QUANTA CAPITAL HOLDINGS LTD
Form 424B4
December 16, 2005
PROSPECTUS

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Registration File Nos.: 333-130115
and 333-130330

11,423,340 Shares

Quanta Capital Holdings Ltd.

Common Shares

We are offering 11,423,340 common shares. Our common shares are listed on the Nasdaq National Market System, or Nasdaq, under the symbol ‘‘QNTA.’’ On December 14, 2005, the last reported sale price of our common shares on Nasdaq was $5.16 per share.

Investing in our common shares involves risks. You are urged to carefully read the ‘‘Risk Factors’’ beginning on page 14, along with the other information in this prospectus, before you make your investment decision.

	Per Share	Total
Public Offering Price	$ 4.75	$ 54,260,865
Underwriting Discounts and Commissions	$ 0.26125	$ 2,984,348
Proceeds to Quanta Capital Holdings Ltd. (before expenses)	$ 4.48875	$ 51,276,517

The underwriters expect to deliver the common shares to purchasers on or about December 20, 2005.

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 is truthful or 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 1,713,501 common 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.

Friedman Billings Ramsey
A division of Scott & Stringfellow, Inc.

BB&T Capital Markets

The date of this prospectus is December 14, 2005.

ABOUT THIS PROSPECTUS

This prospectus relates to the offer and sale by us of the common shares. You should rely only on the information contained or incorporated by reference into this 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 common shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this 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. It is important for you to read and consider all information contained in this 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.

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.

As used in this 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, 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 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 common shares. We urge you to read this entire prospectus carefully, including the "Risk Factors" section and the consolidated financial statements and related notes included elsewhere in or incorporated into this prospectus. Concurrently with this offering, we plan to offer our preferred shares, which offerings are part of our plan that is designed to maintain our current rating with A.M. Best. See "Recent Developments" below. This offering is contingent upon the consummation of the concurrent offering of our preferred shares. In addition, the concurrent offering of our preferred shares is contingent upon the consummation of this offering.

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) 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

2

Factors—A.M. Best has placed our financial strength rating under review with negative implications and a downgrade in our rating will adversely affect our ability to execute our business strategy and could cause a default under our credit facility."

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

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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 from A.M. Best is the completion of this offering and a concurrent offering of our preferred shares to increase our available rated capital. This offering is contingent upon the consummation of the concurrent offering of our preferred shares. In addition, the concurrent offering of our preferred shares is contingent upon the consummation of this offering. The preferred shares we plan to issue upon the completion of the concurrent offering will have rights, preferences and privileges senior to those of holders of our common shares. We currently contemplate that the preferred shares to be offered will (1) have a fixed 10.25% dividend, (2) rank senior to the common shares as to payment of dividends and the distribution of amounts on a liquidation or dissolution of the company, (3) be redeemable at our option after five years from the issuance date at a price equal to the liquidation preference, any declared and unpaid dividends and a premium during an initial period, and (4) not have provisions requiring us to redeem the preferred shares except after the occurrence of certain change of control events. We estimate that we will receive aggregate gross proceeds (before underwriting discounts and other offering expenses) of approximately $129.3 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

4

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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 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.

The Offering

Common shares offered by us	11,423,340 shares
Common shares outstanding after this offering	68,233,360 shares
Use of proceeds	

	We estimate that we will receive net proceeds from this offering of approximately $50.5 million after deducting underwriting discounts and commissions and estimated offering expenses we will pay. We intend to use the net proceeds from our sale of common shares for general corporate purposes.
Nasdaq symbol	QNTA
Risk Factors	See "Risk Factors" beginning on page 14 in this prospectus for a discussion of factors you should consider carefully before deciding to invest in the common shares.
Concurrent offering	Concurrently with this offering, we plan to offer our preferred shares. The preferred shares we plan to issue upon the completion of the concurrent offering will have rights, preferences and privileges senior to those of holders of our common shares. 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 with A.M. Best. This offering is contingent upon the consummation of the concurrent offering of our preferred shares. In addition, the concurrent offering of our preferred shares is contingent upon the consummation of this offering.

The number of our common shares outstanding after this offering is based on the number of common shares outstanding as of December 14, 2005, and excludes:

- 3,662,678 common shares issuable upon the exercise of outstanding options at a weighted average exercise price of approximately $9.99 per share and 283,377 common shares issuable upon achievement of certain performance targets under performance shares, which have been granted under our 2003 Long Term Incentive Plan;
- 55,521 shares of restricted stock;
- 5,348,424 common shares reserved for issuance under our 2003 Long Term Incentive Plan; and
- 2,542,813 common shares issuable upon the exercise of outstanding warrants at an exercise price of $10.00 per share.

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 49 in this prospectus 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.

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.

	($ 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
Acquisition expenses	—	—	—	—	164	53,995	35,885	6
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

9

($ 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	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				

10

	($ 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

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[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.

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

11

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, is 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)

12

Statement of operations by product line	Nine months ended September 30, 2005 Property Lines Subject to Property Transaction[(1)]	All Other Lines of Business[(2)] ($ in thousands)	Consolidated[(3)]
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 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 our common 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. If any of the risks discussed in or incorporated by reference into this 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 our common shares could decline significantly and you may lose all or a part of your investment.

Risks Related to our Business

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 our common shares. See "— A.M. Best has placed our financial strength rating under review with negative implications and a downgrade in our rating by A.M. Best will adversely affect our ability to execute our business strategy and cause a default under our credit facility" below and "Business — Recent Developments."

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.M. Best has placed our financial strength rating under review with negative implications and a downgrade in our rating by A.M. Best will adversely affect our ability to execute our business strategy and could cause a default under our credit facility" below and "Business — Recent Developments." and "— The

occurrence of 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" below.

A.M. Best has placed our financial strength rating under review with negative implications and a downgrade in our rating will adversely affect our ability to execute our business strategy and could cause a default under our credit facility.

Competition in the types of insurance and reinsurance business that we underwrite and reinsure are based on many factors, including the perceived financial strength of the insurer and ratings assigned by independent rating agencies. A.M. Best is generally considered to be a significant rating agency with respect to the evaluation of insurance and reinsurance companies. Its ratings are based on 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 rating of us takes into consideration the fact that we have recently commenced our operations. Insurance ratings are used by customers, brokers, reinsurers and reinsurance intermediaries as an important means of assessing the financial strength and quality of insurers. In addition, the rating of a company seeking reinsurance, also known as a ceding company, may be adversely affected by the lack of a rating of its reinsurer. Therefore, the lack of a rating or a poor rating will dissuade a ceding company from reinsuring with us and will influence a ceding company to reinsure with a competitor of ours. A ratings downgrade by A.M. Best below "B++" would also constitute a default under our credit facility and under certain other agreements or may require us to post additional collateral pursuant to our agreements.

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 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.

We may require additional capital in the future, which may not be available on favorable terms or at all.

We may need to raise additional funds through financings in order to fully implement our business plan. We may also require additional capital because some of the markets in which we place

15

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specialty insurance require higher capital levels than the capital we have currently available. We may also require additional funds to acquire other businesses or groups of underwriters or other personnel. The amount and timing of these capital requirements will depend on many factors, including our ability to write new business successfully in accordance with our expectations and to establish premium rates and reserves at levels sufficient to cover our losses. At this time, we are not able to quantify the amount of additional capital we may require in the future or predict the timing of our future capital needs. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. If we are able to raise capital through equity financings, your interest in our company would be diluted, and the securities we issue may have rights, preferences and privileges that are senior to the shares offered under this prospectus. If we cannot obtain adequate capital, our business, financial condition and results of operations will be adversely affected.

We have a limited operating history. If we are unable to implement our business strategy or operate our business as we currently expect, our results may be adversely affected.

We were organized on May 23, 2003 and began our business operations during the fourth quarter of 2003. Because we only commenced operations in the fourth quarter of 2003, we are still in the process of developing strong name recognition or a reputation in the insurance and reinsurance industry. Businesses, such as ours, that are in their early stages of development, present substantial business and financial risks and may suffer significant losses. We must retain key employees and other staff, develop and maintain business relations, continue to establish operating procedures, implement additional new systems, maintain relationships with insurance regulatory agencies or organizations and complete other tasks necessary for the conduct of our business activities. If we are unable to successfully complete these actions in a timely manner, our results may be adversely affected. As a result of catastrophic events such as the hurricanes in the U.S. during 2004 and 2005, and other industry factors or factors specific to us, we have altered and may continue to alter our methods of conducting our business, such as the nature, amount and types of risks we assume and the terms and limits of the products we write or intend to write.

Our future performance cannot be predicted based on the financial information included in our annual report on Form 10-K for the year ended December 31, 2004 and in our quarterly report on Form 10-Q for the quarter ended September 30, 2005.

We were formed in 2003, and we only have one full fiscal year of operating and financial history. As a result, there is limited historical financial and operating information available to help you evaluate our performance. Companies in their early stages of development present substantial business and financial risks and may suffer significant losses. Our historical financial results may not accurately indicate our future performance.

The occurrence of 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.

We underwrite property and casualty insurance and reinsurance and have large aggregate exposures to natural and man-made disasters such as hurricane, typhoon, windstorm, flood, earthquake, acts of war, acts of terrorism and political instability. Our loss experience generally has and we expect that it will continue to include infrequent events of great severity. The risks associated with natural and man-made disasters are inherently unpredictable, and it is difficult to predict the timing of such events with statistical certainty or estimate the amount of loss any given occurrence will generate. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

The occurrence of 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 our results of operations and financial condition. On October 26, 2005, we announced our estimated net losses related to Hurricanes Katrina and Rita to be approximately $68.5 million. We have also estimated our net losses related to Hurricane Wilma to be between approximately $8 million and $15 million. These net losses take into account the receipt of anticipated

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recoverable amounts under reinsurance and retrocessional agreements and the effects of reinstatement premiums. Our estimated losses are attributable to our property reinsurance, technical risk property insurance and marine, technical risk and aviation reinsurance business lines. They are derived from a review of our potential exposure to these events and are not based on actual reported losses. 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 estimates. Further, 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. 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. In this regard, we are reviewing our capital structure, developing a capital raising plan and implementing plans to conduct an internal analysis of our technical risk property and property reinsurance lines of business and the efficacy of the catastrophe models over the next few months. Pending the outcome of this analysis, we will discontinue the writing of new business in these areas. We do not intend to discontinue or make changes in certain program businesses, including our HBW program, which is reported within our technical risk property insurance line of business.

Losses from these types of catastrophic events could eliminate our shareholders' equity and statutory surplus (which is the amount remaining after all liabilities, including loss reserves, are subtracted from all admitted assets, as determined under statutory accounting principles). Increases in the values and geographic concentrations of insured property and the effects of inflation have resulted in increased severity of industry losses in recent years and we expect that those factors will increase the severity of catastrophe losses in the future.

If actual claims exceed our loss reserves, our financial results could be significantly adversely affected.

Our success depends upon our ability to accurately assess the risks associated with the businesses that we insure and reinsure. To the extent actual claims exceed our expectations we will be required to immediately recognize the less favorable experience as we become aware of it. This could cause a material increase in our liabilities and reduction of capital. It is early in our history and the number and size of reported claims may increase, and their size could exceed our expectations.

A portion of our business is property catastrophe and other classes with high attachment points of coverage. Reserving for losses in the property catastrophe market is inherently complicated in that losses in excess of the attachment level of our policies are characterized by high severity and low frequency, and other factors which could vary significantly as claims are settled. This limits the volume of relevant industry claims experience available from which to reliably predict ultimate losses following a loss event.

In addition, there always exists a reporting lag between a loss event taking place and the reporting of the loss to us. These incurred but not reported losses are inherently difficult to predict. Because of the variability and uncertainty associated with loss estimation, it is possible that our individual case reserves for each catastrophic event and other case reserves are incorrect, possibly materially.

These factors require us to make significant assumptions when establishing loss reserves. Since we have insufficient past loss experience, we supplement this information with industry data. This industry data may not match our risk profile, which introduces a further degree of uncertainty into the process. Accordingly, actual claims and claim expenses paid may deviate, perhaps substantially, from the reserve estimates reflected in our financial statements.

In our reinsurance business line, like other reinsurers, we do not separately evaluate each of the individual risks assumed under reinsurance treaties. Therefore, we are largely dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that the ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded may not adequately compensate us for the risks we assume.

If our loss reserves are determined to be inadequate, we will be required to increase loss reserves at the time of such determination with a corresponding reduction in our net income in the period in which the deficiency is rectified. It is possible that claims in respect of events that have occurred could exceed our loss reserves and have a material adverse effect on our results of operations or our financial condition in general.

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.

We seek to limit our loss exposure by writing a number of our reinsurance contracts on an excess of loss basis, adhering to maximum limitations on reinsurance written in defined geographical zones, limiting program size for each client and by prudent underwriting of each program written. In the case of proportional treaties, we seek per occurrence limitations or loss ratio caps to limit the impact of losses from any one event. We cannot be sure that any of these loss limitation methods has been or will be effective. We also seek to limit our loss exposure by geographic diversification. Geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone's limits. We cannot assure you that various provisions of our policies, such as limitations or exclusions from coverage or choice of forum, will be enforceable in the manner we intend. Disputes relating to coverage and choice of legal forum may also arise. Underwriting is inherently a matter of judgment, involving important assumptions about matters that are inherently unpredictable and beyond our control, and for which historical experience and probability analysis may not provide sufficient guidance. One or more catastrophic or other events, such as the hurricanes in 2004 and 2005, could result in claims that substantially exceed our expectations, which could have a material adverse effect on our financial condition or our results of operations, possibly to the extent of eliminating our shareholders' equity.

Our specialty insurance segment is dependent on the premiums derived from a residential builders' and contractors' program, the loss of which could have a material adverse effect on revenues and profitability.

Our specialty insurance segment, which accounted for 58.3% of gross premiums written during the first nine months of 2005, offers a residential builders' and contractors' program that provides general liability, warranty, builders' risk and excess liability coverages for new home contractors throughout the United States. This program accounted for approximately 43.2% of our specialty insurance segment gross written premiums during the first nine months of 2005. We believe that a material portion of our gross premiums written in the specialty insurance segment for the foreseeable future will continue to be derived from this program. The program may generally be terminated by the program manager or us at any time upon 180 days written notice. It may also be terminated upon breach or nonperformance or immediately in the event that the other party becomes insolvent or bankrupt or files a petition in bankruptcy or makes an assignment for the benefit of creditors. If the program managers do not renew this program with us or we fail to otherwise retain this program, our financial results could be materially and adversely affected.

We are dependent on our key executives and may not be able to hire and retain key employees or successfully integrate our management team.

Our success will depend largely on our senior management. We do not have an employment agreement with Mr. Lippincott, our interim chief executive officer and president. We have an employment agreement with Jonathan J.R. Dodd, our chief financial officer, and an employment agreement with Gary G. Wang, our chief risk officer, and other key employees, who presently do not have non-competition agreements with us. Therefore, these other executive officers and key employees may voluntarily terminate their employment with us at any time and are not restricted from seeking employment with our competitors or others who may seek their expertise, including newly formed insurance companies who may be seeking employees as they prepare to enter the same market segments in which we compete. We also have an employment agreement with Michael J. Murphy, our deputy chairman of the board and chairman of the office of strategic innovation, for employment through September 2008, which includes

non-competition obligations. We do not

currently maintain key man life insurance policies with respect to any of our employees other than a $10 million policy on the life of Mr. Murphy.

Our ability to implement our business strategy depends on the retention and continued successful integration of our management team and other personnel. Our inability to attract, integrate and retain members of our management team, key employees and other personnel could delay or prevent us from fully implementing our business strategy and could significantly and negatively affect our business. Further, if we were to lose the services of our key executives or key employees, including due to the uncertainty related to A.M. Best's rating action, our business could be materially and adversely affected. We cannot assure you that we will successfully attract, retain and integrate our executives, key employees and other personnel.

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

We compete with a large number of companies in the insurance and reinsurance industry for underwriting revenues.

We compete with a large number of other companies in our selected lines of business. We compete with major insurers and reinsurers, such as ACE Limited, American International Group, Inc., CNA Financial Corporation, The Chubb Corporation, XL Capital Ltd., Arch Capital Group Ltd., Swiss Reinsurance Company, Berkshire Hathaway Inc., Munich Re Group, St. Paul Travelers and other Bermuda insurers and reinsurers, such as Endurance Specialty Holdings Ltd., AXIS Capital Holdings Limited, Allied World Assurance Company, Ltd., Platinum Underwriters Holdings, Ltd. and Montpelier Re Holdings Ltd. These insurers and reinsurers offer the lines of insurance and reinsurance that we offer or will offer, target the same markets as we do and utilize similar business strategies. We face competition both from specialty insurance companies, underwriting agencies and intermediaries, as well as diversified financial services companies. In addition, newly formed and existing insurance industry companies have recently raised capital to meet perceived demand in the current environment and address underwriting capacity issues. Other newly formed and existing insurance companies may also be preparing to enter the same market segments in which we compete or raise new capital. Since we have a limited operating history, many of our competitors have greater name and brand recognition than we have. Many of them also have more (in some cases substantially more) capital and greater marketing and management resources than we have and may offer a broader range of products and more competitive pricing than we expect to, or will be able to, offer. We cannot assure you that we will be able to timely or effectively implement our business strategies in a manner that will generate returns on capital superior to those of our competitors.

Our competitive position is based on many factors, including our perceived financial strength, ratings assigned by independent rating agencies, geographic scope of business, client relationships, premiums charged, contract terms and conditions, products and services offered (including the ability to design customized programs), speed of claims payment, reputation, experience and qualifications of employees and local presence. Since we have recently commenced operations, we may not be able to compete successfully on many of these bases. If competition limits our ability to write new and renewal business at adequate rates, our return on capital may be adversely affected.

A number of new, proposed or potential industry developments could further increase competition in our industry. These developments include:

- programs in which state-sponsored entities provide property insurance in catastrophe-prone areas or other ‘‘alternative markets’’ types of coverage; and
- changing practices caused by the Internet, which may lead to greater competition in the insurance business.

New competition from these developments could cause the supply and/or demand for insurance or reinsurance to change, which could affect our ability to price our products at attractive rates and adversely affect our underwriting results.

We may misevaluate the risks we seek to insure in the underwriting and pricing of our products. If we misevaluate these risks, our actual insured losses may be greater than our loss reserves, which would negatively impact our business, reputation, financial condition and results of operation.

We are a Bermuda company formed to provide specialty lines insurance and reinsurance products on a global basis through our operating subsidiaries. The market for specialty lines insurance and reinsurance products differs significantly from 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 market, especially the structured insurance and reinsurance market, provides coverage for risks that do not fit the underwriting criteria of the standard carriers. We have formed teams of experienced underwriting officers and underwriters with specialized knowledge of their respective market segments to manage each of our product lines where we currently write business. Our success will depend on the ability of these underwriters to accurately assess the risks associated with the businesses that we insure. Underwriting for specialty lines and structured insurance and reinsurance products requires us to make assumptions about matters that are inherently unpredictable and beyond our control and for which historical experience and probability analysis may not provide sufficient guidance. Further, underwriting for specialty lines presents particular difficulties because there is usually limited information available on the client's loss history for the perils being insured and structured insurance products frequently involve coverages for multiple years and multiple business segments. If we fail to adequately evaluate the risks to be insured, our business, financial condition and results of operations could be materially and adversely affected.

Significant periods of time often elapse between the occurrence of an insured loss, the reporting of the loss to an insurer and payment by the insurer of that loss. As we recognize liabilities for unpaid losses, we will continue to establish reserves. These reserves represent estimates of amounts needed to pay reported losses and unreported losses and the related loss adjustment expense. Loss reserves are only an estimate of what an insurer anticipates the ultimate costs of claims to be and do not represent an exact calculation of liability. Estimating loss reserves is a difficult and

complex process involving many variables and subjective judgments, particularly for new companies, such as ours, that have limited loss development experience. As part of our reserving process, we review historical data as well as actuarial and statistical projections and consider the impact of various factors such as:

- trends in claim frequency and severity;
- changes in operations;
- emerging economic and social trends;
- inflation; and
- changes in the regulatory and litigation environments.

This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. There is no precise method, however, for evaluating the impact of any specific factor on the adequacy of reserves, and actual results are likely to differ from original estimates. In addition, unforeseen losses, the type or magnitude of which we cannot predict, may emerge in the future. To the extent our loss reserves are insufficient to cover actual losses or loss adjustment expenses, we will have to add to these loss

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reserves and incur a charge to our earnings, which could have a material adverse effect on our financial condition, results of underwriting and cash flows.

In addition, because we, like other reinsurers, do not separately evaluate each of the individual risks assumed under reinsurance treaties, we are largely dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that our ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded to us may not adequately compensate us for the risks we assume.

We may not be able to manage our growth effectively.

We only began our business operations in the fourth quarter of 2003 and we need to timely execute our business strategy to realize our goals. This has and will continue to place significant demands on our management and other resources. As we grow our business in the future, we may need to raise additional capital, continue to obtain, develop and implement systems and acquire and retain human resources. These processes are time consuming and expensive, will increase management responsibilities and will absorb management attention. We cannot assure you that we will be able to meet our capital needs, expand our systems effectively, allocate our human resources optimally, identify and hire qualified employees or incorporate effectively the components of any businesses we may acquire in our effort to achieve growth. The failure to manage our growth effectively could have a material adverse effect on our business, financial condition and results of operations.

Our utilization of program managers and other third parties to support our business exposes us to operational and financial risks.

In our program product line, we rely on program managers, and other agents and brokers participating in our programs, to produce and service a substantial portion of our business in this segment. In these arrangements, we typically grant the program manager the right to bind us to newly issued insurance policies, subject to underwriting guidelines we provide and other contractual restrictions and obligations. Should our managers issue policies that contravene these guidelines, restrictions or obligations, we could nonetheless be deemed liable for these policies. We intend to resist claims that exceed or expand on our underwriting intention, however, it is possible that we would not

prevail in such an action, or that our program managers would be unable to substantially indemnify us for their contractual breach. We also rely on our managers, or other third parties we retain, to collect premiums and to pay valid claims. While we aim to mitigate these risks in the contracts we enter into, we still have exposure to their credit and operational risk, without necessarily relieving us of our obligations to potential insureds. We could also be exposed to potential liabilities relating to the claims practices of the third party administrators we have retained to manage claims activity that we expect to arise in our program operations. Although we have implemented auditing and other oversight protocols for our program, we cannot assure you that these measures will be sufficient to alleviate all of these exposures.

We are also subject to the risk that our successful program managers will not renew their programs with us. Our contracts are generally for defined terms of as little as one year, and either party can cancel the contract in a relatively short period of time. We cannot assure you that we will retain the programs that produce profitable business or that our insureds will renew with us. Failure to retain or replace these producers would impair our ability to execute our growth strategy, and our financial results could be adversely affected.

Our business is dependent upon insurance and reinsurance brokers, and the failure to develop or maintain important broker relationships could materially adversely affect our ability to market our products and services.

We market our insurance and reinsurance products primarily through brokers, and we derive a significant portion of our business from a limited number of brokers. Our specialty reinsurance segment, which generated $251.8 million, or 50.9%, of our gross premiums written during the year ended December 31, 2004, generated approximately 31.4%, 21.4%, 15.9% and 10.5% of its gross premiums written through Guy Carpenter & Company, Inc., Rattner MacKenzie Limited, Benfield

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Group and Willis Group. No other broker accounted for more than 10% of gross premiums written for the year ended December 31, 2004. In addition, our specialty reinsurance segment, which generated $213.8 million, or 41.7%, of our gross premiums written during the nine months ended September 30, 2005, generated approximately 38.6%, 22.4% and 11.6% of its gross premiums written through Guy Carpenter & Company, Inc., Benfield Group and Rattner MacKenzie Limited. Affiliates of at least two of the brokers through whom we market our products, Marsh Inc. and Marsh & McLennan Companies, Inc., or collectively, Marsh, and Aon Corporation, are also co-sponsors of Bermuda reinsurers that compete with us, and those brokers may decide to favor the companies they sponsored over other companies. While our senior management team and underwriting officers have industry relationships with major industry brokers that we believe are allowing us to continue to establish our presence in the insurance and reinsurance markets, we cannot assure you that we will successfully maintain these relationships. The failure to develop or maintain relationships with brokers from whom we expect to receive our business could have a material adverse effect on us.

Our reliance on brokers subjects us to their credit risk.

In accordance with industry practice, we anticipate that we will frequently pay amounts owed on claims under our insurance or reinsurance contracts to brokers, and these brokers, in turn, will pay these amounts over to the clients that have purchased insurance or reinsurance from us. If a broker fails to make such a payment in a significant portion of business that we write, it is highly likely that we will be liable to the client for the deficiency under local laws or contractual obligations. Likewise, when the client pays premiums for these policies to brokers for payment over to us, these premiums are considered to have been paid and, in most cases, the client will no longer be liable to us for those

amounts, whether or not we actually receive the premiums from the brokers. Consequently, we will assume a degree of credit risk associated with brokers around the world with respect to most of our insurance and reinsurance business.

The impact of the investigations into anti-competitive practices in the insurance industry cannot be predicted and may have a material adverse effect on our results of operations and financial condition.

In October 2004, the Office of the Attorney General of the State of New York filed a civil complaint against Marsh alleging, among other things, that Marsh and certain insurance companies participated in anti-competitive practices in connection with the process of placing and underwriting certain classes of business insurance. This action resulted from an industry-wide investigation relating to the conduct of insurance and reinsurance brokers, which is ongoing. A number of companies engaged in the insurance business have recently received subpoenas and other requests for information from the SEC and the New York Attorney General and other insurance, governmental and enforcement authorities requesting information with respect to certain practices in the insurance and reinsurance industries. In November 2004, the Acting Director of the Division of Insurance, Illinois Department of Financial and Professional Regulation commenced an investigation against Aon Corporation and its subsidiaries and affiliates, or Aon, relating to contingent commissions and other business practices that may have created actual or potential conflicts of interest. Thereafter, in March 2005, similar allegations were made in actions commenced by the Attorney Generals for New York, Illinois and Connecticut and the investigation commenced by the Superintendent of Insurance of the State of New York. In January 2005, Marsh agreed to pay $850 million to settle these charges described above. In March 2005, Aon agreed to pay $190 million in restitution to settle the claims made in the actions against it. We were not a party to the Marsh or Aon litigation and did not receive any subpoena or information requests with respect to this litigation. We did receive, and have complied with, requests for information from the Departments of Insurance of North Carolina and Colorado and from Lloyd's of London, or Lloyd's. We are unable to predict the impact, if any, that these investigations, and any increased regulatory oversight that might result therefrom, may have on our business and financial results.

Current legal and regulatory activities relating to certain finite risk insurance products could affect our business, results of operations and financial condition.

Finite risk reinsurance has become the focus of investigations by the Securities and Exchange Commission and numerous state Attorneys General. Finite risk reinsurance has been defined as a

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form of reinsurance in which, among other things, the time value of money is considered in the product's design and pricing, in addition to the expected amount of the loss payments.

At this time, we are unable to predict the potential effects, if any, that these investigations may have upon the insurance and reinsurance markets and industry business practices or what, if any, changes may be made to laws and regulations regarding the industry and financial reporting. Any of the foregoing could adversely affect our business, results of operations and financial condition.

We could face unanticipated losses from war, terrorism and political unrest, and these or other unanticipated losses could have a material adverse effect on our financial condition and results of operations.

We may have exposure to unexpected losses resulting from future man-made catastrophic events, such as acts of war, acts of terrorism and political instability. Although we may attempt to exclude losses from terrorism and certain other

similar risks from some coverages we write, we may not be successful in doing so. In addition, we have written, and will continue to write policies explicitly limiting the exposure of our clients to the credit worthiness of their commercial trade partners in some emerging markets or to political uncertainty in those countries which could interfere with the execution of commercial contracts they have entered into. These risks are inherently unpredictable and may increase the frequency or severity of losses. It is difficult to predict the timing of such events or to estimate the amount of loss that any given occurrence will generate. To the extent that losses from such risks occur, our financial condition and results of operation could be materially adversely affected.

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.

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

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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 "— 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" for further discussion.

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.

We participate in Lloyd's through Syndicate 4000, our Lloyd's segment. Syndicate 4000 was created in December 2004 and currently writes traditional specialty insurance products including professional liability (professional indemnity and directors' and officers' coverage), fidelity and crime (financial institutions). Whenever a member of Lloyd's is unable to pay its debts to policyholders, these debts may be payable by the Lloyd's Central Fund, which acts similarly to state guaranty funds in the United States.

The Lloyd's Central Fund protects Lloyd's policyholders against the failure of a member of Lloyd's to meet its obligations. The Central Fund is a mechanism that, in effect, ‘‘mutualizes’’ unpaid liabilities among all members, whether individual or corporate. The fund is available to back Lloyd's policies issued after 1992. Lloyd's requires members to contribute to the Central Fund, normally in the form of an annual contribution, although a special contribution may be levied. The Council of Lloyd's has discretion to call up to 3% of underwriting capacity in any one year. Policies issued before 1993 have been reinsured by Equitas, an independent insurance company authorized by the Financial Services Authority, or FSA. However, if Equitas were to fail or otherwise be unable to meet all of its obligations, Lloyd's may take the view that it is appropriate to apply the Central Fund to discharge those liabilities Equitas failed to meet. In that case, the Council of Lloyd's may resolve to impose a special or additional levy on the existing members, including Lloyd's corporate members such as Quanta 4000 Ltd., to satisfy those obligations.

Additionally, Lloyd's insurance and reinsurance business is subject to local regulation, and regulators in the United States require Lloyd's to maintain certain minimum deposits in trust funds as protection for policyholders in the United States. These deposits may be used to cover liabilities in the event of a major claim arising in the United States and Lloyd's may require us to satisfy cash calls to meet claims payment obligations and maintain minimum trust fund amounts.

Any premium levy or cash call would increase the expenses of Syndicate 4000 and Quanta 4000 Ltd., its corporate member, without providing compensating revenues and could have a material adverse effect on our results. The Lloyd's of London market is currently rated ‘‘A’’ (Excellent) by A.M. Best. In the event that Lloyd's rating is downgraded below ‘‘A–’’ in the future, the downgrade could have a material adverse effect on our ability to underwrite business through Syndicate 4000 and on our financial condition or results of operations.

The availability of reinsurance and retrocessional coverage that we use to limit our exposure to risks may be limited, and counterparty credit and other risks associated with our reinsurance arrangements may result in losses which could adversely affect our financial condition and results of operations.

To limit our risk of loss and to mitigate the volatility of losses upon our financial results, we use reinsurance and retrocessional coverage, which is reinsurance of a reinsurer's business. The availability and cost of reinsurance and retrocessional protection is subject to market conditions, which are beyond our control. Currently, there is a high level of demand for these arrangements. 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. We cannot assure you that we will be able to renew adequate protection at cost-effective levels in the future.

As a result of market conditions and other factors, we may not be able to successfully alleviate risk through reinsurance and retrocessional arrangements. Further, we will be subject to credit risk with respect to our reinsurance and retrocessional arrangements because the ceding of risk to reinsurers and retrocessionaires will not relieve us of our liability to the clients or companies we insure or reinsure. Our failure to establish adequate reinsurance or retrocessional arrangements or the failure of our reinsurance or retrocessional arrangements to protect us from overly concentrated risk exposure could adversely affect our business, financial condition and results of operations.

We must continue to develop, implement and integrate new software and systems.

Our software systems are not fully integrated. While we have acquired new software and systems responsible for accounting, claims management, modeling and other tasks relating to our insurance and reinsurance operations, we must continue to implement and integrate these software and systems with each other and with those that we are developing ourselves. In addition, we must acquire or obtain the right to use additional software and systems and continue to develop those systems as well as any systems that we are creating internally. During this process, we rely on more manual processes, which have an increased risk of errors and we require more controls than we expect to need once our systems are fully integrated. In addition, our failure to acquire, implement or integrate our systems in a timely and effective manner could impede our ability to achieve our business strategy and could significantly and adversely affect our business, financial condition and results of operations.

We may pursue additional opportunities to acquire complementary businesses or groups of underwriters or other individuals, which could adversely affect our financial situation if we fail to successfully integrate the acquired business or group.

Since our organization on May 23, 2003, we have acquired ESC, a provider of risk assessment and consulting services, Quanta Specialty Lines, an excess and surplus lines insurer, and Quanta Indemnity, a U.S. licensed insurer with licenses in approximately 44 states. We intend to continue to pursue selective acquisitions of complementary businesses or groups of underwriters or other individuals in the future. Inherent in any future acquisition are certain risks, such as the difficulty of assimilating operations, services, cultures, products and facilities of the acquired business or group, which could have a material adverse effect on our operating results, particularly during the period immediately following such acquisition. Additional debt or equity capital may be required to complete, integrate and fund future acquisitions of these businesses or groups, and there can be no assurance that we will be able to raise the required capital. Furthermore, acquisitions involve a number of risks and challenges, including:

- diversion of management's attention;
- the need to integrate acquired businesses, groups of underwriters or other individuals;
- potential loss of key employees and customers of the acquired business or group;
- lack of experience in operating in the geographical market of the acquired business or group;
- an increase in our expenses and working capital requirements;
- misjudgment of the value of the acquired businesses or groups of underwriters in determining the price paid for the acquisition; and
- inaccurate assessment of the amount or nature of the liabilities or obligations of the businesses being acquired or assuming liabilities unknown to us at the time of the acquisition.

Any of these and other factors could adversely affect our ability to achieve anticipated cash flows at acquired operations or realize other anticipated benefits of acquisitions.

Our business could be adversely affected by Bermuda employment restrictions.

We have hired and may continue to hire a number of non-Bermudians to work for us in Bermuda. Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage

in any gainful occupation in Bermuda without an appropriate governmental work permit. Work permits may be granted or extended by the Bermuda government upon showing that, after proper public advertisement in most cases, no Bermudian (or spouse of a Bermudian) or a holder of a permanent resident's certificate or holder of a working resident's certificate is available who meets the minimum standard requirements for the advertised position. The Bermuda government recently announced a new policy limiting the duration of work permits to six years, with certain exemptions for key employees. While we have been able to obtain work permits that we have needed for our employees to date, we can not assure you that we will not encounter difficulties in the future. We may not be able to use the services of one or more of our key employees if we are not able to obtain work permits for them, which could have a material adverse effect on our business.

A significant amount of our invested assets is subject to market volatility.

We invest the premiums we receive from customers. Our investment portfolio currently contains highly rated and liquid fixed income securities. Because we classify substantially all of our invested assets as available for sale, we expect changes in the market value of our securities will be reflected in our consolidated balance sheet. The remainder of our invested assets is classified as trading. Changes in the market value of these securities are reflected in our consolidated statement of operations. Our investment portfolio is invested by several professional investment advisory management firms under the direction of our management team in accordance with our investment guidelines and are subject to market-wide risks and fluctuations, as well as to risks inherent in particular securities. The volatility of our claims may force us to liquidate securities, which may cause us to incur capital losses. Our investment results and, therefore, our financial condition may also be impacted by changes in the business, financial condition or results of operations of the entities in which we invest, as well as changes in interest rates, government monetary policies, general economic conditions and overall market conditions. Further, if we do not structure our investment portfolio so that it is appropriately matched with our insurance and reinsurance liabilities, we may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. Investment losses could significantly decrease our asset base, which will affect our ability to conduct business.

We may be adversely affected by interest rate changes.

Our investment portfolio contains interest rate-sensitive instruments, such as bonds, which may be adversely affected by changes in interest rates. Because of the unpredictable nature of losses that may arise under insurance and reinsurance policies, we expect our liquidity needs will be substantial and may arise at any time. Increases in interest rates during periods when we sell investments to satisfy liquidity needs may result in losses. Changes in interest rates could also have an adverse effect on our investment income and results of operations. For example, if interest rates decline, reinvested funds will earn less than expected.

In addition, our investment portfolio includes highly-rated mortgage-backed securities. As with other fixed income investments, the fair market 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 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 reinvest the proceeds at the then current market rates.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we attempt to take measures to manage the risks of investing in a changing interest rate environment, we may not be able to mitigate

interest rate sensitivity effectively. Our mitigation efforts include maintaining a high quality portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. Despite our mitigation efforts, a significant increase in interest rates could have a material adverse effect on our book value.

Fluctuations in currency exchange rates may cause us to experience losses.

Our functional currency is the U.S. dollar. Our operating currency generally is also the U.S. dollar. However, we expect the premiums receivable and losses payable in respect of a portion of our

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business will be denominated in currencies of other countries. We will attempt to manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies either with forward purchase contracts or with investments that are denominated in these currencies.

To the extent we believe that it may be practical, we hedge our foreign currency exposure with respect to potential losses by maintaining assets denominated in the same currency or entering into forward purchase contracts for specific currencies. We use forward purchase contracts when we are advised of known or probable significant losses that will be paid in non-U.S. currencies in order to manage currency fluctuation exposure. We also use forward purchase contracts to hedge our non-U.S. dollar currency exposure with respect to premiums receivable, which will be generally collected over the relevant contract term to the extent practical and to the extent we do not expect we will need these receipts to fund potential losses in such currencies. We also make foreign currency-denominated investments, generally for the purpose of improving overall portfolio yield. However, we may not be successful in reducing foreign currency exchange risks. As a result, we may from time to time experience losses resulting from fluctuations in values of foreign currencies, which could have a material adverse effect on our results of operations.

Our profitability may be adversely impacted by inflation.

The effects of inflation could cause the severity of claims to rise in the future. Our reserve for losses and loss expenses will include assumptions about future payments for settlement of claims and claims handling expenses, such as medical treatments and litigation costs. To the extent inflation causes these costs to increase above reserves established for these costs, we would be required to increase our loss reserves with a corresponding reduction in our net income in the period in which the deficiency is identified.

We have made certain decisions concerning the allocation of our capital base among our subsidiaries. Those decisions could have a major impact on our ability to meet our growth and return objectives.

We have established operating subsidiaries in Bermuda, Ireland and the United States and a branch in the United Kingdom. We allocate capital among our subsidiaries in such a way as we believe will maximize the composite return to shareholders stemming from our overall capital base. These capital allocation decisions require us to make various profitability, risk, operating, regulatory and tax assumptions. If our assumptions are not correct, we may not allocate our capital optimally. In light of the regulatory constraints on moving capital, this could adversely affect our ability to meet our growth and return objectives.

ESC's risk assessment and risk consulting products and services could adversely affect our business.

The assessment and analysis of environmental liabilities, and the management, remediation, and engineering of environmental conditions constitute a significant portion of our technical services business. These businesses involve risks, including the possibility that we may be liable to clients, third parties and governmental authorities for clean-up costs, property damage, personal injuries, breach of contract or breach of warranty claims, fines and penalties and regulatory action. As a result, we could be subject to substantial liabilities or fines in the future that could adversely affect our business.

Our liability transfer program may expose us to liability.

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 consulting services. Our liability assumption program requires extensive technical skills and judgments in order to evaluate the significant risks associated with the properties subject to the program. We will be exposed to substantial liabilities related to the environmental conditions associated with assuming liabilities with respect to these properties that could materially adversely affect our financial position.

ESC's services may expose us to professional liability in excess of its current insurance coverage.

ESC may have liability to clients for errors or omissions in the services it performs. These liabilities could exceed ESC's insurance coverage and the fees ESC derives from those services. Prior to our acquisition of ESC, ESC maintained general liability insurance and professional liability insurance. The cost of obtaining these insurance policies is rising. We cannot assure you that this insurance will be sufficient to cover any liabilities ESC incurs or that we will be able to maintain ESC's insurance at reasonable rates or at all. If we terminate ESC's policies and do not obtain retroactive coverage, we will be uninsured for claims against ESC made after termination even if these claims are based on events or acts that occurred during the term of the policy. In addition, we cannot assure you that we will be able to obtain insurance coverage for the new services or areas into which we expand ESC's services on favorable terms or at all.

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.

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.

Dividends and other permitted distributions from our operating subsidiaries will be our sole source of funds to pay dividends, if any, to shareholders and to meet ongoing cash requirements, including debt service payments and other expenses. Bermuda law and regulations, including, but not limited to Bermuda insurance regulation, restricts the declaration and payment of dividends and the making of distributions by Quanta Bermuda and Quanta U.S. Re unless specific regulatory requirements are met. In addition, each of Quanta Europe, Quanta Specialty Lines and Quanta Indemnity is subject to significant regulatory restrictions limiting its ability to declare and pay dividends. In addition, any dividends paid by Quanta U.S. Holdings will be subject to a 30% withholding tax. The inability of our operating subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have a material adverse effect on our operations and on our ability to pay dividends and make payments on our indebtedness. See ‘‘Material Tax Considerations — Certain U.S. Federal Income Tax Considerations — U.S. Taxation of Quanta Holdings, Quanta Bermuda, Quanta Europe, Quanta U.S. Holdings, Quanta Specialty Lines,

Quanta U.S. Re and Quanta Indemnity.''

We are subject to Bermuda regulatory constraints that affect our ability to pay dividends on our shares and make other payments. Under the Companies Act 1981 of Bermuda, as amended, or the Companies Act, we may declare or pay a dividend out of distributable reserves only if we have reasonable grounds for believing that we are, and will after the payment be, able to pay our liabilities as they become due and if the realizable value of our assets will thereby not be less than the aggregate of our liabilities and issued share capital and share premium accounts.

We are subject to extensive regulation in Bermuda, the United States and Ireland, which may adversely affect our ability to achieve our business objectives. If we do not comply with these regulations, we may be subject to penalties, including fines, suspensions and withdrawals of licenses, which may adversely affect our financial condition and results of operations.

We are subject to extensive governmental regulation and supervision. Most insurance regulations are designed to protect the interests of policyholders rather than shareholders and other investors. These regulations, generally administered by a department of insurance in each jurisdiction in which we will do business, relate to, among other things:

- standards of solvency, including risk-based capital measurements;
- licensing of insurers and their agents;
- limits on the size and nature of risks assumed;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the ability of our insurance company subsidiaries to pay dividends to us;
- restrictions on transactions between insurance company subsidiaries and their affiliates;

- restrictions on the size of risks insurable under a single policy;
- requiring deposits for the benefit of policyholders;
- approval of policy forms and premium rates;
- requiring certain methods of accounting;
- periodic examinations of our operations and finances;
- prescribing the form and content of records of financial condition required to be filed; and
- requiring reserves for unearned premium, losses and other purposes.

Insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements and the periodic examinations which as a newly formed group of companies we may be more frequently subject to than more established companies, may adversely affect or inhibit our ability to achieve some or all of our business objectives.

In addition, regulatory authorities have relatively broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. We intend to base some of our practices on our interpretations of regulations or practices that we believe are generally followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If we do not have the requisite licenses and approvals or do not comply with applicable regulatory requirements, insurance regulatory authorities could preclude or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us. This could adversely affect our ability to operate our business. Further, changes in the level of regulation of the insurance or reinsurance industry or changes in the laws or regulations themselves or interpretations by regulatory authorities could adversely affect our ability to operate our

business.

Regulation in the United States. In recent years, the state insurance regulatory framework in the United States has come under increased federal scrutiny, and some state legislators have considered or enacted laws that may alter or increase state authority to regulate insurance companies and insurance holding companies. Moreover, the National Association of Insurance Commissioners, which is an association of the insurance regulatory officials of all 50 states and the District of Columbia, and state insurance regulators regularly reexamine existing laws and regulations, interpretations of existing laws and the development of new laws, which may be more restrictive or may result in higher costs to us than current statutory requirements. Federal legislation is also being discussed that would require all states to adopt uniform standards relating to the regulation of products, licensing, rates and market conduct. We are unable to predict whether any of these or other proposed laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition.

The offshore insurance and reinsurance regulatory framework recently has also become subject to increased scrutiny in many jurisdictions, including in the United States and in various states within the United States. In the past, there have been congressional and other proposals in the United States regarding increased supervision and regulation of the insurance industry, including proposals to supervise and regulate reinsurers domiciled outside the United States. If Quanta Bermuda or Quanta U.S. Re were to become subject to any insurance laws and regulations of the United States or any U.S. state, which are generally more restrictive than those applicable to it in Bermuda, at any time in the future, they might be required to post deposits or maintain minimum surplus levels and might be prohibited from engaging in lines of business or from writing specified types of policies or contracts. Complying with those laws could have a material adverse effect on our ability to conduct business or on our results of operations.

Regulation in Bermuda. Quanta Bermuda and Quanta U.S. Re are registered Bermuda insurance companies and subject to regulation and supervision in Bermuda. The applicable Bermuda statutes and regulations generally are designed to protect insureds and ceding insurance companies, not our shareholders. Quanta Bermuda and Quanta U.S. Re are not registered or licensed as

29

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insurance companies in any jurisdiction outside Bermuda, conduct business through offices in Bermuda and do not maintain an office in, and their personnel do not conduct any insurance activities in, the United States or elsewhere. Inquiries or challenges to the insurance activities of Quanta Bermuda or Quanta U.S. Re. may be raised in the future.

Regulation in Ireland. Quanta Europe is a non-life insurance company incorporated under the laws of Ireland subject to the regulation and supervision of the Irish Financial Services Regulatory Authority, or IFSRA, under the Irish Insurance Acts, 1909 to 2000 and the regulations relating to insurance business and directions made under those regulations, or together, the Insurance Acts and Regulations. In addition, Quanta Europe is subject to certain additional supervisory requirements of IFSRA for authorized non-life insurers that fall outside the strict legislative framework, such as guidelines issued by IFSRA in 2001 requiring actuarial certification of certain reserves. Among other things, without consent of IFSRA, Quanta Europe is not permitted to reduce the level of its initial capital, or make any dividend payments or loans. Quanta Europe is required to maintain a minimum solvency margin and reserves against underwriting liabilities. Assets constituting these reserves must comply with asset diversification, localization and currency matching rules. If Quanta Europe writes credit insurance, it is required to maintain a further equalization reserve. Additionally, Quanta Europe is required to adhere to IFSRA's policy restricting the reinsurance business written by a direct insurer. Under this policy, a direct insurer is prohibited from engaging in reinsurance

except to an extent that is not significant (to maximum 10% to 20% of overall business) and subject to certain conditions. In practice IFSRA generally expects a direct insurer to write reinsurance in very limited circumstances. An insurance company supervised by IFSRA may have its authorization revoked or suspended by IFSRA under various circumstances, including, among others, if IFSRA determines that it has not used its authorization for the last 12 months, it has expressly renounced its authorization, has ceased to carry on business covered by the authorization for more than six months, no longer fulfills the conditions required for granting authorization or fails seriously in its obligations under the Insurance Acts and Regulations. The appointment of the directors and senior managers of Quanta Europe is subject to prior approval from IFSRA. Changes to any of the Insurance Acts and Regulations, or to the interpretation of these or to the additional supervisory requirements of IFSRA referred to above could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to U.S. tax that may have a material adverse effect on our results of operations and your investment.

Quanta Holdings and Quanta Bermuda are Bermuda companies and Quanta Europe is an Irish company. We believe we are managing our business so that each of these companies is not treated as engaged in a trade or business within the United States and, as a result, will not be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on certain U.S. source investment income). However, because there is considerable uncertainty as to what activities constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service will not be able to successfully contend that any of Quanta Holdings or its foreign subsidiaries are engaged in a trade or business in the United States. If Quanta Holdings or any of its foreign subsidiaries were considered to be engaged in a business in the United States, we could be subject to U.S. corporate income and branch profits taxes on the portion of our earnings effectively connected to such U.S. business, in which case our results of operations and your investment could be materially adversely affected. See ‘‘Material Tax Considerations — Certain U.S. Federal Income Tax Considerations — U.S. Taxation of Quanta Holdings, Quanta Bermuda, Quanta Europe, Quanta U.S. Holdings, Quanta Specialty Lines, Quanta U.S. Re and Quanta Indemnity.’’

Quanta Holdings' U.S. subsidiaries might be subject to additional U.S. tax on a portion of their income if a subsidiary is considered a personal holding company, or PHC, for U.S. federal income tax purposes. This status will depend on whether more than 50% of our shares by value could be deemed to be owned (under some constructive ownership rules) by five or fewer individuals and whether 60% or more of the income of any of its U.S. subsidiaries, as determined for U.S. federal income tax purposes, consists of ‘‘personal holding company income,’’ which is, in general, certain forms of passive and investment income. We believe based upon information made available to us regarding

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our shareholder base that none of Quanta Holdings' subsidiaries should be considered a PHC. Additionally, we believe we are managing our business to minimize the possibility that we will meet the 60% income threshold. However, because of the lack of complete information regarding our ultimate share ownership (i.e., as determined by the constructive ownership rules for PHCs), we cannot assure you that none of Quanta Holdings' subsidiaries will be considered PHC or that the amount of U.S. tax that would be imposed if it were not the case would be immaterial. See ‘‘Material Tax Considerations — Certain U.S. Federal Income Tax Considerations — U.S. Taxation of Quanta Holdings, Quanta Bermuda, Quanta Europe, Quanta U.S. Holdings, Quanta Specialty Lines, Quanta U.S. Re and Quanta Indemnity — Personal Holding Companies.’’

We may be subject to additional Irish tax or to U.K. tax.

If any of our non-Irish companies were considered to be resident in Ireland, or to be doing business in Ireland, or, in the case of our U.S. subsidiaries which qualify for the benefits of an existing tax treaty with Ireland, to be doing business through a permanent establishment in Ireland, those companies would be subject to Irish tax. If we or any of our subsidiaries were considered to be resident in the United Kingdom, or to be carrying on a trade in the United Kingdom through a permanent establishment in the United Kingdom, those companies would be subject to United Kingdom tax. If any of our U.S. subsidiaries were subject to Irish tax or U.K. tax, that tax would generally be creditable against their U.S. tax liability, subject to limitations. If we or any of our Bermuda subsidiaries were subject to Irish tax or U.K. tax, that could have a material adverse impact on our results of operation and on the value of our shares.

The impact of Bermuda's letter of commitment to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in Bermuda.

The Organization for Economic Cooperation and Development, which is commonly referred to as the OECD, has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD's report dated June 26, 2000, Bermuda was not listed as a tax haven jurisdiction because it had previously signed a letter committing itself to eliminate harmful tax practices by the end of 2005 and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether these changes will subject us to additional taxes.

We may become subject to taxes in Bermuda after March 28, 2016, which may have a material adverse effect on our results of operations and your investment.

The Bermuda Minister of Finance, under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda, has given each of Quanta Holdings, Quanta Bermuda and Quanta U.S. Re, an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to Quanta Holdings, Quanta Bermuda and Quanta U.S. Re or any of their operations, shares, debentures or other obligations until March 28, 2016. See ‘‘Material Tax Considerations — Certain Bermuda Tax Considerations.’’ Given the limited duration of the Minister of Finance's assurance, we cannot be certain that we will not be subject to any Bermuda tax after March 28, 2016.

Risks Related to the Industry

The insurance and reinsurance business is historically cyclical, and we expect to experience periods with excess underwriting capacity and unfavorable premium rates.

Historically, insurers and reinsurers have experienced significant fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic and other loss events, levels of capacity, general economic and social conditions and other factors. The supply of insurance and

reinsurance is related to prevailing prices, the level of insured losses and the level of industry surplus which, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance and reinsurance industry. As a result, the insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. The supply of insurance and reinsurance may increase, either due to capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Any of these factors could lead to a significant reduction in premium rates, less favorable policy terms and fewer submissions for our underwriting services. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance business significantly. While we believe that our specialty insurance and reinsurance lines may experience less volatility through different business cycles than more standard lines, we expect that our returns will be impacted by the cyclical nature of the insurance and reinsurance industry. The existence of negative market conditions may affect our ability to write insurance and reinsurance at rates that we consider appropriate relative to the risk assumed. If we cannot write our specialty lines of insurance and reinsurance at appropriate rates, our ability to transact our business would be significantly and adversely affected.

Consolidation in the insurance and reinsurance industry could lead to lower margins for us and less demand for our products and services.

The insurance and reinsurance industry is undergoing a process of consolidation as industry participants seek to enhance their product and geographic reach, client base, operating efficiency and general market power through merger and acquisition activities. We believe that the larger entities resulting from these merger and acquisition activities may seek to use the benefits of consolidation, including improved efficiencies and economies of scale, to, among other things, implement price reductions for their products and services to increase their market share. If competitive pressures compel us to reduce our prices, our operating margins will decrease.

As the insurance industry consolidates, competition for customers may become more intense and the importance of acquiring and properly servicing each customer will become greater. We could incur greater expenses relating to customer acquisition and retention, which could reduce our operating margins.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for many years after a contract is issued.

Recent examples of emerging claims and coverage issues include:

- larger settlements and jury awards against professionals and corporate directors and officers covered by professional liability and directors' and officers' liability insurance; and
- a growing trend of plaintiffs targeting property and casualty insurers in purported class action litigation relating to claims-handling, insurance sales practices and other practices related to the conduct of business in our industry.

The effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict and could harm our business, financial condition and results of operations.

Recent federal legislation may negatively affect the business opportunities we perceive are available to us in the market.

The Terrorism Risk Insurance Act of 2002, or TRIA, was enacted by the U.S. Congress and became effective in November 2002 in response to the tightening of supply in some insurance markets

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resulting from, among other things, the terrorist attacks of September 11, 2001. TRIA generally requires U.S. property and casualty insurers, including Quanta Indemnity and Quanta Specialty Lines, to offer terrorism coverage for certified acts of terrorism to their policyholders at the same limits and terms as for other coverages. Exclusions or sub-limited coverage may be established, but solely at the policyholder's discretion. The U.S. Treasury has the power to extend the application of TRIA to our non-U.S. insurance operating subsidiaries as well.

TRIA created a temporary federal reinsurance program to reduce U.S. insurers' risk of financial loss from certified acts of terrorism. TRIA's requirement to offer coverage, as well as the federal reinsurance program, is scheduled to expire on December 31, 2005. A U.S. Treasury report of June 2005 recommended that TRIA not be extended in its current form. Bills are pending in Congress for new TRIA legislation that would extend this program with modifications. We are unable to predict whether TRIA will be extended in its current form and what provisions any extension would entail. We are currently unable to predict the U.S. Treasury's findings, whether TRIA will be extended, and the resulting effect on the demand for the products of our U.S. insurance operating subsidiaries or the risks that may be available for them to consider underwriting.

Risks Related to our Securities

We do not currently intend to pay dividends on our common shares and any determination to pay dividends in the future will be at the discretion of our board of directors and will depend on factors, such as whether we have the resources to pay dividends.

We currently intend to retain any profits to provide capacity to write insurance and reinsurance and to accumulate reserves and surplus for the payment of claims. As a result, our board of directors currently does not intend to declare dividends or make any other distributions on our common shares. Our board of directors plans to periodically reevaluate our dividend policy. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, financial condition and other factors deemed relevant by our board of directors. Consequently, it is uncertain when, if ever, we will declare dividends to our shareholders. If you require dividend income, you should carefully consider these risks before investing in our company.

Our results of operations and revenues may fluctuate as a result of many factors, including cyclical changes in the insurance and reinsurance industry, which may cause the price of our shares to decline.

The results of operations of companies in the insurance and reinsurance industry historically have been subject to significant fluctuations and uncertainties. Our profitability can be affected significantly by:

- the differences between actual and expected losses that we cannot reasonably anticipate using historical loss data and other identifiable factors at the time we price our products;
- volatile and unpredictable developments, including man-made, weather-related and other natural catastrophes or terrorist attacks, or court grants of large awards for particular damages;
- cyclicality relating to the demand and supply of insurance and reinsurance products;
- changes in the level of reinsurance capacity;

- changes in the amount of loss reserves resulting from new types of claims and new or changing judicial interpretations relating to the scope of insurers' liabilities; and
- fluctuations in equity markets, interest rates, credit risk and foreign currency exposure, inflationary pressures and other changes in the investment environment, which affect returns on invested assets and may impact the ultimate payout of losses.

In addition, the demand for the types of insurance we will offer can vary significantly, rising as the overall level of economic activity increases and falling as that activity decreases, causing our revenues to fluctuate. These fluctuations in results of operations and revenues may cause the price of our securities to be volatile.

Provisions in our charter documents may reduce or increase the voting power associated with our shares.

Our bye-laws generally provide that shareholders have one vote for each share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, pursuant to a mechanism specified in our bye-laws, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold more than 9.5% of the voting power conferred by our shares. In addition, our board of directors retains certain discretion to make adjustments to the aggregate number of votes attaching to the shares of any shareholder that they consider fair and reasonable in all the circumstances to ensure that no person will hold more than 9.5% of the voting power represented by our then outstanding shares.

Under these provisions, some shareholders may have the right to exercise their voting rights limited to less than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of certain shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership. As a result of any reduction in the votes of other shareholders, your voting power might increase above 5% of the aggregate voting power of the outstanding shares, which may result in your becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

We also have the authority under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be reduced pursuant to the bye-laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to our request, we may, in our sole discretion, determine that the votes of that shareholder shall be disregarded until the shareholder provides the requested information.

Future sales of common shares may adversely affect their price.

Future sales of common shares by our shareholders or us, or the perception that such sales may occur, could adversely affect the market price of our common shares. Currently, 56,810,020 common shares are outstanding. As of December 14, 2005, we have also granted options, performance shares, restricted stock, and founder warrants for up to 6,544,389 of our common shares. All of our outstanding common shares, other than 291,262 common shares sold to one of our directors, Nigel W. Morris, in a private placement and the common shares subject to awards granted under our 2003 Long Term Incentive Plan, have been registered for resale pursuant to a registration statement. Additionally, 2,542,813 common shares underlying founder warrants issued in connection with our formation and capitalization have been registered for resale pursuant to a registration statement and when and if they are issued, will be freely tradable without restriction under the Securities Act, assuming they are not held by our affiliates. The 291,262 shares sold to Mr. Morris have not been registered pursuant to a registration statement, but we have entered into a registration

rights agreement with Mr. Morris covering these shares.

Provisions in our charter documents may reduce or increase the voting power associated with our shares.

Our bye-laws generally provide that shareholders have one vote for each share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, pursuant to a mechanism specified in our bye-laws, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold more than 9.5% of the voting power conferred by our shares. In addition, our board of directors retains certain discretion to make adjustments to the aggregate number of votes attaching to the shares of any shareholder that they consider fair and reasonable in all the circumstances to ensure that no person will hold more than 9.5% of the voting power represented by our then outstanding shares.

Under these provisions, some shareholders may have the right to exercise their voting rights limited to less than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of certain shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership. As a result of any reduction in the votes of other shareholders,

34

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your voting power might increase above 5% of the aggregated voting power of the outstanding shares, which may result in your becoming a reporting person subject to Schedule 13D or 13G filing requirements under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

We also have the authority under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be reduced pursuant to the bye-laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to our request, we may, in our sole discretion, determine that the votes of that shareholder shall be disregarded until the shareholder provides the requested information.

It may be difficult for a third party to acquire us.

Provisions of our organizational documents may discourage, delay or prevent a merger, tender offer or other change of control that holders of our shares may consider favorable. These provisions impose various procedural and other requirements that could make it more difficult for shareholders to effect various corporate actions. These provisions could:

- have the effect of delaying, deferring or preventing a change in control of us;
- discourage bids for our securities at a premium over the price;
- adversely affect the price of, and the voting and other rights of the holders of, our securities; or
- impede the ability of the holders of our securities to change our management.

In addition, the preferred shares we contemplate offering concurrently with this offering will require us to redeem the preferred shares after the occurrence of certain change of control events, which may have the effect of discouraging or preventing a change of control of us.

Concurrently with this offering, we presently contemplate offering our preferred shares that will have rights, preferences and privileges senior to those of holders of our common shares.

The preferred shares we plan to issue upon the completion of the concurrent offering will be designated as series A preferred shares and will rank senior to our common shares with respect to the payment of dividends and distributions upon our liquidation, dissolution or winding-up. This offering is contingent upon the consummation of the concurrent offering of our preferred shares. In addition, the concurrent offering of our preferred shares is contingent upon the consummation of this offering. So long as any series A preferred shares remain outstanding, if full dividends for all outstanding series A preferred shares have not been declared and paid or declared and a sum sufficient for the payment thereof has not been set aside, then no dividend may be paid or declared on our common shares and our common shares may not be purchased or redeemed. Additionally, the preferred shares we contemplate offering will require us to redeem the preferred shares after the occurrence of certain change of control events, which may have the effect of discouraging or preventing a change of control of us. The holders of the series A preferred shares will also have voting rights to elect two directors to our board of directors if 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).

U.S. persons who own our shares may have more difficulty in protecting their interests than U.S. persons who are shareholders of a U.S. corporation.

The Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders including:

- Interested director transactions. Under Bermuda law and our bye-laws, any transaction entered into by us in which a director has an interest is not voidable by us nor can such director be accountable to us for any benefit realized under that transaction provided the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing to the directors. In addition, our bye-laws allow a director to be taken into account in determining whether a quorum is present and to vote on a transaction in which he has an interest following a declaration of the interest pursuant to the Companies Act unless the

chairman of the meeting determines otherwise. U.S. companies are generally required to obtain the approval of a majority of disinterested directors or the approval of shareholders before entering into any transaction or arrangement in which any of their directors have an interest, unless the transaction or arrangement is fair to the company at the time it is authorized by the company's board or shareholders.
- Certain transactions with significant shareholders. As a Bermuda company, we may enter into certain business transactions with our significant shareholders, including asset sales, in which a significant shareholder receives, or could receive, a financial benefit that is greater than that received, or to be received, by other shareholders. Such transactions may be entered into with prior approval from our board of directors but without obtaining prior approval from our shareholders. U.S. companies in general may not enter into business combinations with interested shareholders, namely certain large shareholders and affiliates, unless the business combination had been approved by the board in advance or by a supermajority of shareholders or the business combination meets specified conditions.
- Shareholders' suits. The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders under legislation or judicial precedent in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. In general, under Bermuda law, derivative actions are permitted only when the act

complained of is alleged to be beyond the corporate power of the company, is illegal or would result in the violation of the company's memorandum of association or bye-laws. In addition, Bermuda courts would consider permitting a derivative action for acts that are alleged to constitute a fraud against the minority shareholders or, for instance, acts that require the approval of a greater percentage of the company's shareholders than those who actually approved them.

- Indemnification of directors and officers. Under Bermuda law and our bye-laws, we may indemnify our directors, officers or any other person appointed to a committee of the board of directors (and their respective heirs, executors or administrators) to the full extent permitted by law against all actions, costs, charges, liabilities, loss, damage or expense incurred or suffered by such person by reason of any act done, concurred in or omitted in the conduct of our business or in the discharge of his/her duties; provided that such indemnification shall not extend to any matter involving any fraud or dishonesty (as determined in a final judgment or decree not subject to appeal) on the part of such director, officer or other person. Under our bye-laws, each of our shareholders agrees to waive any claim or right of action, other than those involving fraud or dishonesty, against us or any of our officers or directors. In general, U.S. companies may limit the personal liability of their directors as long as they acted in good faith and without knowing violation of law.

As a result of these differences, U.S. persons who own our shares may have more difficulty protecting their interests than U.S. persons who own shares of a U.S. corporation.

We are a Bermuda company and it may be difficult for you to enforce judgments against us or our directors and executive officers.

We are incorporated under the laws of Bermuda and our business is based in Bermuda. In addition, some of our directors and officers and some of the experts named in this prospectus reside outside the United States, and all or a substantial portion of our assets and the assets of these persons are, and will continue to be, located in jurisdictions outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon us or those persons or to recover against us or them on judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

We have been advised that there is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as the

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experts named in this prospectus, predicated upon the civil liability provisions of the U.S. federal securities laws or original actions brought in Bermuda against us or these persons predicated solely upon U.S. federal securities laws. Further, we have been advised that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to that jurisdiction's public policy. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be

difficult for you to recover against us based upon such judgments.

If you acquire 10% or more of Quanta Holdings' shares, you may be subject to taxation under the ‘‘controlled foreign corporation,’’ or CFC, Rules.

Each ‘‘10% U.S. Shareholder’’ of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and that owns shares in the CFC directly or indirectly through foreign entities on the last day of the CFC's taxable year, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's ‘‘subpart F income,’’ even if the subpart income is not distributed. A foreign corporation is considered a CFC if ‘‘10% U.S. Shareholders’’ own more than 50% of the total combined voting power of all classes of voting stock of the foreign corporation, or the total value of all stock of the corporation. A 10% U.S. Shareholder is a U.S. person, as defined in the Internal Revenue Code, that owns at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. A CFC also includes a foreign corporation in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance or annuity contracts generating subpart F income exceeds specified limits. For purposes of determining whether a corporation is a CFC, and therefore whether the more-than-50% (or more-than-25%, in the case of insurance income) and 10% ownership tests have been satisfied, shares owned includes shares owned directly or indirectly through foreign entities or shares considered owned under constructive ownership rules. The attribution rules are complicated and depend on the particular facts relating to each investor. See ‘‘Material Tax Considerations — Certain U.S. Federal Income Tax Considerations — U.S. Taxation of Holders of Shares — Shareholders Who Are U.S. Persons.’’

Due to the anticipated dispersion of our share ownership and certain bye-law provisions that impose limitations on the concentration of voting power of its shares and that authorize the board to purchase its shares under specified circumstances, we do not believe that we have any 10% U.S. shareholders. It is possible, however that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge.

If we determine that your ownership of our shares may result in adverse consequences, we may require you to sell your shares to us.

Our bye-laws provide that we have the option, but not the obligation, to require a shareholder to sell its shares at a purchase price equal to their fair market value to us, to other shareholders or to third parties if our board of directors in its absolute discretion determines that the share ownership of that shareholder may result in adverse tax consequences to us, any of our subsidiaries or any other shareholder. To the extent possible under the circumstances, the board of directors will use its best efforts to exercise this option equally among similarly situated shareholders. Our right to require a shareholder to sell its shares to us will be limited to the purchase of a number of shares that we determine is necessary to avoid or cure those adverse tax consequences.

U.S. persons who hold shares could be subject to adverse tax consequences if we are considered a ‘‘passive foreign investment company’’ for U.S. federal income tax purposes.

We do not intend to conduct our activities in a manner that would not cause us to become a passive foreign investment company. However, it is possible that we could be deemed a passive foreign investment company by the IRS for 2003, 2004 or any future year. If we were considered a passive foreign investment company it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation, including subjecting the investor to a greater tax

liability than might otherwise apply or subjecting the investor to tax on amounts in advance of when tax would otherwise be imposed. There are currently no regulations regarding the application of the passive foreign investment company provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be issued in the future. We cannot predict what impact, if any, this guidance would have on a shareholder that is subject to U.S. federal income taxation. We have not sought and do not intend to seek an opinion of legal counsel as to whether or not we were a passive foreign investment company for the years ended December 31, 2003 or 2004. See ‘‘Material Tax Considerations — Certain U.S. Federal Income Tax Considerations — U.S. Taxation of Holders of Shares — Shareholders Who Are U.S. Persons.’’

U.S. persons who hold shares may be subject to U.S. income taxation on their pro rata share of our ‘‘related party insurance income.’’

If:

- Quanta Europe's or Quanta Bermuda's related party insurance income equals or exceeds 20% of that company's gross insurance income in any taxable year,
- direct or indirect insureds (and persons related to such insureds) own (or are treated as owning directly or indirectly) 20% or more of the voting power or value of the shares of Quanta Europe or Quanta Bermuda, and
- U.S. persons are considered to own in the aggregate 25% or more of the stock of either corporation by vote or value,

then a U.S. person who owns shares of Quanta Holdings directly or indirectly through foreign entities on the last day of the taxable year would be required to include in its income for U.S. federal income tax purposes the shareholder's pro rata share of Quanta Europe's or Quanta Bermuda's related party insurance income for the U.S. person's taxable year that includes the end of the corporation's taxable year determined as if such related party insurance income were distributed proportionately to such U.S. shareholders at that date regardless of whether such income is distributed. In addition any related party insurance income that is includible in the income of a U.S. tax-exempt organization will be treated as unrelated business taxable income. The amount of related party insurance income earned by Quanta Europe or Quanta Bermuda (generally, premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. shareholder of Quanta Europe or Quanta Bermuda or any person related to such shareholder) will depend on a number of factors, including the geographic distribution of Quanta Europe's or Quanta Bermuda's business and the identity of persons directly or indirectly insured or reinsured by Quanta Europe or Quanta Bermuda. Although we do not expect our related party insurance income to exceed 20% of our gross insurance income in the foreseeable future, some of the factors which determine the extent of related party insurance income in any period may be beyond Quanta Europe's or Quanta Bermuda's control. Consequently, Quanta Europe's or Quanta Bermuda's related party insurance income could equal or exceed 20% of its gross insurance income in any taxable year and ownership of its shares by direct or indirect insureds and related persons could equal or exceed the 20% threshold described above.

The related party insurance income rules provide that if a shareholder that is a U.S. person disposes of shares in a foreign insurance corporation that has related party insurance income (even if the amount of related party insurance income is less than 20% of the corporation's gross insurance income or the ownership of its shares by direct or indirect insureds and related persons is less than the 20% threshold) and in which U.S. persons own 25% or more of the shares, any gain from the disposition will generally be treated as ordinary income to the extent of the shareholder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the shareholder owned the shares (whether or not such earnings and profits are attributable to related party insurance income). In addition, such a shareholder will be required to comply with reporting requirements, regardless of the

amount of shares owned by the shareholder. These rules should not apply to dispositions of our shares because Quanta Holdings will not itself be directly engaged in the insurance business and because proposed U.S. Treasury regulations appear to apply only in the case of

38

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shares of corporations that are directly engaged in the insurance business. However, the IRS might interpret the proposed regulations in a different manner and the applicable proposed regulations may be promulgated in final form in a manner that would cause these rules to apply to dispositions of our shares. See ‘‘Material Tax Considerations — Certain U.S. Federal Income Tax Considerations — U.S. Taxation of Holders of Shares — Shareholders Who Are U.S. Persons.’’

Changes in U.S. federal income tax law could materially adversely affect an investment in our shares.

The U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the United States, or is a passive foreign investment company or whether U.S. persons would be required to include in their gross income the subpart F income or the related party insurance income of a CFC are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the passive foreign investment company rules to insurance companies and the regulations regarding related party insurance income are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be issued in the future. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such regulations or guidance will have a retroactive effect. See ‘‘Material Tax Considerations — Certain U.S. Federal Income Tax Considerations — U.S. Taxation of Holders of Shares — Shareholders Who Are U.S. Persons.’’

39

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements included in this prospectus and some of the statements included in the documents incorporated by reference into this prospectus, including those using words such as ‘‘believes,’’ ‘‘expects,’’ ‘‘intends,’’ ‘‘estimates,’’ ‘‘proj ‘‘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 this prospectus 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,’’ including 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 overage 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, third party administrators (in particular, with respect to our HBW program), and other 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.

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 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 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 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.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $50.5 million based on an offering price of $4.75 per common share, after deducting the underwriting discounts and commissions and estimated offering expenses we will pay. We intend to use the net proceeds of this offering for general corporate purposes.

PRICE RANGE OF COMMON SHARES

Our common shares are listed and traded on Nasdaq under the symbol ‘‘QNTA.’’ Our common shares began trading on May 14, 2004. The following table contains, for the periods indicated, the high and low sales prices per common share:

	Common Shares Sales Price			
	High		Low	
Year Ended December 31, 2004:				
Quarter Ended June 30, 2004[1]	$	11.00	$	9.50
Quarter Ended September 30, 2004	$	10.75	$	8.03
Quarter Ended December 31, 2004	$	9.50	$	7.87
Year Ending December 31, 2005:				
Quarter Ended March 31, 2005	$	10.25	$	7.60
Quarter Ended June 30, 2005	$	8.50	$	5.86
Quarter Ended September 30, 2005	$	7.45	$	5.40
Quarter Ending December 31, 2005				

(through December 14, 2005)	$ 6.02	$ 3.55

[1]Our common shares did not begin trading until May 14, 2004.

On December 14, 2005, the reported last sale price of our common shares on Nasdaq was $5.16 per share. As of December 14, 2005, there were approximately 9 holders of record of our common shares.

DIVIDEND POLICY

As a holding company, we depend on future dividends and other permitted payments from our subsidiaries to pay dividends to our shareholders. Our subsidiaries' ability to pay dividends, as well as our ability to pay dividends, is subject to regulatory, contractual, rating agency and other constraints. Furthermore, the terms of our credit agreement prohibit us from repurchasing common shares and paying dividends without the consent of our lenders. Subject to these limitations, our board of directors is free to change our dividend practices from time to time and to decrease or increase the dividend paid, or to not pay a dividend, on our common shares based on factors such as the results of operations, financial condition, cash requirements and future prospects and other factors deemed relevant by our board of directors. To date, we have not paid any dividends on our common shares.

For additional discussion concerning risks relating to our dividend policy and our holding company structure and its effect on our ability to receive and pay dividends, see "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" and "— Risks Related to our Securities — We do not currently intend to pay dividends on our common shares and any determination to pay dividends in the future will be at the discretion of our board of directors and will depend on factors, such as whether we have the resources to pay dividends." For a discussion of certain additional limitations on our ability to pay dividends on our common shares relating to certain preferential rights associated with the preferred shares we plan to offer concurrently with this offering, see "Risk Factors—Risks Related to our Securities—Concurrently with this offering, we presently contemplate offering our preferred shares that will have rights, preferences and privileges senior to those of holders of our common shares."

42

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 preferred shares, and the application of the net proceeds therefrom, as described elsewhere in this prospectus.

You should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 49 of this prospectus and the consolidated financial statements and related notes beginning on page F-1 of this prospectus.

	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:				
Redeemable preferred shares offered in the concurrent offering ($0.01 par value; 3,000,000 redeemable preferred shares authorized, 3,000,000 redeemable 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 68,233,360 shares issued and outstanding, as adjusted)[4]		568		682
Additional paid in capital[5]		523,843		574,255
Accumulated deficit[6][7][8]		(144,256)		(144,256)
Accumulated other comprehensive loss		(7,955)		(7,955)
Total shareholders' equity	$	372,200	$	422,726
Total Capitalization	$	434,057	$	556,421

[1] Concurrently with this offering, we plan to offer preferred shares. 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 redeemable preferred shares in the concurrent offering as described in this section and the application of the net proceeds therefrom, as described elsewhere in this prospectus.

[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 assumes the receipt of proceeds of $75.0 million from the issuance of 3,000,000 redeemable preferred shares to be issued in the concurrent offering 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 11,423,340 shares based on an offering price for our common shares of $4.75 per share.

[5] The calculation of "as adjusted" additional paid in capital includes the receipt of proceeds of $50.4 million in excess of the par value of the common shares from the issuance of 11,423,340 common shares in this offering (at an offering price of $4.75 per common share) and estimated issuance costs of approximately $3.7 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.

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 49 in this prospectus 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.

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.

	($ 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 nin ende Septemb (unaud
	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 expenses and depreciation	9,784	8,793	8,765	5,971	44,630	65,643	46,097
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	1,093,250	1,093,250	1,093,250	1,093,250	31,369,001	56,798,218	56,798,218

equivalents outstanding basic and diluted								
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				

($ 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

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(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.

(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, is 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)

47

	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)

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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 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.

48

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, 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

50

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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.

52

- 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

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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

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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. 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 nine 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

61

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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

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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.

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.

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.

69

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.

70

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.

71

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, 2005	Nine months ended September 30, 2004	Change
		($ 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.

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

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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,

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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

77

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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

80

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.

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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

84

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.

	September 30, 2005	December 31, 2004
Ratings *	Percentage	Percentage

	Amortized cost or cost		Amortized cost or cost	
	($ 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

86

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	30,302	Various
Total	$ 152,834	

(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

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

89

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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

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 and 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 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.

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, 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." 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

92

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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 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.

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

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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) 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.M. Best has placed our financial strength rating under review with negative implications and a downgrade in our rating will adversely affect our ability to execute our business strategy and could cause a default under our credit facility."

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.

96

Offerings

The second element of our plan designed to maintain our current rating from A.M. Best is the completion of this offering and a concurrent offering of our preferred shares to increase our available rated capital. This offering is contingent upon the consummation of the concurrent offering of our preferred shares. In addition, the concurrent offering of our preferred shares is contingent upon the consummation of this offering. The preferred shares we plan to issue upon the completion of the concurrent offering will have rights, preferences and privileges senior to those of holders of our common shares. We currently contemplate that the preferred shares to be offered will (1) have a fixed 10.25% dividend, (2) rank senior to the common shares as to payment of dividends and the distribution of amounts on a liquidation or dissolution of the company, (3) be redeemable at our option after five years from the issuance date at a price equal to the liquidation preference, any declared and unpaid dividends and a premium during an initial period, and (4) not have provisions requiring us to redeem the preferred shares except after the occurrence of certain change

of control events. We estimate that we will receive aggregate gross proceeds (before underwriting discounts and other offering expenses) of approximately $129.3 million from these two offerings.

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 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.

Organization

Quanta Holdings is a Bermuda holding company formed on May 23, 2003. We conduct our operations principally through our subsidiaries domiciled in Bermuda, Ireland and the United States and a branch in the United Kingdom. We may change our corporate organization from time to time as we expand our business.

Our Product Lines

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 and

structured products 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. For example, we write a residential builders' and contractors' product that provides general liability, builders' risk and excess liability insurance coverages and reinsurance warranty coverages for new home contractors throughout the U.S. This product was created as a combination of expertise of our specialty insurance product line and our programs product line. Our fifth product line is our technical services line. Some of our product lines are aggregated for purposes of the segment disclosure included in Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements contained in this prospectus. The geographies in which we conduct our business are the United States, Bermuda and Europe. The location of the risks that are the subject of our products may be anywhere in the world.

Specialty Insurance

We offer specialty insurance lines that provide tailored solutions to our clients in order to respond to distinctive risk characteristics. We write business primarily in those lines where we believe we have specialized underwriting expertise. We write specialty insurance on a traditional, structured and programs basis. As a result, our specialty insurance business includes our HBW program and other programs businesses. Our commitment to specialized underwriting requires experienced underwriters, market knowledge, risk assessment and loss control resources, analytic capabilities, a flexible underwriting platform, geographic reach and financial markets experience. We write specialty insurance in the United States and Europe.

We participate in the Lloyd's of London market through Syndicate 4000, which was created in December 2004. We are the market lead on a significant number of policies in the syndicate, which allows us to deal with the broker or insured in establishing policy terms and managing particular claims. We have an experienced and a dedicated team of managers and underwriters that support our Lloyd's business and have devoted a significant amount of our capital to our Lloyd's business. Syndicate 4000 provides us access to the A.M. Best "A" rated Lloyd's market in London as well as other jurisdictions. Additionally, our Lloyd's membership provides strong brand recognition, extensive broker and direct distribution channels and worldwide licensing. 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) for risks primarily outside the United States. We also plan to write specie and fine art and marine coverages. We expect that our Lloyd's syndicate will become a more significant contributor as we focus on continuing to execute our business strategy. The gross and net written premium generated by our Lloyd's syndicate is included in our professional liability product line. Our Lloyd's syndicate represented 2.9% of our total revenues for the nine months ended September 30, 2005.

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. Quanta Europe writes traditional specialty insurance products including professional liability (professional indemnity and directors' and officers' coverage), fidelity and crime (financial institutions), surety and environmental liability.

In product lines for which we provide coverage of the insured's premises or physical site analysis (such as environmental, technical risk property and certain marine and aviation coverages), many of our underwriters have engineering backgrounds or experience in disciplines such as hydrology, geology, and civil, mechanical and materials engineering. In product lines for which we provide coverage that involves the analysis of business practices and financial documents, many of our professionals have accounting, actuarial, econometric or banking backgrounds. We support our underwriting officers with advanced analytic tools, risk assessment capabilities, structured product resources and disciplined capital management and technology. We are developing in-house legal and claims staff specifically dedicated to the underwriting process who are helping create policy forms, endorsements, and terms and conditions that reflect each transaction's underwriting and pricing assumptions.

99

As a part of our plan to maintain our current rating with A.M. Best, we have discontinued writing of new and most renewal property business in our technical risk property line, except for our HBW program and other program businesses. In addition, we have retroceded substantially all the in-force business, as of October 1, 2005, in our technical risk property business 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 from and after October 1, 2005 to the third party reinsurer. Under our technical risk property line, we wrote various technical lines of property insurance business in the construction, power, chemical, industrial and commercial business sector primarily on an excess of loss basis. We insured principally buildings, structures, equipment, contents and business interruption risks. The technical risk property line, excluding our program business, represented 0.3% of our total revenues for the year ended December 31, 2004 and 0.7% of our total revenues for the nine months ended September 30, 2005.

The table below shows gross written premiums by product line for the year ended December 31, 2004 and the nine months ended September 30, 2005. The gross and net written premium generated by our programs business is included in our technical risk property line. The gross and net written premium generated by our Lloyd's syndicate are included in the professional liability product line.

	Year ended December 31, 2004		Nine months ended September 30, 2005	
	($ in thousands)			
	Gross written premium	Net written premium	Gross written premium	Net written premium
Technical risk property[(1)]	$ 142,838	$ 101,650	$ 143,274	$ 94,646
Professional liability	47,286	36,467	94,970	70,797
Environmental liability	35,914	20,906	33,431	19,216
Fidelity and crime	9,040	5,301	10,253	5,464
Surety	5,627	4,243	9,195	7,046
Trade credit and political risk	1,875	1,754	5,010	4,020
Other	—	—	1,822	1,822
Structured insurance	—	—	1,104	1,104

Total	$ 242,580	$ 170,321	$ 299,059	$ 204,115

[1]Included in our technical risk property line are gross and net written premiums for our program business (including our HBW program) of approximately $150.6 million and $110.2 million for the year ended December 31, 2004 and $129.3 million and $85.7 million for the nine months ended September 30, 2005.

Our specialty insurance product line currently focuses on professional liability, environmental liability, fidelity and crime, surety, trade credit and political risk. Our specialty insurance product lines that we currently write are described as follows:

Professional Liability. We write directors' and officers' liability insurance, errors and omissions insurance, employment practices liability and fiduciary liability insurance. We write both excess and primary insurance. Excess layers of coverage means that there is at least one layer of insurance coverage beneath our coverage that is provided by another insurer or insurers. In addition to directors' and officers' liability, employers' professional liability and fiduciary liability insurance for publicly traded and privately held companies, we offer error and omissions insurance policies to financial institutions, lawyers, technology firms, consultants, architects, engineers, accountants and other miscellaneous professionals. At a later date, we may target medical malpractice. At Syndicate 4000, we write financial institution, professional indemnity and directors' and officers' coverage.

100

Environmental Liability. Our environmental product line provides specialty insurance products that address exposures arising from pollution incidents. We currently offer the following three types of environmental liability policies:

- Our environmental site protection policy helps protect against remediation costs and third-party claims for bodily injury, property damage and remediation costs, resulting from pre-existing or new pollution incidents at property owned or operated by an insured. Through separate supplemental coverage sections, this policy may also help to protect an insured against third-party claims arising from pollution incidents at, or migrating from, non-owned disposal sites and during transportation, and can protect the insured against expenses it incurs as a result of the interruption of its business operations due to a pollution incident.
- Our remediation cost cap policy helps protect the insured against remediation costs with respect to a scheduled remediation project that exceed the insured's retention (which is the amount or portion of risk that an insured retains for its own account), such as those due to unknown pollutants, known pollutants in quantities greater than expected or changes made by the regulatory authority to the cleanup standard or to the scope of work.
- Our contractors environmental protection policy helps protect contractors and their clients against third-party claims for bodily injury, property damage and remediation costs due to pollution incidents arising from the contractor's covered operations.

Our clients in this product line include manufacturers and other fixed site operators, commercial contractors, real estate redevelopment firms, merger and acquisition participants and financial institutions. We target clients facing complex risks that will allow us to draw on our multidisciplinary expertise and to establish ourselves as the insurer of choice for clients requiring a sophisticated approach to their environmental liabilities. We also target short-term, renewable middle market business.

Fidelity and Crime. Our fidelity and crime line writes financial institution blanket bonds, commercial crime, kidnap and ransom, computer crime and unauthorized trading insurance for financial and non-financial corporations. Our current financial clients include commercial banks, capital market and financial services firms and insurance companies. In the United States, we underwrite fidelity and crime lines using our U.S. subsidiaries for U.S. sourced business.

Surety. Our surety product line focuses on providing surety bonds for specific contractual, compliance or financial obligations to meet regulatory, statutory or legal requirements. In particular, we provide bonding for self-insured workers' compensation, land reclamation, the closure of landfills and their maintenance after closure, court appeals and various forms of performance and compliance guarantee exposures. We seek clients with a strong financial condition, specialized exposure management practices and loss prevention procedures. We determine our maximum exposure based on the client's credit quality, the type of surety bonds provided and the amount of collateral provided by the client. We write this business in the United States and through Quanta Europe. The United States Treasury Department maintains a list of surety companies that it has authorized to write surety bonds required by the U.S. government. Each authorized surety is granted an underwriting limitation. In addition, many non-federal surety bonds are required to be issued by a surety with an adequate underwriting limitation. We have not yet filed an application with the Treasury Department requesting an underwriting listing and limitation and have entered into an agreement with an insurer possessing an underwriting limitation that allows this insurer to write policies for us on a limited basis and to reinsure all or part of the risk to one of our subsidiaries. However, some brokers and purchasers of surety products may prefer to use companies included on the Treasury Department list. Therefore, in the United States, our opportunities to write surety business will continue to be limited until we qualify for listing by the Treasury Department and we are assigned an adequate underwriting limitation. E.U. sourced business written through Quanta Europe is not restricted by the United States Treasury Department listing.

Trade Credit and Political Risk. Our trade credit and political risk product line focuses on providing coverage in some emerging markets to corporations and other entities seeking to limit their exposure to the credit worthiness of their commercial trade partners or to political uncertainty in those countries which could interfere with the execution of commercial contracts they have entered

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into. We write this business primarily in the London market and offer our services to large industrial companies, global trading companies and major financial institutions involved in emerging market trade and finance.

Marine and Aviation. Our marine and aviation product line offers ocean marine, inland marine and general aviation coverages that require highly specialized technical underwriting and claims expertise.

Specialty Reinsurance

Reinsurance can be written either through treaty or facultative reinsurance arrangements. Treaty reinsurance contracts are arrangements that provide for automatic reinsuring of a type or category of risk underwritten by the ceding company. In facultative reinsurance, the ceding company cedes, and the reinsurer assumes, all or part of a specific risk or risks. Facultative reinsurance provides protection to ceding companies for losses relating to individual insurance contracts issued to individual insureds. We generally write our reinsurance business on a treaty basis. The gross and net written premiums generated by our program business is included in our specialty insurance technical risk property line.

Our treaty reinsurance contracts are written on either a quota share basis, also known as proportional or pro rata, or on an excess of loss basis. Under quota share reinsurance, we share the premiums as well as the losses and expenses in an agreed proportion with the cedent. Under excess of loss reinsurance, we generally receive a specified premium for the risk assumed and indemnify the cedent against all or a specified portion of losses and expenses in excess of a specified dollar or percentage amount. In both types of contracts, we may provide a ceding commission to the client.

When we write treaty reinsurance contracts, we do not separately evaluate each of the individual risks assumed under the contracts, and we are largely dependent on the individual underwriting decisions made by the reinsured. Accordingly, we intend to carefully review and analyze the cedent's risk management and underwriting pricing, reserving and claims handling practices as well as the financial condition of the cedent in deciding whether to provide treaty reinsurance and in appropriately pricing the treaty.

We write the majority of our facultative reinsurance business on an excess of loss basis. The underwriting process for facultative reinsurance of property and casualty exposures is similar to that followed by the underwriters for those products of our insurance product line.

We generally focus our reinsurance business on medium-sized insurance and reinsurance companies with capital and surplus of between $100 million and $1 billion. This targeted segment is subject to change due to market dynamics and our underwriters' assessment of the relative merits of the varying market segments. We also manage our portfolio and spread risk across different exposures and geographical territories in order to increase our diversification.

As a part of our plan to maintain our current rating with A.M. Best, we have discontinued writing new and most renewal property business in our reinsurance property line. In addition, we have retroceded substantially all the in-force business, as of October 1, 2005, in this line 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 also commuted two of our casualty reinsurance treaties back to the insurance company which had reinsured it with us. In addition to settling all of our existing loss and loss expense reserves with respect to the treaties subject to this transaction as of September 30, 2005, we have been released from all future obligations associated with the underlying reinsurance treaties.

Under our property reinsurance line, we focused our underwriting activities primarily on risk excess, quota share and catastrophe contracts. Under property risk excess and quota share reinsurance contracts, we reinsured the property risks of ceding clients on a treaty basis covering commercial exposures under a collection of insurance policies issued by ceding companies. These policies typically provided coverage for buildings, structures, equipment, contents and business interruption risk. Typical causes of loss in this segment included fire, explosion, collapse, riot and vandalism. We also reinsured

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agribusiness, including multi-peril crop insurance and traditional crop hail products. Property catastrophe reinsurance products protect ceding companies from catastrophic events on a treaty basis. The principal exposures involved hurricane, typhoon, earthquake, flood, tornado, hail and fire. The property reinsurance line represented 30.4% of our total revenues for the year ended December 31, 2004 and 15.4% of our total revenues for the nine months ended September 30, 2005.

The table below shows gross and net written premiums by product line for the year ended December 31, 2004 and the nine months ended September 30, 2005:

	Year ended December 31, 2004		Nine months ended September 30, 2005	
	($ in thousands)			
	Gross written premium	Net written premium	Gross written premium	Net written premium
Casualty	$ 105,405	$ 105,405	$ 90,289	$ 90,289
Property	103,311	103,052	78,773	63,372
Marine, technical risk and aviation	42,660	40,307	44,695	28,430
Structured reinsurance	456	456	—	—
Total	$ 251,832	$ 249,220	$ 213,757	$ 182,091

Our reinsurance operations currently focus on casualty treaty and marine and aviation. Our specialty reinsurance product lines that we currently write are described as follows:

Casualty Treaty. We cover third party liability exposures from ceding clients on a treaty basis. We write many different kinds of reinsurance but have a significant emphasis on professional liability including directors' and officers' liability. We write treaty reinsurance on a pro rata, per risk and catastrophe excess of loss basis. Per risk excess of loss reinsurance provides coverage for losses suffered by ceding companies under their individual policies. Clash catastrophe excess of loss provides reinsurance for a combination of claims resulting from more than one underlying insurance policy caused by a single event or occurrence. Workers' compensation catastrophe reinsurance responds to losses arising from multiple deaths or injuries from a single occurrence. These treaties specify the maximum amount of coverage for any one claim and have attachment points that are multiples of these per claim amounts. Events such as earthquakes and terrorist acts that result in property catastrophe claims can potentially lead to multiple injuries and deaths. Consequently, we monitor the potential for aggregation between our workers' compensation catastrophe exposures and our various property exposures. We write primarily on an excess of loss basis but if the treaty covers a significant amount of excess of loss insurance, we generally prefer to participate on a quota share basis. This product line represented 19.4% of our total revenues for the year ended December 31, 2004 and 24.2% of our total revenues for the nine months ended September 30, 2005.

Marine and Aviation. We provide treaty reinsurance for ocean marine, inland marine, technical risk and aviation. We obtain this business principally through major industry reinsurance intermediaries with units specializing in these lines. Our client target list includes insurance and reinsurance companies of all sizes who have dedicated experienced underwriters and claims professionals in these lines. We write this business on both a proportional and excess of loss reinsurance basis.

Programs

Programs rely on third parties, called program managers, who are engaged in the business of managing one or a combination of the underwriting, administration and claim related activities of a group of distinct specialty insurance policies under the supervision of an insurance company. Traditionally, program managers team up with an insurance company, which provides the insurance policies and capacity and supervises the program manager. Each group of policies and the related relationship with the program manager is called a program. Our programs product line represented 18.1% of our total revenues for the year ended December 31, 2004 and 20.5% of our total revenues for the nine months ended September 30, 2005.

Our largest program is our residential builders' and contractors' program that provides general liability, builders' risk and excess liability insurance coverages and reinsurance warranty coverages for

new home contractors throughout the U.S. We refer to this program as the HBW program. The program manager for the HBW program is required to comply with our written underwriting guidelines relating to the language of the insurance policy and the rating, quoting, issuing and executing of our insurance policies. The program manager also provides us with statistical data. The program manager is subject to limitations on the amount of insurance it may write in this program and on its authority to make decisions relating to these insurance policies. The contract may generally be terminated by the program manager or us at any time upon 180 days written notice. It may also be terminated upon breach or nonperformance or immediately in the event that the other party becomes insolvent or bankrupt or files a petition in bankruptcy or makes an assignment for the benefit of creditors.

In addition to the HBW program, we also currently underwrite risks in the Angel program, the PWIB program and the BTIS program. We commenced writing policies under our Angel program in the first quarter of 2005 through our professional liability team. Under the Angel program, we write employment practices and directors and officers insurance for small and medium sized privately held companies. We also commenced writing policies under our PWIB program in the first quarter of 2005. PWIB is a property program that insures poultry and swine containment facilities. Finally, we commenced writing policies under our BTIS program in the third quarter of 2005. BTIS is a small artisans program that insures service, repair and remodelers. The program is currently being offered in California, Arizona, and Nevada, and we expect to expand the program to additional states in 2006.

We are in the process of reviewing and evaluating other programs. Our programs team focuses on identifying programs that match our focus on technical underwriting and that meet our financial criteria. When evaluating a potential new program and program manager, we consider numerous factors, including whether: (1) the program manager has deep industry knowledge of a particular class of business with an experienced underwriting team and/or technical underwriting processes, (2) there is sufficient historical data to be able to validate loss ratio assumptions and track developments of program components over time, (3) there is an alignment of interest between the program manager and us with respect to performance of the book from a loss ratio, not volumetric, perspective, and (4) the program has a pre-established infrastructure and operational procedures, particularly with regard to claims, reinsurance and intellectual technology systems. We intend to work with program managers who have a disciplined approach to program management and technical underwriting, have an effective operational infrastructure and distribution relationship and share risk on the business they underwrite. After this due diligence and analysis is conducted, our team formulates policies and procedures to implement new programs and proves management and oversight of ongoing programs. In considering pricing for the products to be offered by the program manager, we evaluate the expected frequency and severity of losses, the costs of providing the necessary coverage (including the administering of policy benefits, sales and other administrative and overhead costs) and margin for profit.

We oversee and monitor the programs and program managers. Our operations review team consists of experienced industry professionals with backgrounds in information technology, claims administration and litigation, actuarial science, legal matters, accounting and financial controls. These databases and models enable us to better identify and estimate the expected loss experience of particular products and are employed in the design of our products and the establishment of rates and forms. We also monitor pricing adequacy on our products by region, risk and risk class. Subject to regulatory considerations, we seek to make timely premium and coverage modifications where we determine them to be appropriate.

Structured Products

Our structured product team offers products independently or together with the specialty insurance and reinsurance teams. Structured insurance involves coverage and policy forms tailored to meet an individual client's or cedent's strategic and financial objectives that are not efficiently met by traditional insurance and reinsurance products. These objectives include, among others, the desire to reduce volatility within the insurance pricing cycle, to adjust the exposure in specific geographic areas or lines of business, to finance increased self-insured retentions and to minimize existing and potential liabilities from events, such as a merger or acquisition. Structured insurance coverage also addresses capacity shortfalls in the traditional insurance market, such as environmental liability.

Our structured products include structured property and casualty insurance, structured directors' and officers' liability insurance, deferred executive compensation insurance, alternative surety coverage, finite risk insurance and surplus relief life reinsurance, which are policies under which our aggregate risk and return are generally capped at a finite amount. Purchasers of structured insurance coverage include corporations, insurers and other financial institutions and municipalities. Because of the constantly changing industry and regulatory framework, as well as the changing market demands facing insurance companies, the approaches utilized in structured insurance programs are constantly evolving. The contract forms that we use in our structured insurance business are primarily insurance policies, financial contracts and derivative contracts.

Our structured insurance team also writes casualty insurance. In most instances, casualty coverages provided are in support of structured insurance or structured reinsurance transactions as part of one of our programs, or blended with protection and coverage provided by other underwriting groups within our insurance and reinsurance operations. Our casualty product line include coverage for general liability and we expect to also write such specialty programs as clash coverage and excess of aggregate coverage. We focus on coverages requiring highly technical and statistical or actuarial underwriting of specific or individual risks.

In general, structured reinsurance products contractually limit the risks assumed by us. These contracts often include a fixed premium for the transfer of a portion of the risk combined with a variable or adjustable premium for financing by the client of the remaining risks, often covering multiple years and multiple business segments. Contracts are usually structured to encourage cedents to minimize losses by including significant profit sharing by the reinsurer with the cedent. Thus, the ultimate cost of a structured product often depends on the individual cedent's own performance. The risks underlying structured reinsurance transactions can include risks from any of our product lines, as well as credit risk, life insurance-related risks, accident and health, and others.

Structured reinsurance products are often written over a period of time greater than one year (typically three years). Due to the importance of investment income from these products, both parties direct considerable attention to cash flow modeling and to the impact of the anticipated loss payment pattern. As a result of the lengthy underwriting process, the market is characterized by a relatively small number of large transactions. The contract forms which we use in our structured reinsurance business include reinsurance policies, financial contracts and derivative contracts.

In addition to working with the specialty insurance and reinsurance teams, our structured product line team also works with the programs team and may, in the future, offer structured program products.

Technical Services

We currently provide environmental consulting services through ESC. We also plan to use Quanta Technical Services to expand the scope of our consulting services to provide risk assessment and evaluation services in other specialty insurance and claims areas. ESC serves manufacturers and service providers primarily in the electronics, manufacturing, waste disposal and energy sectors. ESC also serves real estate firms, insurance companies, buy-out firms, law firms, and the clients of these firms and companies. Its customers are primarily private sector businesses in the United States. This product line represented 11.3% of our total revenues for the year ended December 31, 2004 and 9.0% of our total revenues for the nine months ended September 30, 2005. ESC provides the following consulting services:

- Investigation, Remediation and Engineering Services. ESC's engineering services include investigation, remediation and engineering activities in the following areas: Comprehensive Environmental Response Compensation and Liability Act (CERCLA), superfund sites, Resource Conservation and Recovery Act (RCRA) actions, voluntary cleanups, engineering design, field management of remediation, operation and maintenance of remedial systems, underground tank management, merger and acquisition follow-up, asbestos/lead paint management and facility decommissioning and demolition.
- Assessment Services. ESC's environmental assessment services include regulatory analyses, technical support for environmental claims, merger and acquisition due diligence,

environmental audits and risk assessments and engineering and information management services, risk management, merger and acquisition support, environment, health and safety audits, liability identification, Phase I and Phase II site assessments, management systems and health and ecological risk assessments.
- Other Technical Services. ESC also provides other services to customers in the environmental area, including litigation support, technical support for insurance claims, regulatory compliance plans, regulatory permits, training, technical reviews, policy and procedure manuals, estimates of remediation costs for disclosure purposes and property redevelopment services.
- Information Management Services. ESC's information management services group develops technology-based solutions for the control and management of environmental and facility information. This group creates customized software applications that manage data using database and geographic information system software. The applications are web-based, providing clients with facility management capabilities over the Internet.

Most of our insurance and reinsurance product lines require substantial specialized technical engineering, loss control and claims management skills. To support our engineering needs, our technical services product line performs construction, occupancy, protection and exposure reviews, including materials, mechanical and civil engineering inspections for property coverage and coverage of similar physical damage at the client's location that we intend to insure or reinsure. Our technical services product line also values and manages the potential economic losses associated with typical property risks by using operational, critical process, logistical and resource engineering studies. Further, it provides loss control reviews and specific risk management recommendations for facilities in order to reduce claim frequency and severity, including developing reports that use catastrophe-modeling software. ESC serves as the platform for establishing our technical talent and providing risk evaluation services. ESC is providing these services to the underwriters in our environmental liability insurance line. Once we hire additional professionals, we plan to use Quanta Technical Services to expand the scope of our technical services and to support our underwriting of professional liability, directors' and officers' liability, fidelity and crime, surety and specific casualty classes of business. We will also offer those services on a fee basis. We believe that ESC's and Quanta Technical Services' technical participation in our underwriting process will:

- help ensure that risks are consistently identified and quantified;
- enhance our ability to understand and evaluate the multiple risks of complex transactions; and
- help our clients manage transactions and minimize their costs arising from insufficient technical oversight.

In addition to these consulting services, we provide liability assumption programs through Quanta Technical Services and its subsidiaries under which these subsidiaries assume specified liabilities (which may, at times, include taking title to property) associated with environmental conditions for which we provide consulting and required remediation services, which may be insured or guaranteed by us. For example, in 2003 we entered into a transaction for a closed rayon plant in Axis, Alabama in which we provided risk assessment, insurance and financial structuring and assumed an environmental liability. In 2005, we also entered into a project in Buffalo, New York under which we assume specified environmental liabilities and perform remediation services. We continue to provide environmental remediation for these projects.

Geographies

We use our Bermuda operations primarily to write all of our reinsurance products on a non-admitted basis with ceding client companies located in the United States, Europe and Asia. We also write professional liability insurance on a non-admitted basis placed by Bermuda brokers for U.S. insureds and, to a lesser extent, European insureds. Lastly, we write structured insurance and reinsurance products including life surplus relief, trade credit and political risk coverages, alternative surety and executive benefit coverages.

In the United States, we underwrite U.S. insurance and reinsurance business on an admitted basis through Quanta Indemnity, which is a U.S. licensed insurer with licenses in approximately 44 states

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that was acquired by us on December 19, 2003. We also write insurance from the United States on an excess and surplus lines basis and U.S. reinsurance on a non-admitted basis through Quanta Specialty Lines, which we acquired on October 28, 2003. Quanta Specialty Lines is licensed in the State of Indiana and we intend to operate it as an excess and surplus lines and non-admitted insurer in all other states. We engage in all the product lines described above in the United States.

In Europe, we operate through Quanta Europe in Dublin, Ireland and, through Quanta U.K., its branch, in London, England. We also operate through Syndicate 4000 in London. Quanta Europe is authorized to conduct non-life insurance business and underwrites E.U. sourced insurance and reinsurance business from Ireland. Quanta U.K. has recently begun to underwrite E.U. sourced insurance and reinsurance business in the United Kingdom and introduce E.U. sourced insurance and reinsurance business to Quanta Europe in Dublin. Through Quanta Europe and Quanta U.K., we currently write environmental liability, professional liability, crime and fidelity, surety, trade credit and political risk specialty insurance coverages. Syndicate 4000 currently writes mainly professional liability and crime and fidelity (financial institutions) specialty insurance and it intends to write specie and fine art and marine insurance.

Ceded Reinsurance

We cede a portion of our written premiums through quota share and excess of loss treaty and facultative reinsurance contracts, as well as other agreements, which provide substantially similar financial protections. We use ceded reinsurance to lower our net exposure to our planned net limit and risk of individual loss, to control our aggregate

exposures to a particular risk or class of risks and to reduce our overall risk of loss.

We also purchase retrocessional coverage, which is reinsurance of a reinsurer's business. Reinsurance companies cede risks under retrocessional agreements to other reinsurers, known as retrocessionaires, for reasons similar to those that cause primary insurers to purchase reinsurance. The amount of ceded reinsurance and retrocessional protection that we purchase varies based on business segment market conditions, pricing terms and credit risk, as well as other factors.

For business exposed to catastrophic losses, we seek to limit our aggregate exposure by insured or reinsured, by industry, by peril, by type of contract and by geographic zone. We monitor and limit our exposure through a combination of aggregate limits, underwriting guidelines and reinsurance. We also periodically reevaluate the probable maximum loss for these exposures by using third party software and modeling techniques. We seek to limit the probable maximum loss to a pre-determined percentage of our total shareholders' equity.

Ceded reinsurance and retrocessional protection do not relieve us of our obligations to our insureds or reinsureds. We must pay these obligations without the benefit of reinsurance to the extent our reinsurers or retocessionaires do not pay us. We evaluate and monitor the financial condition of our reinsurers and monitor concentrations of credit risk. We seek to purchase reinsurance from entities rated "A−" or better by S&P or A.M. Best, and we regularly monitor its collectibility, making balance sheet provisions for amounts we consider potentially uncollectible and requesting collateral where necessary. We apply the same financial analysis and approval processes to the selection of reinsurance and other financial protection counterparties as we do to the underwriting of our surety, professional liability and similar lines of business.

Relationships with Brokers

Other than the program business which is generated through agents, we produce substantially all of our remaining business through insurance and reinsurance brokers worldwide who receive a brokerage commission usually equal to a percentage of gross premiums. Brokerage commissions are generally negotiated on a policy by policy basis. From time to time we have entered into agreements with brokers, which included provisions relating to the payment of production or marketing fees in addition to the brokerage commissions we pay to the brokers. These agreements have been terminated. However, we have been approached by brokers with respect to their intent to formulate a different commission structure. We do not know whether we will participate in these structures and, if we do, what the terms will be and what the impact of these terms would be on our future results of operations, financial condition or liquidity.

107

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.

While we currently source almost all of our business, other than the program business, through a limited number of brokers, our management and underwriting officers have industry relationships with a large number of insurance and reinsurance brokers and with many ceding companies. In addition, 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 relationships are allowing us to continue to establish our presence in the global insurance and reinsurance markets. In addition to our relationships with brokers, we intend to also use non-traditional sources for marketing our environmental liability product line and structured insurance and structured reinsurance product lines, such as law firms, consulting firms, investment banks, and merger and acquisition firms. Our failure to develop or maintain relationships with brokers from whom we expect to receive our business could have a material adverse effect on us.

Claims Management

We are establishing several dedicated insurance claims teams in our product lines and we also plan to outsource the review of highly technical or unusually complicated claims where warranted. Our claims teams include claims professionals, actuarial experts and attorneys. These teams are investigating, evaluating and settling claims as efficiently as possible. We are implementing claims handling guidelines and claims reporting and control procedures. We monitor our claims in accordance with these guidelines.

Generally, we involve members of the claims staff in the underwriting process. When a claim is reported, we conduct an initial review of the validity of the claim and communicate the assessment of the availability of coverage and, if possible, the proposed method of handling the claim to the insured. At that time, the claims professionals also communicate with our actuaries, underwriters and management. We base the authority for payment and establishing reserves on the level and experience of our claims personnel.

We have established procedures to record reported insurance claims upon receipt of notice of the claim. To assist with the reporting of significant claims, we intend to develop an information database for large claims. We intend to use this database primarily to quickly report significant events and potential losses, regardless of whether we have exposure. Where it is likely that we have exposure, we expect to use this system to provide direct notification of our exposure to all our underwriters and senior management. We also expect to use the database as an electronic workflow management tool for larger cases that may involve adjustment and coverage issues or litigation.

As any potential insurance claim develops, the claims teams will draw on internal and external resources to settle the claim. We are also establishing networks of external legal and claims experts to augment our own in-house teams. From time to time, we may also enter into agreements with third party administrators and settlement firms to outsource certain claims functions relating to specific claims. Insurance claims for our program business are generally handled by third party administrators of those programs who have limited authority and are subject to regular review and audit by our internal claims teams.

With respect to reinsurance contracts, claims are mainly managed by the claims department of the ceding company or primary insurer. As individual claims become larger and more complex, we may seek, at our discretion and expense, to assume or participate in the administration of specific claims.

In addition to managing reported claims and conferring with underlying carriers and ceding companies, our claims professionals will conduct periodic audits of specific claims and the overall claims procedures of our clients. Through these audits, we will seek to evaluate their claims-handling practices, including the organization of their claims

departments, their fact-finding and investigation techniques, their loss notification procedures, the adequacy of their reserves, their negotiation and settlement practices and their adherence to claims-handling guidelines. In addition, prior to accepting certain reinsurance risks, our underwriters may request that our claims professionals conduct pre-underwriting claims audits of prospective ceding or primary writing companies.

The claims professionals in our product lines also work with ESC and Quanta Technical Services to offer administration, management and settlement advice and services regarding claims on a fee for service basis to third parties.

Reserves

We are required to establish reserves for losses and loss expenses under applicable insurance laws and regulations and U.S. GAAP. These reserves are balance sheet liabilities representing estimates of future amounts required to pay losses and loss expenses for insured and/or reinsured claims that have occurred at or before the balance sheet date, whether already known to us or not yet reported. Our policy is to establish these losses and loss reserves prudently after considering all information known to us as of the date they are recorded.

Loss reserves fall into two categories: case reserves for reported losses and loss expenses associated with a specific reported insured claim and reserves for incurred but not reported, or IBNR, losses and loss expenses. We have established these two categories of loss reserves as follows:

- Case reserves — Following our analysis of a notice of claim received from an insured, broker or ceding company, we establish a case reserve for the estimated amount of its ultimate settlement and its estimated loss expenses. We establish case reserves based upon the availability of coverage and may subsequently supplement or reduce the reserves as our claims department deems necessary. We also review our case reserves on a quarterly basis.
- IBNR reserves — We estimate and establish reserves for loss amounts incurred but not yet reported, including expected development of reported claims. These IBNR reserves include estimated loss expenses. We calculate IBNR reserves by using generally accepted actuarial techniques. We rely on the most recent information available, including pricing information, industry information and our historical losses and expenses. We will revise these reserves for losses and loss expenses as additional information becomes available and as claims are reported and paid. We also review our IBNR reserves on a quarterly basis.

Loss reserves represent our best estimate, at a given point in time, of the ultimate settlement and administration cost associated with incurred claims. Our ultimate liability may exceed or be less than these estimates. The process of estimating loss reserves requires significant judgment due to a number of variables. Internal and external events, such as fluctuations in inflation, judicial trends, legislative changes and changes in claims handling procedures, will affect these variables. We are not able to directly quantify many of these items, particularly on a prospective basis. There may also be significant lags between the occurrence of the insured event and the time it is actually reported to us.

Several aspects of our insurance and reinsurance products further complicate the actuarial reserving techniques for loss reserves as compared to other insurance and reinsurance carriers. Among these aspects are the differences in our policy forms from more traditional forms, the lack of complete historical data for losses and our expectation that losses in excess of our attachment levels will be characterized by low frequency and high severity claims. All of these factors tend to limit the amount of relevant loss experience that we can use to gauge the emergence, severity and payout characteristics of our loss reserves.

We use statistical and actuarial methods to estimate our ultimate expected losses and loss expenses. Several years may pass between the time an insured or reinsured reports a loss to us and the time we settle our liability. During this period, we will learn additional facts and trends related to the loss. As we learn these additional facts and trends, we will adjust case reserves and incurred but not reported reserves as necessary. These adjustments will sometimes

require us to increase our overall reserves and at other times will require us to reallocate incurred but not reported reserves to specific case reserves.

We base reserves for losses and loss expenses in part upon our estimates of losses. Initially, it may be difficult for us to estimate losses based upon our own historical claim experiences because of our lack of operating history. Therefore, we utilize commercially available models to evaluate future trends and estimate our ultimate claims costs.

U.S. GAAP does not permit us to establish loss reserves until the occurrence of an actual loss event. Once such an event occurs, we establish reserves based upon estimates of total losses as a result of the event and our estimate of the portion of the loss we have insured or reinsured. As a result, we set aside only loss reserves applicable to losses incurred up to the reporting date, with no allowance for the provision of a contingency reserve to account for expected future losses. We will estimate and recognize losses arising from future events at the time the loss is incurred.

To assist us in establishing appropriate reserves for losses and loss expense, we analyze a significant amount of insurance industry information with respect to the pricing environment and loss settlement patterns. In combination with our individual pricing analyses, we use this industry information to guide our loss and loss expense estimates. We will regularly review these estimates, and we will reflect adjustments, if any, in earnings in the periods in which they are determined. We have engaged, and we expect that we will continue, from time to time, to engage, independent external actuarial specialists to review specific reserving methods and results.

While we believe that we are able to make a reasonable estimate of our ultimate losses, we may not be able to predict our ultimate claims experience as reliably as other companies that have had insurance and reinsurance operations for a substantial period of time, and we cannot assure you that our losses and loss expenses will not exceed our total reserves.

Risk Management

We delegate underwriting authority to the leaders of our product lines and to the leaders of our geographic locations, each of whom is highly experienced. We have issued detailed letters of underwriting authority to each of our leaders of our product lines and to each of our underwriters. We review these letters annually. These letters contain underwriting eligibility criteria and quantifiable limits depending on the product line. They also address acceptable terms and conditions. These letters are consistent with profitability guidelines in terms of return on allocated capital by product line. We have implemented a plan to compensate our underwriting officers based on the long-term returns on allocated capital of their respective product lines and intend to regularly review and revise our profitability guidelines to reflect changes in market conditions, interest rates, capital structure and market-expected returns.

We believe we employ a disciplined approach to underwriting and risk management that relies heavily upon the collective underwriting expertise of our management and staff. We believe this expertise is guided by the following underwriting principles:

- Our own independent pricing or risk review of insurance and facultative risks;
- Acceptance of only those risks that we believe will earn a level of profit commensurate with the risk they present; and
- Limitation of the business we accept to only that business that is consistent with our corporate

risk objectives.

Before we review any treaty proposal, we consider the appropriateness of reinsuring the client, by evaluating the quality of its management and its risk management strategy. In addition, we require each treaty to include significant information on the nature of the perils to be included and detailed aggregate information as to the location or locations of the risks covered. We request information on the client's loss history for the perils being insured or reinsured, together with relevant underwriting considerations. If a treaty meets the preceding underwriting criteria, we evaluate the proposal in terms of its risk/reward profile to assess the adequacy of the proposed pricing and its potential impact on our overall return on capital as well as our corporate risk objectives.

We are developing enterprise risk management processes to analyze market, event, credit and operational risks. We utilize a risk-adjusted return on capital approach to manage and allocate capital to different lines of business. We base this approach on risk management methodologies for

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catastrophe, market, credit, operational risk and asset/liability management from actuarial science and capital markets. This approach not only guides our risk-based pricing by setting target combined ratios for each line or product to achieve our targeted return of capital, but also helps build a diversified book of specialized insurance products, taking into account the effect of correlation, which is the degree to which events or financial results tend to correspond to each other.

We have integrated our in-house actuarial staff into our underwriting and decision making process. We use outside consultants as necessary to develop the appropriate analysis for pricing. We perform actuarial and risk analysis using commercial data and models licensed from third parties.

To monitor the catastrophe and correlation risk of our business, we subscribe to and utilize natural catastrophe-modeling tools. We are taking an active role in the evaluation of these commercial catastrophe pricing models and will look to supplement these models if necessary. We use modeling not just to underwrite individual risks, but also to optimize the total return and risk of our underwriting portfolio.

In addition to technical and analytical practices, our underwriters use a variety of means, including specific contract terms, to manage our exposure to loss. We include aggregate policy limits in the contracts of most of the business we write. Additionally, our underwriters use contract exclusions and terms and conditions, as appropriate, to further eliminate particular risk exposures that our underwriting team deems to be unacceptable.

We have also established an internal audit function to review our underwriting processes. The head of the internal audit function reports to the audit committee.

Investments

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 require 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.

Competition

Insurance and Reinsurance

The insurance and reinsurance industry is highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European and other international insurers and

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reinsurers and certain underwriting syndicates. Many of these competitors have more, and in some cases substantially more, capital and greater marketing and management resources than we expect to have, and may offer a broader range of products and more competitive pricing than we expect to, or will be able to, offer. Because we have a limited operating history, many of our competitors also have greater name and brand recognition than we have. In particular, we compete with insurers and reinsurers that provide property and casualty-based lines of insurance and reinsurance, such as ACE, AIG, CNA, Chubb, XL Capital Ltd., Arch Capital Group Ltd., Swiss Reinsurance Company, Berkshire Hathaway Inc., Munich Re Group and St. Paul Travelers. In addition, there are other Bermuda insurers and reinsurers with whom we compete, such as Endurance Specialty Holdings Ltd., Axis Capital Holdings Limited, Allied World Assurance Company, Ltd., Platinum Underwriters Holdings, Ltd. and Montpelier Re Holdings Ltd. Furthermore, newly formed and existing insurance industry companies have recently raised capital to meet perceived demand in the current environment and address underwriting limit issues. We may not be aware of other companies that may be planning to enter into the same market segments in which we expect to compete or raise new capital. Competition varies depending on the type of business being insured or reinsured. In the specialty market, competition tends to focus more on availability, service and other value-based considerations than on price.

Competition in the types of business that we underwrite is based on many factors, including:

- management's experience in the line of insurance or reinsurance to be written;
- strength of client or broker relationships;
- premiums charged and other terms and conditions offered;

- services provided, products offered and scope of business, both by size and geographic location;
- financial ratings assigned by independent rating agencies; and
- reputation and quality of claims service.

Increased competition could result in fewer applications for coverage, lower premium rates and less favorable policy terms, which could adversely impact our growth and profitability. In addition, capital markets participants have recently created alternative products that are intended to compete with reinsurance products. We are unable to predict the extent to which new, proposed or potential initiatives may affect the demand for our products or the risks that may be available for us to consider underwriting.

Technical Services

The environmental consulting industry is also highly competitive. There are numerous professional engineering and consulting firms and other organizations that provide many of the services offered by us. These competitors range from small local firms to large national firms. The larger, well-established companies have substantially greater financial, management and marketing resources than we do. The smaller competitors tend to be highly specialized technical companies. We believe that the most important competitive factors in this industry include reputation, performance, price, geographic location and availability of technically skilled personnel.

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 rating system 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 only our ability to pay policyholder claims. They are not 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

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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. 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 under review with negative implications. For further information regarding A.M. Best's rating action and our plans in response to the ratings action, see "Business — Recent Developments."

Regulation

The business of insurance and reinsurance is regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Reinsurers are generally subject to less direct regulation than primary insurers. However, the EU has recently adopted a directive which when introduced in each Member State, will introduce full regulation of reinsurers, broadly in line with current regulation for direct insurance. In Bermuda we operate under relatively less intensive regulatory regimes. However, in the United States and United Kingdom, licensed insurers and reinsurers, and in Ireland, licensed insurers, must comply with more complex financial supervision standards. Accordingly, Quanta Europe is subject to extensive financial regulation in Ireland, Quanta U.K.

is subject to extensive regulation under applicable statutes in Ireland and the United Kingdom, Syndicate 4000 is subject to extension regulation in the United Kingdom and Quanta Specialty Lines and Quanta Indemnity are subject to extensive financial regulation under applicable statutes in the United States.

Most insurance regulations are designed to protect the interests of policyholders rather than shareholders and other investors. These regulations, generally administered by a department of insurance in each jurisdiction in which we will do business, relate to, among other things:

- standards of solvency, including risk-based capital measurements;
- licensing of insurers and their agents;
- limits on the size and nature of risks assumed;
- restrictions on the nature, quality and concentration of investments;
- restrictions on the ability of our insurance company subsidiaries to pay dividends to us;
- restrictions on transactions between insurance company subsidiaries and their affiliates;
- restrictions on the size of risks insurable under a single policy;
- requiring deposits for the benefit of policyholders;
- approval of policy forms and premium rates;
- requiring certain methods of accounting;
- periodic examinations of our operations and finances;
- in Bermuda, requiring an insurer to maintain a principal office in Bermuda and appointing and maintaining a principal representative in Bermuda, which is presently Scott J. Bradley. It is the duty of the principal representative, forthwith on reaching the view that there is a likelihood of the insurer for which the principal representative acts becoming insolvent or that a reportable event has, to the principal representative's knowledge, occurred or is believed to have occurred, to notify the BMA and, within 14 days of such notification, to make a report in writing to the BMA setting out all the particulars of the case that are available to the principal representative;
- prescribing the form and content of records of financial condition required to be filed; and
- requiring reserves for unearned premium, losses and other purposes.

Insurance departments also conduct periodic examinations of the affairs of insurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. For further information regarding the regulations applicable to our businesses, see our Annual Report on Form 10-K for the year ended December 31, 2004.

113

Employees

We currently employ approximately 350 full-time employees. Approximately 210 employees work in our specialty insurance, specialty reinsurance, programs and structured product lines. They primarily include underwriting officers, underwriters, actuaries, attorneys, claims personnel and administrative personnel. Approximately 140 work in our technical services product line. Of these employees, approximately 100 are professional staff with degrees in engineering, geological sciences, toxicology, chemistry, public health, biology, environmental science, and/or environmental management. Their backgrounds are in industry, consulting, and federal and state regulatory agencies.

We have entered into an employment agreement with Michael J. Murphy, deputy chairman of our board of directors and chairman of the office of strategic innovation, through September 2008. The term of Mr. Murphy's employment

agreement continues until September 3, 2008 and will be automatically renewed for additional one-year terms unless notice of termination of Mr. Murphy's employment is provided by us or Mr. Murphy at least 90 days prior to the end of the term. While we also have arrangements with Jonathan J.R. Dodd, our Chief Financial Officer, and Gary G. Wang, our Chief Risk Officer, and other key employees for payment of salaries, bonuses and other compensation, none of these employees presently have non-competition agreements with us or agreements requiring us to employ them over a fixed term. Therefore, these other executive officers and key employees may voluntarily terminate their employment with us at any time and are not restricted from seeking employment with our competitors or others who may seek their expertise. We do not currently maintain key man life insurance policies with respect to any of our employees other than a $10 million policy on the life of Mr. Murphy.

DIRECTORS AND EXECUTIVE OFFICERS

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 and has over 36 years experience in the insurance industry. 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.

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 monitoring 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. 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.

Our company's directors and executive officers are as follows:

Name	Age	Positions
Robert Lippincott III(1)	58	Interim Chief Executive Officer and President and Director
James J. Ritchie(1)(2)(3)(4)	51	Chairman of the Board
Michael J. Murphy	54	Deputy Chairman of the Board and Chairman of the Office of Strategic Innovation
Jonathan J.R. Dodd	36	Chief Financial Officer
Gary G. Wang	41	Chief Risk Officer
Nigel W. Morris(2)(3)(4)	47	Director
W. Russell Ramsey	45	Director

Wallace L. Timmeny[2][3][4]	68	Director

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[1]Member of the Executive Committee
[2]Member of the Audit Committee
[3]Member of the Governance and Nominating Committee
[4]Member of the Compensation Committee

Robert Lippincott III — 58 — Interim Chief Executive Officer and President and Director. Mr. Lippincott was appointed as our Interim Chief Executive Officer and President on November 21, 2005. He has served as a director since March 2005 and prior to his appointment as our Interim Chief Executive Officer, he also served on our Audit Committee. Mr. Lippincott has been the President of Lippincott Consulting Holding LLC, which provides consulting services to the insurance and reinsurance industries since January 2005. From April 2003 until December 2004, Mr. Lippincott served as Executive Vice President of Towers Perrin Reinsurance, a reinsurance intermediary. From October 1983 to March 2003, Mr. Lippincott served in a number of positions at the AXA group of insurance companies, most recently, from January 2001 to February 2003 as the Chairman, President and Chief Executive Officer of AXA Re Property and Casualty Insurance Company. He was also the founder of the U.S. reinsurance operations of AXA Reinsurance Company. Prior to his employment with AXA, Mr. Lippincott served in various positions at Tokyo Reinsurance Company, MONY Reinsurance Company, INA Reinsurance Company and Aetna Casualty and Surety Company. Mr.

Lippincott currently also serves as a director of privately held AXA Art Insurance Company, where he is a member of the compensation committee. He was also the former president and director of the Independent Reinsurance Underwriters Association of America.

James J. Ritchie — 51 — Chairman of the Board. Mr. Ritchie has served as a director since September 2003 and as Chairman of the Board since October 2005. As non-executive Chairman of the Board, Mr. Ritchie leads the work of the Board particularly with respect to our strategy development and monitoring its execution. He has over 28 years of experience in the insurance and financial services industries, particularly in the U.S. and international insurance and reinsurance industries. From February 2001 until May 2003, he served as managing director and chief financial officer of White Mountains Insurance Group, Ltd.'s OneBeacon Insurance Company and served as a group chief financial officer for White Mountains Insurance Group, Ltd. From December 2000 until February 2001, Mr. Ritchie was a consultant for White Mountains Insurance Group, Ltd. From 1986 until 2000, Mr. Ritchie held various positions with CIGNA Corporation including chief financial officer of the company's international division and head of its internal audit division. Prior to Mr. Ritchie's insurance career, from 1977 until 1986, he served in the audit group at Price Waterhouse, including as a senior audit manager. Mr. Ritchie is also a member of the board of directors and chairman of the audit committee of Ceres Group, Inc., a public company engaged in an array of health and life insurance products and of KMG America Corporation, a public company engaged in life and health insurance risk assumption, third-party administration and medical management services. He is a certified public accountant and participates in various industry groups, including Financial Executives International, the National Association of Corporate Directors, the American Institute of Certified Public Accountants and the Institute of Internal Auditors.

Michael J. Murphy — 54 — Deputy Chairman of the Board and Chairman of the Office of Strategic Innovation. Mr. Murphy was appointed as our Deputy Chairman of the Board in 2003. He served as our Chief Operating Officer from 2003 until March 2005. He has served as our Chairman of the Office of Strategic Innovation since March 2005. From January 2001 to June 27, 2003, Mr. Murphy served as executive vice president of CFS where he was responsible for Chubb's environmental solutions business. Mr. Murphy was also the chairman of the board of directors and

co-founder of ESC. He has over 25 years of experience in risk analysis and has played an active role in the development of environmental policy and technical risk assessment procedures for the environmental insurance industry. Prior to co-founding ESC, he was the chief operating officer of Risk Science International, a corporate division of Frank B. Hall & Co. Mr. Murphy was formerly appointed to the World Health Organization's Expert Advisory Consultation of Environmental Risk Management and testified on waste policy issues before the House of Lords Conference to assist in establishing U.K. waste policy.

Jonathan J.R. Dodd — 36 — Chief Financial Officer. Mr. Dodd joined our company in September 2003 and has 15 years of finance and insurance industry experience. Mr. Dodd was appointed as our Chief Financial Officer in November 2005. Prior to serving as our Chief Financial Officer, Mr. Dodd has served as our Interim Chief Financial Officer and as our Group Controller. Before joining our company, he served for approximately three years as director and the head of finance and operations for Allianz Risk Transfer — North America. His prior experience also includes a management position at Centre Solutions Ltd. and serving as a senior audit manager at KPMG LLP.

Gary G. Wang — 41 — Chief Risk Officer. Mr. Wang was appointed our Chief Risk Officer in September 2003. Prior to joining us, Mr. Wang served as senior vice president and director of research at CFS since December 2002. He has ten years of experience in the financial services industry, including service as head of Asia Risk Finance of Barclays Capital Asia, an investment banking subsidiary of Barclays Capital, from February 1998 to May 2000, senior derivatives trader of Barclays Capital New York from May 1996 to February 1998 and senior quantitative analyst at Wells Fargo Bank from January 1994 to May 1996. He is a co-founder of China Network International, a telecom services company in China. He also serves as a director of China Risk Finance and Jade Capital Management, both of which are privately held companies engaged in consumer credit and direct investment businesses in China.

Nigel W. Morris — 47 — Director. Mr. Morris has served as a director since September 2003. Mr. Morris is the President of Ffestiniog Company LLC., an investment company. Until April 2004, he

116

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was the Vice Chairman of the board of directors of Capital One Financial Corporation ("Capital One"), a leading provider of consumer financial products, which he co-founded in 1995. From 1995 until May 2003, Mr. Morris was the President and Chief Operating Officer of Capital One. Mr. Morris has been named, among other honors, "Entrepreneur of the Year" in July 1999 by the London School of Business and has served the State of Virginia at the request of Virginia Governor Mark Warner as Vice Chairman of Virginia's Commission on Efficiency and Effectiveness in 2002 and as a member of the Governor's Counsel on Virginia's Future in 2003. He is currently a member of the governing body of the London School of Business and serves on the board of directors and the audit committee of The Economist Group. He is a trustee of New Philanthropy Capital, a charity in the United Kingdom that develops and encourages more effective charitable giving worldwide.

W. Russell Ramsey — 45 — Director. Mr. Ramsey has served as a director since September 2003. Mr. Ramsey is the Chairman and Chief Executive Officer of Ramsey Asset Management GP, LLC, an asset manager and the successor in interest to the BEM Capital Management group of companies founded by Mr. Ramsey in May 2001. Mr. Ramsey is also a co-founder of Friedman, Billings, Ramsey Group, Inc., a national investment bank. Mr. Ramsey has been a director of Friedman, Billings, Ramsey Group, Inc. since its inception in 1989. Further, Mr. Ramsey served as president and secretary of Friedman, Billings, Ramsey Group, Inc. from 1989 to 1999 and served as its president and co-chief executive officer from 1999 to December 2001. Mr. Ramsey currently also serves on the board of directors and the audit committee of JER Investors Trust, a company which invests in and originates real estate financial products, primarily commercial mortgage-backed securities and nonconforming mezzanine and other mortgage loans.

He also serves on the board of directors at George Washington University and on the advisory council of the National Geographic Society.

Wallace L. Timmeny — 68 — Director. Mr. Timmeny has served as a director since September 2003. Mr. Timmeny is a partner in the Washington, D.C. office of Dechert LLP, a law firm, which he joined in 1996. Mr. Timmeny is a past chairman of the Executive Council of the Securities Law Committee of the Federal Bar Association. Mr. Timmeny has served as an adjunct professor at American University School of Law, George Mason University School of Law and Georgetown University School of Law. From 1965 to 1979, Mr. Timmeny was an attorney with the SEC and ultimately the deputy director of the Division of Enforcement of the SEC. Mr. Timmeny also serves as a director of Friedman, Billings, Ramsey Group, Inc., a position he has held since December 29, 1997 and as the Chairman of the Risk Management Committee of Friedman, Billings, Ramsey Group, Inc. In addition, since August 2004, Mr. Timmeny is serving as a director, a member of the Audit Committee and the Chairman of the Compensation Committee of publicly traded Waste Services Inc., a multi-regional, integrated solid waste company providing collection, transfer, landfill disposal and recycling services for commercial, industrial and residential customers in the United States and Canada.

DESCRIPTION OF SHARE CAPITAL

The following description of the share capital of Quanta Holdings summarizes select provisions of our memorandum of association and bye-laws.

General

We currently have authorized 200,000,000 common shares, par value $0.01 per share, and 25,000,000 preferred shares, par value $0.01 per share. Our issued and outstanding share capital consists of 56,810,020 common shares. This number excludes the approximately 4,001,576 common shares issuable upon the exercise of options and performance shares by employees and directors and restricted stock granted to a director and 2,542,813 common shares issuable upon the exercise of founder warrants issued in connection with our formation and capitalization.

Bye-laws

Our bye-laws provide for our corporate governance, including the establishment of share rights, modification of those rights, issuance of share certificates, imposition of a lien over shares in respect of unpaid amounts on those shares, calls on shares which are not fully paid, forfeiture of shares, the transfer of shares, alterations of capital, the calling and conduct of general meetings, proxies, the appointment and removal of directors, conduct and power of directors, the payment of dividends, the appointment of an auditor and our winding-up.

Our bye-laws provide that our board of directors shall be elected annually. Shareholders may only remove a director for cause prior to the expiration of that directors term at a special meeting of shareholders at which a majority of the holders of shares voting on such proposal vote in favor of that action.

Our bye-laws also provide that if our board of directors in its absolute discretion determines that share ownership by any shareholder may result in adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any other shareholder, then we will have the option, but not the obligation, to repurchase all or part of the shares held by such shareholder to the extent the board of directors determines it is necessary to avoid such adverse or potential adverse

consequences. To the extent possible under the circumstances, the board of directors will use its best efforts to exercise this option equally among similarly situated shareholders. The price to be paid for such shares will be the fair market value of such shares. We may assign our repurchase right to a third party or parties including the other shareholders.

Our bye-laws may only be amended by a resolution adopted by the board of directors and by resolution of the shareholders.

Differences in Corporate Law

You should be aware that the Companies Act, which applies to us, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. In order to highlight these differences, set forth below is a summary of certain significant provisions of the Companies Act applicable to us (including modifications adopted pursuant to our bye-laws) which differ in certain respects from provisions of Delaware corporate law, which is the law that governs many U.S. public companies. The following statements are summaries, and do not purport to deal with all aspects of Bermuda law that may be relevant to us and our shareholders.

Duties of Directors

Under Bermuda common law, members of a board of directors owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company, and to exercise their powers and fulfill the duties of their office honestly. This duty has the following essential elements:

- a duty to act in good faith in the best interests of the company;

- a duty not to make a personal profit from opportunities that arise from the office of director;
- a duty to avoid conflicts of interest; and
- a duty to exercise powers for the purpose for which such powers were intended.

The Companies Act imposes a duty on directors and officers of a Bermuda company:

- to act honestly and in good faith with a view to the best interests of the company; and
- to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In addition, the Companies Act imposes various duties on officers of a company with respect to certain matters of management and administration of the company.

The Companies Act provides that in any proceedings for negligence, default, breach of duty or breach of trust against any officer, if it appears to a court that such officer is or may be liable in respect of the negligence, default, breach of duty or breach of trust, but that he has acted honestly and reasonably, and that, having regard to all the circumstances of the case, including those connected with his appointment, he ought fairly to be excused for the negligence, default, breach of duty or breach of trust, that court may relieve him, either wholly or partly, from any liability on such terms as the court may think fit. This provision has been interpreted to apply only to actions brought by or on behalf of the company against such officers.

Under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the

corporation and a fiduciary duty of loyalty to act in the best interests of its stockholders. The duty of care requires that directors act in an informed and deliberate manner, and inform themselves, prior to making a business decision, of all relevant material information reasonably available to them. The duty of care also requires that directors exercise care in overseeing and investigating the conduct of corporate employees. The duty of loyalty may be summarized as the duty to act in good faith, not out of self-interest, and in a manner which the director reasonably believes to be in the best interests of the stockholders. A party challenging the propriety of a decision of a board of directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the ‘‘business judgment rule.’’ If the presumption is not rebutted, the business judgment rule attaches to protect the directors and their decisions. Where, however, the presumption is rebutted, the directors bear the burden of demonstrating the fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors of conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

Interested Directors

Under Bermuda law and our bye-laws, any transaction entered into by us in which a director has an interest is not voidable by us nor can such director be accountable to us for any benefit realized under that transaction provided the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing to the directors. In addition, our bye-laws allow a director to be taken into account in determining whether a quorum is present and to vote on a transaction in which he has an interest following a declaration of the interest pursuant to the Companies Act unless the chairman of the meeting determines otherwise. Under Delaware law, such transaction would not be voidable if (1) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the stockholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, such interested director could be held liable for a transaction in which such director derived an improper personal benefit.

119

Dividends

Bermuda law does not permit payment of dividends or distributions of contributed surplus by a company if there are reasonable grounds for believing that the company, after the payment is made, would be unable to pay its liabilities as they become due, or the realizable value of the company's assets would be less, as a result of the payment, than the aggregate of its liabilities and its issued share capital and share premium accounts. The excess of the consideration paid on issue of shares over the aggregate par value of such shares must (except in certain limited circumstances) be credited to a share premium account. Share premium may be distributed in certain limited circumstances, for example to pay up unissued shares which may be distributed to shareholders in proportion to their holdings, but is otherwise subject to limitation. In addition, our ability to pay dividends is subject to Bermuda and U.S. state insurance laws and regulatory constraints. As a holding company, we depend on future dividends and other permitted payments from our subsidiaries to pay dividends to our shareholders. For further discussion of the risks relating to our holding company structure and its effect on our ability to receive and pay dividends, see ‘‘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" and ‘‘—Risks Related to our Securities — We do not currently intend to pay dividends on our common shares and any determination to pay dividends in the future will be at the

discretion of our board of directors and will depend on factors, such as whether we have the resources to pay dividends.''

Under Delaware law, subject to any restrictions contained in the company's certificate of incorporation, a company may pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Delaware law also provides that dividends may not be paid out of net profits at any time when capital is less than the capital represented by the outstanding stock of all classes having a preference upon the distribution of assets.

Amalgamations, Mergers and Similar Arrangements

We may acquire the business of another Bermuda exempted company or a company incorporated outside Bermuda when conducting such business would benefit the Company and would be conducive to attaining our objectives contained within our memorandum of association. We may, with the approval of at least 75% of the votes cast (after taking account of any voting power adjustments under the bye-laws) at a general meeting of our shareholders at which a quorum is present, amalgamate with another Bermuda company or with a body incorporated outside Bermuda. In the case of an amalgamation, a shareholder may apply to a Bermuda court for a proper valuation of such shareholder's shares if such shareholder is not satisfied that fair market value has been paid for such shares. The court ordinarily would not disapprove the transaction on that ground absent evidence of fraud or bad faith. Under Delaware law, a stockholder of a corporation participating in certain major corporate transactions may, under certain circumstances, be entitled to appraisal rights pursuant to which the stockholder may receive cash in the amount of the fair value of the shares held by that stockholder (as determined by a court) in lieu of the consideration that stockholder would otherwise receive in the transaction. Delaware law does not provide stockholders of a corporation with voting or appraisal rights when the corporation acquires another business through the issuance of its stock or other consideration (1) in exchange for the assets of the business to be acquired; (2) in exchange for the outstanding stock of the corporation to be acquired; (3) in a merger of the corporation to be acquired with a subsidiary of the acquiring corporation; or (4) in a merger in which the corporations certificate of incorporation is not amended and the corporation issues less than 20% of its common stock outstanding prior to the merger.

Takeovers

Bermuda law provides that where an offer is made for shares of a company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may by notice require the non-tendering shareholders to transfer their shares on

120

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the terms of the offer. Dissenting shareholders may apply to the court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholders to show that the court should exercise its discretion to enjoin the required transfer, which the court will be unlikely to do unless there is evidence of fraud or bad faith or collusion between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders. Delaware law provides that a parent corporation, by resolution of its board of directors and without any shareholder vote, may merge with any subsidiary of which it owns at least 90% of the outstanding shares of each class of stock that is entitled to vote on the transaction. Upon any such merger, dissenting stockholders of the subsidiary would have appraisal rights.

Certain Transactions with Significant Shareholders

As a Bermuda company, we may enter into certain business transactions with our significant shareholders, including asset sales, in which a significant shareholder receives, or could receive, a financial benefit that is greater than that received, or to be received, by other shareholders. Such transactions may be entered into with prior approval from our board of directors but without obtaining prior approval from our shareholders. Amalgamations require the approval of the board of directors and, except for certain amalgamations, a resolution of shareholders approved by a majority of at least 75% of the votes cast (after taking account of any voting power adjustments under the bye-laws). If we were a Delaware corporation, we would need, subject to certain exceptions, prior approval from our board of directors and authorization by stockholders holding at least two-thirds of the company's outstanding shares of common stock not owned by such interested stockholder to enter into a business combination (which, for this purpose, includes asset sales of greater than 10% of our assets that would otherwise be considered transactions in the ordinary course of business) with an interested stockholder for a period of three years from the time the person became an interested stockholder, unless we opted out of the relevant Delaware statute.

Shareholders' Suits

The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders under legislation or judicial precedent in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in our name to remedy a wrong done to us where the act complained of is alleged to be beyond our corporate power or is illegal or would result in the violation of our memorandum of association or bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with such action. In comparison, class actions and derivative actions generally are available to stockholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

Indemnification of Directors and Officers

Under Bermuda law and our bye-laws, we may indemnify our directors, officers or any other person appointed to a committee of the board of directors (and their respective heirs, executors or administrators) to the full extent permitted by law against all actions, costs, charges, liabilities, loss, damage or expense incurred or suffered by such person by reason of any act done, concurred in or omitted in the conduct of our business or in the discharge of his/her duties; provided that such indemnification shall not extend to any matter involving any fraud or dishonesty (as determined in a final judgment or decree not subject to appeal) on the part of such director, officer or other person. Under our bye-laws, each of our shareholders agrees to waive any claim or right of action, other than those involving fraud or dishonesty, against us or any of our officers or directors.

Under Delaware law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and

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reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) the director or officer acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, if the director or officer had no reasonable cause

to believe his conduct was unlawful.

Inspection of Corporate Records

Members of the general public have the right to inspect our public documents available at the office of the Registrar of Companies in Bermuda and our registered office in Bermuda, which will include our memorandum of association (including its objects and powers) and any alteration to our memorandum of association and documents relating to any increase or reduction of authorized capital. Our shareholders have the additional right to inspect our bye-laws, minutes of general meetings and financial statements, which must be presented to the annual general meeting of shareholders. The register of our shareholders is also open to inspection by shareholders without charge, and to members of the public for a fee. We are required to maintain our share register in Bermuda but may establish a branch register outside of Bermuda. We are required to keep at our registered office a register of our directors and officers which is open for inspection by members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records. Delaware law permits any stockholder to inspect or obtain copies of a corporation's stockholder list and its other books and records for any purpose reasonably related to such person's interest as a stockholder.

Shareholder Proposals

Under Bermuda law, the Companies Act provides that shareholders may, as set forth below and at their own expense (unless a company otherwise resolves), require a company to give notice of any resolution that the shareholders can properly propose at the next annual general meeting and/or to circulate a statement prepared by the requesting shareholders in respect of any matter referred to in a proposed resolution or any business to be conducted at a general meeting. The number of shareholders necessary for such a requisition is either that number of shareholders representing at least 5% of the total voting rights of all shareholders having a right to vote at the meeting to which the requisition relates or not less than 100 shareholders. Delaware law does not include a provision restricting the manner in which nominations for directors may be made by stockholders or the manner in which business may be brought before a meeting.

Calling of Special Shareholders Meetings

Under our bye-laws, a special general meeting may be called by our chairman or by any two directors or by any director and the secretary of the Company or by the board of directors. Under Bermuda law, a special meeting may also be called by the shareholders when requisitioned by the holders of at least 10% of the paid up voting share capital of our company as provided by the Companies Act. Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or bylaws to call a special meeting of stockholders.

Approval of Corporate Matters by Written Consent

Under Bermuda law, the Companies Act provides that shareholders may take action by written consent with 100% shareholders consent required. Delaware law permits stockholders to take action by the consent in writing by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting of stockholders at which all shares entitled to vote thereon were present and voted.

Amendment of Memorandum of Association

Bermuda law and our bye-laws provide that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given. Additionally, our bye-laws require that any amendment to our memorandum of association

must be approved by our board of directors. An amendment to the memorandum of association that alters the company's business objects may require approval of the Bermuda Minister of Finance, who may grant or withhold approval at his or her discretion.

Under Bermuda law, the holders of an aggregate of not less than 20% in par value of a company's issued share capital have the right to apply to the Bermuda courts for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court. An application for an annulment of an amendment of the memorandum of association must be made within 21 days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their designees as such holders may appoint in writing for such purpose. No application may be made by the shareholders voting in favor of the amendment.

Under Delaware law, amendment of the certificate of incorporation, which is the equivalent of a memorandum of association, of a company must be made by a resolution of the board of directors setting forth the amendment, declaring its advisability, and either calling a special meeting of the stockholders entitled to vote or directing that the amendment proposed be considered at the next annual meeting of the stockholders. Delaware law requires that, unless a different percentage is provided for in the certificate of incorporation, a majority of the outstanding shares entitled to vote thereon is required to approve the amendment of the certificate of incorporation at the stockholders meeting. If the amendment would alter the number of authorized shares or par value or otherwise adversely affect the rights or preference of any class of a company's stock, the holders of the outstanding shares of such affected class, regardless of whether such holders are entitled to vote by the certificate of incorporation, should be entitled to vote as a class upon the proposed amendment.

However, the number of authorized shares of any class may be increased or decreased, to the extent not falling below the number of shares then outstanding, by the affirmative vote of the holders of a majority of the stock entitled to vote, if so provided in the company's certificate of incorporation or any amendment that created such class or was adopted prior to the issuance of such class or that was authorized by the affirmative vote of the holders of a majority of such class or classes of stock.

Amendment of Bye-laws

Except as specified in our bye-laws, any amendment to the bye-laws must be decided on by our board of directors and approved by an ordinary resolution of our shareholders. Our bye-laws specify that amendments to certain provisions, such as those related to the election and indemnification of directors and the repurchase of our shares, must be approved by the board of directors and approved by a special resolution of our shareholders.

Under Delaware law, holders of a majority of the voting power of a corporation and, if so provided in the certificate of incorporation, the directors of the corporation, have the power to adopt, amend and repeal the bylaws of a corporation.

Enforcement of Judgments and Other Matters

We have been advised by Conyers Dill & Pearman, our Bermuda counsel, that there is doubt as to whether the courts of Bermuda would enforce (1) judgments of United States courts obtained in actions against us or our directors and officers, as well as the experts named in this prospectus who reside outside the United States predicated upon the civil liability provisions of the U.S. federal securities laws and (2) original actions brought in Bermuda against us or our

directors and officers, as well as the experts named in this prospectus who reside outside the United States predicated solely upon U.S. federal securities laws. There is no treaty in effect between the United States and Bermuda providing for such enforcement, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies available under the U.S. federal securities laws, would not be allowed in Bermuda courts as contrary to Bermuda's public policy.

Common Shares

Holders of shares have no pre-emptive, redemption, conversion or sinking fund rights. Subject to the limitation on voting rights described below, holders of shares are entitled to one vote per share on all matters submitted to a vote of holders of shares. Most matters to be approved by holders of shares require approval by a simple majority vote. The holders of at least 75% of the shares voting in person or by proxy at a meeting must generally approve an amalgamation with another company. In addition, a resolution to remove our auditor before the expiration of its term of office must be approved by at least two-thirds of the votes cast at a meeting of our shareholders. The quorum for any meeting of our shareholders is two or more persons holding or representing a majority of the outstanding shares on an unadjusted basis. Our board of directors has the power to approve our discontinuation from Bermuda to another jurisdiction. The rights attached to any class of shares, common or preferred, may be varied with the consent in writing of the holders of at least 75% of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of the shares of the class in accordance with the Companies Act.

In the event of our liquidation, dissolution or winding-up, the holders of shares are entitled to share equally and ratably in our assets, if any, remaining after the payment of all our debts and liabilities and the liquidation preference of any then outstanding preferred shares. All outstanding shares are fully paid and nonassessable. Authorized but unissued shares may, subject to any rights attaching to existing shares, be issued at any time and at the discretion of the board of directors without the approval of our shareholders, with such rights, preferences and limitations as our board of directors may determine.

Limitation on Voting Rights

Each share has one vote on a poll of the shareholders, except that, in order to avoid adverse tax consequences to us and our shareholders, our bye-laws provide generally that any shareholder owning, directly, indirectly or, in the case of any U.S. Person, constructively or by attribution, shares with more than 9.5% of the total voting power of all 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.’’ A ‘‘control group’’ means, with respect to any person, all shares directly owned by such person and all shares directly owned by each other shareholder any of whose shares are included in the controlled shares of such person. ‘‘Controlled shares’’ means all shares that a person is deemed to own directly, are beneficially owned directly or indirectly within the meaning of Section 13(d)(3) of the Exchange Act, or, in the case of a U.S. person, are owned indirectly (within the meaning of Section 958(a) of the Internal Revenue Code) or constructively (within the meaning of Section 958(b) of the Internal Revenue Code). A similar limitation is to be applied to shares held directly by members of a ‘‘related group.’’ A ‘‘related group’’ means a group of shareholders that are investment vehicles and are under common control and management. Any reduction in votes is generally allocated proportionately among members of the shareholder's ‘‘control group’’ or ‘‘related group,’’ as the case may be.

Under these provisions, certain shareholders may have the right to exercise their voting rights limited to less than one vote per share. Moreover, these provisions could have the effect of reducing the voting power of certain shareholders who would not otherwise be subject to the limitation by virtue of their direct share ownership.

Our directors are empowered to require any shareholder to provide information as to that shareholder's beneficial ownership of shares, the names of persons having beneficial ownership of the shareholder's shares, relationships, associations or affiliations with other shareholders or any other facts the directors may deem relevant to a determination of the number of controlled shares attributable to any person. Our directors may disregard the votes attached to the shares of any holder failing to respond to such a request or submitting incomplete or untrue information.

Our directors retain certain discretion to make such final adjustments to the aggregate number of votes attaching to the shares of any shareholder that they consider fair and reasonable in all the circumstances to ensure that no person will hold more than 9.5% of our voting rights at any time (a ‘‘9.5% Shareholder’’).

Restrictions on Transfer

Our bye-laws contain several provisions restricting the transferability of shares. Our directors are required to decline to register a transfer of shares if they have reason to believe that the result of such transfer would be (1) that any person would become or continue to be a 9.5% Shareholder or (2) that any person would become or continue to be a United States 25% Shareholder, in each case without giving effect to the limitation on voting rights described above. Similar restrictions apply to our ability to issue or repurchase shares. ‘‘U.S. 25% Shareholder’’ means a U.S. person who owns, directly or by application of the constructive ownership rules of Sections 958(a) and 958(b) of the Internal Revenue Code, 25% or more of either (1) the total combined voting rights attaching to the issued shares and the issued shares of any other class of Quanta Holdings or (2) the total combined value of the issued shares and any other issued shares of Quanta Holdings, determined pursuant to Section 957 of the Internal Revenue Code.

Our directors also may, in their absolute discretion, decline to register the transfer of any shares if they have reason to believe (1) that the transfer may expose us, any of our subsidiaries, any shareholder or any person ceding insurance to any of our subsidiaries to adverse tax or regulatory treatment in any jurisdiction or (2) that registration of the transfer under the Securities Act or under any U.S. state securities laws or under the laws of any other jurisdiction is required and such registration has not been duly effected. In addition, our directors may decline to approve or register a transfer of shares unless all applicable consents, authorizations, permissions or approvals of any governmental body or agency in Bermuda, the United States or any other applicable jurisdiction required to be obtained prior to such transfer shall have been obtained.

We are authorized to request information from any holder or prospective acquiror of shares as necessary to give effect to the transfer, issuance and repurchase restrictions described above, and may decline to effect any transaction if complete and accurate information is not received as requested.

Conyers Dill & Pearman, our Bermuda counsel, has advised us that while the precise form of the restrictions on transfer contained in our bye-laws is untested, as a matter of general principle, restrictions on transfers are enforceable under Bermuda law and are not uncommon. A proposed transferee will be permitted to dispose of any shares purchased that violate the restrictions and as to the transfer of which registration is refused. The proposed transferor of those shares will be deemed to own those shares for dividend, voting and reporting purposes until a transfer of such

shares has been registered on our shareholders register.

If the directors refuse to register a transfer for any reason, they must notify the proposed transferor and transferee within 30 days of such refusal. Our bye-laws also provide that our board of directors may suspend the registration of transfers for any reason and for such periods as it may determine, provided that it may not suspend the registration of transfers for more than 45 days in any period of 365 consecutive days.

The voting restrictions and restrictions on transfer described above may have the effect of delaying, deferring or preventing a change in control of us.

Preferred Shares

Pursuant to our bye-laws and Bermuda law, our board of directors by resolution may establish one or more series of preferred shares having a number of shares, designations, relative voting rights, dividend rates, liquidation and other rights, preferences, limitations and powers as may be fixed by the board of directors without any further shareholder approval which, if any preferred shares are issued, will include restrictions on voting and transfer intended to avoid having us constitute a ‘‘controlled foreign corporation’’ for U.S. federal income tax purposes.

Concurrently with this offering, we presently contemplate offering our preferred shares. The preferred shares we plan to issue upon the completion of the concurrent offering will be designated as series A preferred shares and will rank senior to our common shares with respect to the payment of dividends and distributions upon our liquidation, dissolution or winding-up. Holders of the series A preferred shares will not have preemptive or subscription rights to acquire more of our capital shares. The series A preferred shares have no stated maturity and will not be subject to any sinking fund. The following is a summary of some of our contemplated terms of the series A preferred shares, which are subject to change:

Dividends. The holders of series A preferred shares will be entitled to the payment of dividends at a rate of 10.25% per annum. So long as any series A preferred shares remain outstanding for any dividend period, unless the full dividends for the latest completed dividend period on all issued series A preferred shares have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside:

- no dividend may be paid or declared on our common shares, other than a dividend payable solely in our common shares; and
- no common shares may be purchased, redeemed or otherwise acquired for consideration by us except under limited circumstances.

Voting Rights. The holders of the series A preferred shares will not have any voting rights unless 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). At that time, the holders of the series A preferred shares 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.

Redemption. After five years from the issuance date, we will be able to redeem the series A preferred shares, in whole or in part, at any time at a price equal to liquidation preference, any declared and unpaid dividends and a premium

during an initial period. If we become obligated to pay any additional amounts as a result of a change in tax law, we will also have the option to redeem the series A preferred shares. If we experience a change of control, we may be required to make offers to redeem the series A preferred shares.

Liquidation Rights. Upon any voluntary or involuntary liquidation, dissolution or winding-up of Quanta Holdings, holders of the series A preferred shares are entitled to receive out of our assets available for distribution to shareholders, after satisfaction of indebtedness and other non-equity claims, if any, a liquidating preference and any declared and unpaid dividends before any distribution of assets is made to holders of our common shares.

Listing

Our common shares are listed on the Nasdaq National Market System under the symbol ‘‘QNTA.’’

Transfer Agent

Our registrar and transfer agent for the common shares is The Bank of New York.

126

MATERIAL TAX CONSIDERATIONS

The following is a summary of our taxation and the taxation of our shareholders under certain tax laws, does not purport to be a comprehensive discussion of all the tax considerations that may be relevant to a decision to purchase common shares and is for general information only. The discussion is based upon current law. Legislative, judicial or administrative changes or interpretations may be forthcoming that could be retroactive and could affect the tax consequences to holders of common shares. The tax treatment of a holder of common shares, or of a person treated as a holder of common shares for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the holder's particular tax situation. Statements contained in this prospectus as to the beliefs, expectations and conditions of Quanta Holdings and its subsidiaries as to the application of such tax laws or facts represent the view of management as to the application of such laws and do not represent the opinions of counsel.

Prospective investors should consult their own tax advisors concerning the U.S. federal, state, local and non-U.S. tax consequences to them of owning securities.

Taxation of Quanta Holdings and Subsidiaries

Certain Bermuda Tax Considerations

Bermuda does not currently impose any income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax on us or our shareholders, other than shareholders ordinarily resident in Bermuda, if any. There is currently no Bermuda withholding or other tax on principal, interest or dividends paid to holders of the shares, other than holders ordinarily resident in Bermuda, if any. We cannot assure you that we or our shareholders will not be subject to any such tax in the future.

Quanta Holdings has received written assurance dated May 27, 2003 from the Bermuda Minister of Finance under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, as amended, if any legislation is enacted in Bermuda imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the

nature of estate duty or inheritance tax, then the imposition of that tax would not be applicable to Quanta Holdings or to any of its operations, shares, debentures or obligations until March 28, 2016; provided, that the assurance is subject to the condition that it will not be construed to prevent the application of such tax to people ordinarily resident in Bermuda, or to prevent the application of any taxes payable by Quanta Holdings in respect of real property or leasehold interests in Bermuda held by it. Quanta Bermuda and Quanta U.S. Re also received such written assurance dated June 23, 2003. We cannot assure you that we will not be subject to any such tax after March 28, 2016.

Certain Irish Tax Considerations

We intend that Quanta Europe a company incorporated in Ireland, will be managed and controlled, in Ireland and, therefore, will be resident in Ireland for Irish tax purposes and subject to Irish corporation tax on its worldwide profits (including revenue profits and capital gains). Income derived by Quanta Europe, once authorized, from an Irish trade (that is, a trade that is not carried on wholly outside of Ireland) will be subject to Irish corporation tax at the current rate of 12.5%. Other income (that is income from passive investments, income from non-Irish trades and income from certain dealings in land) will generally be subject to Irish corporation tax at the current rate of 25%.

The Irish Revenue Commissioners have published a statement indicating that deposit interest earned by an insurance company on funds held for regulatory purposes will be regarded as part of its trading income, and accordingly will be part of the profits taxed at 12.5%. This statement also indicates acceptance of case law which states that investment income of an insurance company will likewise be considered as trading income where it is integral to the insurance trade and available for satisfying the liabilities of the insurance business. Other investment income earned by Quanta Europe will generally be taxed in Ireland at a rate of 25%. Capital gains realized by Quanta Europe will generally be subject to Irish corporation tax at an effective rate of 20%.

If Quanta Europe carries on a trade in the United Kingdom, or the U.K. through a permanent establishment in the U.K., profits realized from such a trade in the U.K. will be subject to Irish corporation tax notwithstanding that such profits may also be subject to taxation in the U.K. A credit against the Irish corporation tax liability is available for any U.K. tax paid on such profits, subject to the maximum credit being equal to the Irish corporation tax payable on such profits.

If we list our shares on a stock exchange in an EU Member State or country with which Ireland has a tax treaty, and provided that such shares are substantially and regularly traded on that exchange, Irish dividend withholding tax will not apply to dividends and other distributions paid by Quanta Europe, once capitalized, to Quanta Holdings provided Quanta Holdings has made an appropriate declaration, in prescribed form, to Quanta Europe.

We expect that none of Quanta Holdings and its subsidiaries, other than Quanta Europe, will be resident in Ireland for Irish tax purposes unless the central management and control of such companies is, as a matter of fact, located in Ireland. A company not resident in Ireland for Irish tax purposes can be subject to Irish corporation tax if it carries on a trade through a branch or agency in Ireland or disposes of certain specified assets (e.g., Irish land, minerals, or mineral rights, or shares deriving the greater part of their value from such assets). In such cases, the charge to Irish corporation tax is limited to trading income connected with the branch or agency, and capital gains on the disposal of assets used in the branch or agency which are situated in Ireland at or before the time of disposal, and capital gains arising on the disposal of specified assets, with tax imposed at the rates discussed above. A company not resident in Ireland is otherwise subject to Irish income tax at the standard rate, currently 20%, on other taxable income arising from sources within Ireland, and to capital gains tax at the current rate of 20% of the taxable gain, on disposals of

certain specified assets, Irish land, minerals, exploration and exploitation rights, and unquoted shares directly or indirectly deriving the greater part of their value from such assets.

Insurance companies are subject to an insurance premium tax in the form of a stamp duty charged at 2% of premium income. It applies to general insurance business, mainly business other than:

- Reinsurance;
- Life insurance;
- Certain, maritime, aviation and transit insurance; and
- Health insurance.

It applies to a premium in respect of a policy where the risk is located in Ireland. Legislation provides that risk is located in Ireland:

- In the case of insurance of buildings together with their contents, where the building is in Ireland;
- In the case of insurance of vehicles, where the vehicle is registered in Ireland;
- In the case of insurance of four months or less duration of travel or holiday if the policyholder took out the policy in Ireland; and

Otherwise where the policyholder is resident in Ireland, or if not an individual, if its head office is in Ireland or its branch to which the insurance relates is in Ireland.

See ''Risk Factors — Risks Related to our Business — We may be subject to additional Irish tax or U.K. tax.''

Certain United Kingdom Tax Considerations

The following is a summary of certain U.K. tax considerations under current U.K. law relating to Quanta Holdings and its subsidiaries.

U.K. Taxation of Quanta Holdings, Quanta Bermuda, Quanta Europe, Quanta U.S. Holdings and Quanta Specialty Lines

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U.K. Residence. Neither Quanta Holdings, Quanta Bermuda, Quanta Europe, Quanta U.S. Holdings nor Quanta Specialty Lines is incorporated in the U.K. Accordingly, they should not be treated as being resident in the U.K. unless their central management and control is exercised in the U.K. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. We intend to manage Quanta Holdings, Quanta Bermuda, Quanta Europe, Quanta U.S. Holdings, Quanta Specialty Lines and Quanta Indemnity so they are not resident in the U.K. for U.K. corporation tax purposes. Quanta 4000, as a company incorporated in the U.K., is treated as being resident in the U.K. and is subject to U.K. corporation tax on its worldwide income and gains. The maximum rate of U.K. corporation tax is 30%.

U.K. Permanent Establishment. As a matter of U.K. domestic tax law, a company not resident in the U.K. for U.K. corporation tax purposes can be subject to U.K. corporation tax if it carries on a trade in the U.K. through a permanent establishment in the U.K. but the charge to U.K. corporation tax is limited to profits (including revenue profits and capital gains) connected with such permanent establishment. The term ''permanent establishment'' is defined for these

purposes in a manner that is consistent with various internationally recognized characteristics commonly used in the U.K.'s double tax treaties. The maximum rate of U.K. corporation tax is 30%.

We intend that Quanta Europe will operate in such a manner that it will carry on a trade in the U.K. through a permanent establishment in the U.K. (i.e. Quanta U.K.). We intend that Quanta Europe will be entitled to the benefits of the tax treaty between the U.K. and Ireland. On the basis that Quanta U.K. should constitute a permanent establishment of Quanta Europe in the U.K. for the purposes of that tax treaty, Quanta Europe will be subject to U.K. corporation tax to the extent of any profits attributable to the permanent establishment in the U.K., as determined under the provisions of the U.K. — Ireland tax treaty.

We intend to operate in such a manner that none of Quanta Holdings nor any of its subsidiaries (other than Quanta Europe) will carry on a trade in the U.K. through a permanent establishment in the U.K. Whether a trade is being carried on in the U.K. through a permanent establishment in the U.K. is an inherently factual determination. Since U.K. case law and U.K. statute fail to definitively identify activities that constitute a trade being carried on in the U.K. through a permanent establishment in the U.K., we cannot assure you that HM Revenue & Customs will not contend successfully that Quanta Holdings or any of its subsidiaries (other than Quanta Europe) has been or will be carrying on a trade in the U.K. through a permanent establishment in the U.K. We believe that the U.S. subsidiaries of Quanta Holdings qualify for benefits under the tax treaty between the U.K. and the United States. If any of our U.S. subsidiaries qualifying for such benefits were to be carrying on a trade in the U.K. through a U.K. permanent establishment, they would only be subject to U.K. corporation tax if the U.K. permanent establishment constituted a permanent establishment for the purposes of that treaty and then only to the extent that any profits were attributable to that permanent establishment in the U.K. determined in accordance with the provisions of the U.K. — United States tax treaty.

The U.K. has no tax treaty with Bermuda and if any of Quanta Holdings or our subsidiaries in Bermuda were to be carrying on a trade in the U.K. through a U.K. permanent establishment, they would be subject to U.K. corporation tax attributable to that permanent establishment in accordance with the provisions of U.K. tax law.

There are circumstances in which companies that are neither resident in the U.K. nor entitled to the protection afforded by a tax treaty between the U.K. and the jurisdiction in which they are resident may be exposed to income tax in the U.K. on income arising in the U.K. (other than by deduction or withholding) but we intend to operate in such a manner that none of us will fall within the charge to income tax in the U.K. (other than by deduction or withholding) in this respect.

If we or any of our subsidiaries, other than any subsidiary incorporated in the U.K. as a contact office for Quanta Bermuda, were treated as being resident in the U.K. for U.K. corporation tax purposes, or, other than Quanta Europe were to be carrying on a trade in the U.K. through a permanent establishment in the U.K., the results of our operations and your investment could be materially adversely affected.

U.K. Excise Taxes

The U.K. imposes Insurance Premium Tax, or IPT, on insurance premiums on policies in respect of risks located in the U.K. Certain types of insurance risks located in the U.K. are exempt from IPT, including reinsurance. IPT is generally collected from the insurer, although the economic cost of the IPT is usually passed to the insured by way of an IPT-inclusive premium. The rate of IPT is 5% and is based on the amount of the gross premium.

Certain U.S. Federal Income Tax Considerations

The following discussion is a summary of certain U.S. federal income tax considerations relating to Quanta Holdings, Quanta Bermuda, Quanta Europe, Quanta U.S. Holdings, Quanta Specialty Lines, Quanta Indemnity and Quanta U.S. Re and the ownership of our shares by investors. As discussed further in this prospectus and based on our expected business, properties, ownership, organization, source of income and manner of operation, we believe that (1) no U.S. Person that owns shares in Quanta Holdings directly or indirectly through foreign entities should be subject to treatment as a 10% U.S. Shareholder of a controlled foreign corporation, or CFC, and (2) Quanta Holdings should not be considered a passive foreign investment company, for the years ended December 31, 2003 or 2004. We have not sought and do not intend to seek an opinion of legal counsel as to whether or not we were a passive foreign investment company for the years ended December 31, 2003 or 2004.

This summary is based upon the Internal Revenue Code, the Treasury Regulations promulgated under the Internal Revenue Code, rulings and other administrative pronouncements issued by the IRS, judicial decisions, the tax treaty between the United States and Bermuda, or the ''Bermuda Treaty'' and the tax treaty between the United States and Ireland, or the ''Irish Treaty'', all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. No advance ruling has been or will be sought from the IRS regarding any matter discussed in this prospectus. This summary is for general information only, and does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of such investor's investment or tax circumstances, or to investors subject to special tax rules, such as shareholders who own directly, or indirectly through certain foreign entities or through the constructive ownership rules of the Internal Revenue Code, 10% or more of the voting power or value of Quanta Holdings (or how those ownership rules may apply in certain circumstances), tax-exempt organizations, dealers in securities, banks, insurance companies, persons that hold shares that are a hedge or that are hedged against interest rate or insurance risks or that are part of a straddle or conversion transaction, or persons whose functional currency is not the U.S. dollar. This summary generally does not discuss the federal alternative minimum tax and federal taxes other than income tax or other U.S. taxes such as state or local income taxes. This summary assumes that an investor will acquire and hold our shares as capital assets, which generally means as property held for investment. Special rules, not discussed herein, apply to U.S. persons who are partners in a partnership investing in shares. Prospective investors should consult their tax advisors concerning the consequences, in their particular circumstances, of the ownership of shares under U.S. federal, state, local and other tax laws.

For U.S. federal income tax purposes and purposes of the following discussion, a ''U.S. Person'' means (1) a citizen or resident of the United States, (2) a corporation or other entity created or organized in the United States or under the laws of the United States or of any of its political subdivisions, (3) an estate the income of which is subject to U.S. federal income tax without regard to its source or (4) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. Persons have the authority to control all substantial decisions of the trust, as well as certain electing trusts.

U.S. Taxation of Quanta Holdings, Quanta Bermuda, Quanta Europe, Quanta U.S. Holdings, Quanta Specialty Lines, Quanta U.S. Re and Quanta Indemnity

U.S. Income and Branch Profits Tax. A foreign corporation deemed to be engaged in the conduct of a trade or business in the U.S. will generally be subject to U.S. federal income tax (at a

current maximum rate of 35%), as well as a 30% branch profits tax in certain circumstances, on its income which is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under an applicable income tax treaty, as discussed below. Quanta Holdings, Quanta Europe and Quanta Bermuda intend to operate in such a manner that they will not be considered to be conducting a trade or business within the United States for purposes of U.S. federal income taxation. Whether a trade or business is being conducted in the United States is an inherently factual determination. Because the Internal Revenue Code, Treasury Regulations and court decisions fail to identify definitively activities that constitute being engaged in a trade or business in the United States, we cannot assure you that the IRS will not contend successfully that Quanta Holdings, Quanta Bermuda and/or Quanta Europe are or will be engaged in a trade or business in the United States. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a foreign corporation is entitled to deductions and credits only if it timely files a U.S. federal income tax return (which requirement may be waived if the foreign corporation establishes that it acted reasonably and in good faith in its failure to timely file such return). Quanta Holdings, Quanta Europe and Quanta Bermuda intend to file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that they are subject to U.S. federal income tax.

An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (1) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Bermuda or U.S. citizens and (2) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities of, persons who are neither residents of either the United States or Bermuda nor U.S. citizens. Quanta Bermuda believes it is entitled to the benefits of the Bermuda Treaty. Assuming Quanta Bermuda is entitled to the benefits under the Bermuda Treaty, it will not be subject to U.S. federal income tax on any insurance income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. Whether business is being conducted in the United States through a permanent establishment is an inherently factual determination. Quanta Bermuda intends to conduct its activities so as not to have a permanent establishment in the United States, although we cannot assure you that it will achieve this result.

A company resident in Ireland will generally be entitled to the benefit of the Irish Treaty if (1) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Ireland or U.S. citizens and (2) deductible amounts paid for certain purposes to persons who are neither residents of either the U.S. or Ireland, nor U.S. citizens do not exceed 50% of the Irish company's income. An Irish company which does not meet those standards may nevertheless be entitled to the benefits of the Irish Treaty with respect to an item of income if the Irish company is engaged in the active conduct of a trade or business in Ireland, and the item of income is connected with or incidental to that trade or business. Quanta Europe believes it is entitled to the benefits of the Irish Treaty. Assuming Quanta Europe is entitled to the benefits of the Irish Treaty, it will not be subject to U.S. federal income tax on any income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. Quanta Europe intends to conduct its activities in a manner so that it does not have a permanent establishment in the United States, although we cannot assure you that it will achieve this result.

If a non-U.S. company is characterized as engaged in an insurance business in the United States, a portion of its net investment income will be characterized as effectively connected with such U.S. trade or business. The amount so characterized depends on a formula. It is unclear whether applicable income tax treaties apply to the characterization of net investment income and, if so, such benefit would only apply if the non-U.S. insurance company is eligible for such treaty benefit.

Foreign corporations also are subject to U.S. withholding tax at a rate of 30% of the gross amount of certain ‘‘fixed or determinable annual or periodical gains, profits and income’’ derived from sources within the United States (such as dividends and certain interest on investments), to the extent such

amounts are not effectively connected with the foreign corporation's conduct of a trade or business in the United States. The tax rate is subject to reduction by applicable treaties. The Bermuda Treaty does not provide such a reduction. Dividends, if any, paid by Quanta U.S. Holdings to Quanta Holdings, therefore, will be subject to 30% U.S. withholding tax. The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rate of tax applicable to premiums paid to Quanta Bermuda is 4% for insurance premiums and 1% for reinsurance premiums. The excise tax does not apply to premiums paid to Quanta Europe assuming that Quanta Europe is entitled to the benefits of the Irish Treaty, to the extent that Quanta Europe does not reinsure the risk with a reinsurer which is not entitled to the benefits of a bilateral tax treaty with the United States in which the United States has waived the excise tax.

Quanta U.S. Holdings is a Delaware corporation and Quanta Specialty Lines is an Indiana corporation. Quanta U.S. Re is a Bermuda corporation that will be taxed as a U.S. corporation pursuant to an election under section 953(d) of the Internal Revenue Code. Each will be subject to taxation in the United States on its worldwide income at regular corporate rates.

Personal Holding Companies. Quanta Holdings' U.S. subsidiaries could be subject to additional U.S. tax on a portion of their income earned from U.S. sources if any of them is considered to be a personal holding company, or ‘‘PHC’’ for U.S. federal income tax purposes. A corporation generally will be classified as a PHC for U.S. federal income tax purposes in a given taxable year if (1) at any time during the last half of such taxable year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of the stock of the corporation by value and (2) at least 60% of the corporation's adjusted ordinary gross income, as determined for U.S. federal income tax purposes, for such taxable year consists of ‘‘PHC income.’’ PHC income includes, among other things, dividends, certain interest, certain royalties, annuities and, under certain circumstances, rents. For purposes of the 50% test, each partner of an investment partnership who is an individual will be treated as owning his/her proportionate share of any stock owned by the partnership. Additionally, certain entities (such as tax-exempt organizations and pension funds) will be treated as individuals. The PHC rules contain an exception for foreign corporations.

If any of Quanta Holdings' U.S. subsidiaries were a PHC in a given taxable year, such corporation would be subject to PHC tax on its ‘‘undistributed PHC income’’ at a rate of 15%. For taxable years beginning after December 31, 2008, the PHC tax rate would be the highest marginal rate on ordinary income applicable to individuals.

Although Quanta Holdings believes that none of its U.S. subsidiaries is a PHC, we cannot provide assurance that this will be the case because of factors including legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of Quanta Holdings' shareholder base, the gross income of Quanta Holdings' U.S. subsidiaries and other circumstances that could change the application of the PHC rules to Quanta Holdings and its subsidiaries. In addition, if any of Quanta Holdings' U.S. subsidiaries were to become PHCs we cannot be certain that the amount of PHC income would be immaterial.

U.S. Taxation of Holders of Shares

Shareholders Who Are U.S. Persons:

Dividends. Subject to the discussion below relating to the potential application of the ‘‘controlled foreign corporation,’’ ‘‘related person insurance income,’’ and ‘‘passive foreign investment company’’ rules, distributions, if any, made with

respect to common shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of Quanta Holdings (as computed under U.S. tax principles). Certain dividends paid before 2009 (and under proposed legislation through 2010) may be eligible for reduced rates of tax. Because Quanta Holdings' shares are readily tradable on an established securities market in the United States, we expect that dividends, if any, paid by Quanta Holdings will be eligible for the reduced rate of tax.

132

Dividends, if any, paid by Quanta Holdings would not be eligible for the reduced rate of tax if Quanta Holdings were to be a passive foreign investment company in the year in which dividends are paid, or in the prior year, or if certain holding period and other requirements are not met by the shareholder receiving the dividend. Legislation was recently introduced in the U.S. Senate, which, if enacted, would provide that dividends received from Quanta Holdings after the date of enactment would not be eligible for the reduced rate of tax. Dividends paid by Quanta Holdings generally will be foreign source income for U.S. federal income tax purposes and will not be eligible for the dividends-received deduction allowed to U.S. corporations under the Internal Revenue Code.

The amount of any distribution in excess of the current and accumulated earnings and profits of Quanta Holdings will first be applied to reduce a holder's tax basis in the shares, and any amount in excess of tax basis will be treated as gain from the sale or exchange of such holder's shares.

Classification of Quanta Holdings, Quanta Bermuda or Quanta Europe as a CFC. In general, a foreign corporation is considered a CFC if ‘‘10% U.S. Shareholders’’ own directly or indirectly more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or the total value of all stock of such corporation. A 10% U.S. Shareholder is a U.S. Person who owns directly, indirectly, or constructively by application of certain attribution rules ("constructively"), at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation. Each 10% U.S. Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year, and owns shares in the CFC directly or indirectly through foreign entities on the last day of the CFC's taxable year must include in its gross income for U.S. federal income tax purposes its pro rata share (based on its actual direct and indirect, through foreign entities, ownership) of the CFC's ‘‘subpart F income,’’ even if the subpart F income is not distributed. For purposes of taking into account insurance income, a CFC includes a foreign corporation in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of the stock) is owned by 10% U.S. Shareholders, on any day during the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance contracts generating subpart F income exceeds certain levels.

For purposes of determining whether a corporation is a CFC, and therefore whether the more-than-50% (or more-than-25%, in the case of insurance income) and 10% ownership tests have been satisfied, shares owned includes shares owned directly, indirectly through foreign entities or shares considered as owned by application of certain constructive ownership rules.

Pursuant to those constructive ownership rules:

- an individual is treated as owning stock owned by certain members of his or her family;
- an option to acquire stock generally is treated as exercised;
- a corporation is treated as owning stock owned by a 50% or greater shareholder;
-

a partnership is treated as owning stock owned by its partners (regardless of their percentage ownership of the partnership); and

• stock owned by a partnership or a corporation is treated as owned proportionately by the owners of the entity (in the case of corporations, only if the shareholder owns 10% or more of the stock of the corporation).

Additional rules apply to trusts and estates. Operating rules apply to prevent reattribution of ownership in certain circumstances, as well as attribution that would cause stock to be treated as not owned by a U.S. person. **Because the attribution rules are complicated and depend on the particular facts relating to each investor, you are urged to consult your own tax advisors regarding the application of the rules to your ownership of our shares**.

Due to the dispersion of Quanta Holdings' share ownership among holders and its bye-law provisions that impose limitations on the concentration of voting power of its voting shares and that authorize the board to repurchase such shares under certain circumstances and other factors, Quanta Holdings believes that no U.S. Person that owns shares in Quanta Holdings directly or indirectly

through foreign entities should be subject to treatment as a 10% U.S. Shareholder of a CFC. These bye-law provisions are described in ‘‘Risk Factors — Risks Related to our Securities.’’ We cannot assure you, however, that the IRS will not challenge the effectiveness of these provisions for purposes of preventing CFC and 10% U.S. Shareholder status and that a court will not sustain such challenge.

Related Party Insurance Income Companies

Generally. The CFC rules also apply to certain insurance companies that earn related person insurance income. For purposes of applying the CFC rules to foreign corporations that earn related party insurance income, a foreign corporation will be treated as a CFC if related party insurance income shareholders collectively own directly, indirectly through foreign entities or constructively 25% or more of the stock of the corporation by vote or value. The term ‘‘related party insurance income shareholder’’ means any U.S. Person who owns, directly or indirectly through foreign entities, any amount (rather than stock possessing 10% or more of the total combined voting power) of the foreign corporation's stock.

Related party insurance income is defined as any ‘‘insurance income’’ attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a ‘‘related party insurance income shareholder’’ of the foreign corporation or a ‘‘related person’’ to such related party insurance income shareholder. In general, and subject to certain limitations, ‘‘insurance income’’ is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance contract which would be taxed under the provisions of the Internal Revenue Code relating to insurance companies if the income were the income of a domestic insurance company.

For purposes of the related party insurance income rules, ‘‘related person’’ means someone who controls or is controlled by the related party insurance income shareholder or someone who is controlled by the same person or persons that control the related party insurance income shareholder.

‘‘Control’’ is measured by either more than 50% in value or more than 50% in voting power of stock, applying constructive ownership principles. A corporation's pension plan is ordinarily not a ‘‘related person’’ with respect to the corporation unless the pension plan owns, directly or indirectly through the application of constructive ownership rules, more than 50%, measured by vote or value, of the stock of the corporation.

Related Party Insurance Income Exceptions. The special related party insurance income rules do not apply if (1) direct or indirect insureds and persons related to such insureds, whether or not U.S. Persons, own, at all times during the taxable year directly or indirectly, less than 20% of the voting power and less than 20% of the value of the stock of Quanta Bermuda or Quanta Europe, as applicable, or the ‘‘20% Ownership Exception,’’ (2) related party insurance income, determined on a gross basis, is less than 20% of Quanta Bermuda's or Quanta Europe's gross insurance income for the taxable year, as applicable, or the ‘‘20% Gross Income Exception,’’ (3) Quanta Bermuda or Quanta Europe, as applicable, elects to be taxed on its related party insurance income as if the related party insurance income were effectively connected with the conduct of a U.S. trade or business and to waive all treaty benefits with respect to related party insurance income and meets certain other requirements or (4) Quanta Bermuda or Quanta Europe, as applicable, elects to be treated as a U.S. corporation for U.S. tax purposes. Quanta Bermuda and Quanta Europe intend to operate in a manner that is designed to ensure that each qualifies for either the first or second exception to the related party insurance income rules.

If none of these exceptions applies, each U.S. Person who owns shares in Quanta Holdings (and therefore, indirectly in Quanta Bermuda and Quanta Europe) on the last day of the tax year in which Quanta Bermuda or Quanta Europe is a CFC under the related party insurance income rules, will be required to include in its gross income for U.S. federal income tax purposes its share of related party insurance income of Quanta Bermuda and/or Quanta Europe for the U.S. Person's taxable year that includes the end of the CFC's taxable year.

This inclusion generally will be determined as if such related party insurance income were distributed proportionately only to such U.S. Persons holding shares at that date. The inclusion will be

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limited to the current-year earnings and profits of Quanta Bermuda or Quanta Europe, as applicable, reduced by the shareholder's pro rata share, if any, of certain prior-year deficits in earnings and profits.

Computation of Related Party Insurance Income. In order to determine how much related party insurance income each of Quanta Bermuda and Quanta Europe has earned in each taxable year, Quanta Holdings intends to obtain and rely upon information from Quanta Bermuda's and Quanta Europe's insureds and reinsureds to determine whether any of the insureds, reinsureds or other persons related to such insureds or reinsureds own Quanta Holdings' shares and are U.S. Persons.

Quanta Holdings may not be able to determine whether any of the underlying insureds of the insurance companies to which Quanta Bermuda or Quanta Europe provide insurance or reinsurance are related party insurance income shareholders or related persons to such shareholders. Consequently, Quanta Holdings may not be able to determine accurately the gross amount of related party insurance income earned by Quanta Bermuda or Quanta Europe in a given taxable year. For any taxable year in which Quanta Bermuda's or Quanta Europe's gross related party insurance income may be 20% or more of its gross insurance income for the year, Quanta Holdings may also seek information from its shareholders to determine whether direct or indirect owners of Quanta Holdings' shares at the end of the year are U.S. Persons so that the related party insurance income may be determined and apportioned among such persons. To the extent Quanta Holdings is unable to determine whether a direct or indirect owner of shares is a U.S. Person, Quanta Holdings may assume that such owner is not a U.S. Person, thereby increasing the per share related party insurance income amount for all shareholders identified as U.S. Persons.

Uncertainty as to Application of Related Party Insurance Income. Regulations interpreting the related party insurance income provisions of the Internal Revenue Code exist only in proposed form. It is not certain whether these

Regulations will be adopted in their proposed form or what changes might ultimately be made or whether any such changes, as well as any interpretation or application of the related party insurance income rules by the IRS, the courts or otherwise, might have retroactive effect. Accordingly, the meaning of the related party insurance income provisions and their application to Quanta Bermuda and Quanta Europe is uncertain. These provisions include the grant of authority to the U.S. Treasury to prescribe ‘‘such regulations as may be necessary to carry out the purposes of this subsection, including regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise.’’ In addition we cannot assure you that the IRS will not challenge any determinations by Quanta Bermuda or Quanta Europe as to the amount, if any, of related party insurance income that should be includible in income or that the amounts of the related party insurance income inclusions will not be subject to adjustment based upon subsequent IRS examination. Prospective investors should consult their tax advisors as to the effects of these uncertainties.

Apportionment of Related Party Insurance Income to U.S. Shareholders. If Quanta Bermuda's or Quanta Europe's, as the case may be, related party insurance income for a year equals or exceeds 20% of that company's gross insurance income and the 20% Ownership Exception does not apply then every related party insurance income shareholder who owns shares of Quanta Holdings on the last day of the tax year in which Quanta Bermuda or Quanta Europe is a CFC under the related party insurance income rules, should expect that for such year it will be required to include in gross income its share of that company's related party insurance income for the portion of the taxable year during which the company was a CFC under the related party insurance income provisions, even if such related party insurance income shareholder did not own the shares throughout such period. A related party insurance income shareholder who owns Quanta Holdings' shares during the taxable year of Quanta Bermuda or Quanta Europe during which it was a CFC, but not on the last day of such taxable year, will not be required to include any related party insurance income into income, whether or not distributed.

Basis Adjustments. A U.S. Shareholder's tax basis in its Quanta Holdings shares will be increased by the amount of any subpart F income that the shareholder includes in income, including any related party insurance income included in income by an related party insurance income shareholder. Any distributions made by Quanta Holdings out of previously taxed subpart F income,

135

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including related party insurance income, will be exempt from further U.S. income tax in the hands of the U.S. Shareholder. The U.S. Shareholder's tax basis in its Quanta Holdings shares will be reduced by the amount of any distributions that are excluded from income under this rule.

Information Reporting. Under certain circumstances, U.S. Persons owning stock in a foreign corporation are required to file IRS Form 5471 with their U.S. federal income tax returns. Generally, information reporting on IRS Form 5471 is required with respect to (1) a person who is treated as a related party insurance income shareholder, (2) a 10% U.S. Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and who owned the stock on the last day of that year and (3) under certain circumstances, a U.S. Person who acquires stock in a foreign corporation, and as a result thereof owns 10% or more of the voting power or value of such foreign corporation, whether or not such foreign corporation is a CFC. For any taxable year in which Quanta Holdings determines that gross related party insurance income constitutes 20% or more of Quanta Bermuda's or Quanta Europe's gross insurance income and the 20% Ownership Exception does not apply, Quanta Holdings intends to mail to all U.S. Persons registered as holders of its shares IRS Form 5471, completed with information from Quanta Holdings, for attachment to the U.S. federal income tax returns of such shareholders. A tax-exempt organization that is treated as a 10% U.S. Shareholder or a related party insurance income Shareholder also must file IRS Form 5471 in the circumstances described above. Failure to file IRS Form 5471 may result in

penalties.

Tax-Exempt Shareholders. Tax-exempt entities will be required to treat certain subpart F insurance income, including related party insurance income, that is includible in income by the tax-exempt entity as unrelated business taxable income.

Dispositions of Shares. Subject to the discussion below relating to the potential application of Internal Revenue Code section 1248 or the ''passive foreign investment company'' rules, any gain or loss realized by a U.S. Person on the sale or other disposition of shares of Quanta Holdings will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized upon such sale or exchange and such person's tax basis in the shares. Capital gains received by individuals are subject to tax at preferential rates; the use of capital losses is subject to limitations. Moreover, gain, if any, generally will be U.S. source gain and generally will constitute ''passive income'' for foreign tax credit limitation purposes.

Internal Revenue Code section 1248 provides that if a U.S. Person sells or exchanges stock in a foreign corporation and such person owned directly, indirectly through certain foreign entities or constructively 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the CFC's earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). A 10% U.S. Shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs. Section 1248 also applies to the sale or exchange of shares in a foreign corporation if the foreign corporation would be treated as a CFC for related party insurance income purposes and would be taxed as an insurance company if it were a domestic corporation, regardless of whether the shareholder is a 10% U.S. Shareholder or whether related party insurance income constitutes 20% or more of the corporation's gross insurance income or the 20% Ownership Exception applies. Existing Treasury Regulations do not address whether section 1248 would apply if a foreign corporation is not a CFC but the foreign corporation has a subsidiary that is a CFC or that would be taxed as an insurance company if it were a domestic corporation. Prospective investors should consult their tax advisors regarding the effects of these rules on a disposition of shares.

Passive Foreign Investment Companies. In general, a foreign corporation will be a passive foreign investment company during a given year if (1) 75% or more of its gross income constitutes ''passive income'' or (2) 50% or more of its assets produce passive income or are held for the production of passive income. For these purposes, passive income generally includes interest,

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dividends, annuities and other investment income. The passive foreign investment company statutory provisions contain an express exception for income "derived in the active conduct of an insurance business by a corporation that is predominantly engaged in an insurance business." This exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. Quanta Holdings expects for purposes of the passive foreign investment company rules that each of Quanta Bermuda and Quanta Europe will be considered to be predominantly engaged in an insurance business and that they are unlikely to have financial reserves in excess of the reasonable needs of their insurance business. The passive foreign investment company statutory provisions also contain a look-through rule stating that, for purposes of determining whether a foreign corporation is a passive foreign

investment company, such foreign corporation shall be treated as if it received ‘‘directly its proportionate share of the income . . .’’ and as if it ‘‘held its proportionate share of the assets . . .’’ of any other corporation in which it owns at least 25% by value of the shares. While no explicit guidance is provided by the statutory language, under this look-through rule, we believe that Quanta Holdings should be deemed to own the assets and to have received the income of its insurance subsidiaries directly for purposes of determining whether it qualifies for the insurance exception and, consequently, that Quanta Holdings should not be treated as a passive foreign investment company for U.S. federal income tax purposes for the years ended December 31, 2003 and 2004. This interpretation of the look-through rule is consistent with the legislative intention generally to exclude bona fide insurance companies from the application of the passive foreign investment company provision. No assurance can be given that the IRS would not challenge this position or that a court would not sustain such challenge. Prospective investors should consult their tax advisor as to the effects of the passive foreign investment company rules to them. We have not sought and do not seek to obtain an opinion of legal counsel as to whether or not we were a passive foreign investment company for the years ended December 31, 2003 and 2004.

If Quanta Holdings were characterized as a passive foreign investment company during a given year, a U.S. Person owning shares would be subject to a penalty tax at the time of the sale of such shares at a gain, or upon receipt of an ‘‘excess distribution’’ with respect to, their shares, unless such shareholder made a ‘‘qualified electing fund election’’ or ‘‘mark-to-market’’ election. In general, a shareholder receives an ‘‘excess distribution’’ if the amount of the distribution is more than 125% of the average distribution with respect to the shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). In general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the shareholder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares was taxed in equal portions at the highest applicable tax rate on ordinary income throughout the shareholder's period of ownership. The interest charge is equal to the applicable rate imposed on underpayments of U.S. federal income tax for such period.

Other. Except as discussed below with respect to backup withholding, dividends paid by Quanta Holdings will not be subject to U.S. withholding tax.

Shareholders Who Are Non-U.S. Persons

Subject to certain exceptions, non-U.S. Persons will be subject to U.S. federal income tax including potential branch profits tax in the case of shareholders that are corporations on dividend distributions with respect to, and gain realized from the sale or exchange of, shares only if such dividends or gains are effectively connected with the conduct of a trade or business within the United States. Nonresident alien individuals will not be subject to U.S. estate tax with respect to the shares.

All Shareholders

Information reporting to the IRS by paying agents and custodians located in the United States will be required with respect to payments of dividends on the shares to U.S. Persons. In addition, you may be subject to backup withholding with respect to dividends paid by Quanta Holdings unless you (1) are a corporation, non-U.S. Person or come within certain other exempt categories and, when

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required, demonstrate this fact, or (2) provide a taxpayer identification number, certify that you have not lost exemption from backup withholding and otherwise comply with applicable requirements of the backup withholding

rules.

Backup withholding is not an additional tax and may be credited against your regular U.S. federal income tax liability or otherwise you may be entitled to a refund for any such tax withheld.

UNDERWRITING

General

We and the underwriters named below have entered into an underwriting agreement covering the common shares to be offered in this offering. Pursuant to the underwriting agreement, which will be filed by us as an exhibit to a current report on Form 8-K, each underwriter has severally agreed to purchase from us the number of common shares set forth opposite its name in the following table:

Name of Underwriter	Number of Shares
Friedman, Billings, Ramsey & Co., Inc.	9,138,672
BB&T Capital Markets, a division of Scott & Stringfellow, Inc.	2,284,668
Total	11,423,340

The underwriters' obligations are several, which means that each underwriter is required to purchase a specific number of common shares, but it is not responsible for the commitment of any other underwriter. The underwriting agreement provides that the underwriters' several obligations to purchase our common shares depend on the satisfaction of the conditions contained in the underwriting agreement, including:

- the representations and warranties made by us to the underwriters are true;
- there is no material adverse change in the financial markets; and
- we deliver customary closing documents and legal opinions to the underwriters.

The underwriters are committed to purchase and pay for all of our common shares offered by this prospectus, if any such shares are taken. However, the underwriters are not obligated to take or pay for our common shares covered by the underwriters' over-allotment option described below, unless and until this option is exercised.

The common shares are being offered by the several underwriters, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of certain legal matters by counsel for the underwriters and other conditions. The underwriters reserve the right to withdraw, cancel or modify this offering and to reject orders in whole or in part.

Electronic Prospectus Delivery

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically. Friedman, Billings, Ramsey & Co., Inc., as representative, may agree to allocate a number of common shares to underwriters for sale to their online brokerage account holders. The representative will allocate common shares to underwriters that may make Internet distributions on the same basis as other allocations. Other than the prospectus in electronic format, the information on any of these websites and any other information contained on a website maintained by an underwriter is not part of this prospectus.

Nasdaq National Market Listing

Our common shares are quoted on the Nasdaq National Market System under the symbol "QNTA."

Over-Allotment Option

We have granted to the underwriters an over-allotment option, exercisable no later than 30 days from the date of this prospectus, to purchase up to an aggregate of 1,713,501 additional common shares at the public offering price, less the underwriting discount and commission set forth on the cover page of this prospectus.

To the extent that the underwriters exercise their over-allotment option, the underwriters will become obligated, so long as the conditions of the underwriting agreement are satisfied, to purchase such additional shares in proportion to their respective initial purchase amounts. We will be obligated to sell these common shares to the underwriters to the extent the over-allotment option is exercised. The underwriters may exercise this option only to cover over-allotments made in connection with the sale of the common shares offered by this prospectus.

Commissions and Expenses

The underwriters propose to offer the common shares directly to the public at the offering price set forth on the cover page of this prospectus and to dealers at the public offering price less a concession not in excess of $0.15 per share, of which a concession not in excess of $0.10 per share may be reallowed to other dealers. After the public offering of the common shares, the underwriters may change the offering price and other selling terms.

Pursuant to an engagement letter dated December 7, 2005, we appointed Friedman, Billings, Ramsey & Co., Inc. to act until June 7, 2006 as lead underwriter in connection with any public or private offering of our common shares. This arrangement has been deemed to be a right of first refusal by the National Association of Securities Dealers, Inc., or the NASD, and will be considered an item of compensation in connection with this offering. The following table shows the per share and total underwriting discounts and commission that we will pay to the underwriters and the proceeds we will receive before other expenses related to this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional common shares. We will receive proceeds of $50.5 million ($58.3 million if the over-allotment is exercised) net of underwriting discounts and offering expenses.

	Per Share[2]	Total Without Over-Allotment Exercise	Total With Over-Allotment Exercise
Public offering price	$ 4.75	$ 54,260,865	$ 62,399,994
Underwriting discount and underwriters' expenses payable by us[1]	$ 0.2744	$ 3,134,348	$ 3,582,000
Proceeds to us before expenses	$ 4.48875	$ 51,276,517	$ 58,967,995

[1] Includes reimbursement of the underwriters' expenses, including underwriters' attorney fees, of approximately $150,000.

[2] Assumes overallotment option is not exercised.

We estimate that our total expenses for this offering will be $750,000.

Lock-Up Agreements

We, each of our directors, our executive officers and certain affiliates of our directors have agreed, for a period of 90 days after the date of this prospectus, without the prior written consent of Friedman, Billings, Ramsey & Co., Inc.:

- not to offer, sell, contract to sell, announce the intention to sell or pledge or otherwise transfer or dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the transfer or disposition by any person at any time in the future of) any shares of our common shares;
- not to grant or sell any option or contract to purchase any of our common shares; and

- not to enter into any swap or other agreement that transfers any of the economic consequences of ownership of or otherwise transfer or dispose of, directly or indirectly, any of our common shares.

These agreements also prohibit us, our directors, our executive officers and certain affiliates of our directors from entering into any of the foregoing transactions with respect to any securities that are convertible into or exchangeable for our common shares. These restrictions will not prohibit us from issuing our common shares under our employee benefit plans or prevent us from negotiating possible acquisitions.

Each of our directors, our executive officers and certain affiliates of our directors have also agreed, for a period of 90 days after the date of this prospectus, not to seek to exercise or effectuate, in any manner, any rights now held or subsequently acquired to require us to register, under the Securities Act of 1933, the sale, transfer or other disposition of our common shares held by such person.

Indemnity

We have agreed to indemnify the underwriters and persons who control the underwriters against liabilities, including liabilities under the Securities Act and to contribute to payments that the underwriters may be required to make for these liabilities.

Stabilization

In connection with the offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common shares, including:

- short sales;
- syndicate covering transactions;
- imposition of penalty bids; and
- purchases to cover positions created by short sales.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common shares while the offering is in progress. Stabilizing transactions may include making short sales of our common shares, which involve the sale by the underwriter of a greater number of common shares than it is required to purchase in the offering, and purchasing common shares from us or in the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriter's over-allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount.

Each underwriter may close out any covered short position either by exercising its over-allotment option, in whole or in part, or by purchasing common shares in the open market. In making this determination, each underwriter will consider, among other things, the price of common shares available for purchase in the open market compared to the price at which the underwriter may purchase common shares pursuant to the over-allotment option.

A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common shares in the open market that could adversely affect investors who purchased in the offering. To the extent that the underwriters create a naked short position, they will purchase common shares in the open market to cover the position.

The underwriters also may impose a penalty bid on selling group members. This means that if the underwriters purchase common shares in the open market in stabilizing transactions or to cover short sales, the underwriters can require the selling group members that sold those common shares as part of the offering to repay the selling concession received by them.

As a result of these activities, the price of our common shares may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may

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discontinue them at any time. The underwriters may carry out these transactions on the Nasdaq National Market System, in the over-the-counter market or otherwise.

Passive Market Making

In connection with this offering, the underwriters and any selling group members who are qualified market makers on the Nasdaq National Market System may engage in passive market making transactions in our common shares on the Nasdaq National Market System in accordance with Rule 103 of Regulation M under the Securities Act. Rule 103 permits passive market making activity by the participants in our common shares offering. Passive market making may occur before the pricing of our offering, and before the commencement of offers or sales of the common shares. Passive market makers must comply with applicable volume and price limitations and must be identified as a passive market maker. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for the security. If all independent bids are lowered below the bid of the passive market maker, however, the bid must then be lowered when purchase limits are exceeded. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker's average daily trading volume in the common shares during a specified period and must be discontinued when that limit is reached. The underwriters and other dealers are not required to engage in passive market making and may end passive market making activities at any time.

Our Relationship with the Underwriters

Friedman, Billings, Ramsey & Co., Inc. is deemed to be affiliated with us for purposes of the Conduct Rules of the NASD. Under the Conduct Rules of the NASD, when underwriters are affiliated with a company, they are deemed to have a ''conflict of interest'' under Rule 2720(b)(7) of the rules and regulations of the NASD. When a NASD member with a conflict of interest participates as an underwriter in a public offering, that rule requires that the initial public offering price be no higher than that recommended by a ''qualified independent underwriter,'' as defined by the NASD, which qualified independent underwriter shall also participate in the preparation of the registration statement and the

prospectus and exercise the usual standards of ‘‘due diligence’’ in its participation. BB&T Capital Markets, a division of Scott & Stringfellow, Inc., has been engaged to act as a qualified independent underwriter. In this role, BB&T Capital Markets, a division of Scott & Stringfellow, Inc., has performed a due diligence investigation of us and participated in the preparation of this prospectus. The offering price of the common shares is not higher than the price recommended by BB&T Capital Markets, a division of Scott & Stringfellow, Inc. We have agreed to indemnify BB&T Capital Markets, a division of Scott & Stringfellow, Inc., against liabilities incurred in connection with acting as a qualified independent underwriter, including liabilities under the Securities Act of 1933, as amended. In addition, because Friedman, Billings, Ramsey &Co., Inc. is deemed to be affiliated with us for purposes of the Conduct Rules of the NASD, offers and sales of the common shares as described in this prospectus will comply with Rule 2720 of the Conduct Rules of the NASD regarding the offer and sale of securities of an affiliate. No member of the NASD participating in offers and sales of the common shares will confirm any sales of the common shares to any discretionary account without the prior specific written approval of the customer.

Friedman, Billings, Ramsey Group, Inc., an affiliate of Friedman, Billings, Ramsey & Co., Inc., owns approximately 5.2% of our common shares as of November 30, 2005. Also, two of our non-executive directors serve as non-executive directors on the board of Friedman, Billings, Ramsey Group, Inc. Certain of the underwriters and some of their respective affiliates have performed and expect to continue to perform financial advisory and investment and commercial banking services for us. From time to time some of the underwriters may provide other investment banking services to us in the ordinary course of their respective businesses. For these services, they may receive advisory or transaction fees, as applicable, plus out-of-pocket expenses, of the nature and in amounts customary in the industry for these financial services.

LEGAL MATTERS

Baker & McKenzie LLP will represent us in connection with this offering and has acted as special counsel to us in connection with United States tax and regulatory matters. The validity of the issuance of the common shares under Bermuda law will be passed upon for us by Conyers Dill & Pearman. Certain legal matters in connection with this offering will be passed upon for the underwriters by Sidley Austin Brown & Wood LLP.

EXPERTS

Our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 and included in and incorporated by reference in this prospectus have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as set forth in their reports therein and are so included and incorporated by reference herein in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and other reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at http://www.sec.gov. You may also read and copy any document we file at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act can also be accessed free of charge

from our website at www.quantaholdings.com. These filings will be available as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not part of this prospectus.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

For purposes of this prospectus, the SEC allows us to ''incorporate by reference'' certain information we have filed with the SEC, which means that we are disclosing important information to you by referring you to other information we have filed with the SEC. The information we incorporate by reference is considered part of this prospectus and later information that we file with the SEC will automatically update and supersede that information. We specifically are incorporating by reference the following documents filed with the SEC (excluding those portions of any Form 8-K that are not deemed ''filed'' pursuant to the General Instructions of Form 8-K):

- our Annual Report on Form 10-K for the year ended December 31, 2004;
- our Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2005, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2005;
- our Current Reports on Form 8-K filed on March 1, 2005, March 14, 2005, March 22, 2005, May 13, 2005, June 8, 2005, July 15, 2005, July 26, 2005, August 5, 2005, October 7, 2005, November 1, 2005, November 25, 2005, November 28, 2005, December 2, 2005 and December 14, 2005 and our Current Reports on Form 8-K/A filed on March 16, 2005 and December 2, 2005; and
- the description of our common shares, which is contained in our Registration Statement on Form 8-A filed with the SEC on August 3, 2004 (File No. 000-50885), including any amendments or reports filed for the purpose of updating such description.

All reports and other documents we subsequently file pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of this offering, including all such documents we may file with the SEC after the date of the initial registration statement and prior to the effectiveness of the registration statement, but excluding any information furnished to, rather than filed with, the SEC, will

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also be incorporated by reference into this prospectus and deemed to be part of this prospectus from the date of the filing of such reports and documents.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon written or oral request, a copy of any or all documents that are incorporated by reference into this prospectus by reference, but not delivered with the prospectus, other than exhibits to such documents unless such exhibits are specifically incorporated by reference into the documents that this prospectus incorporates. You should direct written requests to: Corporate Secretary, Quanta Capital Holdings Ltd., Cumberland House, 1 Victoria Street, Hamilton HM 11, Bermuda, or you may call us at (441) 294-6350.

ENFORCEABILITY OF CIVIL LIABILITIES UNDER U.S. FEDERAL SECURITIES LAWS

Quanta Holdings was incorporated under the laws of Bermuda. In addition, some of our officers reside outside the United States, and all or a substantial portion of their assets and our assets are or may be located in jurisdictions outside the United States. Therefore, it may be difficult for investors to effect service of process within the United States upon our non-U.S. based directors and officers or to recover against Quanta Holdings, or such directors and officers or obtain judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws against them. However, Quanta Holdings may be served with process in the United States with respect to actions against it arising out of or in connection with violations of U.S. federal securities laws relating to offers and sales of shares made by this prospectus by serving CT Corporation, 111 Eighth Avenue, 13th Floor, New York, New York 10011 our U.S. agent irrevocably appointed for that purpose.

We have been advised by Conyers Dill & Pearman, our Bermuda counsel, that there is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the U.S. court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a U.S. court that is final and for a sum certain based on U.S. federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the U.S. court, and the issue of submission and jurisdiction is a matter of Bermuda (not U.S.) law.

In addition, and irrespective of jurisdictional issues, the Bermuda courts will not enforce a U.S. federal securities law that is either penal or contrary to Bermuda public policy. It is the advice of Conyers Dill & Pearman that an action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the state in its sovereign capacity, will not be entertained by a Bermuda court. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, would not be available under Bermuda law or enforceable in a Bermuda court, as they would be contrary to Bermuda public policy. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

INDEX TO FINANCIAL STATEMENTS
QUANTA CAPITAL HOLDINGS LTD.

Unaudited Quarterly Financial Statements:

Condensed Consolidated Balance Sheets at September 30, 2005 (unaudited) and December 31, 2004 F-2

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended September 30, 2005 and 2004 F-3

F-4

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2005 and 2004	
Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004	F-5
Notes to the Unaudited Condensed Consolidated Financial Statements	F-6
Audited Annual Financial Statements:	
Report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm	F-21
Consolidated Balance Sheets as of December 31, 2004 and December 31, 2003 (successor)	F-23
Consolidated Statements of Operations and Comprehensive (Loss) Income for the year ended December 31, 2004 (successor), the period from May 23, 2003 (date of incorporation) to December 31, 2003 (successor), the period from January 1, 2003 to September 3, 2003 (predecessor) and the year ended December 31, 2002 (predecessor)	F-24
Consolidated Statements of Changes in Shareholders' Equity for the year ended December 31, 2004 (successor), the period from May 23, 2003 (date of incorporation) to December 31, 2003 (successor), the period from January 1, 2003 to September 3, 2003 (predecessor) and the year ended December 31, 2002 (predecessor)	F-25
Consolidated Statements of Cash Flows for the year ended December 31, 2004 (successor), the period from May 23, 2003 (date of incorporation) to December 31, 2003 (successor), the period from January 1, 2003 to September 3, 2003 (predecessor) and the year ended December 31, 2002 (predecessor)	F-26
Notes to the Consolidated Financial Statements	F-27

QUANTA CAPITAL HOLDINGS LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of U.S. dollars except for share and per share amounts)

	September 30, 2005 (unaudited)	December 31, 2004
Assets		
Investments at fair value (amortized cost: September 30, 2005, $766,902; December 31, 2004, $600,161)		
Available for sale investments (Restricted at fair value: September 30, 2005: $405,326; December 31, 2004: $341,655)	$ 720,426	$ 559,430
Trading investments related to deposit liabilities	38,782	40,492
Total investments at fair value	759,208	599,922

Cash and cash equivalents	99,231	32,775
Restricted cash and cash equivalents	45,605	42,482
Accrued investment income	5,127	4,719
Premiums receivable	172,119	146,784
Losses and loss adjustment expenses recoverable	152,834	13,519
Other accounts receivable	9,697	11,575
Deferred acquisition costs, net	50,723	41,496
Deferred reinsurance premiums	82,267	47,416
Property and equipment, net of accumulated depreciation of $3,946 (December 31, 2004: $1,625)	5,665	4,875
Goodwill and other intangible assets	20,062	20,617
Other assets	21,584	14,553
Total assets	$ 1,424,122	$ 980,733
Liabilities		
Reserve for losses and loss expenses	$ 469,994	$ 159,794
Unearned premiums	370,982	247,936
Environmental liabilities assumed	12,182	6,518
Reinsurance balances payable	34,302	24,929
Accounts payable and accrued expenses	28,577	17,360
Net payable for investments purchased		