for the period from inception (May 2003) through December 31, 2003 and the summary balance sheet data as of December 31, 2004 and 2003 are derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004. The summary consolidated financial information as of and for the nine months ended September 30, 2005 and 2004 has been derived from the unaudited interim condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2005. This summary historical consolidated financial information should be read in conjunction with and is qualified by reference to these financial statements and the related notes. These historical results are not necessarily indicative of results to be expected for any future period.

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	($ in thousands, except for share and per share amounts)							
	Predecessor				Quanta Capital Holdings Ltd.[9]			
	For the year ended December 31,			For the period ended September 3,	For the period from May 23, 2003 to December 31,	For the year ended December 31,	For the nine months ended September 30, (unaudited)	
	2000	2001	2002	2003	2003[8]	2004	2004	20
Statement of Operations Data Revenues:								
Gross premiums written	$ —	$ —	$ —	$ —	$ 20,465	$ 494,412	$ 370,428	$ 51
Net premiums written	—	—	—	—	20,060	419,541	312,487	38
Net premiums earned (excluding reinstatement premiums)	$ —	$ —	$ —	$ —	$ 1,940	$ 241,321	$ 152,463	$ 30
Less: net reinstatement premiums for hurricanes	—	—	—	—	—	(4,181)	(2,850)	(
Net premiums earned	$ —	$ —	$ —	$ —	$ 1,940	$ 237,140	$ 149,613	$ 29
Technical services revenues	29,218	28,448	28,628	20,350	11,680	32,485	22,580	3
Net investment income	53	33	23	13	2,290	14,307	9,811	1
Net realized gains	—	—	—	—	109	228	665	
Other income	—	—	—	—	126	2,995	775	
Total revenues	29,271	28,481	28,651	20,363	16,145	287,155	183,444	35
Expenses:								
Net losses and loss expenses (excluding hurricane losses)	—	—	—	—	1,191	137,587	83,926	17
Add: net losses and loss expenses for hurricanes	—	—	—	—	—	61,329	42,250	6
Total net losses and loss expenses	—	—	—	—	1,191	198,916	126,176	24
	—	—	—	—	164	53,995	35,885	6

Acquisition expenses								
Direct technical services costs	17,615	17,576	17,193	12,992	8,637	23,182	15,442	2
General and administrative expenses and depreciation	9,784	8,793	8,765	5,971	44,630	65,643	46,097	7
Interest expense	—	—	—	—	—	—	—	
Total expenses	27,399	26,369	25,958	18,963	54,622	341,736	223,600	40
Net income	$ 1,872	$ 2,112	$ 2,693	$ 1,400				
Net loss before taxes					(38,477)	(54,581)	(40,156)	(5
Provision for income taxes					—	—	—	
Net loss after taxes					$ (38,477)	$ (54,581)	$ (40,156)	$ (5
Per Share Data:								
Weighted average common shares and common share equivalents outstanding basic and diluted	1,093,250	1,093,250	1,093,250	1,093,250	31,369,001	56,798,218	56,798,218	56,80
Net income (loss) per share basic and diluted[1]	$ 1.71	$ 1.93	$ 2.46	$ 1.28	$ (1.23)	$ (0.96)	$ (0.71)	$
Premiums Earned by Segment:								
Specialty Insurance					$ 339	$ 75,167	$ 42,148	$ 14
Specialty Reinsurance					1,601	161,973	107,465	15
Technical Services					—	—	—	
Total					$ 1,940	$ 237,140	$ 149,613	$ 29

	($ in thousands, except for share and per share amounts)					
	Predecessor		Quanta Capital Holdings Ltd.[9]			
	For the year ended December 31,	For the period ended	For the period from May	For the year ended December	For the nine months ended September 30,	

	2000	2001	2002	September 3, 2003	23, 2003 to December 31, 2003[8]	31, 2004	(unaudited) 2004	2005
Selected Ratios:								
Loss ratio[2]						83.9%	84.3%	81.2%
Acquisition expense ratio[3]						22.8%	24.0%	21.1%
General and administrative expense ratio[4]						13.3%	12.5%	16.3%
Net expense ratio[5]						36.1%	36.5%	37.4%
Combined ratio[6]						120.0%	120.8%	118.6%
Annualized investment yield						2.7%	2.6%	3.3%
Predecessor Pro Forma Data (unaudited):								
Net income as shown above	$ 1,872	$ 2,112	$ 2,693	$ 1,400				
Pro forma provision for income taxes[7]	728	822	1,048	545				
Net income adjusted for pro forma income taxes	$ 1,144	$ 1,290	$ 1,645	$ 856				
Pro forma net income per share basic and diluted[1]	$ 1.05	$ 1.18	$ 1.51	$ 0.78				

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($ in thousands)

	Predecessor				Quanta Capital Holdings Ltd.			
	December 31,			September 3,	December 31,	December 31,	September 30, (unaudited)	
	2000	2001	2002	2003	2003	2004	2004	2005
Balance Sheet Data								
Cash and cash equivalents	$ 78	$ 74	$ 73	$ 413	$ 47,251	$ 75,257	$ 73,191	$ 99,231
Available-for-sale investments at fair	—	—	—	—	467,036	559,430	510,680	720,426

value related to deposit liabilities								
Trading investments at fair value	—	—	—	—	—	40,492	—	38,782
Premiums receivable	—	—	—	—	10,961	146,784	132,327	172,119
Deferred acquisition costs	—	—	—	—	6,616	41,496	42,601	50,723
Deferred reinsurance premiums	—	—	—	—	1,925	47,416	44,967	82,267
Goodwill and other intangibles assets	—	—	—	—	21,351	20,617	20,802	20,062
Total assets	$10,176	$10,160	$10,131	$ 11,249	$ 573,761	$ 980,733	$851,125	$1,424,122
Reserves for losses and loss expenses	—	—	—	—	4,454	159,794	124,534	469,994
Unearned premiums	—	—	—	—	20,044	247,936	225,960	370,982
Environmental liabilities assumed	—	—	—	—	7,018	6,518	6,697	12,182
Deposit liabilities	—	—	—	—	—	43,365	—	52,564
Junior subordinated debentures	—	—	—	—	—	41,238	—	61,857
Total liabilities	$ 3,731	$ 4,003	$ 3,681	$ 5,199	$ 86,278	$ 549,834	$405,201	$1,051,922
Total shareholders' equity	$ 6,445	$ 6,157	$ 6,450	$ 6,051	$ 487,483	$ 430,909	$445,924	$ 372,200

(1) Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. All potentially dilutive securities including stock options and warrants are excluded from the basic earnings per share computation. In calculating diluted earnings per share, the weighted average number of shares outstanding for the period is increased to include all potentially dilutive securities using the treasury stock method. Any common stock equivalent shares are excluded from the computation if their effect is antidilutive. Basic and diluted earnings per share are calculated by dividing income available to ordinary shareholders by the applicable weighted average number of shares outstanding during the year.

(2) The loss ratio is calculated by dividing net losses and loss expenses incurred by net premiums earned.

(3) The acquisition expense ratio is calculated by dividing acquisition expenses by net premiums earned.

(4) The general and administrative expense ratio indicates the level of indirect costs associated with acquiring/writing insurance and reinsurance contracts, and is calculated by dividing general and administrative expenses associated with our underwriting activities by net premiums written. General and administrative expenses associated with our underwriting activities for the nine months ended September 30, 2005 and September 30, 2004 were $63.1 million and $39.0 million and include $2.5 million and $1.5 million charged by the technical services segment and exclude $7.8 million and $7.3 million related to our technical services activities for the same periods. General and administrative expenses associated with our underwriting activities for the year ended December 31, 2004 were $55.7 million and include $2.3 million charged by the technical services segment and exclude $10.1 million

related to our technical services activities for the same period.

(5)The net expense ratio is the sum of our acquisition expense ratio and general and administrative expense ratio.

(6)The combined ratio is the sum of our loss ratio and net expense ratio.

(7)As an S corporation, ESC, our predecessor, was not subject to U.S. federal income taxes. At the time of its acquisition, ESC became subject to U.S. income tax. Accordingly, the predecessor historical operating earnings have been adjusted, on a pro forma basis, to reflect taxes at a 38.9% rate including a 35% statutory rate for U.S. federal income taxes and a 3.9% rate, based on a 6% statutory rate for Virginia state income taxes less the related federal tax benefit.

(8)Includes the operations of ESC from September 3, 2003 to December 31, 2003, the date of acquisition. We accounted for the acquisition of ESC as a purchase. See Note 4 to our consolidated financial statements for the year ended December 31, 2004 beginning on page F-44 of this prospectus supplement.

(9)During the periods indicated, no dividends have been paid by the company.

The following tables also summarize our results before income tax for our technical risk property insurance and property reinsurance lines of business that are subject to the Property Transaction, and for the aggregate of all of our other lines of business within our operating segments. Our program business, including our HBW program, are not subject to the Property Transaction. The following tables do not separately summarize our results before income taxes for the commutation of the two treaties subject to the Casualty Reinsurance Transaction as we intend to continue to write business in our casualty reinsurance product line.

	Year ended December 31, 2004		
Statement of operations by product line	Property Lines Subject to Property Transaction[1]	All Other Lines of Business[2]	Consolidated[3]
	($ in thousands)		
Revenues			
Gross premiums written	$ 108,008	$ 386,404	$ 494,412
Premiums ceded	(1,024)	(73,847)	(74,871)
Net premiums written	106,984	312,557	419,541
Net premiums earned	$ 87,578	$ 149,562	$ 237,140
Technical services revenues	—	32,485	32,485
Other income	360	1,797	2,157
Expenses			
Net losses and loss expenses	(104,038)	(94,878)	(198,916)
Direct technical services costs	—	(23,182)	(23,182)
Acquisition expenses	(22,026)	(31,969)	(53,995)
General and administrative expenses	(9,301)	(54,162)	(63,463)
Loss relating to operating segments	$ (47,427)	$ (20,347)	$ (67,774)
Depreciation of fixed assets and amortization of intangible assets			$ (2,180)
Net investment income			14,307
Net realized gains			228

Other loss		(140)
Net foreign exchange gains		978
Net loss before income taxes	$	(54,581)

	Nine months ended September 30, 2005					
Statement of operations by product line		Property Lines Subject to Property Transaction[1]		All Other Lines of Business[2]		Consolidated[3]
			($ in thousands)			
Revenues						
Gross premiums written	$	91,145	$	421,671	$	512,816
Premiums ceded		(19,157)		(107,453)		(126,610)
Net premiums written		71,988		314,218		386,206
Net premiums earned	$	57,602	$	239,438	$	297,040
Technical services revenues		—		31,516		31,516
Other income		2		4,986		4,988
Expenses						
Net losses and loss expenses		(66,208)		(174,894)		(241,102)
Direct technical services costs		—		(23,993)		(23,993)
Acquisition expenses		(15,400)		(47,318)		(62,718)
General and administrative expenses		(9,905)		(58,522)		(68,427)
Loss relating to operating segments	$	(33,909)	$	(28,787)	$	(62,696)
Depreciation of fixed assets and amortization of intangible assets					$	(2,879)
Interest expense						(2,971)
Net investment income						18,403
Net realized losses on investments						(789)
Other income						552
Net foreign exchange gains						(336)
Net loss before income taxes					$	(50,716)

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[1] The property lines of business aggregates our technical risk property insurance line of business and our property reinsurance line of business for the year ended December 31, 2004 and for the nine months ended September 30, 2005 that are subject to the Property Transaction. These property lines of business general and administrative expense includes an allocation of corporate overhead of $6.4 million and $6.5 million for the year ended December 31, 2004 and for the nine months ended September 30, 2005 that will continue to be incurred in the future.

[2] Reflects the aggregation of all of our lines of business operating segments, including our technical services segment and our program business (including our HBW program) and inter-segment adjustments and eliminations other than our technical risk property insurance and property reinsurance lines of business that are subject to the Property Transaction.

[3] The historical results are derived from our audited statement of operations for the year ended December 31, 2004, as presented in our Form 10-K for the year ended December 31, 2004, and our unaudited statement of operations for the nine months ended September 30, 2005, as presented in our Form 10-Q

for the quarterly period ended September 30, 2005.

RISK FACTORS

An investment in the series A preferred shares involves a high degree of risk. Before making an investment decision, you should carefully consider all of the risks described or incorporated by reference into this prospectus supplement and the accompanying prospectus. If any of the risks discussed in or incorporated by reference into this prospectus supplement and the accompanying prospectus actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the series A preferred shares could decline significantly and you may lose all or a part of your investment.

Our business, results of operations and financial condition have been and could continue to be adversely affected by losses related to Hurricanes Katrina, Rita and Wilma.

We have substantial exposure to unexpected losses resulting from natural disasters, including hurricanes. On August 29, 2005, Hurricane Katrina struck Louisiana, Mississippi, Alabama and surrounding areas, causing significant destruction in those areas. On September 24, 2005, Hurricane Rita struck Texas and Louisiana, causing significant destruction in those areas. Our total estimated net losses related to Hurricanes Katrina and Rita are expected to be $68.5 million, including reinstatement premiums. Our estimate of net losses is derived from a combination of a review of in-force contracts and preliminary loss information from our clients, brokers and loss adjusters and the output of industry models. Our estimate of net losses is subject to a high level of uncertainty due to the unprecedented nature of the catastrophe, complex coverage and regulatory issues and the unknown impact of such losses on our reinsurers. Our actual losses from Hurricanes Katrina and Rita may differ materially from our estimated losses. If our actual losses from Hurricanes Katrina and Rita are materially greater than our estimated losses, our business, results of operations and financial condition could be materially adversely affected.

Additionally, Hurricane Wilma will have an impact on our results for the fourth quarter of 2005, especially in our property reinsurance and technical risk property business lines. At this time, we estimate that net losses will be between approximately $8 million and $15 million. Because this event is so recent and assessments of damages are so preliminary, we are unable to estimate with any accuracy our net losses related to Hurricane Wilma. Our actual losses from Hurricane Wilma may ultimately differ materially from our preliminary assessment of losses. We have additional reinsurance coverage which we expect would cover losses from Hurricane Wilma that exceed our current estimated losses. However, if our actual losses from Hurricane Wilma are materially greater than our preliminary assessment of losses, our business, results operations and financial condition could be materially adversely affected.

Credit agency ratings of our insurance companies have become an increasingly important factor in maintaining the competitive position of our insurance and reinsurance companies and is also important in establishing the market value of our securities. Our ratings are subject to periodic review by, and may be revised downward or revoked at the sole discretion of, the rating agencies. If our losses from Hurricanes Katrina, Rita and Wilma exceed our estimates or if additional large loss events occur, our ratings could be revised downward or revoked, which could result in a substantial loss of business, adversely affect our ability to retain key employees and result in a reduction in the market value of our securities, including the series A preferred shares. See "Business — Recent Developments" and "Risk Factors — Risks Related to our Business — A.M. Best has placed our financial strength rating under review with negative implications and a downgrade in our rating could materially and adversely affect our ability to execute our business strategy and cause a default under our credit facility" in the accompanying prospectus.

We purchase reinsurance for our insurance and reinsurance operations in order to mitigate the volatility of losses upon our financial results. The occurrence of additional large loss events could reduce the reinsurance coverage that is available to us and could weaken the financial condition of our reinsurers, which could have a material adverse effect on our results of operations. See "— A downgrade or qualification in our rating by A.M. Best will adversely affect our ability to execute our business strategy" below and "Risk Factors — Risks Related to our Business — The occurrence of

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losses from catastrophic events, such as the hurricanes in 2004 and 2005, have had, and future catastrophic events may have, a material adverse effect on our ability to write new and renewal business and on our results of operations and financial condition" in the accompanying prospectus.

A downgrade or qualification in our rating by A.M. Best will adversely affect our ability to execute our business strategy.

As a result of the losses expected to be incurred by us due to Hurricanes Katrina and Rita, on October 5, 2005, A.M. Best placed the financial strength rating assigned to Quanta Bermuda and its subsidiaries and Quanta Europe, currently "A−" (excellent), under review with negative implications. Due to the nature, frequency and severity of the hurricanes in 2004 and 2005, we believe A.M. Best has reassessed certain variables, including the capital adequacy ratio, that are considered in its quantitative analyses in assessing both required and available rated capital. As a result of this reassessment, we believe that the capital requirements for property and casualty reinsurers have generally been increased and a number of these companies have been downgraded due to their inability to meet A.M. Best's new requirements. We are working closely with A.M. Best to understand the different capital requirements it now has for our various product lines, the capital adequacy ratio associated with these product lines at the "A−" (excellent) level, and its view of our available capital that includes their assessment of the probable maximum loss exposures associated with specified lines of our business. Based on that understanding, we believe we have developed a plan designed to retain our current rating of "A−" (excellent), which includes the Transactions and the completion of this offering and the concurrent offering. Upon implementation of the plan, based on our discussions with A.M. Best, we believe that A.M. Best will conclude its review, remove us from negative watch and initially ascribe a negative outlook to our rating. A.M. Best defines a negative outlook as indicating that a company is experiencing unfavorable financial/market trends, relative to its current rating level and, if continued, the company has a good possibility of having its rating downgraded. A.M. Best continues to reevaluate its capital adequacy models, which may impact the capital A.M. Best may require us to maintain in order to maintain our financial strength rating upon completion of this offering or in the future. As a result, we cannot assure you that A.M. Best will reaffirm our rating or that A.M. Best will not downgrade our current rating following this offering. Additionally, while we will continue to work with A.M. Best in 2006 and intend to actively seek the return of our rating to "A−" (excellent) without any qualifications, we expect that the qualification of our rating with a negative outlook will adversely affect our business and business opportunities to write new and renewal business. There is no assurance as to what rating actions A.M. Best may take now or in the future or whether A.M. Best will remove any qualification of our rating. For further discussion, see "Risk Factors — Risks Related to our Business — A.M. Best has placed our financial strength rating under review with negative implications and a downgrade in our rating could materially and adversely affect our ability to execute our business strategy and cause a default under our credit facility" in the accompanying prospectus.

We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act of 2002.

We are in the process of evaluating our internal controls systems to allow management to report on, and our independent registered public accounting firm to audit, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We are required to comply with Section 404 with respect to the year ended December 31, 2005. However, we cannot be certain as to the timing of completion of such evaluation, testing and remediation actions or the impact of the same on our operations. Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board rules and regulations that remain unremediated. As a public company, we are required to report, among other things, control deficiencies that constitute a ‘‘material weakness’’ or changes in internal controls that, or are reasonably likely to, materially affect internal controls over financial

reporting. A ‘‘material weakness’’ is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to implement the requirements of Section 404 in a timely manner, we might be subject to sanctions or investigation by regulatory authorities such as the SEC or Nasdaq. Additionally, failure to comply with Section 404 or the report by us of a material weakness may cause investors to lose confidence in our financial statements and our stock price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may face restricted access to the capital markets, and your share price may be adversely affected.

The inability of our new management team to effectively execute our strategy may have an adverse affect on our business.

During 2004 and 2005, we have experienced a number of management changes. Most recently, we have appointed an interim chief executive officer. Our future success will depend to a large degree on the ability of our management team to effectively implement our business strategy, retain employees and integrate with key personnel. While our interim chief executive officer has been a board member since March 2005, he has not been engaged in the daily business operations of the company prior to his appointment. As a result of these management changes and uncertainties pertaining to these changes, management's attention could be diverted from our core operations, employee retention could be jeopardized and our business could be adversely affected. We are not able to accurately predict what effect the changes in our management may have on the company.

Assessments and other surcharges for guaranty funds and similar arrangements may reduce our profitability.

Virtually all states in the U.S. require insurers licensed to do business therein to bear a portion of the unfunded obligations of impaired or insolvent insurance companies. These obligations are funded by assessments, which are levied by guaranty associations or similar entities within the state, up to prescribed limits, on all member insurers in the state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer was engaged. Accordingly, the assessments levied on us by the states in which we are licensed to write insurance may increase as we increase our premiums written in these states. In addition, as a condition to the ability to conduct business in certain states, insurance companies are required to participate in that state’s mandatory reinsurance fund. The effect of these assessments and arrangements, or changes in them, could reduce our profitability in any given period or limit our ability to grow our business. Additionally, Lloyd's requires members to contribute to the Lloyd's Central Fund. See "Risk Factors — Risks Related to our Business —

Continued or increased premium levies by Lloyd's for the Lloyd's Central Fund and cash calls for trust fund deposits or a significant downgrade of Lloyd's A.M. Best rating could materially and adversely affect us" in the accompanying prospectus for further discussion.

General market conditions and unpredictable factors could adversely affect market prices for the series A preferred shares.

There can be no assurance about the market prices for the series A preferred shares. Several factors, many of which are beyond our control, will influence the market prices of the series A preferred shares. Factors that might influence the market prices of the series A preferred shares include, but are not limited to:

- whether dividends have been declared and are likely to be declared and paid on the series A preferred shares from time to time;
- our creditworthiness;
- the market for similar securities; and
- economic, financial, geopolitical, regulatory or judicial events that affect us or financial markets generally.

Accordingly, if you purchase series A preferred shares, the series A preferred shares may trade at a discount to the price that you paid for them.

We are under no obligation to redeem or purchase the series A preferred shares except under limited circumstances.

The series A preferred shares have no maturity date or redemption date. We may, at our option, on and after December 15, 2010, redeem some or all of the series A preferred shares at any time at the redemption price described in "Description of the Series A Preferred Shares — Redemption" in this prospectus supplement, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption. We may also redeem the series A preferred shares under certain circumstances before December 15, 2010, at a redemption price of $26 per share, plus declared but unpaid dividends and additional amounts without accumulation of any undeclared dividends, if any, to the date of redemption. Further, we may redeem the series A preferred shares before December 15, 2010 as described under "Description of the Series A Preferred Shares — Tax Redemption" in this prospectus supplement. We do not need your consent in order to redeem the series A preferred shares and may do so at any time after December 15, 2010 that is advantageous to us. We may be required to offer to redeem the series A preferred shares at a price of $25.25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption upon the occurrence of specified change of control events. You may not otherwise require us to redeem or repurchase the series A preferred shares under any circumstances. If we redeem your shares, you may not be able to reinvest the proceeds in alternative investments that will compensate you in a manner commensurate with the series A preferred shares.

We may not have the ability to raise or pay the cash necessary to redeem the series A preferred shares upon a change of control.

Upon the occurrence of a specified change of control events, we will be required to offer to redeem the series A preferred shares at a price of $25.25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption. If a change of control were to occur, we cannot assure you that we would have sufficient funds to pay the redemption price in cash for all tendered shares, and we may require third party financing to do so. We cannot assure you that we would be able to obtain this financing on favorable terms, if at all. We may also be constrained from purchasing the series A preferred shares by the terms of our current and then existing borrowing agreements. Our current letter of credit and revolving credit facility does, and any future credit agreements or other agreements relating to our indebtedness may, contain provisions prohibiting the redemption of the series A preferred shares under certain circumstances, or expressly prohibit our redemption of the series A preferred shares upon a change of control or may provide that a change of control constitutes an event of default under that agreement. If a change of control occurs at a time when we are prohibited from redeeming the series A preferred shares for cash, we could seek the consent of our lenders to redeem the series A preferred shares. If we do not obtain consent, we would not be permitted to redeem the series A preferred shares for cash.

The series A preferred shares are equity and are subordinate to our existing and future indebtedness.

The series A preferred shares are equity interests and do not constitute indebtedness. Consequently, the series A preferred shares will rank junior to all of our indebtedness, such as our junior subordinated debentures and our secured letter of credit and revolving credit facility, and other non-equity claims on us with respect to assets available to satisfy our claims, including in the event of our liquidation, dissolution or winding-up. Our existing and future indebtedness may restrict payments of dividends on the series A preferred shares. We may issue additional indebtedness from time to time. Additionally, unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of the series A preferred shares (1) dividends are payable only if declared by our board of directors and (2) as a corporation, we are subject to restrictions on payments of dividends and redemption price out of lawfully available funds.

Our holding company structure and certain regulatory and other constraints, including our credit facility, affect our ability to pay dividends on or redeem our series A preferred shares.

Quanta Holdings is a holding company. As a result, we do not, and will not, have any significant operations or assets other than our ownership of the shares of our subsidiaries. Because we are a holding company, our ability to pay dividends on and redeem the series A preferred shares for cash may be limited by restrictions on our ability to obtain funds through dividends from our subsidiaries. The ability of our operating subsidiaries to make these payments is limited by the applicable laws and regulations of the domiciles in which the subsidiaries operate. These laws and regulations subject our subsidiaries to significant restrictions and require, among other things, that some of our subsidiaries maintain minimum solvency requirements and limit the amount of dividends that these subsidiaries can pay to us. Additionally, we have obtained a consent under our current letter of credit and revolving credit facility for the issuance of, and the payment of dividends on, the series A preferred shares, which is conditioned upon the review and approval by the administrative agent of the facility of the terms of the series A preferred shares. Although we believe that the administrative agent will consent to the issuance of the series A preferred shares under our current letter of credit and revolving credit facility, we expect that the facility will prohibit us from paying dividends on the series A preferred shares so long as there is a default under that agreement. Future credit agreements or other agreements relating to our indebtedness may also contain provisions prohibiting or limiting the payment of dividends on our series A preferred shares under certain circumstances. See also "Risk Factors — Risks Related to Our Business — Our holding company structure and certain regulatory and other constraints affect our ability to pay dividends and to make payments on our indebtedness and other liabilities" in the accompanying prospectus.

The series A preferred shares may not have an active trading market.

The series A preferred shares are a new issue with no established trading market. We have applied to list the series A preferred shares on Nasdaq; however, we cannot assure you that the series A preferred shares will be approved for listing. If the application is approved, trading of the series A preferred shares on Nasdaq is not expected to begin until after a 30-day period from the date of the initial delivery of the series A preferred shares. If the series A preferred shares are approved for listing, an active trading market on Nasdaq may not develop, or, even if it does develop, may not continue, in which case the trading prices of the series A preferred shares could be adversely affected and your ability to trade your shares may be limited. We have been advised by the underwriters that they intend to make a market in the series A preferred shares, but the underwriters are not obligated to do so and may cease market-making activities, if commenced, at any time.

There is no limitation on our issuance of securities that rank on parity with the series A preferred shares.

We may issue securities that rank on parity with the series A preferred shares without limitation. The issuance of securities ranking on parity with or senior to the series A preferred shares may reduce the amount recoverable by holders of the series A preferred shares in the event of our liquidation, dissolution or winding-up.

Dividends on the series A preferred shares are non-cumulative.

Dividends on the series A preferred shares are non-cumulative. Consequently, if our board of directors (or a committee of the board) does not authorize and declare a dividend for any dividend period, holders of the series A preferred shares would not be entitled to receive any such dividend, and such unpaid dividend will not accrue and will not be payable. We will have no obligation to pay dividends for a dividend period on or after the dividend payment date for such period if our board of directors of (or a committee of the board) has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to the series A preferred shares.

Holders of our series A preferred shares who own 10% or more of our voting power may be subject to taxation under the "controlled foreign corporation," or CFC, rules.

Certain "10% U.S. Shareholders" of a foreign corporation that is considered a "controlled foreign corporation," or a CFC, for U.S. federal income tax purposes must include in gross income such 10%

U.S. Shareholder's pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. See "Material Tax Considerations — U.S. Taxation of Holders of Shares — Shareholders who are U.S. Persons — Classification of Quanta Holdings, Quanta Bermuda or Quanta Europe as a CFC" in the accompanying prospectus. Whenever dividends on the series A preferred shares and the parity stock then outstanding have been paid in full, or declared and sufficient funds have been set aside, for at least four dividend periods, whether or not consecutive, holders would be entitled to certain voting rights as set forth under "Description of the Series A Preferred Shares — Voting Rights." It is possible that the Internal Revenue Service, or the IRS, could assert that accrual of these voting rights on default of the series A preferred shares cause certain U.S. holders of series A preferred shares to be 10% U.S. Shareholders and us, or any of our foreign subsidiaries, to be a CFC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements included in this prospectus supplement and the accompanying prospectus and some of the statements included in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus, including those using words such as "believes," "expects," "intends," "estimates," "projects," "predicts," "assumes," "anticipates," "plans," and "seeks" and comparable terms, are forward-looking statements. Forward-looking statements are not statements of historical fact and reflect our views and assumptions as of the date of the prospectus supplement and accompanying prospectus, respectively, regarding future events and operating performance. Because we have a limited operating history, many statements relating to us and our business, including statements relating to our competitive strengths and business strategies, are forward-looking statements.

All forward-looking statements address matters that involve risks and uncertainties. There are important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include but are not limited to those described under "Risk Factors" in this prospectus supplement and in the accompanying prospectus, as well as the following:

- the fact that A.M. Best has placed our financial strength rating under review with negative implications. We are experiencing loss of business and business opportunities as we continue to work with A.M. Best. A downgrade in our rating or the continued qualification of our current rating with a negative outlook could materially and adversely affect our ability to execute our business strategy. In addition, a downgrade in our rating below "B++" could cause a default in our credit facility and trigger special termination provisions in certain of our insurance and reinsurance contracts;
- A.M. Best continues to reevaluate its capital adequacy models, which may adversely impact our ability to successfully complete our plan designed to maintain our current rating with A.M. Best and the capital A.M. Best may require us to maintain in order to maintain our financial strength rating;
- we may require additional capital, which may not be available on favorable terms or at all;
- if actual claims exceed our loss reserves, our financial results could be significantly adversely affected;
- the failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or our results of operations;
- actual results, changes in market conditions, the occurrence of catastrophic losses and other factors outside our control that may require us to alter our anticipated methods of conducting our business such as the nature, amount and types of risk we assume and the terms and limits of the products we write or intend to write;
- our estimated net losses from catastrophes, including Hurricanes Katrina, Rita and Wilma, are derived from a review of our potential exposure to these events and are not based on actual reported losses;
- based on our current estimate of losses related to Hurricane Katrina, we have substantially exhausted our reinsurance and retrocessional protection with respect to Hurricane Katrina. If our Hurricane Katrina losses prove to be greater than currently anticipated, we may have no further reinsurance and retrocessional coverage available for that windstorm. In addition, if there are further catastrophic events during our current policy year, our retrocessional coverage for these events may be limited or we may have no coverage at all;
- changes in the availability, cost or quality of reinsurance;
- the risk that we may not be able to fully implement our business strategy;

- our limited operating history;

- our insurance and reinsurance business is not widely diversified among classes of risk or sources of origination;
- the ineffectiveness or obsolescence of our planned business strategy due to changes in current or future market conditions;
- changes in regulation or tax laws applicable to us, our brokers or our customers;
- our ability to hire, retain and integrate our management team and other personnel;
- risks relating to our reliance on program managers (in particular, with respect to our HBW program), third party administrators, and supporting vendors;
- other risks of doing business with program managers, including the risk we might be bound to policyholder obligations beyond our underwriting intent, and the risk that our program managers or agents may elect not to continue or renew their programs with us;
- changes in accounting policies or practices; and
- changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates and other factors.

This list of factors is not exhaustive and should be read with the other cautionary statements that are included in this prospectus supplement and the accompanying prospectus.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from our projections. Any forward-looking statements you read in this prospectus supplement and the accompanying prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to, among other things, our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should specifically consider the factors identified in this prospectus supplement and the accompany prospectus that could cause actual results to differ from those discussed in the forward-looking statements before making an investment decision. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future events or otherwise.

Market data and forecasts used in or incorporated by reference into this prospectus supplement and the accompanying prospectus have been obtained from independent industry sources as well as from research reports prepared for other purposes. We have not independently verified the data obtained from these sources and we cannot assure you of the accuracy or completeness of the data. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and uncertainties applicable to the other forward-looking statements in this prospectus supplement and the accompanying prospectus.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the series A preferred shares will be approximately $71.8 million, after expenses and underwriting discounts and commissions. We intend to use the net proceeds from the sale of the series A preferred shares for general corporate purposes.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS

The following table shows our ratio and pro forma ratio of earnings to combined fixed charges and preferred dividends for each of the periods indicated since our formation in 2003. For purposes of computing the following ratios, earnings consist of net loss before income tax expense plus fixed charges to the extent that such charges are included in the determination of earnings less preferred dividends, if applicable. Fixed charges consist of interest, amortization of debt issuance costs and credit facility fees, and the estimated interest portion of our operating leases and preferred dividends, if applicable.

	Nine Months Ended September 30, 2005	Fiscal Year Ended December 31, 2004	Period Ended December 31, 2003[1]
Ratio of Earnings to Fixed Charges	[2]	[2]	[2]
Pro Forma Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	[3]	[3]	[3]

(1) Quanta Capital Holdings Ltd. was formed on May 23, 2003 and began conducting operations in September 2003.

(2) Earnings were inadequate to cover fixed charges on a historical basis by $50.7 million, $54.6 million and $38.5 million for the nine months ended September 30, 2005, fiscal year ended December 31, 2004 and for the period ended December 31, 2003, respectively. Reflected in earnings are net losses and loss expenses (including net reinstatement premiums) associated with hurricanes of approximately $69.7 million for the nine months ended September 30, 2005 and approximately $65.5 million for the year ended December 31, 2004.

(3) For the purpose of this calculation, we have assumed that the preferred shares have been outstanding since our formation in 2003. Estimated preferred dividends are calculated as the amount of after-tax earnings required to pay such dividends assuming a yield of 10% on our preferred shares to be issued in this offering. Earnings were inadequate to cover fixed charges and preferred dividends on a pro forma basis by $56.3 million, $62.1 million and $42.9 million for the nine months ended September 30, 2005, fiscal year ended December 31, 2004 and for the period ended December 31, 2003, respectively. Reflected in earnings are net losses and loss expenses (including net reinstatement premiums) associated with hurricanes of approximately $69.7 million for the nine months ended September 30, 2005 and approximately $65.5 million for the year ended December 31, 2004.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2005, on an actual basis and on as adjusted basis for the completion of this offering and the concurrent offering of common equity, and the application of the net proceeds therefrom, as described elsewhere in this prospectus supplement.

You should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page S-34 of this prospectus supplement and the consolidated financial statements and related notes beginning on page F-1 of this prospectus supplement.

	As of September 30, 2005	
	Actual	As Adjusted[1]
	($ in thousands)	
Debt Outstanding:		
Revolving credit facility[2]	$ —	$ —
Junior subordinated debentures	61,857	61,857
Redeemable Preferred Shares:		
Series A preferred shares offered hereby ($0.01 par value; 3,000,000 series A preferred shares authorized, 3,000,000 series A preferred shares issued and outstanding, as adjusted)[3]	$ —	$ 71,838
Shareholders' Equity:		
Preferred shares ($0.01 par value; 25,000,000 preferred shares authorized, none issued and outstanding at September 30, 2005)	$ —	$ —
Common shares ($0.01 par value; 200,000,000 common shares authorized, 56,810,020 common shares issued and outstanding, and 67,549,876 shares issued and outstanding, as adjusted)[4]	568	675
Additional paid in capital[5]	523,843	565,661
Accumulated deficit[6][7][8]	(144,256)	(144,256)
Accumulated other comprehensive loss	(7,955)	(7,955)
Total shareholders' equity	$ 372,200	$ 414,125
Total Capitalization	$ 434,057	$ 547,820

(1) Concurrently with this offering, we plan to offer our common equity. We plan to complete this offering and the concurrent offering to increase our available rated capital as part of our plan designed to maintain our current rating from A.M. Best. For purposes of calculating the "as adjusted" amounts, we have assumed the completion of this offering and the issuance of common shares in the concurrent offering as described in this section, and the application of the net proceeds therefrom, as described elsewhere in this prospectus supplement.

(2) Consists of a $250 million secured letter of credit and revolving credit facility dated July 11, 2005. Up to $25.0 million may be borrowed under the facility on a revolving basis for general corporate purposes and working capital requirements. As of September 30, 2005, $170.2 million of letters of credit were outstanding under this facility. No revolving credit borrowings or amounts drawn under the letters of credit were outstanding as of September 30, 2005.

(3) The calculation of "as adjusted" redeemable preferred shares includes proceeds of $75.0 million for the 3,000,000 series A preferred shares to be issued less estimated issuance costs of approximately $3.2 million.

(4) This table does not give effect to warrants and options exercisable for 6,548,924 common shares at September 30, 2005. The calculation of the "as adjusted" common shares assumes our offering of 10,739,856 shares based on the November 30, 2005 closing price for our common shares of $4.19 per

share.

(5) The calculation of "as adjusted" additional paid in capital assumes the receipt of proceeds of approximately $41.9 million in excess of the par value of the common shares from the issuance of 10,739,856 common shares in the concurrent offering (assuming an offering price of $4.19 per common share, which is its closing price on November 30, 2005) less estimated issuance costs of approximately $3.1 million.

(6) The "actual" accumulated deficit assumes $68.5 million estimated net loss from Hurricanes Katrina and Rita. The calculation of "as adjusted" accumulated deficit does not include our net loss estimate of between $8 million and $15 million from Hurricane Wilma, which will impact our results for the fourth quarter of 2005. Our hurricane loss estimates are subject to a high level of uncertainty due to extremely complex and unique causation and coverage issues associated with the events. As a result, our losses from hurricanes may be materially greater or less than estimated losses and any additional losses could have a further material adverse impact on our financial results.

(7) The calculation of "as adjusted" accumulated deficit does not include the net cost of the Transactions of approximately $2.5 million.

(8) The calculation of "as adjusted" accumulated deficit does not include a lump sum severance payment that we believe we may make to Tobey J. Russ of approximately $3.5 million. In addition, during the fourth quarter of 2005, we plan to adopt certain cost reduction strategies. In connection with the execution of these cost reduction strategies, we anticipate that we will incur approximately $1.0 million in costs related to the exit of the property reinsurance and technical risk property businesses and approximately $3.0 million in costs related to employee reduction and attrition during the fourth quarter of 2005.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

The following selected historical consolidated financial information and other financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page S-34 in this prospectus supplement and the audited consolidated financial statements for the year ended December 31, 2004 and the unaudited condensed consolidated financial statements for the nine months ended September 30, 2005 and related notes beginning on page F-1 of this prospectus supplement.

The following tables set forth our selected historical consolidated financial information for the periods ended and as of the dates indicated and includes certain financial information relating to our product lines subject to the Property Transaction and our other product lines. The selected statement of operations data for the year ended December 31, 2004 and for the period from inception (May 2003) through December 31, 2003 and the summary balance sheet data as of December 31, 2004 and 2003 are derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004. The selected historical consolidated financial information as of and for the nine months ended September 30, 2005 and 2004 has been derived from the unaudited interim condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the nine months ended September 30, 2005. This selected historical consolidated financial information should be read in conjunction with and is qualified by reference to these financial statements and the related notes. These historical results are not necessarily indicative of results to be expected for any future period.

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	($ in thousands, except for share and per share amounts)							
	Predecessor				Quanta Capital Holdings Ltd.[9]			
	For the year ended December 31,			For the period ended September 3,	For the period from May 23, 2003 to December 31,	For the year ended December 31,	For the nine ende Septemb (unaudi	
	2000	2001	2002	2003	2003[8]	2004	2004	
Statement of Operations Data								
Revenues:								
Gross premiums written	$ —	$ —	$ —	$ —	$ 20,465	$ 494,412	$ 370,428	$
Net premiums written	—	—	—	—	20,060	419,541	312,487	
Net premiums earned (excluding reinstatement premiums)	$ —	$ —	$ —	$ —	$ 1,940	$ 241,321	$ 152,463	$
Less: net reinstatement premiums earned for hurricanes	—	—	—	—	—	(4,181)	(2,850)	
Net premiums earned	$ —	$ —	$ —	$ —	$ 1,940	$ 237,140	$ 149,613	$
Technical services revenues	29,218	28,448	28,628	20,350	11,680	32,485	22,580	
Net investment income	53	33	23	13	2,290	14,307	9,811	
Net realized gains	—	—	—	—	109	228	665	
Other income	—	—	—	—	126	2,995	775	
Total revenues	29,271	28,481	28,651	20,363	16,145	287,155	183,444	
Expenses:								
Net losses and loss expenses (including hurricane losses)	—	—	—	—	1,191	137,587	83,926	
Add: net losses and loss expenses for hurricanes	—	—	—	—	—	61,329	42,250	
Total net losses and loss expenses	—	—	—	—	1,191	198,916	126,176	
Acquisition expenses	—	—	—	—	164	53,995	35,885	
Direct technical services costs	17,615	17,576	17,193	12,992	8,637	23,182	15,442	
General and administrative	9,784	8,793	8,765	5,971	44,630	65,643	46,097	

expenses and depreciation								
Interest expense	—	—	—	—	—	—	—	
Total expenses	27,399	26,369	25,958	18,963	54,622	341,736	223,600	
Net income	$ 1,872	$ 2,112	$ 2,693	$ 1,400				
Net loss before taxes					(38,477)	(54,581)	(40,156)	
Provision for income taxes					—	—	—	
Net loss after taxes					$ (38,477)	$ (54,581)	$ (40,156)	$
Per Share Data:								
Weighted average common shares and common share equivalents outstanding basic and diluted	1,093,250	1,093,250	1,093,250	1,093,250	31,369,001	56,798,218	56,798,218	
Net income (loss) per share basic and diluted[(1)]	$ 1.71	$ 1.93	$ 2.46	$ 1.28	$ (1.23)	$ (0.96)	$ (0.71)	$
Premiums Earned by Segment:								
Specialty Insurance					$ 339	$ 75,167	$ 42,148	$
Specialty Reinsurance					1,601	161,973	107,465	
Technical Services					—	—	—	
Total					$ 1,940	$ 237,140	$ 149,613	$
Selected Ratios:								
Loss ratio[(2)]						83.9%	84.3%	
Acquisition expense ratio[(3)]						22.8%	24.0%	
General and administrative expense ratio[(4)]						13.3%	12.5%	
Net expense ratio[(5)]						36.1%	36.5%	
Combined ratio[(6)]						120.0%	120.8%	
Annualized investment yield						2.7%	2.6%	
Predecessor Pro Forma Data (unaudited):								
Net income as shown above	$ 1,872	$ 2,112	$ 2,693	$ 1,400				
Pro forma provision for income taxes[(7)]	728	822	1,048	545				
Net income adjusted for pro forma income taxes	$ 1,144	$ 1,290	$ 1,645	$ 856				
Pro forma net income per share basic and diluted[(1)]	$ 1.05	$ 1.18	$ 1.51	$ 0.78				

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($ in thousands)

	Predecessor				Quanta Capital Holdings Ltd.			
	December 31,			September 3,	December 31,	December 31,	September 30, (unaudited)	
	2000	2001	2002	2003	2003	2004	2004	2005
Balance Sheet Data								
Cash and cash equivalents	$ 78	$ 74	$ 73	$ 413	$ 47,251	$ 75,257	$ 73,191	$ 99,231
Available-for-sale investments at fair value related to deposit liabilities	—	—	—	—	467,036	559,430	510,680	720,426
Trading investments at fair value	—	—	—	—	—	40,492	—	38,782
Premiums receivable	—	—	—	—	10,961	146,784	132,327	172,119
Deferred acquisition costs	—	—	—	—	6,616	41,496	42,601	50,723
Deferred reinsurance premiums	—	—	—	—	1,925	47,416	44,967	82,267
Goodwill and other intangibles assets	—	—	—	—	21,351	20,617	20,802	20,062
Total assets	$10,176	$10,160	$10,131	$ 11,249	$ 573,761	$ 980,733	$851,125	$1,424,122
Reserves for losses and loss expenses	—	—	—	—	4,454	159,794	124,534	469,994
Unearned premiums	—	—	—	—	20,044	247,936	225,960	370,982
Environmental liabilities assumed	—	—	—	—	7,018	6,518	6,697	12,182
Deposit liabilities	—	—	—	—	—	43,365	—	52,564
Junior subordinated debentures	—	—	—	—	—	41,238	—	61,857
Total liabilities	$ 3,731	$ 4,003	$ 3,681	$ 5,199	$ 86,278	$ 549,834	$405,201	$1,051,922
Total shareholders' equity	$ 6,445	$ 6,157	$ 6,450	$ 6,051	$ 487,483	$ 430,909	$445,924	$ 372,200

(1) Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. All potentially dilutive securities including stock options and warrants are excluded from the basic earnings per share computation. In calculating diluted earnings per share, the weighted average number of shares outstanding for the period is increased to include all potentially dilutive securities using the treasury stock method. Any common stock equivalent shares are excluded from the computation if their effect is antidilutive. Basic and diluted earnings per share are calculated by dividing income available to ordinary shareholders by the applicable weighted average number of shares

outstanding during the year.

(2)The loss ratio is calculated by dividing net losses and loss expenses incurred by net premiums earned.

(3)The acquisition expense ratio is calculated by dividing acquisition expenses by net premiums earned.

(4)The general and administrative expense ratio indicates the level of indirect costs associated with acquiring/writing insurance and reinsurance contracts, and is calculated by dividing general and administrative expenses associated with our underwriting activities by net premiums written. General and administrative expenses associated with our underwriting activities for the nine months ended September 30, 2005 and September 30, 2004 were $63.1 million and $39.0 million and include $2.5 million and $1.5 million charged by the technical services segment and exclude $7.8 million and $7.3 million related to our technical services activities for the same periods. General and administrative expenses associated with our underwriting activities for the year ended December 31, 2004 were $55.7 million and include $2.3 million charged by the technical services segment and exclude $10.1 million related to our technical services activities for the same period.

(5)The net expense ratio is the sum of our acquisition expense ratio and general and administrative expense ratio.

(6)The combined ratio is the sum of our loss ratio and net expense ratio.

(7)As an S corporation, ESC, our predecessor, was not subject to U.S. federal income taxes. At the time of its acquisition, ESC became subject to U.S. income tax. Accordingly, the predecessor historical operating earnings have been adjusted, on a pro forma basis, to reflect taxes at a 38.9% rate including a 35% statutory rate for U.S. federal income taxes and a 3.9% rate, based on a 6% statutory rate for Virginia state income taxes less the related federal tax benefit.

(8)Includes the operations of ESC from September 3, 2003 to December 31, 2003, the date of acquisition. We accounted for the acquisition of ESC as a purchase. See Note 4 to our consolidated financial statements for the year ended December 31, 2004 beginning on page F-44 of this prospectus supplement.

(9)During the periods indicated, no dividends have been paid by the company.

The following tables also summarize our results before income tax for our technical risk property insurance and property reinsurance lines of business that are subject to the Property Transaction, and for the aggregate of all of our other lines of business within our operating segments. Our program business, including our HBW program, are not subject to the Property Transaction. The following tables do not separately summarize our results before income taxes for the commutation of the two treaties subject to the Casualty Reinsurance Transaction as we intend to continue to write business in our casualty reinsurance product line.

	Year ended December 31, 2004		
	Property Lines of Subject to Property Transaction[1]	All Other Lines of Business[2]	Consolidated[3]
		($ in thousands)	
Statement of operations by product line			
Revenues			
Gross premiums written	$ 108,008	$ 386,404	$ 494,412

Premiums ceded	(1,024)	(73,847)	(74,871)
Net premiums written	106,984	312,557	419,541
Net premiums earned	$ 87,578	$ 149,562	$ 237,140
Technical services revenues	—	32,485	32,485
Other income	360	1,797	2,157
Expenses			
Net losses and loss expenses	(104,038)	(94,878)	(198,916)
Direct technical services costs	—	(23,182)	(23,182)
Acquisition expenses	(22,026)	(31,969)	(53,995)
General and administrative expenses	(9,301)	(54,162)	(63,463)
Loss relating to operating segments	$ (47,427)	$ (20,347)	$ (67,774)
Depreciation of fixed assets and amortization of intangible assets			$ (2,180)
Net investment income			14,307
Net realized gains			228
Other loss			(140)
Net foreign exchange gains			978
Net loss before income taxes			$ (54,581)

	Nine months ended September 30, 2005		
	Property Lines of Subject to Property Transaction[1]	All Other Lines of Business[2]	Consolidated[3]
		($ in thousands)	
Statement of operations by product line			
Revenues			
Gross premiums written	$ 91,145	$ 421,671	$ 512,816
Premiums ceded	(19,157)	(107,453)	(126,610)
Net premiums written	71,988	314,218	386,206
Net premiums earned	$ 57,602	$ 239,438	$ 297,040
Technical services revenues	—	31,516	31,516
Other income	2	4,986	4,988
Expenses			
Net losses and loss expenses	(66,208)	(174,894)	(241,102)
Direct technical services costs	—	(23,993)	(23,993)
Acquisition expenses	(15,400)	(47,318)	(62,718)
General and administrative expenses	(9,905)	(58,522)	(68,427)
Loss relating to operating segments	$ (33,909)	$ (28,787)	$ (62,696)
Depreciation of fixed assets and amortization of intangible assets			$ (2,879)
Interest expense			(2,971)
Net investment income			18,403
Net realized losses on investments			(789)

Other income		552
Net foreign exchange gains		(336)
Net loss before income taxes	$	(50,716)

(1)The property lines of business aggregates our technical risk property insurance line of business and our property reinsurance line of business for the year ended December 31, 2004 and for the nine months ended September 30, 2005 that are subject to the Property Transaction. These property lines of business general and administrative expense includes an allocation of corporate overhead of $6.4 million and $6.5 million for the year ended December 31, 2004 and for the nine months ended September 30, 2005 that will continue to be incurred in the future.

(2)Reflects the aggregation of all of our other lines of business operating segments, including our technical services segment and our program business (including our HBW program) and inter-segment adjustments and eliminations other than our technical risk property insurance and property reinsurance lines of business that are subject to the Property Transaction.

(3)The historical results are derived from our audited statement of operations for the year ended December 31, 2004, as presented in our Form 10-K for the year ended December 31, 2004, and our unaudited statement of operations for the nine months ended September 30, 2005, as presented in our Form 10-Q for the quarterly period ended September 30, 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Quanta Holdings was incorporated on May 23, 2003 as a Bermuda holding company formed to provide specialty lines insurance, reinsurance, risk assessment and technical services on a global basis through its affiliated companies. We commenced substantive operations on September 3, 2003 when we obtained our initial capital and purchased ESC, our predecessor for accounting purposes. During the remainder of 2003, we wrote a small number of insurance and reinsurance contracts. During the year ended December 31, 2004 and the nine months ended September 30, 2005 we grew and diversified our specialty lines of business significantly increasing the number of insurance and reinsurance contracts underwritten.

We have incurred estimated net losses of approximately $68.5 million relating to Hurricanes Katrina and Rita during the three months and nine months ended September 30, 2005. These losses include net reinstatement premium expense of approximately $4.9 million. Of these losses, $31.7 million including reinstatement premiums of approximately $3.1 million occurred in our specialty reinsurance property line, $25.4 million including reinstatement premium income of approximately $0.8 million occurred in our marine, technical risk and aviation product lines and $11.4 million including reinstatement premium expense of approximately $2.6 million occurred in our specialty insurance technical risk property product line. In addition, in the three months and twelve months ended December 31, 2005, we will record estimated net losses related to Hurricane Wilma which we currently estimate will be between approximately $8.0 million and $15.0 million. We believe that we will not know our exact losses for some time given the uncertainty around the industry loss estimates, the size and complexity of Hurricanes Katrina, Rita and Wilma, limited claims data and potential legal and regulatory developments related to potential losses. As a result, our losses may vary significantly from our recorded estimates. We expect to report a net loss for the year ended December 31, 2005, and we cannot make any assurances that we will achieve profitability in future periods.

We have recorded estimated gross losses of approximately $145.9 million relating to Hurricanes Katrina and Rita during the three months and nine months ended September 30, 2005. These losses include gross reinstatement premiums of approximately $8.6 million. The difference between our estimated gross and estimated net losses, or $77.4 million, represents the amount of reinsurance or retrocessional insurance recoveries, including ceded reinstatement premiums of $13.5 million. We obtained this reinsurance and retrocessional insurance as part of our risk management practices to help limit our net loss exposures and control our aggregate exposures to particular classes of risk including those related to natural catastrophe events. We expect that the companies to which insurance has been ceded or reinsurance has been retroceded will honor their obligations. The average credit rating of these entities as of September 30, 2005 is "A−" (excellent) by A.M. Best.

As a result of the our expected losses relating to Hurricanes Katrina and Rita, on October 5, 2005, A.M. Best placed the financial strength rating assigned to Quanta Bermuda and its subsidiaries and Quanta Europe, currently "A−" (excellent), under review with negative implications. Shortly after Hurricanes Katrina and Rita, we discontinued the writing of new and most renewal business in our technical risk property and property reinsurance lines of business. We did not discontinue or make changes in our program businesses, including our residential builders' and contractors' program, which we refer to as the HBW program. Since then, we have been working closely with A.M. Best to understand the different capital requirements it now has for our various product lines, the capital adequacy ratio associated with these product lines at the "A−" (excellent) level, and its view of our available capital that includes their assessment of the probable maximum loss exposures associated with specified lines of our business. We believe these factors are the main drivers of the capital requirements that A.M. Best places on us. Based on that understanding, we believe that we have developed a plan designed to retain our current rating of "A−" (excellent). Upon implementation of the plan, based on our discussions with A.M. Best, we believe that A.M. Best will conclude its review, remove us from negative watch and initially ascribe a negative outlook to our current "A−" rating. We expect that the qualification of our rating with a negative outlook will adversely affect our

business, our opportunities to write new and renewal business and our ability to retain key employees. We will continue to work with A.M. Best in 2006 and intend to actively seek the return of our rating to "A−" (excellent) without any qualification. There is no assurance as to what rating actions A.M. Best may take now or in the future or whether A.M. Best will remove any qualification to our rating. For further information regarding A.M. Best's rating action and our plans in response to the ratings action, see "Business — Recent Developments."

Through our operating subsidiaries in Bermuda, the U.S. and Europe, we focus on writing coverage for specialized classes of insurance and reinsurance risks through teams of experienced and technically qualified underwriters. We define specialty insurance and reinsurance as those lines of business that are often unusual or difficult to place and do not fit the underwriting criteria of standard commercial product providers. We are using our Bermuda operations primarily to insure U.S. risks from Bermuda on a non-admitted basis and also to underwrite some European risks. We are also writing specialty insurance and reinsurance in the United States on an admitted basis through our subsidiary, Quanta Indemnity Company, which is a U.S. licensed insurer with licenses in 45 states and is an accredited reinsurer in Washington, D.C. Further, we write specialty insurance from the United States on an excess and surplus lines basis and U.S. reinsurance on a non-admitted basis through our subsidiary, Quanta Specialty Lines Insurance Company. Since the last quarter of 2004 we are underwriting European Union sourced specialty insurance and reinsurance business through Quanta Europe, our Irish subsidiary located in Dublin, Ireland, which is the headquarters of our European business. We are also underwriting through Syndicate 4000, our wholly-owned Lloyd's syndicate. Since February 2005 we are serving our London-based clients for European insurance and reinsurance business through Quanta U.K., our branch in London.

We acquired Environmental Strategies Corporation, known as ESC, on September 3, 2003. ESC is our predecessor company for accounting and financial reporting purposes. ESC provides diversified environmental risk management services to assist customers in environmental remediation, regulatory analyses, technical support for environmental claims, merger and acquisition due diligence, environmental audits and risk assessments, and engineering and information management services. ESC also provides risk assessment and technical services support to our environmental underwriters. We have also established Quanta Technical Services, which we use to provide risk assessment and evaluation technical services in our other specialty lines of insurance and to third parties on a fee basis. Through Quanta Technical Services and its subsidiaries, we also provide liability assumption programs under which these subsidiaries assume specified liabilities (which may, at times, include taking title to property) associated with environmental conditions in properties and agree to provide technical services and to perform the required remediation services. During the third quarter of 2005, our liability assumption program in Buffalo, New York generated revenues of $7.8 million and other income of $0.9 million. The estimated remaining liabilities for this program are approximately $6.7 million as of September 30, 2005.

We only started writing insurance and reinsurance contracts in the fourth quarter of 2003 and caution you that, because of our limited operating history, our financial information is not indicative of the actual results that we expect to achieve in future periods. The discussion below contains our third quarter to quarter comparison of our business in 2004 and 2005 and, in general, reveals that our insurance business has grown and the insurance segment has become a bigger proportion of our business in the third quarter of 2005 as compared to the third quarter of 2004. This trend is not expected to occur evenly during the quarters as the reinsurance business has traditionally been more concentrated in the first and third quarter, and we have discontinued writing certain property lines of business due to catastrophe losses.

We generated approximately $116.0 million and $386.2 million of net premiums written after premiums ceded on purchased reinsurance protection and $100.5 million and $297.0 million of net premiums earned during the three months and nine months ended September 30, 2005. This compares to approximately $86.0 million and $312.5 million of net premiums written and $65.5 million and $149.6 million of net premiums earned during the three months and nine months ended September 30, 2004. During the three and nine months ended September 30, 2005, we also purchased additional retrocessional protection in our specialty reinsurance segment which is intended to help limit our net

loss exposures to catastrophe windstorm events. This purchase resulted in approximately $9.5 million and $15.6 million of premium ceded during the three and nine months ended September 30, 2005. However, based on our current estimate of losses related to Hurricane Katrina, we have exhausted our reinsurance and retrocessional protection with respect to Hurricane Katrina. If our Hurricane Katrina losses prove to be greater than currently anticipated, we will have no further reinsurance and retrocessional coverage available for that windstorm. In addition, if there are further catastrophic events during our current policy year, our retrocessional coverage for these events may be limited or we may have no coverage at all.

The primary drivers of growth in our lines of business and net written premiums are the continued development of our relationships with important insurance and reinsurance brokers, the development of specialty insurance lines of business, including Syndicate 4000, and our success during the beginning of 2005 in entering into reinsurance contracts. Traditionally, many reinsurance contracts are entered into at the beginning of a calendar year and that period is often referred to as the January renewal season. Our specialty insurance segment demonstrated continued premium growth during the nine months ended September 30, 2005, especially through Lloyds, following receipt of regulatory approvals during the fourth quarter of 2004. Our specialty insurance segment has become an increasingly significant contributor to our overall business and represented approximately 58.3% of our total gross premiums written in the nine months ended September 30, 2005 compared to 47.3% in the nine months ended September 30, 2004.

In addition, we believe that our portfolio is not diversified either among classes of risks or source of origination. For example, during the nine months ended September 30, 2005, we grew our HBW program, which accounted for approximately 43.2% of our specialty insurance segment gross written premium. In addition, the HBW program and the other insurance programs we write, accounted for 44.4% of our specialty insurance segment gross written premium in the nine months ended September 30, 2005. We expect that the other insurance programs we write will have increasing gross written premium through the remainder of 2005 and that the concentration of our program business in our specialty insurance segment will continue to be significant through the remainder of 2005 and 2006. As described below, our specialty reinsurance segment showed significant concentrations across certain risk classes. In addition, our specialty reinsurance segment generated approximately 38.6%, 22.4% and 11.6% of its gross written premiums through three brokers. In connection with our plan to maintain our rating with A.M. Best, we have retroceded substantially all the in-force business, as of September 30, 2005, in our technical risk property insurance (other than the program business which is included in the technical risk property product line) and property reinsurance lines by a portfolio transfer to a third party reinsurer. This transaction limits our property reinsurance and technical risk property losses to those relating to Hurricane Wilma and those we have incurred through September 30, 2005 (including incurred but not reported losses), which includes losses relating to Hurricanes Katrina and Rita. Under this transaction, we also transferred all future premiums earned and loss and acquisition expenses incurred after September 30, 2005 to the third party reinsurer. This transaction will adversely impact our diversification in our product lines and will cause the concentrations across certain of our risk classes, including our HBW program, to increase.

A number of insurance companies have been subpoenaed by regulators in connection with investigations relating to business and accounting practices in the insurance industry. To date, we have not been served any subpoenas. We have received, and have responded to, inquiries from the North Carolina Department of Insurance, the Colorado Department of Insurance and Lloyd's. From January 1, 2004 to September 30, 2004 we were party to placement service agreements, known as PSAs and market service agreements, known as MSAs, with Aon Corporation and Marsh Inc. and have paid a total of $31,000 under these agreements as of September 30, 2005. We have accrued approximately $1.1 million in addition to the amount we have already paid under these agreements. At this time, it is not possible for us to determine the impact of any outcome of these investigations on our future results of operations. In addition, we do not know what the ramifications of the brokers' stated intent to formulate a different commission structure will be on our future results of operations, financial condition or liquidity as brokers seek our participation in this commission structure.

With respect to market conditions, we believe that premium rates have remained largely unchanged in our specialty insurance segments. In the professional liability insurance market, we believe that the rate for commercial directors and officers liability insurance remains competitive and that rates may drift downward although we are seeing stability in certain risk classes. In the reinsurance market place, we continue to see disciplined underwriting by our major competitors. We have seen some rate deterioration in casualty reinsurance as a result of the pricing declines in some sectors of the direct insurance marketplace. We expect to see substantial price increases in the marine reinsurance markets following the windstorm events of this year. We will continue to seek opportunities to provide insurance and reinsurance in areas that require both capacity and highly technical underwriting expertise.

On November 21, 2005, our board of directors appointed Robert Lippincott III as Interim Chief Executive Officer and President. Mr. Lippincott succeeded Tobey J. Russ who resigned as our chief executive officer and president and as a director. We are negotiating and intend to enter into a separation and general release agreement with Mr. Russ which may provide for a payment to Mr. Russ of approximately $3.5 million and the full vesting of his outstanding options. However, we cannot assure you that we will be able to enter into such an agreement.

We are in the process of evaluating our internal controls systems to allow management to report on, and our independent registered public accounting firm to audit, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We are required to comply with Section 404 by no later than December 31, 2005. However, we cannot be certain as to the timing of completion of such evaluation, testing and remediation actions or the impact of the same on our operations. Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board rules and regulations that remain unremediated.

Segment Information

We organize our business along five product lines and three geographies. Our two traditional product lines are specialty insurance and specialty reinsurance. We also have programs and structured products product lines. The products we offer our clients are written either as traditional insurance or reinsurance policies or are provided as a program, a structured product or a combination of a traditional policy with a program or a structured product. Our fifth product line is our technical services line. However, for financial reporting purposes, some of our product lines are aggregated for purposes of the reportable segment disclosure included below:

- Specialty insurance. Our specialty insurance segment includes our traditional, structured and program specialty insurance products. Our traditional specialty insurance products include technical risk property, professional liability, environmental liability, fidelity and crime, surety, trade credit and political risk and marine and aviation. Our specialty insurance segment writes business both on a direct basis with insured clients or by reinsuring policies that are issued on our behalf by third party insurers and reinsurers, and includes our Lloyd's syndicate, which was created in December 2004. Our Lloyd's syndicate writes traditional specialty insurance products including professional liability (professional indemnity and directors' and officers' coverage), and fidelity and crime (financial institutions). We also plan to write specie fine art and marine coverages. Our specialty insurance programs include the HBW program. After the end of the third quarter of 2005, we discontinued the writing of new and most renewal business in our technical risk property line of business. We did not discontinue or make changes in our program businesses, including our HBW program.
- Specialty reinsurance. Our specialty reinsurance segment includes our traditional, structured and program specialty reinsurance products. Our specialty reinsurance products include property, casualty and marine and aviation products. We currently do not write reinsurance on a program basis. After the end of the third quarter of 2005, we discontinued the writing of new and most renewal business in our property reinsurance of business.

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- Technical services. Our technical services segment provides diversified environmental investigation, remediation and engineering services, assessment services, other technical and information management services primarily in the environmental area in the U.S. Our technical services segment also provides technical and information management services to our specialty insurance and reinsurance segments.

The determination of these reportable segments reflects how we manage and monitor the performance of our insurance and reinsurance operations and may change from time to time. We refer to the specialty insurance and specialty reinsurance as our underwriting segments. We refer to our risk consulting and management operations as our technical services segment. We evaluate each segment based on its underwriting or technical services results, as applicable, including items of revenue and expense that are associated with, and directly related to, each segment.

We allocate corporate general and administrative expenses to each segment based upon each product line's allocated capital for the current reporting period. We allocate capital to each of our product lines through the estimated value-at-risk method, which uses statistical analyses of historical market trends and volatility to estimate the probable amounts of capital at risk for each reporting period. We do not manage our assets by segment and, as a result, net investment income, and depreciation and amortization are not evaluated at the segment level.

During the three months ended September 30, 2005, we changed the composition of our reportable segments by aggregating the Lloyd's operating segment with the specialty insurance reportable segment.

Main Drivers of our Results

Revenues

We derive the majority of our revenues from three principal sources: premiums from policies written by our underwriting segments, technical services revenues and investment income from our investment portfolios.

We record premiums written at the time that there is sufficient evidence of agreement to the significant terms of the contract but no earlier than the effective date of the policy. The amount of our insurance and reinsurance premiums written depends on the number and type of policies we write, the amount of reinsurance protection we provide, as well as prevailing market prices. Furthermore, the amount of net premiums earned depends upon the type of contracts we write, the contractual periods of the contracts we write, the inception date of the contracts, the expired portions of the contract periods and the type of purchased reinsurance protection. Because of all these factors, the amount of premiums written and ceded may not result in a correlative level of profitability.

We also have revenues generated by our technical services segment, which operates primarily in the environmental area, from technical and risk management services provided under various short-term service contracts and for services performed by subcontractors engaged on behalf of clients. We also generate revenues from the remediation of environmental obligations that we have assumed. The amount of technical services and remediation fees and subcontractor revenues is a function of political and economic conditions and the impact these conditions have on clients' discretionary spending on environmental projects.

Our investment income depends on the average invested assets in our investment portfolios and the yield that we earn on those invested assets. Our investment yield is a function of market interest rates and the credit quality and maturity period of our invested assets. Our investment portfolio consists principally of fixed income securities, short-term liquidity funds, cash, and cash equivalents. In addition, we realize capital gains or losses on sales of investments as a result of changing market conditions, including changes in market interest rates and changes in the credit quality of our invested assets. Under U.S. GAAP, our available-for-sale investments are carried at fair market value with unrealized gains and losses on the investments included on our balance sheet in accumulated other comprehensive income net of income taxes as a separate component of shareholders' equity. Our trading investments that relate to deposits associated with non-risk bearing contracts are recorded at estimated fair value with the change in fair value included in net realized gains and losses on investments in the consolidated statement of operations and comprehensive loss. The objective of our current investment strategy is to preserve investment principal, maintain liquidity and to manage duration risk between investment assets and insurance liabilities, while maximizing investment returns through a diversified portfolio. Our investment returns are benchmarked against certain specified indices. However, the volatility in claim payments and the interest rate environment can significantly affect the returns we generate on our investment portfolios.

Expenses

Our expenses primarily consist of net loss and loss expenses, general and administrative expenses, acquisition expenses and direct technical services costs.

Net loss and loss expenses, which are net of loss and loss expenses recovered under our ceded reinsurance contracts, depend on the number and type of insurance and reinsurance contracts we write and reflect our best estimate of ultimate losses and loss expenses we expect to incur on each contract written using various actuarial analyses. Actual losses and loss expenses will depend on actual costs to settle insurance and reinsurance claims. Our ability to accurately estimate expected ultimate loss and loss expense at the time of pricing each insurance and reinsurance contract and the occurrence of unexpected high loss severity catastrophe events will be critical factors in determining our profitability.

General and administrative expenses consist primarily of personnel related expenses, information technology, other operating overheads and professional fees. From time to time we engage administrative service providers and legal, accounting, tax and financial advisors. General and administrative expenses are a function of the development of our business and infrastructure, including the growth in personnel and the volume of insurance and reinsurance contracts written. These general and administrative expenses may be incurred directly by a segment or indirectly at the corporate level.

Acquisition expenses, which are net of expenses recovered under our ceded reinsurance contracts, consist principally of commissions, fees, brokerage and tax expenses that are directly related to obtaining and writing insurance and reinsurance contracts. Typically, acquisition expenses are based on a certain percentage of the premiums written on contracts of insurance and reinsurance. These expenses are a function of the number and type of insurance and reinsurance contracts written.

We also incur expenses directly related to and arising from our technical services and environmental remediation activities. These direct costs primarily include expenses associated with direct technical labor, subcontractors we engage on behalf of our technical services clients, and other technical services or remediation contract related expenses. These costs are a function of, and are proportional to, the level of technical services and remediation revenues earned from the provision of technical services and completion of remediation activities.

Results of Operations

The following is a discussion of Quanta Holdings' consolidated results of operations for the three months ended September 30, 2005 and 2004, respectively, for the nine months ended September 30, 2005 and 2004, respectively, and for the year ended December 31, 2004. Since we commenced substantive operations on September 3, 2003 and only wrote a small number of insurance and reinsurance contracts during the period from May 23, 2003 (date of incorporation) to December 31, 2003, comparisons between the year ended December 31, 2004 and the period from

May 23, 2003 (date of incorporation) to December 31, 2003 are not meaningful. For further information, see our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the SEC.

ESC is our predecessor for accounting purposes and its business is wholly attributable to the technical services segment. Accordingly, we compare the results of operations of ESC for the year ended December 31, 2004 to the pro forma financial information for the year ended December 31,

2003 and to ESC's results of operations for the year ended December 31, 2002 within the discussion of our technical services segment under "— Results by Segments."

Three months ended September 30, 2005 and 2004

Results of operations for the three months ended September 30, 2005 and 2004 were as follows:

	Three months ended September 30, 2005	Three months ended September 30, 2004
	($ in thousands)	
Revenues		
Gross premiums written	$ 171,542	$ 116,729
Net premiums written	$ 115,965	$ 85,969
Net premiums earned	$ 100,546	$ 65,523
Technical services revenues	16,019	7,727
Net investment income	6,991	3,258
Net realized (losses) gains on investments	(1,168)	297
Net foreign exchange losses	(311)	(43)
Other income	1,945	264
Total revenues	124,022	77,026
Expenses		
Net losses and loss expenses	(121,087)	(77,963)
Acquisition expenses	(22,998)	(16,424)
Direct technical services costs	(13,133)	(5,231)
General and administrative expenses	(23,574)	(14,294)
Interest expense	(1,200)	—
Depreciation and amortization of intangible assets	(1,079)	(560)
Total expenses	(183,071)	(114,472)
Loss before income taxes	(59,049)	(37,446)
Income taxes	35	—
Net loss	$ (59,084)	$ (37,446)

Revenues

Substantially all of our revenues were generated by our underwriting subsidiaries in Bermuda, the U.S. and Europe. Technical services revenues were derived from the operations of ESC.

Premiums. Gross premiums written were $171.5 million for the three months ended September 30, 2005, an increase of $54.8 million, or 47.0%, compared to $116.7 million for the three months ended September 30, 2004. The increase of $54.8 million in gross premiums written reflects continued growth in all of our business lines except property reinsurance.

In connection with our plan to maintain our rating with A.M. Best, we have retroceded substantially all the in-force business, as of October 1, 2005, in our technical risk property insurance (other than the program business which is included in the technical risk property product line) and property reinsurance lines by a portfolio transfer to a third party reinsurer. This transaction limits our property reinsurance and technical risk property losses to those relating to Hurricane Wilma and those we have incurred through September 30, 2005 (including incurred but not reported losses), which includes losses relating to Hurricanes Katrina and Rita. Under this transaction, we also transferred all future premiums earned for that business and loss and acquisition expenses incurred after October 1, 2005 to the third party reinsurer. We expect that our gross and net premiums written will decline during the remainder of 2005 as a result of these transactions (other than our Lloyd's syndicate). We

also expect that our gross and net premiums written will decline during the remainder of 2005 as result of the loss of business and business opportunities following A.M. Best's rating action. We expect that our Lloyd's syndicate will become a more significant contributor as we focus on continuing to execute our business strategy. As of September 30, 2005, Lloyd's represented 17.8% of our gross premiums written.

Premiums ceded were $55.6 million for the three months ended September 30, 2005 an increase of $24.8 million compared to $30.8 million for the three months ended September 30, 2004. The increase in premiums ceded primarily reflects the growth in gross written premiums and approximately $20.3 million in purchased retrocessional protection, including reinstatement premiums, in our specialty reinsurance segment that is intended to help limit our net loss exposures to natural catastrophe events. The increase of premiums ceded is attributable to a lesser extent to the development of the reinsurance program for our specialty lines which was restructured during the three months ended June 30, 2005. The restructure involved the commutation of our 2004 reinsurance treaty protection in two of our product lines, professional liability and fidelity, which was ceded on an excess of loss basis. The unexpired portions of this business were then transferred, effective April 1, 2005, into our 2005 reinsurance treaty, which is ceded on a proportional quota share basis.

Net premiums earned were $100.5 million for the three months ended September 30, 2005 an increase of $35.0 million, or 53.5%, compared to $65.5 million for the three months ended September 30, 2004 reflecting the growth in premiums written in current and prior periods. Other than in our reinsurance business line, we expect that our net premiums earned will increase in future periods as our existing portfolios mature. Our net premiums written are typically earned over the risk periods of the underlying insurance policies which are generally twelve months. Net written premiums that are not yet earned and are deferred as unearned premium reserves, net of deferred reinsurance premiums, totaled $288.7 million at September 30, 2005 and will be earned and recognized in our results of operations in future periods. Because we only began to write insurance and reinsurance business during the fourth quarter of 2003 and because our Lloyd's syndicate commenced operations in December 2004, we believe that our net premiums earned are not yet representative of a fully developed and diversified portfolio of insurance and reinsurance contracts.

Technical services revenues. Technical services revenues were $16.0 million for the three months ended September 30, 2005 an increase of $8.3 million compared to $7.7 million for the three months ended September 30, 2004. This increase in technical services revenues is attributable to increased remediation revenues associated with projects in Buffalo, New York and Axis, Alabama. In each of these projects, a subsidiary assumed specified liabilities associated with environmental conditions in properties, an insurance subsidiary provides insurance and our technical services team provides consulting and performs the required remediation services through subcontractors.

Net investment income and net realized (losses) gains. Net investment income and net realized (losses) gains totaled $5.8 million for the three months ended September 30, 2005 an increase of $2.2 million, or 63.8%, compared to $3.6 million for the three months ended September 30, 2004. The increase is primarily due to an increase in net investment income of $3.7 million because of our larger amount of invested assets and rises in market interest rates, which is partly offset by an increase in net realized losses of $1.5 million.

Net investment income was $7.0 million for the three months ended September 30, 2005 and was derived primarily from interest earned on fixed maturity and short term investments, partially offset by investment management fees and amortization of discounts on fixed maturity investments. Our average annualized effective yield (calculated by dividing net investment income by the average amortized cost of invested assets, net of amounts payable or receivable for investments purchased or sold) was approximately 3.4% for the three months ended September 30, 2005 compared to 2.4% for the three months ended September 30, 2004. Net realized losses of $1.2 million were generated primarily from the sale of foreign currency forward contracts and fixed maturity securities as we sought to manage our foreign currency exposures, total investment returns and the duration of our investment portfolios.

As of September 30, 2005, the average duration of our investment portfolio was approximately 2.8 years with an average credit rating of approximately "AA+."

Other income. Other income was $1.9 million for the three months ended September 30, 2005 as compared to $0.3 million for the three months ended September 30, 2004. Other income includes the amortization of deferred revenue relating to assumed environmental liability programs of $1.0 million and amounts recognized on non-traditional insurance and reinsurance contracts of $0.8 million. A more detailed description of these non-traditional contracts is provided under "— Non-Traditional Contracts" below.

Expenses

Net losses and loss expenses. Net losses and loss expenses were $121.1 million for the three months ended September 30, 2005 an increase of $43.1 million compared to $78.0 million for the three months ended September 30, 2004. The increase in net losses and loss expenses is due to the increase in the number of insurance and reinsurance contracts we entered into, the associated net premiums earned as our insurance and reinsurance portfolios continue to mature and loss and loss expenses incurred. Net losses and loss expenses are a function of our net premiums earned and our expected ultimate losses and loss expenses for reported and unreported claims on contracts of insurance and reinsurance underwritten. Included in our expected ultimate losses during the three months ended September 30, 2005 are specific loss estimates on contracts of reinsurance and insurance insuring claims arising from Hurricanes Katrina and Rita. We have received a limited number of claim notifications relating to these hurricanes and our preliminary estimate of ultimate losses from these events is primarily based on claims received to date, industry loss estimates, a review of affected contracts and discussion with cedants and brokers. Our estimate of our exposure to ultimate claim costs associated with these hurricanes based on currently available information is $68.5 million including reinstatement premiums, of which $63.6 million is included in net losses and loss expenses for the three months ended September 30, 2005. The actual amount of losses from the hurricanes may vary significantly from the estimate. In addition to the hurricanes, as of September 30, 2005, we have received a limited amount of significant reported losses. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Our total net loss ratio (calculated by dividing net losses and loss expenses by net premiums earned) was 120.4% for the three months ended September 30, 2005 an increase of 1.4% compared to a total net loss ratio of 119.0% for the three months ended September 30, 2004. The increase in the total net loss ratio is due to the greater magnitude of the natural catastrophes that occurred in the three months ended September 30, 2005 as compared to those that occurred in the three months ended September 30, 2004. However, the extent of the impact of the actual catastrophes in 2005 was mitigated by our purchased retrocessional protection. Changes in our net loss ratios are not unexpected because we are still developing our underwriting portfolios and as such we expect that our net loss ratios may continue to be volatile.

Acquisition expenses. Acquisition expenses were $23.0 million for the three months ended September 30, 2005 an increase of $6.6 million, or 40.0%, compared to $16.4 million for the three months ended September 30, 2004. The increase in acquisition expenses is due to the increase in the number of insurance and reinsurance contracts we entered into and the associated net premiums earned.

Our acquisition cost ratio (calculated by dividing acquisition expenses by net premiums earned) for the three months ended September 30, 2005 was 22.9% a decrease of 2.2% compared to our acquisition cost ratio of 25.1% for the three months ended September 30, 2004. The decrease is due to four factors. First, our earned premium is now more heavily weighted towards specialty insurance which carries lower acquisition costs than specialty reinsurance. Second, we are paying less fronting costs on our specialty insurance lines because we are licensed in more states and no longer need to utilize fronting companies to the same extent in order to write our business. Third, our ceding commission income that we are recovering on our specialty insurance segment's reinsurance treaties has increased as a result of the restructuring of those treaties during the second quarter of 2005.

Finally, we pay less commission in our HBW program because the contracts contain sliding scale commission provisions that vary with changes in the selected loss ratio. Deferred acquisition costs include, as of September 30, 2005, $50.7 million of acquisition expenses on written contracts of insurance and reinsurance that will by amortized in future periods as the premiums written to which they relate are earned.

Direct technical services costs. Direct technical services costs were $13.1 million for the three months ended September 30, 2005 an increase of $7.9 million compared to $5.2 million for the three months ended September 30, 2004 and were comprised of subcontractor and direct labor expenses. Direct technical services costs, as a percentage of technical services revenues, was approximately 82.0% for the three months ended September 30, 2005, an increase of 14.3% compared to 67.7% for the three months ended September 30, 2004. The increase in direct technical services costs as a percentage of revenues was attributable to a significant increase in the use of subcontractors for environmental projects in 2005 as compared to 2004.

General and administrative expenses. General and administrative expenses were $23.6 million for the three months ended September 30, 2005 an increase of $9.3 million, or 64.9%, compared to $14.3 million for the three months ended September 30, 2004 and were comprised of $13.7 million of personnel related expenses and $9.9 million of other general and administrative expenses. The increase in general and administrative expenses is due primarily to an increase in the number of employees as we grew our lines of business, especially in Europe, and to a lesser extent by increases in auditing, ongoing efforts to achieve Sarbanes-Oxley Section 404 compliance for the year ending December 31, 2005 and information technology development. General and administrative expenses include $21.8 million related to our underwriting segment, including $0.8 million of expenses charged by our technical services segment for information management services provided, and $2.6 million of expenses related to our technical services segment.

Our general and administrative expense ratio (calculated by dividing underwriting related general and administrative expenses by net premiums written) was 18.8% for the three months ended September 30, 2005 an increase of 4.4% compared to 14.4% for the three months ended September 30, 2004 due to the additional number of employees hired and development of our infrastructure as we grew our lines of business during 2005.

Depreciation and amortization of intangible assets. Depreciation and amortization of intangible assets was $1.1 million for the three months ended September 30, 2005 an increase of $0.5 million compared to $0.6 million for the three months ended September 30, 2004 and consisted of amortization of intangible assets related to the acquisition of ESC and depreciation of fixed assets. The increase in depreciation and amortization is due to the purchase of additional fixed assets throughout 2004 and 2005 as we grew our lines of business.

We have not recorded any net deferred income tax benefits or assets relating to tax operating losses generated by our subsidiaries since our results of operations include the effects of a 100% valuation allowance against net deferred tax assets. For the three months ended September 30, 2005, the net valuation allowance increased by approximately $3.7 million, to $18.1 million.

Nine months ended September 30, 2005 and 2004

Results of operations for the nine months ended September 30, 2005 and 2004 were as follows:

	Nine months ended September 30, 2005	Nine months ended September 30, 2004
	($ in thousands)	
Revenues		
Gross premiums written	$ 512,816	$ 370,428
Net premiums written	$ 386,206	$ 312,487
Net premiums earned	$ 297,040	$ 149,613
Technical services revenues	31,516	22,580
Net investment income	18,403	9,811
Net realized gains on investments	(789)	665
Net foreign exchange (losses) gains	(336)	85
Other income	5,540	690
Total revenues	351,374	183,444
Expenses		

Net losses and loss expenses	(241,102)	(126,176)
Acquisition expenses	(62,718)	(35,885)
Direct technical services costs	(23,993)	(15,442)
General and administrative expenses	(68,427)	(44,700)
Interest expense	(2,971)	—
Depreciation and amortization of intangible assets	(2,879)	(1,397)
Total expenses	(402,090)	(223,600)
Loss before income taxes	(50,716)	(40,156)
Income taxes	482	—
Net loss	$ (51,198)	$ (40,156)

Revenues

Substantially all of our revenues were generated by our underwriting subsidiaries in Bermuda, the U.S. and Europe. Technical services revenues were derived from the operations of ESC.

Premiums. Gross premiums written were $512.8 million for the nine months ended September 30, 2005, an increase of $142.4 million, or 38.4%, compared to $370.4 million for the nine months ended September 30, 2004. The increase of $142.4 million in gross premiums written reflects growth in all of our business lines except property reinsurance.

We expect during the remainder of 2005 and during 2006 that our insurance gross and net premiums written will continue to grow and that our Lloyd's syndicate will become a more significant contributor as we focus on continuing to execute our business strategy.

Premiums ceded were $126.6 million for the nine months ended September 30, 2005 an increase of $68.6 million compared to $58.0 million for the nine months ended September 30, 2004. The increase in premiums ceded primarily reflects the increase in our gross premiums written and the reinsurance treaties that we have entered into for our product lines in order to limit our net loss exposures to our planned net limits and to control our aggregate exposures to particular classes of risk. These reinsurance treaties provide us with reinsurance protection on either a quota share, excess of loss treaty or facultative basis for policies written in our insurance product lines of business. The increase in premiums ceded is attributable to a lesser extent to approximately $31.7 million of purchased retrocessional protection, including reinstatement premiums, in our specialty reinsurance segment that is intended to limit our net loss exposures to natural catastrophe events.

Net premiums earned were $297.0 million for the nine months ended September 30, 2005 an increase of $147.4 million, or 98.5%, compared to $149.6 million for the nine months ended September 30, 2004 reflecting the earning of premiums on contracts written during the nine months ended September 30, 2005 and during the year ended December 31, 2004. Our net premiums written are typically earned over the risk periods of the underlying insurance policies which are generally twelve months.

Technical services revenues. Technical services revenues were $31.5 million for the nine months ended September 30, 2005 an increase of $8.9 million, or 39.6%, compared to $22.6 million for the nine months ended September 30, 2004. This increase in technical services revenues is attributable to increased remediation revenues associated with liability transfer projects in Buffalo, New York and Axis, Alabama and an overall increase in labor revenue from existing and new projects.

Net investment income and net realized (losses) gains. Net investment income and net realized (losses) gains totaled $17.6 million for the nine months ended September 30, 2005 an increase of $7.1 million, or 68.1%, compared to $10.5 million for the nine months ended September 30, 2004. The increase of $7.1 million is attributable to the larger amount of invested assets and to a lesser extent by increases in interest rates.

Net investment income was $18.4 million for the nine months ended September 30, 2005 and was derived primarily from interest earned on fixed maturity and short term investments, partially offset by investment management fees and amortization of discounts on fixed maturity investments. Our average annualized effective yield (calculated by dividing net investment income by the average amortized cost of invested assets, net of amounts payable or receivable for investments purchased or sold) was approximately 3.3% for the nine months ended September 30, 2005. Net realized losses during the nine months ended September 30, 2005 of $0.8 million were generated primarily from the sale of foreign currency forward contracts and fixed maturity securities as we sought to manage our foreign currency exposure, total investment returns and the duration of our investment portfolios.

Other income. Other income was $5.5 million for the nine months ended September 30, 2005 and includes amounts recognized on non-traditional insurance and reinsurance contracts of $3.2 million and the amortization of deferred revenue relating to assumed environmental liabilities programs of $1.1 million. A more detailed description of these non-traditional contracts is provided under "— Non-Traditional Contracts" below.

Expenses

Net losses and loss expenses. Net losses and loss expenses were $241.1 million for the nine months ended September 30, 2005 an increase of $114.9 million, or 91.1%, compared to $126.2 million for the nine months ended September 30, 2004. The increase in net losses and loss expenses is due to the increase in the number of insurance and reinsurance contracts we entered into and the associated net premiums earned as our insurance and reinsurance portfolios continue to mature. Net losses and loss expenses are a function of our net premiums earned and our expected ultimate losses and loss expenses for reported and unreported claims on contracts of insurance and reinsurance underwritten. Included in our expected ultimate losses during the nine months ended September 30, 2005 are specific loss estimates on contracts of reinsurance and insurance insuring claims arising from Hurricanes Katrina and Rita. We have received a limited number of claim notifications and our preliminary estimate of ultimate losses from these events is primarily based on claims received to date, industry loss estimates, a review of affected contracts and discussion with cedants and brokers. Our estimate of our exposure to ultimate claim costs associated with these hurricanes based on currently available information is $68.5 million including reinstatement premiums, of which $63.6 million is included in net losses and loss expenses for the nine months ended September 30, 2005. The actual amount of losses from the hurricanes may vary significantly from the estimate. Also included in our expected ultimate losses during the nine months ended September 30, 2005 are reported loss estimates, including $7.5 million related to damage caused by an oil pipeline in California which ruptured during a mudslide in the first quarter of 2005, for which the damage is covered by an insurance contract issued by our environmental liability product line. In addition to the hurricanes, as

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of September 30, 2005, we have received a limited amount of significant reported losses other than described above. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Our total net loss ratio (calculated by dividing net losses and loss expenses by net premiums earned) was 81.2% for the nine months ended September 30, 2005 a decrease of 3.1% compared to a total net loss ratio of 84.3% for the three months ended September 30, 2004. The decrease in the total net loss ratio is partially due to the reinsurance protection that we have purchased during 2005 to help limit our net loss exposures to natural catastrophes and also due to the growth in our net earned premiums compared to the nine months ended September 30, 2004. Changes in our net loss ratios are not unexpected because we are still in the developing of our underwriting portfolios and as such we expect that our net loss ratios may continue to be volatile.

Acquisition expenses. Acquisition expenses were $62.7 million for the nine months ended September 30, 2005 an increase of $26.8 million, or 74.8%, compared to $35.9 million for the nine months ended September 30, 2004. The increase in acquisition expenses is due to the increase in the number of insurance and reinsurance contracts we entered into and the associated net premiums earned.

Our acquisition cost ratio (calculated by dividing acquisition expenses by net premiums earned) for the nine months ended September 30, 2005 was 21.1% a decrease of 2.9% compared to our acquisition cost ratio of 24.0% for the nine months ended September 30, 2004. The decrease is due to four factors. First, our earned premium is now more heavily weighted towards specialty insurance which carries lower acquisition costs than specialty reinsurance. Second, we are paying less fronting costs on our specialty insurance lines because we are licensed in more states and no longer need to utilize fronting companies to the same extent in order to write our business. Third, our ceding commission income that we are recovering on our specialty insurance segment's reinsurance treaties has increased as a result of the restructuring of those treaties during the second quarter. Finally, we pay less commission in our HBW program because the contracts contain sliding scale commission provisions that vary with changes in the selected loss ratio.

Direct technical services costs. Direct technical services costs were $24.0 million for the nine months ended September 30, 2005 an increase of $8.6 million, or 55.4%, compared to $15.4 million for the nine months ended September 30, 2004 and were comprised of subcontractor and direct labor expenses. Direct technical services costs, as a percentage of technical services revenues, was approximately 76.1% for the nine months ended September 30, 2005, an increase of 7.7% compared to 68.4% for the nine months ended September 30, 2004. The increase in direct technical services costs as a percentage of revenues was primarily due to a significant increase in the use of subcontractors for environmental projects in 2005 as compared to 2004.

General and administrative expenses. General and administrative expenses were $68.4 million for the nine months ended September 30, 2005 an increase of $23.7 million, or 53.1%, compared to $44.7 million for the nine months ended September 30, 2004 and were comprised of $41.6 million of personnel related expenses and $26.8 million of other general and administrative expenses. The increase in general and administrative expenses is due primarily to an increase in the number of employees, especially in Europe, as we grew our lines of business and to a lesser extent the build out of our infrastructure and Sarbanes-Oxley Section 404 compliance costs. General and administrative expenses include $63.0 million related to our underwriting segment, including $2.4 million of expenses charged by our technical services segment for information management services provided, and $7.8 million of expenses related to our technical services segment.

Our general and administrative expense ratio (calculated by dividing underwriting related general and administrative expenses by net premiums written) was 16.3% for the nine months ended September 30, 2005 an increase of 3.8% compared to 12.5% for the nine months ended September 30, 2004 due to the additional number of employees hired and development of our infrastructure as we grew our lines of business during 2005.

Depreciation and amortization of intangible assets. Depreciation and amortization of intangible assets was $2.9 million for the nine months ended September 30, 2005 an increase of $1.5 million compared to $1.4 million for the nine months ended September 30, 2004 and consisted of amortization of intangible assets related to the acquisition of ESC and depreciation of fixed assets. The increase in depreciation and amortization is due to the purchase of additional fixed assets throughout 2004 and 2005 as we grew our lines of business.

We have not recorded any net deferred income tax benefits or assets relating to tax operating losses generated by our subsidiaries since our results of operations include the effects of a 100% valuation allowance against net deferred tax assets. For the nine months ended September 30, 2005, the net valuation allowance was approximately $4.7 million.

Year ended December 31, 2004

Results of operations for the year ended December 31, 2004 were as follows:

	($ in thousands)
Revenues	
Gross premiums written	$ 494,412
Net premiums written	$ 419,541
Net premiums earned	$ 237,140
Technical services revenues	32,485
Net investment income	14,307
Net realized gains on investments	228
Net foreign exchange gains	978
Other income	2,017
Total revenues	287,155
Expenses	
Net losses and loss expenses	(198,916)
Acquisition expenses	(53,995)
Direct technical services costs	(23,182)
General and administrative expenses	(63,463)
Depreciation and amortization of intangible assets	(2,180)
Total expenses	(341,736)
Income taxes	—
Net loss	$ (54,581)

Revenues

Technical services revenues were derived from the operations of ESC. Substantially all other revenues were generated by our underwriting subsidiaries in Bermuda, the U.S. and Europe.

Premiums. We commenced writing insurance and reinsurance business during the fourth quarter of 2003 and we believe we were well positioned to fully commence underwriting operations by the beginning of 2004. Gross premiums written and net premiums written were $494.4 million and $419.5 million for the year ended December 31, 2004. We believe that our specialty reinsurance segment capitalized on the reinsurance opportunities during the January and July 2004 renewal seasons. The specialty reinsurance segment generated $251.8 million, or 50.9%, and $249.2 million, or 59.4%, of our gross and net premiums written during the year ended December 31, 2004. Our specialty insurance segment generated $242.6 million, or 49.1%, and $170.3 million, or 40.6%, of gross and net premiums written during the year ended December 31, 2004. The increase in our specialty insurance segment gross and net premiums written was primarily due to growth in U.S. insurance business as we received additional regulatory approvals and state licenses and developed key distribution channels through brokerage relationships.

We have entered into reinsurance treaties for our marine and aviation reinsurance line of business and for each of our insurance lines of business in order to limit our net loss exposures to our planned net limits and to control our aggregate exposures to particular classes of risk. These reinsurance treaties provide us with reinsurance protection on either a quota share, excess of loss treaty or facultative basis for policies written in our insurance lines of business. We ceded $74.9 million of premium written under these treaties during the year ended December 31, 2004 and executed similar treaties for the 2005 underwriting year.

Net premiums earned were $237.1 million in the year ended December 31, 2004. Our net premiums earned in the year ended December 31, 2004 reflect the earning of premiums on contracts written during the year ended December 31, 2004 and during the fourth quarter of 2003. Our net premiums written are typically earned over the risk periods of the underlying insurance policies which are generally twelve months. Net written premiums that are not yet earned and are deferred as unearned premium reserves, net of deferred reinsurance premiums, totaled $47.3 million at December 31, 2004 and will be earned and recognized in our results of operations in future periods. Because we only began to write insurance and reinsurance business during the fourth quarter of 2003, we believe that our net premiums earned are not yet representative of a fully developed and diversified portfolio of insurance and reinsurance contracts.

Technical services revenues. Technical services revenues were $32.5 million for the year ended December 31, 2004. Our technical services revenues for the year ended December 31, 2004 consisted of $14.5 million from direct labor and $18.0 million from subcontractor related activities.

Net investment income and net realized gains. Net investment income and net realized gains totaled $14.5 million for the year ended December 31, 2004. Net investment income was $14.3 million during the year ended December 31, 2004, and was derived primarily from interest earned on fixed maturity and short term investments, partially offset by investment management fees and amortization of discounts on fixed maturity investments. Our average annualized effective yield (calculated by dividing net investment income by the average amortized cost of invested assets, net of amounts payable or receivable for investments purchased or sold) was approximately 2.7% for the year ended December 31, 2004. Net realized gains of $0.2 million during the year ended December 31, 2004, were generated primarily from the sale of fixed maturity securities as we sought to manage our total investment returns and the duration of our investment portfolios.

As of December 31, 2004, the average duration of our investment portfolio was approximately 2.6 years with an average credit rating of approximately "AA."

Expenses

Net losses and loss expenses. Net losses and loss expenses were $198.9 million for the year ended December 31, 2004. Net losses and loss expenses were a function of our net premiums earned and our expected ultimate losses and loss expenses for reported and unreported claims on contracts of insurance and reinsurance underwritten. Included in our expected ultimate losses are specific loss estimates on contracts of reinsurance and insurance insuring claims arising from Hurricanes Charley, Frances, Ivan and Jeanne. Our estimate of our exposure to ultimate claim costs associated with these hurricanes based on currently available information, claims notifications received to date, industry loss estimates, output from industry models, a detailed review of affected contracts and discussion with cedants and brokers is $61.3 million, and is included in net losses and loss expenses for the year ended December 31, 2004. We received approximately $8.9 million of additional reported losses related to these four hurricanes for the nine months ended September 30, 2005. As of December 31, 2004, other than claims related to these four hurricanes we have received a limited amount of other reported losses. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

We have used the Bornhuetter-Ferguson reserving method as our primary loss reserving methodology as of December 31, 2004 to estimate the ultimate cost of losses for our specialty reinsurance lines and our fidelity and technical risk property specialty insurance lines. The Bornhuetter-Ferguson reserving method uses an initial expected loss and loss expense ratio

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supplemented by our actual loss and loss expense experience to date. We have used an expected loss ratio method as our primary reserving methodology as of December 31, 2004 to estimate the ultimate cost of losses for our other specialty insurance business lines, whereby earned premiums are multiplied by an expected loss ratio to derive ultimate losses and deducts any paid losses and loss expenses to arrive at estimated losses and loss expense reserves. Our total net loss ratio (calculated by dividing net losses and loss expenses by net premiums earned) was 83.9% for the year ended December 31, 2004, reflecting the impact of the third quarter hurricanes on our results for the year ended December 31, 2004. Excluding the impact of the third quarter hurricanes, our net loss and loss expense ratio for the year ended December 31, 2004 was 58.0%.

Acquisition expenses. Acquisition expenses were $54.0 million for the year ended December 31, 2004. Acquisition expenses were a function of the number of insurance and reinsurance contracts we entered into and the associated net premiums earned. Our acquisition cost ratio (calculated by dividing acquisition expenses by net premiums earned) for the year ended December 31, 2004 was 22.8%. Deferred acquisition costs include, as of December 31, 2004, $41.5 million of acquisition expenses on written contracts of insurance and reinsurance that will be amortized in future periods as the premiums written to which they relate are earned.

Direct technical services costs. Direct technical services costs were $23.2 million for the year ended December 31, 2004, and were comprised of subcontractor and direct labor expenses at ESC. Direct technical services costs, as a percentage of technical services revenues were approximately 66.7% for the year ended December 31, 2004, which was consistent with direct technical services costs as a percentage of technical services revenues realized by ESC in prior periods.

General and administrative expenses. General and administrative expenses were $63.5 million for the year ended December 31, 2004. General and administrative expenses for the year ended December 31, 2004 were comprised of $40.7 million of personnel related expenses and $22.8 million of other general and administrative expenses. Personnel related expenses grew steadily during 2004 in line with expectations as we grew our lines of business and increased the number of employees. General and administrative expenses include $55.7 million related to our underwriting segment, including $2.3 million of expenses charged by our technical services segment for information management services provided, and $10.1 million of expenses related to our technical services segment. Our general and administrative expense ratio (calculated by dividing underwriting related general and administrative expenses by net premiums written) was 13.3% for the year ended December 31, 2004.

Depreciation and amortization of intangible assets. Depreciation and amortization of intangible assets was $2.2 million for the year ended December 31, 2004. Amortization of intangible assets consisted of the amortization of our customer relationships and non-compete arrangements related to the acquisition of ESC.

We have not recorded any net deferred income tax benefits or assets relating to tax operating losses generated by our subsidiaries since our results of operations include a 100% valuation allowance against net deferred tax assets. For the year ended December 31, 2004, the net valuation allowance was approximately $13.3 million.

Results by Segments

Underwriting

We principally provide insurance and reinsurance protection for risks that are often unusual or difficult to place, that do not fit the underwriting criteria of standard commercial product carriers and that require extensive technical underwriting and assessment resources in order to be profitably underwritten. Our underwriting objective is to deploy capital to what we believe are the most attractive lines of business at the most opportune times in order to maximize our risk-adjusted returns on capital. In measuring the performance of our specialty insurance and specialty reinsurance segments, we consider each segment's net underwriting income and a number of financial ratios. Net

underwriting income is the sum of net premiums earned less net losses and loss expenses, acquisition expenses and direct and allocated general and administrative expenses. The financial ratios we use include the net loss and loss expense ratio, the acquisition expense ratio and the general and administrative expense ratio. Our net loss and loss expense ratio is calculated as net losses and loss expenses incurred divided by net premiums earned. Our acquisition expense ratio is calculated by dividing acquisition expenses by net premiums earned. Our net loss and loss expense ratio and acquisition expense ratio provide a measure of the current profitability of the earned portions of our written insurance and reinsurance contracts. Our general and administrative expense ratio is calculated by dividing underwriting related general and administrative expenses by net premiums written and indicates the level of indirect costs that we incur in acquiring and writing insurance and reinsurance business. Our combined ratio is the aggregate of our loss and loss expense, acquisition expense and general and administrative expense ratios. We believe that these financial ratios appropriately reflect the profitability of our underwriting segments. A combined ratio of less than 100% indicates an underwriting profit and over 100%, an underwriting loss. Because we have a limited operating history, our combined ratio may be subject to significant volatility and may not be indicative of future profitability.

We allocate indirect corporate general and administrative expenses among each of our segments, including those related to underwriting operations, as described above under "— Segment Information."

The following is a discussion of our net underwriting results and profitability measures by segment for the three months ended September 30, 2005 and 2004, respectively, for the nine months ended September 30, 2005 and 2004, respectively, and for the year ended December 31, 2004. Since we commenced substantive operations on September 3, 2003 and only wrote a small number of insurance and reinsurance contracts during the period from May 23, 2003 (date of incorporation) to December 31, 2003, comparisons between the year ended December 31, 2004 and the period from May 23, 2003 (date of incorporation) to December 31, 2003 are not meaningful. For further information, see our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the SEC.

Three months ended September 30, 2005 and 2004

The following table summarizes our net underwriting results and profitability measures for our segments for the three months ended September 30, 2005 and 2004:

Specialty insurance

	Three months ended September 30, 2005	Three months ended September 30, 2004	Change
		($ in thousands)	
Gross premiums written	$ 97,348	$ 69,518	$ 27,830
Premiums ceded	(35,258)	(28,285)	(6,973)
Net premiums written	$ 62,090	$ 41,233	$ (20,857)
Net premiums earned	$ 51,034	$ 20,516	$ 30,518
Other loss	(42)	—	(42)
Net losses and loss expenses	(35,550)	(12,084)	(23,466)
Acquisition expenses	(9,280)	(5,292)	(3,988)
General and administrative expenses	(15,539)	(7,562)	(7,977)
Net underwriting loss	$ (9,377)	$ (4,422)	$ (4,955)
Ratios:			
Loss and loss expense ratio	69.7%	58.9%	(10.8)%
Acquisition expense ratio	18.2%	25.8%	7.6%
General and administrative expense ratio	25.0%	18.3%	(6.7)%
Combined ratio	112.9%	103.0%	(9.9)%

Premiums. Gross and net written premiums were $97.3 million and $62.1 million for the three months ended September 30, 2005 compared to $69.5 million and $41.2 million for the three months ended September 30, 2004. The increase in our specialty insurance segment's gross and net premiums written was due primarily to the contribution of $12.3 million, or 12.6% of the specialty insurance segment's gross written premium, from our Lloyd's syndicate and reflects continued growth in nearly all of our insurance business lines. The increase reflects our increasing participation in the insurance marketplace and development of our insurance portfolios.

After the end of the third quarter of 2005, we discontinued the writing of new and most renewal business in our technical risk property line of business. We did not discontinue or make changes in our HBW program or other program businesses. In addition, as part of our plan to retain our A.M. Best rating, we have retroceded substantially all the in-force business, as of October 1, 2005, in our technical risk property insurance (other than the program business which is included in the technical risk property product line) and property reinsurance lines by a portfolio transfer to a third party reinsurer. This transaction limits our property reinsurance and technical risk property losses to those relating to Hurricane Wilma and those we have incurred through September 30, 2005 (including incurred but not reported losses), which includes losses relating to Hurricanes Katrina and Rita. Under this transaction, we also transferred all future premiums earned for that business and loss and acquisition expenses incurred from and after October 1, 2005 to the third party reinsurer.

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The table below shows gross and net premiums written by product line for the three months ended September 30, 2005 and 2004 whether written on a traditional insurance, programs or structured basis. The gross and net premiums written generated by our Lloyd's syndicate is included in the professional liability product line.

	Three months ended September 30, 2005		Three months ended September 30, 2004	
	($ in thousands)			
	Gross premiums written	Net premiums written	Gross premiums written	Net premiums written
Technical risk property	$ 41,671	$ 26,220	$ 38,697	$ 21,766
Professional liability	26,907	17,589	13,013	9,916
Environmental liability	17,852	9,847	12,607	6,545
Surety	3,561	2,928	1,677	1,246
Fidelity and crime	2,704	1,241	2,465	701
Trade credit and political risk	1,830	1,442	—	—
Other	1,822	1,822	—	—
Structured insurance	1,001	1,001	1,059	1,059
Total	$ 97,348	$ 62,090	$ 69,518	$ 41,233

During the three months ended September 30, 2005 we continued to write, in our technical risk property product line, the HBW program, which accounted for approximately $35.9 million, or 86.1%, of the technical risk property line of business and 36.9% of total specialty insurance segment gross written premiums in the three months ended September 30, 2005. The policies in the program are underwritten by third party agent who follows our underwriting guidelines. We believe this agent is an established specialist in this technical field. While we have discontinued the writing of new and most renewal business in our technical risk property line of business, we have not discontinued the programs that are part of the technical risk property line and we expect that the HBW program will continue to contribute substantial net written premiums during the remainder of 2005. We intend to grow and diversify our other specialty insurance lines of business.

Ceded premiums were $35.3 million during the three months ended September 30, 2005 an increase of $7.0 million compared to $28.3 million for the three months ended September 30, 2004. The increase in ceded premiums reflects the increase in our gross written premiums and the reinsurance treaties that we have entered into for our specialty insurance product lines in order to limit our net loss exposures to our planned net limits and to control our aggregate exposures to particular classes of risk. Net premiums earned during the three months ended September 30, 2005 were $51.0 million representing the earning and amortization of premiums written and ceded during the year ended December 31, 2004 and the nine months ended September 30, 2005. Gross premiums written and ceded premiums are earned over the period of each insured risk. The terms of our insurance contracts range from between one and ten years with the majority of our contracts being for a one year period.

Other loss. Other loss was negligible for the three months ended September 30, 2005 and related to income, including fees, recognized on non-traditional insurance contracts. A more detailed description of these non traditional contracts is provided under "— Non-Traditional Contracts" below.

Net losses and loss expenses. Net losses and loss expenses were $35.6 million for the three months ended September 30, 2005 an increase of $23.5 million compared to $12.1 million for the three months ended September 30, 2004. The increase of $23.5 million in net losses and loss expenses incurred was due to the growth in the number of insurance contracts we entered into and the associated net premiums earned. Net losses and loss expenses were a function of our net premiums earned and our expected ultimate losses and loss expenses for reported and unreported claims on contracts of insurance underwritten. Included in our expected ultimate losses during the three months ended September 30, 2005 are specific loss estimates on contracts of reinsurance and insurance insuring claims arising from Hurricanes Katrina and Rita. We have received a limited number of claim

notifications and our preliminary estimate of ultimate losses from these events is primarily based on claims received to date, industry loss estimates, a review of affected contracts and discussion with cedants and brokers. Our estimate of our specialty insurance segment's exposure to ultimate claim costs associated with these hurricanes based on currently available information is $11.4 million including reinstatement premiums, of which $8.8 million is included in net losses and loss expenses for the three months ended September 30, 2005. The actual amount of losses from the hurricanes may vary significantly from the estimate. In addition to the hurricanes, as of September 30, 2005, we have received a limited amount of significant reported losses. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Our specialty insurance segment net loss ratio (calculated by dividing net losses and loss expenses by net premiums earned) was 69.7% for the three months ended September 30, 2005 an increase of 10.8% compared to a net loss ratio of 58.9% for the three months ended September 30, 2004. The increase in the specialty insurance segment net loss ratio is due to the loss estimates arising from Hurricanes Katrina and Rita described above, which are in part offset by an increase in ceded losses that we are recovering on our specialty insurance segment's reinsurance treaties. We have received a limited number of other less significant loss notifications in our specialty insurance segment. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred which is partially offset by reinsurance recoveries. Changes in our net loss ratios are not unexpected because we are still in the early development stages of our underwriting portfolios and as such we expect that our net loss ratios may continue to be volatile.

Acquisition expenses. Acquisition expenses were $9.3 million for the three months ended September 30, 2005 an increase of $4.0 million compared to $5.3 million for the three months ended September 30, 2004. The increase of $4.0 million in acquisition expenses was due to the increase in the number of insurance contracts we entered into and the associated net premiums earned. These acquisition expenses primarily represented brokerage fees, commission fees and premium tax expenses and were net of ceding commissions earned on purchased reinsurance treaties.

Our acquisition expense ratio was 18.2% for the three months ended September 30, 2005 a decrease of 7.6% compared to 25.8% for the three months ended September 30, 2004. The reduction in our acquisition expense ratio in the specialty insurance segment is due to the fact that we are paying less fronting costs because we are licensed in more states and no longer need to utilize fronting companies to the same extent in order to write our insurance business and lower acquisition costs on our technical risk property contracts, including the HBW program described above, during the three months ended September 30, 2005 as a result of the contracts containing sliding scale commission provisions that vary with changes in the selected loss ratio. The reduction in our acquisition expense ratio is also due to ceding commission income that we are earning on the reinsurance treaties that we have entered into for each of our specialty insurance product lines.

General and administrative expenses. Direct and allocated indirect general and administrative expenses totaled $15.5 million for the three months ended September 30, 2005 an increase of $7.9 million compared to $7.6 million for the three months ended September 30, 2004. The increase in our general and administrative expense ratio was due to the additional number of employees hired throughout 2004 and 2005 and the continued build out of our infrastructure as we grew our specialty insurance lines of business. As a result, our general and administrative expense ratio increased to 25.0% of net premiums written for the three months ended September 30, 2005 compared to 18.3% for the three months ended September 30, 2004.

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Specialty reinsurance

	Three months ended September 30, 2005	Three months ended September 30, 2004	Change
		($ in thousands)	
Gross premiums written	$ 74,194	$ 47,211	$ 26,983
Premiums ceded	(20,319)	(2,475)	(17,844)
Net premiums written	$ 53,875	$ 44,736	$ 9,139
Net premiums earned	$ 49,512	$ 45,007	$ 4,505
Other income	865	—	865
Net losses and loss expenses	(85,582)	(65,879)	(19,703)
Acquisition expenses	(13,718)	(11,132)	(2,586)
General and administrative expenses	(6,229)	(4,791)	(1,438)
Net underwriting loss	$ (55,152)	$ (36,795)	$ (18,357)
Ratios:			
Loss and loss expense ratio	172.9%	146.4%	(26.5)%
Acquisition expense ratio	27.7%	24.7%	(3.0)%
General and administrative expense ratio	11.6%	10.7%	(0.9)%
Combined ratio	212.2%	181.8%	(30.4)%

Premiums. Gross and net premiums written were $74.2 million and $53.9 million for the three months ended September 30, 2005 compared to $47.2 million and $44.7 of gross and net premiums for the three months ended September 30, 2004. The increase in our specialty reinsurance segment's net written premiums reflects continued growth in our casualty and marine reinsurance business line, which was offset by a decrease in our property reinsurance business line. In addition, during the three months ended September 30, 2005 the increase in our ceded premiums written reflects approximately $20.3 million of purchased retrocessional protection, including reinstatement premiums, in our specialty reinsurance property and marine, technical risk and aviation product lines that is intended to help limit our net loss exposures to our planned net limits and to control our aggregate exposures, predominantly to natural catastrophe events. These reinsurance treaties provide us with reinsurance protection on an excess of loss, quota share treaty and facultative basis for policies written in our reinsurance product lines of business.

After the end of the third quarter of 2005, we discontinued the writing of new and most renewal business in our property reinsurance line of business. In addition, as part of our plan to retain our A.M. Best rating, we have retroceded substantially all the in-force business, as of October 1, 2005, in our technical risk property insurance (other than the program business which is included in the technical risk property product line) and property reinsurance lines by a portfolio transfer to a third party reinsurer. This transaction limits our property reinsurance and technical risk property losses to those relating to Hurricane Wilma and those we have incurred through September 30, 2005 (including incurred but not reported losses), which includes losses relating to Hurricanes Katrina and Rita. Under this transaction, we also transferred all future premiums earned for that business and loss and acquisition expenses incurred from and after October 1, 2005 to the third party reinsurer. We are also in the process of purchasing additional retrocessional coverage for our marine, technical risk and aviation reinsurance product line to limit our future probable maximum losses.

The table below shows gross and net written premiums by product line whether written on a traditional reinsurance, programs or structured basis:

	Three months ended September 30, 2005		Three months ended September 30, 2004	
	($ in thousands)			
	Gross written premium	Net written premium	Gross written premium	Net written premium
Casualty	$ 39,964	$ 39,964	$ 17,501	$ 17,501
Marine, technical risk and aviation	20,869	8,984	10,346	7,871
Property	13,361	4,927	19,364	19,364
Total	$ 74,194	$ 53,875	$ 47,211	$ 44,736

Gross reinsurance premiums written are being earned over the periods of reinsured or underlying insured risks which are typically one year. Gross premiums written and ceded premiums are earned over the period of each insured risk.

Net premiums earned of $49.5 million reflect the earning of premiums on contracts written during the year ended December 31, 2004 and during the nine months ended September 30, 2005.

Other income. Other income was $0.9 million for the three months ended September 30, 2005 and related to income, including fees, recognized on non-traditional reinsurance contracts. A more detailed description of these non-traditional contracts is provided under "— Non-Traditional Contracts" below.

Net losses and loss expenses. Net losses and loss expenses were $85.6 million for the three months ended September 30, 2005 an increase of $19.7 million compared to $65.9 million for the three months ended September 30, 2004. This increase was due to the increase in the number of reinsurance contracts we entered into and the associated net premiums earned. Net losses and loss expenses are a function of our net premiums earned and our expected ultimate losses and loss expenses for reported and unreported claims on contracts of reinsurance underwritten. Included in our expected ultimate losses during the three months ended September 30, 2005 are specific loss estimates on contracts of reinsurance insuring claims arising from Hurricanes Katrina and Rita. We have received a limited number of claim notifications and our preliminary estimate of ultimate losses from these events is primarily based on claims received to date, industry loss estimates, a review of affected contracts and discussion with cedants and brokers. Our estimate of our specialty reinsurance segment's exposure to ultimate claim costs associated with these hurricanes based on currently available information is $57.1 million including reinstatement premiums, of which $54.7 million is included in net losses and loss expenses for the three months ended September 30, 2005. The actual amount of losses from the hurricanes may vary significantly from the estimate. In addition to the hurricanes during the three months ended September 30, 2005, we have received a limited amount of significant reported losses. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Our specialty reinsurance segment net loss ratio (calculated by dividing net losses and loss expenses by net premiums earned) was 172.9% for the three months ended September 30, 2005 an increase of 26.5% compared to a net loss ratio of 146.4% for the three months ended September 30, 2004. The increase in the specialty reinsurance segment net loss ratio is due to the greater magnitude of the natural catastrophes that occurred in the three months ended September 30, 2005 as compared to those that occurred in the three months ended September 30, 2004. However, the extent of the impact of the natural catastrophes in 2005 was mitigated by our purchased retrocessional protection. We have received a limited number of other less significant loss notifications in our specialty insurance segment. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred. Changes in our net loss ratios are not unexpected because we are still developing our underwriting portfolios and as such we expect that our net loss ratios may continue to be volatile.

Acquisition expenses. Acquisition expenses were $13.7 million for the three months ended September 30, 2005 an increase of $2.6 million, or 23.2%, compared to $11.1 million for the three months ended September 30, 2004. The increase in acquisition expenses was due to the increase in the number of reinsurance contracts we entered into and the associated net premiums earned. These acquisition expenses primarily represented brokerage and ceding commissions. Our acquisition expense ratio was 27.7% for the three months ended September 30, 2005 an increase of 3.0% compared to 24.7% for the three months ended September 30, 2004. This increase is primarily due to changes in our mix of business and the type and nature of contracts written and the impact of ceded reinstatement premiums reducing our net earned premium.

General and administrative expenses. Direct and allocated indirect general and administrative expenses totaled $6.2 million for the three months ended September 30, 2005, an increase of $1.4 million compared to $4.8 million for the three months ended September 30, 2004. Our general and administrative expense ratio was 11.6% of net premiums written for the three months ended September 30, 2005 an increase of 0.9% compared to 10.7% for the three months ended September 30, 2004 and was primarily due to the additional number of employees hired throughout 2004 and 2005.

Technical services

	Three months ended September 30, 2005	Three months ended September 30, 2004	Change
		($ in thousands)	

Technical services revenues	$ 16,852	$ 8,246	$ 8,606
Other income	1,035	74	961
Direct technical services costs	(13,133)	(5,231)	(7,902)
General and administrative expenses	(2,594)	(2,460)	(134)
Net technical services income	$ 2,160	$ 629	$ 1,531

Technical services revenues. Technical services revenues were $16.9 million for the three months ended September 30, 2005, an increase of $8.6 million compared to $8.2 million for the three months ended September 30, 2004. The increase of $8.6 million in technical services revenues is attributable to increased remediation revenues associated with liability transfer projects in Buffalo, New York and Axis, Alabama.

Other income. Other income was $1.0 million for the three months ended September 30, 2005 compared to $0.1 million for the three months ended September 30, 2004. Other income was generated from our environmental liability assumption programs and primarily from a new project in Buffalo, New York, under which we assume specified environmental liabilities. This income represents reimbursements and other remediation amounts relating to the services performed.

Direct technical services costs. Direct technical services costs were $13.1 million for the three months ended September 30, 2005, an increase of $7.9 million, or 151.1%, compared to $5.2 million for the three months ended September 30, 2004. The increase in direct technical services costs was primarily attributable to increased subcontractor expenses which resulted from the Buffalo, New York and Axis, Alabama remediation projects undertaken during the three months ended September 30, 2005 compared to the three months ended September 30, 2004. Direct technical services costs, as a percentage of revenue was 77.9% for the three months ended September 30, 2005 compared to 63.4% for the three months ended September 30, 2004. The increase in direct technical services costs as a percentage of revenues was attributable to the significant increase in remediation revenue associated with environmental projects in 2005 as compared to 2004.

General and administrative expenses. Direct and indirect allocated general and administrative expenses were $2.6 million for the three months ended September 30, 2005 an increase of $0.1 million, or 5.4% compared to $2.5 million for the three months ended September 30, 2004. The increase is attributable to increased staffing levels and higher overhead allocation arising from the development of our infrastructure and Sarbanes-Oxley Section 404 compliance efforts.

Nine months ended September 30, 2005 and 2004

The following table summarizes our net underwriting results and profitability measures for our segments for the nine months ended September 30, 2005 and 2004:

Specialty insurance

	Nine months ended September 30,	Nine months ended September 30,	Change

	2005	2004	
		($ in thousands)	
Gross premiums written	$ 299,059	$ 175,389	$ 123,670
Premiums ceded	(94,944)	(55,466)	(39,478)
Net premiums written	$ 204,115	$ 119,923	$ 84,192
Net premiums earned	$ 141,026	$ 42,148	$ 98,878
Other income	787	—	787
Net losses and loss expenses	(92,200)	(23,098)	(69,102)
Acquisition expenses	(23,213)	(10,451)	(12,762)
General and administrative expenses	(45,523)	(23,607)	(21,916)
Net underwriting loss	$ (19,123)	$ (15,008)	$ (4,115)
Ratios:			
Loss and loss expense ratio	65.4%	54.8%	(10.6)%
Acquisition expense ratio	16.5%	24.8%	8.3%
General and administrative expense ratio	22.3%	19.7%	(2.6)%
Combined ratio	104.2%	99.3%	(4.9)%

Premiums. Gross and net written premiums were $299.1 million and $204.1 million for the nine months ended September 30, 2005 compared to $175.4 million and $119.9 million for the nine months ended September 30, 2004. The increase in our specialty insurance segment's gross and net premiums written was due primarily to the contribution of $53.2 million, or 17.8%, of the specialty insurance segment's gross written premium, from our Lloyd's syndicate and continued growth in all of our insurance business lines. The increase reflects our increasing participation in the insurance marketplace and development of our insurance portfolios and is consistent with our strategy to grow our specialty insurance product lines.

After the end of the third quarter of 2005, we discontinued the writing of new and most renewal business in our technical risk property line of business. We did not discontinue or make changes in our program businesses, including our HBW program. In addition, as part of our plan to retain our A.M. Best rating, we have retroceded substantially all the in-force business, as of October 1, 2005, in our technical risk property insurance (other than the program business which is included in the technical risk property product line) and property reinsurance lines by a portfolio transfer to a third party reinsurer. This transaction limits our property reinsurance and technical risk property losses to those relating to Hurricane Wilma and those we have incurred through September 30, 2005 (including incurred but not reported losses), which includes losses relating to Hurricanes Katrina and Rita. Under this transaction, we also transferred all future premiums earned for that business and loss and acquisition expenses incurred from and after October 1, 2005 to the third party reinsurer.

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The table below shows gross premiums written by product line for the nine months ended September 30, 2005 and 2004 whether written on a traditional insurance, programs or structured basis. The gross and net premiums written generated by our Lloyd's syndicate is included in the professional liability product line.

	Nine months ended September 30, 2005	Nine months ended September 30, 2004

	($ in thousands)			
	Gross premiums written	Net premiums written	Gross premiums written	Net premiums written
Technical risk property	$ 143,274	$ 94,646	$ 106,234	$ 75,820
Professional liability	94,970	70,797	28,089	20,361
Environmental liability	33,431	19,216	30,798	17,525
Fidelity and crime	10,253	5,464	6,976	3,477
Surety	9,195	7,046	2,233	1,681
Trade credit and political risk	5,010	4,020	—	—
Other	1,822	1,822	—	—
Structured insurance	1,104	1,104	1,059	1,059
Total	$ 299,059	$ 204,115	$ 175,389	$ 119,923

During the nine months ended September 30, 2005 we continued to write, in our technical risk property product line, the HBW program, which accounted for approximately $129.3 million, or 90.3%, of the technical risk property line of business and 43.2% of total specialty insurance segment gross written premiums in the nine months ended September 30, 2005. We are no longer writing business in our technical risk property line other than the programs that are part of that line, including the HBW program. The policies in the program are underwritten through a third party agent which follows our underwriting guidelines. We believe that this third party is an established specialist in this technical field. We expect that this program will continue to contribute substantial net written premiums during the remainder of 2005. Our HBW gross premiums written during the nine months ended September 30, 2005 are summarized in the table below by specialty risk class.

	($ in millions)
Casualty	$ 108.6
Warranty*	12.2
Property	8.5
Total	$ 129.3

*Warranty is written as reinsurance

Approximately 43.2% of our specialty insurance segment gross written premiums of $299.1 million were generated through our HBW program. The remaining 56.8% of our specialty insurance segment gross written premiums were generated through a significant number of brokers, one of which accounted for 11.5% of our total specialty insurance segment gross written premiums. No other brokers accounted for more than 10% of our total specialty insurance segment gross written premiums.

Ceded premiums were $94.9 million during the nine months ended September 30, 2005, an increase of $39.4 million compared to $55.5 million for the nine months ended September 30, 2004. The increase in ceded premiums reflects the increase in our gross written premiums and the reinsurance treaties that we have entered into for our specialty insurance product lines in order to limit our net loss exposures to our planned net limits and to control our aggregate exposures to particular classes of risk.

Net premiums earned during the nine months ended September 30, 2005 were $141.0 million representing the earning and amortization of premiums written and ceded during the year ended

December 31, 2004 and the nine months ended September 30, 2005. Gross premiums written and ceded premiums are earned over the period of each insured risk. The terms of our insurance contracts range from between one and ten years with the majority of our contracts being for one year.

Other income. Other income was $0.8 million for the nine months ended September 30, 2005 and related to income, including fees, recognized on non-traditional insurance contracts. A more detailed description of these non-traditional contracts is provided under "— Non-Traditional Contracts" below.

Net losses and loss expenses. Net losses and loss expenses were $92.2 million for the nine months ended September 30, 2005 an increase of $69.1 million compared to $23.1 million for the nine months ended September 30, 2004. The increase of $69.1 million in net losses and loss expenses incurred was due to the increase in the number of insurance contracts we entered into and the associated net premiums earned. Net losses and loss expenses were a function of our net premiums earned and our expected ultimate losses and loss expenses for reported and unreported claims on contracts of insurance underwritten. Included in our expected ultimate losses during the three months ended September 30, 2005 are specific loss estimates on contracts of reinsurance and insurance insuring claims arising from Hurricanes Katrina and Rita. We have received a limited number of claim notifications and our preliminary estimate of ultimate losses from these events is primarily based on claims received to date, industry loss estimates, a review of affected contracts and discussion with cedants and brokers. Our estimate of our specialty insurance segment's exposure to ultimate claim costs associated with these hurricanes based on currently available information is $11.4 million including reinstatement premiums, of which $8.8 million is included in net losses and loss expenses for the nine months ended September 30, 2005. The actual amount of losses from the hurricanes may vary significantly from the estimate. Also included in our expected ultimate losses during the nine months ended September 30, 2005 is $7.5 million related to damages from a ruptured oil pipeline in California which occurred during the first quarter of 2005 and that was covered by an insurance contract issued by our environmental liability product line. In addition to the hurricane losses, as of September 30, 2005, we have received a limited amount of significant reported losses, other than as described above. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Our specialty insurance segment net loss ratio was 65.4% for the nine months ended September 30, 2005 compared to 54.8% for the nine months ended September 30, 2004. The increase in our specialty insurance loss ratio is due to the losses arising from Hurricanes Katrina and Rita and our environmental loss described above. We have received a limited number of other less significant loss notifications in our specialty insurance segment. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Acquisition expenses. Acquisition expenses were $23.2 million for the nine months ended September 30, 2005 an increase of $12.7 million compared to $10.5 million for the nine months ended September 30, 2004. The increase of $12.7 million in acquisition expenses was due to the increase in the number of insurance contracts we entered into and the associated net premiums earned. These acquisition expenses primarily represented brokerage fees, commission fees and premium tax expenses and were net of ceding commissions earned on purchased reinsurance treaties.

Our acquisition expense ratio was 16.5% for the nine months ended September 30, 2005 a decrease of 8.3% compared to 24.8% for the nine months ended September 30, 2004. The reduction in our acquisition expense ratio in the specialty insurance segment is primarily due to the fact that we are paying less fronting costs because we are licensed in more states and no longer need to utilize fronting companies to the same extent in order to write our insurance business, to the acquisition costs on our HBW program, being lower during the nine months ended September 30, 2005 as a result of the contracts containing sliding scale commission provisions that vary with changes in the selected loss ratio. The reduction in our acquisition expense ratio is also due to ceding commission income that we are earning on the reinsurance treaties that we have entered into for our specialty insurance product lines.

General and administrative expenses. Direct and allocated indirect general and administrative expenses totaled $45.5 million for the nine months ended September 30, 2005, an increase of $21.9 million compared to $23.6 million for the nine months ended September 30, 2004. The increase in our general and administrative expense ratio was due to the additional number of employees hired throughout 2004 and 2005 as we grew our specialty insurance lines of business and developed our infrastructure.

Our general and administrative expense ratio was 22.3% of net premiums written for the nine months ended September 30, 2005 an increase of 2.6% compared to 19.7% for the nine months ended September 30, 2004.

Specialty reinsurance

	Nine months ended September 30, 2005	Nine months ended September 30, 2004	Change
		($ in thousands)	
Gross premiums written	$ 213,757	$ 195,039	$ 18,718
Premiums ceded	(31,666)	(2,475)	(29,191)
Net premiums written	$ 182,091	$ 192,564	$ (10,473)
Net premiums earned	$ 156,014	$ 107,465	$ 48,549
Other income	2,413	—	2,413
Net losses and loss expenses	(149,034)	(103,078)	(45,956)
Acquisition expenses	(39,505)	(25,434)	(14,071)
General and administrative expenses	(17,527)	(15,364)	(2,163)
Net underwriting income	$ (47,639)	$ (36,411)	$ (11,228)
Ratios:			
Loss and loss expense ratio	95.5%	95.9%	0.4%
Acquisition expense ratio	25.3%	23.7%	(1.6)%
General and administrative expense ratio	9.6%	8.0%	(1.6)%
Combined ratio	130.4%	127.6%	(2.8%)

Premiums. Gross and net premiums written were $213.8 million and $182.1 million for the nine months ended September 30, 2005 compared to $195.0 million of gross and $192.6 of net premiums for the nine months ended September 30, 2004. The increase in our specialty reinsurance segment's gross written premium reflects continued growth in our casualty and marine reinsurance product line offset by an decrease in our property reinsurance business line. The decrease in our net written premium reflects approximately $31.7 million in purchased retrocessional protection, including reinstatement premiums, that is intended to limit our net loss exposures to natural catastrophe events. These reinsurance treaties provide us with reinsurance protection on an excess of loss, quota share treaty and facultative basis for policies written in our reinsurance product lines of business.

After the end of the third quarter of 2005, we discontinued the writing of new and most renewal business in our property reinsurance line of business. In addition, as part of our plan to retain our A.M. Best rating, we have retroceded substantially all the in-force business, as of October 1, 2005, in our technical risk property insurance (other than the program business which is included in the technical risk property product line) and property reinsurance lines by a portfolio transfer to a third party reinsurer. This transaction limits our property reinsurance and technical risk property losses to those relating to Hurricane Wilma and those we have incurred through September 30, 2005 (including incurred but not reported losses), which includes losses relating to Hurricanes Katrina and Rita. Under this transaction, we also transferred all future premiums earned for that business and loss and acquisition expenses incurred from and after October 1, 2005 to the third party reinsurer. We are also in the process of purchasing additional retrocessional coverage for our marine, technical risk and aviation reinsurance product line to help limit our future probable maximum losses.

The table below shows gross and net written premiums by product line whether written on a traditional reinsurance, programs or structured basis:

	Nine months ended September 30, 2005		Nine months ended September 30, 2004	
	($ in thousands)			
	Gross written premium	Net written premium	Gross written premium	Net written premium
Casualty	$ 90,289	$ 90,289	$ 62,909	$ 62,909
Property	78,773	63,372	97,438	97,438
Marine, technical risk and aviation	44,695	28,430	34,236	31,761
Structured reinsurance	—	—	456	456
Total	$ 213,757	$ 182,091	$ 195,039	$ 192,564

Our property reinsurance gross premiums written during the nine months ended September 30, 2005 are summarized in the table below by risk class.

Homeowners and commercial property	86.7%
Crop hail	13.3%
Total	100.0%

Our homeowners and commercial property risk class, which includes a single treaty covering property risks of small regional accounts throughout the U.S., accounted for approximately 86.7% of our total property reinsurance gross premiums written during the nine months ended September 30, 2005. Our crop hail category covers crops throughout the U.S.

Our property premiums written include contracts written on excess of loss and quota share bases. Of our total property reinsurance gross premiums written for the nine months ended September 30, 2005, 28.1% represents excess of loss contracts that we believe are exposed to losses from natural catastrophe events worldwide. The majority of our property quota share contracts are exposed to natural perils, including natural catastrophes.

Our casualty reinsurance gross premiums written during the nine months ended September 30, 2005 are summarized in the table below by risk class.

Directors and officers' liability	26.4%
Other	73.6%
Total	100.0%

Our casualty reinsurance gross premiums written included in our "other" casualty category, was spread across 22 different risk classes, none of which accounted for more than 10% of our casualty reinsurance premiums written for the nine months ended September 30, 2005.

Our marine, technical risk and aviation reinsurance gross premiums written during the nine months ended September 30, 2005 are summarized in the table below by risk class.

Ocean marine	86.3%
Aviation	13.7%
Total	100.0%

Approximately 38.6%, 22.4% and 11.6% of our reinsurance segment gross written premiums were generated through Guy Carpenter & Company, Inc., a subsidiary of Marsh McLennan, and through Benfield Group and Rattner MacKenzie.

Gross reinsurance premiums written are being earned over the periods of reinsured or underlying insured risks which are typically one year. Ceded premiums were $31.7 million during the nine months ended September 30, 2005 under the reinsurance treaties we purchased for our property and marine,

technical risk and aviation product lines. Gross premiums written and ceded premiums are earned over the period of each insured risk.

Net premiums earned of $156.0 million reflect the earning of premiums on contracts written during the year ended December 31, 2004 and during the nine months ended September 30, 2005.

Other income. Other income was $2.4 million for the nine months ended September 30, 2005 and related to income, including fees, recognized on non-traditional reinsurance contracts. A more detailed description of these non-traditional contracts is provided under "— Non-Traditional Contracts" below.

Net losses and loss expenses. Net losses and loss expenses were $149.0 million for the nine months ended September 30, 2005 an increase of $45.9 million, or 44.6%, compared to $103.1 million for the nine months ended September 30, 2004. The increase of $45.9 million in net losses and loss expenses incurred was due to the increase in the number of reinsurance contracts we entered into and the associated net premiums earned. Net losses and loss expenses were a function of our net premiums earned and our expected ultimate losses and loss expenses for reported and unreported claims on contracts of reinsurance underwritten. Included in our expected ultimate losses during the nine months ended September 30, 2005 are specific loss estimates on contracts of reinsurance insuring claims arising from Hurricanes Katrina and Rita. We have received a limited number of claim notifications and our preliminary estimate of ultimate losses from these events is primarily based on claims received to date, industry loss estimates, a review of affected contracts and discussion with cedants and brokers. Our estimate of our specialty reinsurance segment's exposure to ultimate claim costs associated with these hurricanes based on currently available information is $57.1 million including reinstatement premiums, of which $54.7 million is included in net losses and loss expenses for the nine months ended September 30, 2005. The actual amount of losses from the hurricanes may vary significantly from the estimate. In addition to the hurricane losses, as of September 30, 2005, we have received a limited amount of significant reported losses. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Our specialty reinsurance segment net loss ratio (calculated by dividing net losses and loss expenses by net premiums earned) was 95.5% for the nine months ended September 30, 2005 a decrease of 0.4% compared to a net loss ratio of 95.9% for the nine months ended September 30, 2004. The decrease in the specialty reinsurance segment net loss ratio is in part due to the reinsurance protection that we have purchased during 2005 to limit our net loss exposures to natural catastrophes and also due to the growth in our net earned premiums compared to the nine months ended September 30, 2005. We have received a limited number of other less significant loss notifications in our specialty insurance segment. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred, which is partially offset by reinsurance recoveries. Changes in our net loss ratios are not unexpected because we are still in the early development stages of our underwriting portfolios and as such we expect that our net loss ratios may continue to be volatile.

Acquisition expenses. Acquisition expenses were $39.5 million for the nine months ended September 30, 2005 an increase of $14.1 million, or 55.3%, compared to $25.4 million for the nine months ended September 30, 2004. The increase in acquisition expenses was due to the increase in the number of reinsurance contracts we entered into and the associated net premiums earned. These acquisition expenses primarily represented brokerage and ceding commissions.

Our acquisition expense ratio was 25.3% for the nine months ended September 30, 2005, an increase of 1.6% compared to 23.7% for the nine months ended September 30, 2004. The increase reflects certain contracts with higher commission rates that were written during the second and third quarters of 2005 in our property and casualty reinsurance product lines and the impact of ceded reinstatements reducing our specialty reinsurance segment's net earned premium.

General and administrative expenses. Direct and allocated indirect general and administrative expenses totaled $17.5 million for the nine months ended September 30, 2005 an increase of $2.1 million compared to $15.4 million for the nine months ended September 30, 2004. Our general and administrative expense ratio was 9.6% of net premiums written for the nine months ended September 30, 2005 an increase of 1.6% compared to 8.0% for the nine months ended September 30, 2004 and was due to the decrease in our net premiums written.

Technical services

Nine months ended September 30, 2005 and 2004

	Nine months ended September 30, 2005	Nine months ended September 30, 2004	Change
		($ in thousands)	
Technical services revenues	$ 34,107	$ 24,123	$ 9,984
Other income	1,788	351	1,437
Direct technical services costs	(23,993)	(15,442)	(8,551)
General and administrative expenses	(7,836)	(7,272)	(564)
Net technical services income	$ 4,066	$ 1,760	$ 2,306

Technical services revenues. Technical services revenues were $34.1 million for the nine months ended September 30, 2005, an increase of $10.0 million, or 41.4%, compared to $24.1 million for the nine months ended September 30, 2004. The increase of $10.0 million in technical services revenues is primarily attributable to increased remediation revenues associated with liability transfer projects in Buffalo, New York and Axis, Alabama and an overall increase in labor revenue from existing and new projects.

Other income. Other income was $1.8 million for the nine months ended September 30, 2005 as compared to $0.4 million for the nine months ended September 30, 2004. Other income was generated from our liability assumption programs, including a new project in Buffalo, New York and implementation of construction in Axis, Alabama, under which we assume specified environmental liabilities. This income represents fees, reimbursements and other remediation amounts relating to the services performed.

Direct technical services costs. Direct technical services costs were $24.0 million for the nine months ended September 30, 2005, an increase of $8.6 million, or 55.4%, compared to $15.4 million for the nine months ended September 30, 2004. The increase in direct technical services costs was primarily attributable to increased direct subcontractor expenses which resulted from the Buffalo, New York and Axis, Alabama remediation projects undertaken during the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. Direct technical services costs, as a percentage of revenue was 70.3% for the nine months ended September 30, 2005 compared to 64.0% for the nine months ended September 30, 2004, reflecting a significant increase in remediation revenues associated with environmental projects in 2005 as compared to 2004.

General and administrative expenses. Direct and indirect allocated general and administrative expenses were $7.8 million for the nine months ended September 30, 2005, an increase of $0.5 million, or 7.8% compared to $7.3 million for the nine months ended September 30, 2004. The increase is attributable to increased staffing levels, higher overhead allocation arising from the development of our infrastructure and Sarbanes-Oxley Section 404 compliance efforts, and professional fees associated with the environmental liability assumption program in Buffalo, New York.

Year ended December 31, 2004

The following table summarizes our net underwriting results and profitability measures for our segments for the year ended December 31, 2004.

	Specialty insurance	Specialty reinsurance ($ in thousands)	Total underwriting
Direct insurance	$ 136,600	$ —	$ 136,600
Reinsurance assumed	105,980	251,832	357,812
Total gross premiums written	242,580	251,832	494,412
Premiums ceded	(72,259)	(2,612)	(74,871)
Net premiums written	$ 170,321	$ 249,220	$ 419,541
Net premiums earned	$ 75,167	$ 161,973	$ 237,140
Other income	—	1,571	1,571
Net losses and loss expenses	(49,805)	(149,111)	(198,916)
Acquisition expenses	(14,287)	(39,708)	(53,995)
General and administrative expenses	(34,339)	(21,336)	(55,675)
Net underwriting loss	$ (23,264)	$ (46,611)	$ (69,875)
Ratios:			
Loss and loss expense ratio	66.3%	92.1%	83.9%
Acquisition expense ratio	19.0%	24.5%	22.8%
General and administrative expense ratio	20.2%	8.6%	13.3%
Combined ratio	105.5%	125.2%	120.0%

Specialty insurance

Premiums. Gross written premiums were $242.6 million for the year ended December 31, 2004 reflecting our increasing participation in the insurance marketplace and growth in our specialty insurance lines of business as we received various additional state regulatory approvals and developed our key distribution channels through brokerage relationships. The table below shows gross written premiums for the year ended December 31, 2004 by business line whether written on a traditional insurance, programs or structured basis:

	($ in thousands)
Technical risk property	$ 142,838
Professional liability	47,286
Environmental liability	35,914
Fidelity and crime	9,040
Surety	5,627
Trade credit	1,875
Total	$ 242,580

During the year ended December 31, 2004 we wrote, in our technical risk property product line, a residential builders' and contractors' program that provides warranty, general liability, builders' risk and excess liability coverage's for new home contractors throughout the U.S. This program, which we refer to as the HBW program, accounted for approximately $138.1 million, or 96.7%, of the technical risk property line of business and $138.1 million, or 56.9%, of total specialty insurance segment gross written premiums in the year ended December 31, 2004. The policies in the program are underwritten through a third party agent that we believe is an established specialist in this technical field.

During the year ended December 31, 2004, approximately 44.3% of specialty insurance segment gross premiums were written as reinsurance of policies issued by another insurer on our behalf.

Approximately 56.9% of our specialty insurance segment gross written premiums of $242.6 million were generated through our HBW program. Approximately 11.4% of our specialty insurance segment gross written premiums were generated through Marsh Inc. during the year ended December 31, 2004. The remaining 31.7% of our specialty insurance segment gross written premiums were generated through a number of other brokers, none of which accounted for more than 10% of our total specialty insurance segment gross written premiums.

Ceded premiums were $72.3 million during the year ended December 31, 2004 under the reinsurance treaties we purchased for each of our insurance lines of business. Gross premiums written and ceded premiums are earned over the period of each insured risk. The terms of our insurance contracts range from between one and ten years. Net premiums earned were $75.2 million representing the earning and amortization of premiums written and ceded during the year ended December 31, 2004 and the earning of premiums written in 2003.

We commenced underwriting specialty insurance lines at Syndicate 4000 in December 2004. Gross written premiums and premiums ceded were $3.2 million and $0.6 million for the year ended December 31, 2004 and represented professional liability insurance business. Net premiums earned in the year ended December 31, 2004 were $0.1 million reflecting the short duration of the period between the inception dates of the contracts and December 31, 2004.

Net losses and loss expenses. Net losses and loss expenses were $49.8 million reflecting a loss and loss expense ratio of 66.3% for the year ended December 31, 2004. The net loss and loss expense ratio was higher than expected due to one full limit loss of $2.5 million on a technical risk property contract and estimated losses, based on currently available information, relating to Hurricane Ivan of $0.6 million. Other than these specific loss events, as of December 31, 2004, we received a limited amount of other reported losses in our specialty insurance segment. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Acquisition expenses. Acquisition expenses were $14.3 million, or 19.0%, of net premiums earned for the year ended December 31, 2004. These acquisition expenses primarily represented brokerage fees, commission fees and premium tax expenses. Our acquisition expense ratio in the specialty insurance segment was higher than expected because we wrote several technical risk property contracts, including the residential builders' and contractors' risk program described above as reinsurance of policies issued by another insurer on our behalf that resulted in our incurring expenses in excess of 20% of written premiums.

General and administrative expenses. Direct and allocated indirect general and administrative expenses totaled $34.3 million, or 20.2%, of net premiums written for the year ended December 31, 2004.

Specialty reinsurance

Premiums. Gross and net premiums written by our reinsurance segment were $251.8 million and $249.2 million for the year ended December 31, 2004 reflecting new accounts underwritten during this period driven primarily from our increasing participation in the reinsurance marketplace and additional premiums written on accounts bound in the fourth quarter of 2003. The table below shows gross written premiums by business line whether written on a traditional reinsurance, programs or structured basis:

	($ in thousands)
Casualty	$ 105,405
Property	103,311
Marine and aviation	42,660
Trade credit	456
Total	$ 251,832

Our casualty reinsurance gross premiums written during the year ended December 31, 2004 are summarized in the table below by risk class.

Directors and officers' liability	36.9%
Employers' stop loss	15.2%
Multiline commercial umbrella program	9.8%
Other	38.1%
Total	100.0%

Our casualty reinsurance gross premiums written included in our other casualty category, was spread across 21 different risk classes, none of which accounted for more than 10% of our casualty reinsurance premiums written for the year ended December 31, 2004.

Our property reinsurance gross premiums written during the year ended December 31, 2004 are summarized in the table below by risk class.

Homeowners and commercial property	69.4%
Crop hail	30.6%
Total	100.0%

Our homeowners and commercial property risk class includes a single program covering property risks of small regional accounts throughout the U.S., which represents approximately 14.9% of our total property reinsurance gross premiums written during the year ended December 31, 2004. Our crop hail risk class covers crops throughout the U.S.

Our property premiums written include contracts written on excess of loss and quota share bases. Of our total property reinsurance gross premiums written of $103.3 million for the year ended December 31, 2004, 15.5% represents specific excess of loss contracts that we believe are exposed to losses from natural catastrophe events worldwide. The majority of our property quota share contracts are exposed to natural perils, including natural catastrophes.

Approximately 31.4%, 21.4%, 15.9% and 10.5% of our specialty reinsurance segment gross written premiums of $251.8 million were generated through Guy Carpenter & Company, Inc., Rattner MacKenzie Limited, Benfield Group and Willis Group.

Gross reinsurance premiums written are being earned over the periods of reinsured or underlying insured risks which are typically one year. Ceded premiums were $2.6 million during the year ended December 31, 2004 under the reinsurance treaties we purchased for our marine and aviation line of business. Gross premiums written and ceded premiums are earned over the period of each insured risk.

Net premiums earned of $162.0 million reflect the earning of premiums on contracts written during the year ended December 31, 2004 and during the fourth quarter of 2003.

Other income. Other income was $1.6 million for the year ended December 31, 2004 and includes explicitly defined fees related to non-risk bearing reinsurance contracts of $1.2 million.

Net losses and loss expenses. Net losses and loss expenses were $149.1 million for the year ended December 31, 2004, and were a function of our net premiums earned and our expected ultimate losses and loss expenses for reported and unreported claims on contracts of reinsurance underwritten. Included in our expected ultimate losses are specific loss estimates on contracts of reinsurance insuring claims arising from Hurricanes Charley, Frances, Ivan and Jeanne. Our estimate of our exposure to ultimate claim costs in our specialty reinsurance segment associated with these hurricanes based on currently available information, claim notifications received to date, industry loss estimates, output from industry models, a detailed review of affected contracts and discussion with cedants and brokers is $60.7 million, and is included in net losses and loss expenses for the year ended December 31, 2004. We received approximately $8.9 million of additional reported losses related to these four hurricanes for the nine months ended September 30, 2005. Other than claims related to these four hurricanes during the third quarter of 2004, as of December 31, 2004, we have received a limited amount of other

reported losses. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred. Our total net loss ratio (calculated by dividing net losses and loss expenses by net premiums earned) was 92.1% for the year ended December 31, 2004 which was higher than expected reflecting the impact of the third quarter 2004 hurricanes.

Acquisition expenses. Acquisition expenses were $39.7 million, or 24.5%, of net premiums earned for the year ended December 31, 2004. These acquisition expenses primarily represented brokerage and ceding commissions.

General and administrative expenses. Direct and indirect allocated general and administrative expenses were $21.3 million, or 8.6%, of net premiums written for the year ended December 31, 2004.

Financial Condition and Liquidity

Quanta Holdings is organized as a Bermuda holding company, and as such, has no direct operations of its own. Our assets consist of investments in our subsidiaries through which we conduct substantially all of our insurance, reinsurance and technical services operations. As of September 30, 2005, we had operations in Bermuda, the U.S., Ireland and the U.K., including Syndicate 4000 at Lloyd's.

As a holding company, we will have continuing funding needs for general corporate expenses, the payment of principal and interest on current and future borrowings, taxes, and the payment of other obligations. Funds to meet these obligations will come primarily from dividends, interest and other statutorily permissible payments from our operating subsidiaries. The ability of our operating subsidiaries to make these payments is limited by the applicable laws and regulations of the domiciles in which the subsidiaries operate. These laws and regulations subject our subsidiaries to significant restrictions and require, among other things, that some of our subsidiaries maintain minimum solvency requirements and limit the amount of dividends that these subsidiaries can pay to us. As of September 30, 2005, Quanta Bermuda could distribute approximately $76 million to Quanta Holdings without regulatory approval. The capital requirements of A.M. Best also may act as a constraint on the amount of dividends we may be able to pay.

Financial condition

Our board of directors established our investment policies and created guidelines for hiring external investment managers. Management implements our investment strategy with the assistance of the external managers. Our investment guidelines specify minimum criteria on the overall credit quality, liquidity and risk-return characteristics of our investment portfolio and include limitations on the size of particular holdings, as well as restrictions on investments in different asset classes. The board of directors monitors our overall investment returns and reviews compliance with our investment guidelines.

Our investment strategy seeks to preserve principal and maintain liquidity while trying to maximize total return through a high quality, diversified portfolio. Investment decision making is guided mainly by the nature and timing of our expected liability payouts, management's forecast of our cash flows and the possibility that we will have unexpected cash demands, for example, to satisfy claims due to catastrophic losses. Our investment portfolio currently consists mainly of highly rated and liquid fixed income securities. However, to the extent our insurance liabilities are correlated with an asset class outside our minimum criteria, our investment guidelines will allow a deviation from those minimum criteria provided such deviations reduce overall risk.

Our investment guidelines provide for compliance with applicable local regulations and laws. Without board approval, we will not purchase financial futures, forwards, options, swaps and other derivatives, except for instruments that are purchased as part of our business, for purposes of hedging capital market risks (including those within our structured product transactions), or as replication transactions, which are defined as a set of derivative, insurance and/or securities transactions that when combined produce the equivalent economic results of an investment meeting our investment guidelines. While we expect that the majority of our investment holdings will be denominated in U.S.

dollars, we may make investments in other currency denominations depending upon the currencies in which loss reserves are maintained, or as may be required by regulation or law.

Our available-for-sale investments, excluding trading investments related to deposit liabilities, totaled $720.4 million as of September 30, 2005 compared to $559.4 million at December 31, 2004. The market value of our investment portfolio was $759.2 million, of which $701.8 million related to available-for-sale fixed maturity investments, $18.6 million related to short-term investments and $38.8 million to trading investments related to deposit liabilities. The majority of our investment portfolio consists of fixed maturity investments which are managed by the following external investment advisors: Pacific Investment Management Company LLC, JP Morgan Investment Management Inc. and Deutsche Asset Management. Custodians of our externally managed investment portfolios are JP Morgan Chase Bank N.A., Citibank N.A. and Comerica Incorporated.

Our investment guidelines require that the average credit quality of the investment portfolio is typically Aa3/AA− and that no more than 5% of the investment portfolio's market value shall be invested in securities rated below Baa3/BBB−. As of September 30, 2005, all of the fixed maturity investments were investment grade, with a weighted average credit rating of "AA+" based on ratings assigned by Standard & Poor's Corporation, or S&P. Our cash and cash equivalents totaled $144.8 million as of September 30, 2005 compared to $75.3 million at December 31, 2004. The increase in our available-for-sale investments and cash and cash equivalents is primarily due to the growth in our premiums written during the nine months ended September 30, 2005, the issuance of $21.6 million of Junior Subordinated Debentures, and $20.0 million proceeds from the sale of a mortality-risk-linked security, partially offset by claims notifications and associated loss payments we have made up to and including September 30, 2005. We expect that our fixed maturity investments and cash and cash equivalent balances will continue to increase during the fourth quarter of 2005 subject to continuing to pay loss and loss expenses related to reported claims, particularly those arising from the hurricane events during the third quarter of 2005.

We also limit our exposure to any single issuer to 5% or less of the total portfolio's market value at the time of purchase, with the exception of U.S. government and agency securities. As of September 30, 2005, the largest single non-U.S. government and government agencies issuer accounted for less than 1% of the aggregate market value of the externally managed portfolios.

Included in our cash and cash equivalents and investments at September 30, 2005 is $108.2 million that is held by Lloyd's to support our underwriting activities, $128.9 million held in trust funds for the benefit of ceding companies and to fund our obligations associated with the assumption of an environmental remediation liability, $170.2 million that is pledged as collateral for letters of credit, $29.6 million that is on deposit with, or has been pledged to, U.S. state insurance departments and $52.9 million held in trust funds that are related to our deposit liabilities.

At September 30, 2005, all fixed maturity investments were investment grade with 81.8% of the market value rated "AA−" or better by an internationally recognized rating agency, with an overall weighted average rating of "AA+" based on ratings assigned by S&P. Our risk management strategy and investment policy is to invest primarily in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories and any one issuer.

As of September 30, 2005, mortgage-backed securities constituted 34.5% of the market value of our investment portfolio. The fair value of these securities fluctuates depending on market and other general economic conditions and the interest rate environment. Changes in interest rates can expose us to prepayment or extension risks on these investments. In periods of declining interest rates, mortgage prepayments generally increase and mortgage backed securities are prepaid more quickly, requiring us to invest the proceeds at the then current market rates. In periods of increasing interest rates, these investments are exposed to extension risk, which occurs when holders of underlying mortgages reduce the frequency on which they prepay the outstanding principal before the maturity date and delay any re-financing of the outstanding capital.

Corporate debt securities constitute 24.1% of our invested assets as of September 30, 2005. The principal risk associated with corporate debt securities is the potential loss of income and potential realized and unrealized principal losses due to insolvencies and deteriorating credit.

At September 30, 2005, the average duration of our investment portfolio was approximately 2.8 years. The duration of an investment is based on the maturity of the security and also reflects the payment of interest and the possibility of early principal payment of such security. We seek to utilize investment benchmarks that reflect this duration target. Management periodically revises our investment benchmarks based on business and economic factors, including the average duration of our potential liabilities.

The amortized cost or cost, fair value and related gross unrealized gains and losses of fixed maturity and short-term investments as of September 30, 2005 and December 31, 2004 are as follows:

September 30, 2005	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
		($ in thousands)		
Available-for-sale				
Fixed maturities:				
U.S. government and government agencies	$ 274,379	$ 105	$ (2,807)	$ 271,677
Foreign governments	9,557	198	(241)	9,514
Tax-exempt municipal	4,708	—	(23)	4,685
Corporate	161,543	70	(2,018)	159,595
Asset-backed securities	28,084	15	(360)	27,739
Mortgage-backed securities	231,373	35	(2,783)	228,625
Total fixed maturities	$ 709,644	$ 423	$ (8,232)	$ 701,835
Short-term investments	18,476	125	(10)	18,591
Total available-for-sale investments	$ 728,120	$ 548	$ (8,242)	$ 720,426
Trading				
Fixed maturities:				
Tax exempt municipal	$ 5,269	$ —	$ —	$ 5,269
Corporate	23,079	—	—	23,079
Asset-backed securities	4,833	—	—	4,833
Mortgage-backed securities	5,355	—	—	5,355
Total fixed maturities	$ 38,536	$ —	$ —	$ 38,536
Short-term investments	246	—	—	246
Total trading investments	$ 38,782	$ —	$ —	$ 38,782
Total investments	$ 766,902	$ 548	$ (8,242)	$ 759,208

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December 31, 2004	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
		($ in thousands)		
Available-for-sale				
Fixed maturities:				

U.S. government and government agencies	$ 227,024	$ 641	$ (860)	$ 226,805
Foreign governments	16,704	735	(10)	17,429
Tax-exempt municipal	4,116	121	(3)	4,234
Corporate	134,221	833	(1,152)	133,902
Asset-backed securities	20,315	6	(170)	20,151
Mortgage-backed securities	152,727	399	(618)	152,508
Total fixed maturities	$ 555,107	$ 2,735	$ (2,813)	$ 555,029
Short-term investments	4,562	115	(276)	4,401
Total available-for-sale investments	$ 559,669	$ 2,850	$ (3,089)	$ 559,430
Trading				
Fixed maturities:				
Tax-exempt municipal	$ 538	$ —	$ —	$ 538
Corporate	31,309	—	—	31,309
Asset-backed securities	1,382	—	—	1,382
Mortgage-backed securities	6,759	—	—	6,759
Total fixed maturities	$ 39,988	$ —	$ —	$ 39,988
Short-term investments	504	—	—	504
Total trading investments	$ 40,492	$ —	$ —	$ 40,492
Total investments	$ 600,161	$ 2,850	$ (3,089)	$ 599,922

Contractual maturities of our fixed maturities as of September 30, 2005 and December 31, 2004 are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 2005	Amortized cost or cost	Fair value
	($ in thousands)	
Fixed maturities:		
Due in one year or less	$ 64,559	$ 64,332
Due after one year through five years	305,086	301,473
Due after five years through 10 years	93,317	92,691
Due after 10 years	34,295	34,160
Total fixed maturities	$ 497,257	$ 492,656
Mortgage and asset-backed securities	269,645	266,552
Total	$ 766,902	$ 759,208

December 31, 2004	Amortized cost or cost	Fair value
	($ in thousands)	
Fixed maturities:		
Due in one year or less	$ 58,428	$ 73,050
Due after one year through five years	309,500	294,700
Due after five years through 10 years	41,793	42,041
Due after 10 years	9,257	9,331
Total fixed maturities	$ 418,978	$ 419,122
Mortgage and asset-backed securities	181,183	180,800
Total	$ 600,161	$ 599,922

Credit ratings of our fixed maturities as of September 30, 2005 and December 31, 2004 are shown below.

Ratings *	September 30, 2005 Amortized cost or cost	Percentage	December 31, 2004 Amortized cost or cost	Percentage
	($ in thousands)			
AAA	$580,960	75.8%	$425,209	70.8%
AA	45,997	6.0%	17,793	3.0%
A	104,623	13.6%	78,743	13.1%
BBB	35,322	4.6%	78,416	13.1%
Total	$766,902	100.0%	$600,161	100.0%

*ratings as assigned by Standard & Poor's Corporation

The components of net investment income for the period to September 30, 2005 and the year ended December 31, 2004 were derived from the following sources:

	Nine months ended September 30, 2005	Year ended December 31, 2004
	($ in thousands)	
Fixed maturities	$ 19,206	$ 16,862
Cash, cash equivalents and short-term investments	1,198	1,494
Gross investment income	20,404	18,356
Net amortization of discount / premium	(901)	(2,949)
Investment expenses	(1,100)	(1,100)
Net investment income	$ 18,403	$ 14,307

Our insurance and reinsurance premiums receivable balances totaled $172.1 million as of September 30, 2005 compared to $146.8 million at December 31, 2004. The increase in premiums receivable reflects our growth across the specialty insurance segment during the nine months ended September 30, 2005 and the associated increase in the level of premiums written. Included in our premiums receivable are approximately $135.7 million of written premium installments that are not yet currently due under the terms of the related insurance and reinsurance contracts. As of September 30, 2005, based on our review of the remaining balance of $36.4 million, which represents premiums installments that are currently due, there are no individually significant balances that are delinquent or uncollectible.

Our deferred acquisition costs and unearned premiums, net of deferred reinsurance premiums, totaled $50.7 million and $288.7 million, as of September 30, 2005 compared to $41.5 million and $200.5 million as of December 31, 2004. These increases are due to the growth in our premiums written during the nine months ended September 30, 2005. These amounts represent premiums and acquisition expenses on written contracts of insurance and reinsurance that will be recognized in earnings in future periods. Substantially all of these amounts will be recognized over the next 12 months.

Our reserves for losses and loss adjustment expenses, net of reinsurance recoverable, totaled $317.2 million as of September 30, 2005 compared to $146.3 million as of December 31, 2004. The increase in our net loss and loss expense reserves reflects the growth in our business, the associated insured risks we assumed during the nine months ended September 30, 2005 and include our initial estimate of unpaid loss expenses totaling $63.6 million relating to Hurricanes Katrina and Rita, our remaining unpaid loss expenses totaling $7.6 million relating to Hurricanes Charley, Frances, Ivan and Jeanne and $1.8 million relating to the environmental claim that we incurred during the nine months ended September 30, 2005. Our estimate of our unpaid exposure to ultimate claim costs associated with these losses is based on currently available information, claim notifications received to date, industry loss estimates, output from industry models, a detailed review of affected contracts and discussion with clients, cedants and brokers. The actual amount of future loss payments relating to

these loss events may vary significantly from this estimate. As of September 30, 2005 we have received a limited amount of other reported losses. However, we participate in lines of business where claims may not be reported for some period of time after those claims are incurred.

Our estimate of our reserves for losses and loss adjustment expenses of $317.2 million is net of reinsurance recoverable of $152.8 million. The increase in our reinsurance recoverable balance reflects the growth in our business, and include our initial estimate of unpaid loss expenses recoverable totaling $90.9 million relating to Hurricanes Katrina and Rita and $2.0 million recoverable from reinsurers relating to the environmental claim that we incurred during the nine months ended September 30, 2005. Our estimate of our reinsurance recoverable balance associated with these losses is based on currently available information, claim notifications received to date, industry loss estimates, output from industry models, a detailed review of affected ceded reinsurance contracts and an assessment of the credit risk we are subject to. The actual amount of future loss payments relating to these loss events may vary significantly from this estimate. The average credit rating of our reinsurers as of September 30, 2005 is "A" (excellent) by A.M. Best. Less than 7% of our loss and loss adjustment expenses recoverable from reinsurers are due from reinsurers that are rated below "A−" (excellent). Less than 4% of our loss and loss adjustment expenses recoverable from reinsurers are due from reinsurers that are rated below "A−" (excellent) and are not collateralized. The following table lists our ten largest reinsurers measured by the amount of losses and loss adjustment expenses recoverable and the reinsurers' financial strength rating from A.M. Best at September 30, 2005:

Reinsurer	Losses and Loss Adjustment Expenses Recoverable ($ in thousands)	A.M. Best Rating
Everest Reinsurance Company	$ 28,617	A+
Lloyd's	27,773	A
XL Capital Ltd.	12,201	A+
Glacier Reinsurance AG	11,634	A−
New Reinsurance Company	10,000	A+

Allianz Marine & Aviation		9,425	A+
PXRE Group Ltd.		7,500	A−
Odyssey Re Holdings Corp.		5,397	A
Ritchie Risk – Linked Strategies Ltd.		5,000	Not Rated[1]
The Toa Reinsurance Company, Ltd. (Tokyo)		4,985	A
All Other Reinsurers		30,342	Various
Total	$	152,874	

(1)Amount is fully collateralized by a line of credit.

Our shareholders' equity was $372.2 million as of September 30, 2005 compared to $430.9 million as of December 31, 2004, reflecting an decrease of $58.7 million that was primarily related to our net loss of $51.2 million for the nine months ended September 30, 2005 and a net change in unrealized losses on our investment portfolios of $7.8 million during the nine months ended September 30, 2005. As of September 30, 2005, we have provided a 100% cumulative valuation allowance against our deferred tax assets in the amount of $18.1 million. These deferred tax assets were generated primarily from net operating losses. As a company with limited operating history, the realization of these deferred tax assets is neither assured nor accurately determinable.

Liquidity

Operating Cashflow

We generated net operating cash flow of approximately $206.1 million during the nine months ended September 30, 2005, primarily related to premiums and investment income received and offset by loss and loss expenses as well as general and administrative expenses paid. In addition, we also

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generated net proceeds from the issuance of Junior Subordinated Debentures of $19.6 million. During the same period, we invested net cash of $159.2 million in our investment assets and, as of September 30, 2005, had net cash and cash equivalent balances of $99.2 million. Included in our cash and cash equivalents and investments is $108.2 million that is held by Lloyd's to support our underwriting activities, $128.9 million held in trust funds for the benefit of ceding companies and to fund our obligations associated with the assumption of an environmental remediation liability, $170.2 million that is pledged as collateral for letters of credit, $29.6 million that is on deposit with, or has been pledged to, U.S. state insurance departments and $52.9 million held in trust funds that are related to our deposit liabilities. Our cash flows from operations for the nine months ended September 30, 2005 provided us with sufficient liquidity to meet operating cash requirements during that period.

Sources of cash

Our sources of cash consist primarily of existing cash and cash equivalents, premiums written, proceeds from sales and redemptions of investment assets, capital or debt issuances, investment income, reinsurance recoveries, and, to a lesser extent, our secured bank credit facility and collections of receivables for technical services rendered to third parties.

On July 11, 2005, Quanta Holdings and certain designated insurance subsidiaries entered into an amended and restated credit agreement, dated July 11, 2005, providing for a secured bank letter of credit facility and a revolving credit facility with a syndicate of lenders in the amount of $250 million. Up to $25 million may be borrowed under the facility on a revolving basis for general corporate purposes and working capital requirements. The facility is secured by specified investments of the borrowers. As of September 30, 2005, we had $170.2 million of secured letters of credit issued and outstanding under the facility. As of September 30, 2005, we have not made any borrowings under the revolving credit facility. The availability to a borrower is based on the amount of eligible investments pledged by that borrower and the absence of material adverse change provisions. Regulatory restrictions will also limit the amount of investments that may be pledged by our U.S. insurance borrowers and, consequently, the amount available for letters of credit and borrowings under the facility to those borrowers.

The credit agreement has certain financial covenants, including a leverage ratio (consolidated indebtedness to consolidated total capital) of not greater than 0.35 to 1, a minimum consolidated net worth of at least $301 million which shall be increased immediately following the last day of each fiscal quarter by an amount equal to 50% of net income of Quanta Holdings and its subsidiaries and maintenance of our insurance ratings. In addition, the credit agreement contains certain covenants restricting the activities of Quanta Holdings and its subsidiaries, such as the incurrence of additional indebtedness, liens and dividends and other payments to Quanta Holdings. A ratings downgrade below B++ would also create an event of default under the credit agreement which would require collateralization of a portion or all of the secured letter of credit we issued. Quanta Holdings has also unconditionally and irrevocably guaranteed all of the obligations of its subsidiaries to the lenders. The facility terminates on July 11, 2008. We may also enter into other credit facilities to support portions of our business.

On February 24, 2005, we participated in a private placement of $20.0 million of floating rate capital securities (the "Trust Preferred Securities") issued by Quanta Capital Statutory Trust II ("Quanta Trust II"), a subsidiary Delaware trust formed on February 24, 2004. The Trust Preferred Securities mature on September 15, 2035, are redeemable at our option at par beginning September 15, 2010, and require quarterly distributions of interest by Quanta Trust II to the holder of the Trust Preferred Securities. Distributions will be payable at a variable per annum rate of interest, reset quarterly, equal to the London Interbank Offered Rate ("LIBOR") plus 350 basis points. Quanta Trust II used the proceeds from the sale of the Trust Preferred Securities and the issuance of its common securities to purchase $20.6 million of junior subordinated debt securities, due March 15, 2035, in the principal amount of $20.6 million issued by us (the "Trust II Debentures"). We are using the net proceeds of $19.6 million, after the deduction of approximately $0.4 million of commissions paid to the placement agents in the transaction, from the sale of the Trust II Debentures to Quanta Trust II for working capital purposes and to support the growth of our business.

Uses of cash

In the near term, our principal cash requirements are expected to be investments in operating subsidiaries, losses and loss adjustment expenses and other policy holder benefits, brokerage and commissions, expenses to develop and implement our business strategy, other operating expenses, premiums ceded, capital expenditures, the servicing of borrowing arrangements (including the Junior Subordinated Debentures), and taxes. The potential for a large claim under one of our insurance or reinsurance contracts means that we may need to make substantial and unpredictable payments within relatively short periods of time. While our board of directors currently does not intend to declare dividends or make any other distributions to the shareholders of Quanta Holdings, our board plans to periodically reevaluate our dividend policy. Our cash requirements will also include the payment of any future dividends to our shareholders if and when our board of directors determines to change our dividend policy.

We paid additional gross claims of $11.6 million during the first nine months of 2005 relating to the environmental claim and the hurricane events of 2004. We expect that our cash requirements for the payment of these and other claims will be significant in future periods as we receive and settle claims, including those relating to these specific claims and in particular, claims related to the hurricanes that occurred in 2005.

We incurred capital expenditures of $3.1 million during the nine months ended September 30, 2005 related primarily to the purchase and development of information technology assets. During the remainder of 2005, we expect capital expenditures principally relating to information systems, furniture and fixtures and leasehold improvements to be less than $10 million. We expect to fund these capital expenditures through cash provided by our operating activities.

In addition to these cash requirements, under the purchase agreement with ESC, we will be required to pay ESC's former shareholders an earn-out payment if ESC achieves specified EBITDA targets. EBITDA generally is defined to mean earnings before interest, taxes, depreciation and amortization. Under the earn-out arrangements, if EBITDA for the two-year period ending December 31, 2005 is $7.5 million or greater, we will be required to pay an earn-out payment of $5.0 million. If EBITDA is greater than $7.0 million and less than $7.5 million, then we will be required to pay a pro rata portion of the $5.0 million. Although we will not be able to determine whether ESC will achieve these EBITDA targets until after December 31, 2005, we currently anticipate that the earn-out payment will be $5.0 million.

We also estimate the impact of the transactions associated with our exit from our property reinsurance and technical risk property businesses to be approximately $2.5 million. In addition, during the fourth quarter of 2005, we plan to adopt certain cost reduction strategies. In connection with the execution of these cost reduction strategies, we anticipate that we will incur approximately $1.0 million in costs related to the exit of the property reinsurance and technical risk property businesses and approximately $3.0 million in costs related to employee reduction and attrition during the fourth quarter of 2005. We may incur certain other costs associated with our exit from the property reinsurance and technical risk property businesses, which we currently do not believe will be material in amount. For further discussion of these transactions, see "Business — Recent Developments." We also intend to adopt a retention plan for our employees. The retention plan is in the early stages of development. Therefore, at this time, we are not able to quantify the costs attributable to the plan, describe the material terms of the plan or assure you that we will be successful in retaining employees.

We may also have substantial liabilities to clients, third parties and government authorities for property damage, personal injuries, breach of contract or breach of warranty claims, fines and penalties and regulatory action that could adversely affect our business arising from the assessment, analysis and assumption of environmental liabilities, and the management, remediation, and engineering of environmental conditions constitute a significant portion of our technical services business. From time to time, we may offer a liability assumption program under which a special-purpose entity assumes specified liabilities (at times including taking title to property) associated with environmental conditions for which we provide technical services, which may be

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insured or guaranteed by us. These businesses involve significant risks, including the possibility that we may have substantial liabilities to clients, third parties and governmental authorities for property damage, personal injuries, breach of contract or breach of warranty claims, fines and penalties and regulatory action that could adversely affect our business.

From time to time, we receive inquiries from third parties for investments in, or other strategic transactions involving the company or its assets, which could result in a change of control. We may raise additional funds to further expand our business strategy, enter new lines of business and to a lesser extent to manage our expected growth. We may seek to raise capital from time to time through various methods, including the issuance of debt, equity and/or other securities, in a private or public offering.

If we cannot maintain or obtain adequate capital to manage our business strategy and expected growth targets, our business, results of operations and financial condition may be adversely affected. No assurance can be given that we will be able to obtain any additional financing on favorable terms, if at all.

Commitments

We have contractual obligations relating to commitments under the trust preferred securities and non-cancelable operating leases for property and office equipment described above under "— Liquidity" as of September 30, 2005 as follows:

		Payments due by period			
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			($ in thousands)		
Long-term debt obligations	$ 61,857	$ —	$ —	$ —	$ 61,857
Interest on long-term debt obligations[(1)]	135,125	4,419	8,837	8,837	113,032
Operating lease obligations	41,988	4,712	8,151	6,299	22,826
Total	$ 238,970	$ 9,131	$ 16,988	$ 15,136	$ 197,715

(1) The interest on the long-term debt obligation is based on a spread above LIBOR. We have reflected the interest due based upon the current interest rate at September 30, 2005 on the facility.

Off-balance sheet arrangements

Other than as described under "— Liquidity" related to our Trust Preferred Securities offerings through Quanta Capital Statutory Trust I ("Quanta Trust I") and Quanta Trust II (together "Quanta Trust I and II"), as of September 30, 2005, we have not entered into any off-balance sheet arrangements with special purpose entities or variable interest entities. We did not consolidate Quanta Trust I and II, the issuers of the Trust Preferred Securities and variable interest entities, since we are not the primary beneficiary of Quanta Trust I and II. As of September 30, 2005, we have recorded the $61.9 million of Debentures, which were issued to Quanta Trust I and II, on our consolidated balance sheet. The net proceeds of $58.4 million from the sale of the Debentures to Quanta Trust I and II will be used for working capital purposes and to support the growth of our business. Distributions will be payable at a variable per annum rate of interest, reset quarterly, equal to LIBOR plus 385 basis points by us to Quanta Trust I and equal to LIBOR plus 350 basis points by us to Quanta Trust II as described above under "— Commitments." The Debentures are redeemable at our option at par beginning March 15, 2010.

Adequacy of Regulatory and Rating Capital

While insurance regulation differs by location, each jurisdiction requires that minimum levels of capital be maintained in order to write new insurance business. Factors that affect capital requirements generally include premium volume, the extent and nature of loss and loss expense

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reserves, the type and form of insurance and reinsurance business underwritten and the availability of reinsurance protection from adequately rated retrocessionaires on terms that are acceptable to us.

In all of the jurisdictions in which we operate insurers and reinsurers are required to maintain certain minimum levels of capital and risk-based capital, the calculation of which includes numerous factors as specified by the respective insurance regulatory authorities and the related insurance regulations. We capitalize our insurance operations in excess of the minimum regulatory requirements so that we may maintain adequate financial ratings. Generally, a higher financial rating creates a higher demand for insurance products. A higher financial rating generally enables a company to write more business and to be more selective in the business it underwrites. Accordingly, allocation of capital sufficient to achieve business objectives is a critical aspect of any insurance organization.

Substantially all of our capital has been distributed among our rated operating subsidiaries based on our assessment of the levels of capital that we believe are prudent to support our expected levels of business, the applicable regulatory requirements, and the recommendations of the insurance regulatory authorities and rating agencies.

A. M. Best placed Quanta Bermuda and its subsidiaries and Quanta Europe under review with negative implications. We have been working closely with A.M. Best to understand the different capital requirements it now has for our various product lines, the capital adequacy ratio associated with these product lines at the "A−" (excellent) level, and its view of our available capital that includes their assessment of the probable maximum loss exposures associated with specified lines of our business. We believe these factors are the main drivers of the capital requirements that A.M. Best places on us. Based on that understanding, we believe we have developed a plan designed to retain our current rating of "A−" (excellent). Upon implementation of the plan, based on our discussions with A.M. Best, we believe that A.M. Best will conclude its review, remove us from negative watch and initially ascribe a negative outlook to our current "A−" (excellent) rating. We will continue to work with A.M. Best in 2006 and intend to actively seek the return of our rating to "A−" (excellent) without any qualifications. We expect that the qualification of our rating with a negative outlook will adversely affect our business, our opportunities to write new and renewal business and our ability to retain key employees. There is no assurance as to what rating actions A.M. Best may take now or in the future or whether A.M. Best will remove any qualification of our rating. For further information regarding A.M. Best's rating action and our plans in response to the ratings action, see "Business — Recent Developments."

Posting of Security by Our Non-U.S. Operating Subsidiaries

Our Bermuda, United Kingdom, and Irish operating subsidiaries are not licensed, accredited or otherwise approved as reinsurers anywhere in the United States. Many U.S. jurisdictions do not permit insurance companies to take credit on their U.S. statutory financial statements for reinsurance to cover unpaid liabilities, such as loss and loss adjustment expense and unearned premium reserves, obtained from unlicensed or non-admitted insurers without appropriate security acceptable to U.S. insurance commissioners. Typically, this type of security will take the form of a letter of credit issued by an acceptable bank, the establishment of a trust, funds withheld or a combination of these elements.

As described under "— Liquidity" above we entered into a secured bank credit facility with a syndicate of lenders that allows us to provide to our insured clients up to $250 million in letters of credit as security under the terms of insurance and reinsurance contracts. The availability to a borrower is based on the amount of eligible investments pledged by that borrower and no material adverse change provisions. Regulatory restrictions will also limit the amount of investments that may be pledged by our U.S. insurance borrowers and, consequently, the amount available for letters of credit and borrowings under the facility to those borrowers. As of September 30, 2005, we had $170.2

million of secured letters of credit issued and outstanding under the facility.

If we fail to maintain adequate letter of credit facilities, and are unable to otherwise provide the necessary security, U.S. insurance companies may be less willing to purchase our reinsurance products, which could have a material adverse effect on our results of operations.

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Ratings

Ratings by independent agencies are an important factor in establishing the competitive position of insurance and reinsurance companies and are important to our ability to market and sell our products. Rating organizations continually review the financial positions of insurers. A.M. Best maintains a letter scale rating system ranging from "A++" (superior) to "F" (in liquidation). The objective of A.M. Best's ratings systems is to provide an opinion of an insurer's or reinsurer's financial strength and ability to meet ongoing obligations to its policyholders. These ratings reflect our ability to pay policyholder claims and are not applicable to our securities, nor are they a recommendation to buy, sell or hold our shares. These ratings are subject to periodic review by, and may be revised or revoked at the sole discretion of, A.M. Best.

We have received a rating of "A−" (excellent) from A.M. Best, which is the fourth highest of fifteen rating levels and indicates A.M. Best's opinion of our financial strength and ability to meet ongoing obligations to our future policyholders. We have not been rated by any rating agency other than A.M. Best. On October 5, 2005, A.M. Best placed Quanta Bermuda and its subsidiaries and Quanta Europe under review with negative implications. We believe that we have developed a plan designed to retain our current rating of "A−" (excellent). Upon implementation of the plan, based on our discussions with A.M. Best, we believe that A.M. Best will conclude its review, remove us from negative watch and initially ascribe a negative outlook to our current "A−" (excellent) rating. We will continue to work with A.M. Best in 2006 and intend to actively seek the return of our rating to "A−" (excellent) without any qualifications. We expect that the qualification of our rating with a negative outlook will adversely affect our business and business opportunities to write new and renewal business and our ability to retain key employees. There is no assurance as to what rating actions A.M. Best may take now or in the future or whether A.M. Best will remove any qualification of our rating. For further information regarding A.M. Best's rating action and our plans in response to the ratings action, see "Business — Recent Developments." A ratings downgrade would result in a substantial loss of business and business opportunities as insureds and ceding companies purchase insurance from companies with higher claims-paying and financial strength ratings instead of from us and our access to reinsurance could be limited, which factors would have a material adverse effect on business.

Critical Accounting Policies and Estimates

Our management makes certain judgments, estimates and assumptions in the application of accounting policies used to determine inherently subjective amounts reported in our condensed consolidated financial statements. If management uses different assumptions and estimates than it currently does, it could produce materially different estimates of the reported amounts. For a detailed discussion of our critical accounting policies, judgments, estimates and assumptions management uses, see our Annual Report on Form 10-K for the year ended December 31, 2004 as filed with the SEC. There have been no significant changes in the application of our critical accounting policies and estimates subsequent to December 31, 2004.

Non-Traditional Contracts

We write non-traditional contracts of insurance and reinsurance. We may account for these transactions as deposits held on behalf of our clients instead of as insurance and reinsurance premiums, as appropriate. Under the deposit method of accounting, revenues and expenses from insurance and reinsurance contracts are not recognized as written premium and incurred losses. Instead, amounts from these contracts are recognized as other income or investment income over the expected contract or service period.

Pursuant to our revenue recognition policy, a contract is non-traditional if it contains certain terms and features or otherwise results in a structure that we believe limits our insurance risks, including timing risks, or that does not provide for a reasonable possibility of significant loss. These terms or features include, among others, experience based adjustable features, consideration of investment income, an amount of funding or financing of a portion of potential expected losses and coverage for the adverse development of previously incurred losses. Non-traditional contracts are also

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those contracts that are not necessarily intended to provide for the transfer of economic risk but for which coverage is triggered by a non-insurance event or for which coverage is provided to achieve temporary accounting or regulatory relief or other non-economic or risk management benefits. For example, one of our non-traditional contracts is a life surplus relief transaction that provides temporary statutory capital benefit to a U.S. life insurance entity. We use the test set forth in SFAS 113 to ascertain whether we believe our underwriting risk is limited or whether there is not a reasonable possibility of significant loss. These tests include a number of subjective judgments. Because of this subjectivity and in the context of evolving practices and application of existing and future standards, we could be required in the future to adjust our accounting treatment of these transactions. This could have a material effect on our financial condition and results of operations.

During the three and nine months ended September 30, 2005, we recognized in "other income" $0.9 million and $2.7 million of fees and revenues relating to non-traditional contracts which we accounted for using the deposit method. If these contracts transferred risk as determined by Statement of Financial Accounting Standards ("SFAS") No. 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts", gross premium relating to these contracts would total approximately $23.0 million and $78.2 million in the three and nine months ended September 30, 2005.

Of the $0.9 million and $2.7 million recognized, $0.2 million and $0.5 million of other income recognized during the three and nine months ended September 30, 2005, relates to fees earned from a surplus relief life reinsurance arrangement with a U.S. insurance company which meets our definition of a non-traditional contract. In the fourth quarter of 2004, under this contract we made an arrangement with our client and assumed, through novation agreements, several life reinsurance contracts it had made. Because we assumed these contracts, our client, which is subject to insurance regulation in the United States and therefore is required to maintain a certain amount of statutory capital, may reduce its statutory capital requirements. In exchange for our assumption of the contracts we received a fee. The arrangement, among other things, also provides that on certain dates and during specific periods, our client has the right but not the obligation to recapture the life reinsurance contracts we have assumed, provided that the underlying cedants do not reasonably withhold their consent to this recapture. We believe that its client is economically incentivized to exercise the recapture provision in the future, as the amount of expected profit on the underlying life reinsurance contracts emerges over time.

We believe the arrangement, including our client's option to recapture, and the assumption of the life insurance contracts constitute one contract with minimal mortality, credit or other insurance or economic risk which leads us to the use of deposit accounting. Although we believe our client will exercise the recapture, we cannot assure you that this will be the case. If our client does not recapture the underlying insurance contracts in the future, we may be viewed as having had the risks described above and, as a result, we could become the life reinsurer and may be required to account for some or all of the underlying insurance contracts as life insurance, recognizing life premiums written and life benefit reserves in our consolidated statement of operations. If deposit accounting had not been used with respect to this particular arrangement, we would have recognized gross life reinsurance premiums written of approximately $7.1 million and $17.7 million for the three and nine months ended September 30, 2005. At this time, we believe that the recognition of these premiums would not have had a material effect on our financial position and results of operations. However, as the underlying life insurance contracts mature the effect on our financial condition and results of operations may become material.

The remaining $0.7 million and $2.2 million of other income derived from non-traditional contracts recognized during the three and nine months ended September 30, 2005 relates to revenues earned from three reinsurance contracts accounted for as deposits. Although these contracts did possess some underwriting and timing risks as prescribed by SFAS No. 113, we do not believe we are exposed to a reasonable possibility of significant loss.

BUSINESS

Overview

We are a Bermuda holding company that provides specialty insurance, specialty reinsurance, risk assessment and risk consulting products and services on a global basis through our subsidiaries. We were incorporated in May 2003 and began conducting our business in September 2003. We focus on writing coverage for specialized classes of risk through a team of experienced, technically qualified underwriters. Our specialty lines insurance and reinsurance products differ significantly from products written in the standard market. In the standard market, insurance rates and forms are highly regulated, products and coverages are largely uniform and have relatively predictable exposures, and companies tend to compete for customers on the basis of price and service. In contrast, the specialty insurance and reinsurance markets provide coverage for risks that are often unusual or difficult to place and do not fit the underwriting criteria of standard commercial products carriers. As a result, our insurance and reinsurance products require extensive technical underwriting skills and risk assessment resources and, in many cases, engineering expertise, in order to be profitably underwritten. We also provide risk assessment and risk consulting products and services to our clients.

Our objective is to target insurance and reinsurance products and areas where we believe we can derive a competitive advantage from our technical underwriting skills and risk assessment resources and that meet our risk and long-term profitability criteria. We proactively manage our allocation of capital and resources among our insurance and reinsurance product lines and among areas within those product lines. We intend to focus on our specialty insurance and reinsurance product lines where we believe we can take advantage of our technical