

MOODY'S AFFIRMS A2 ISSUER RATING OF NCCI HOLDINGS, INC.; OUTLOOK IS STABLE

NO OUTSTANDING RATED DEBT FOR NON-STOCK MEMBERSHIP CORPORATION

Not-for-Profit Organization FL

Opinion

NEW YORK, Nov 5, 2008 -- Moody's Investors Service has affirmed the A2 issuer rating for NCCI Holdings, Inc. (NCCI). The rating outlook is stable. The organization has no outstanding rated debt, but has \$55 million of outstanding long-term obligations.

INTEREST RATE DERIVATIVES: None

STRENGTHS:

*Distinct market niche as the nation's largest single source of employee injury data for workers compensation insurance and key provider of services to workers compensation industry constituencies. NCCI has relationships with more than 900 insurance companies and nearly 40 state insurance departments. The organization operates with a "not-for-profit" operating philosophy for its members aimed at providing services at a minimal cost. The organization's key market strength is its comprehensive database of historical claims that is difficult to replicate for competitive purposes as well as its investments in data and technology, enabling it to provide industry-focused research and actuarial analysis. With its market position, NCCI partners with state legislators and insurance departments by providing actuarial legislative analysis, including expert testimony and analysis, on legislation involving workers compensation

*Diversified revenue base and aggressive expense management, with operational flexibility to increase operating surplus when necessary to fund expenses or build balance sheet resources through annual price adjustments or customer credits. Credits for the most recent fiscal years were \$5.4 million, or 3.8% of net operating revenues, in FY 2005, then rising to \$9.3 million or 6.3% in FY 2006, then decreasing to \$3.5 million or 2.4% in FY 2007. Much of NCCI's revenues are driven by the premium growth of workers compensation insurance in the industry. The organization is forecasting a slowdown in revenue growth in FY 2009 due to job losses in the general economy and lower premiums charged by insurers.

*Favorable operating performance before income taxes (considered by Moody's as a non-operating expense), with a 3.6% three-year average operating margin for the period ending in FY 2007, as calculated by Moody's assuming a 5% return on the three-year average of cash and investments for investment income. We expect NCCI to continue to provide modestly favorable performance as it is committed to maintaining a low expense load and bringing value to its members by way of keeping charges to a minimum level. The reported operating performance is net of the customer credits. Excluding customer credits, NCCI would have produced a 7.5% three-year average operating margin for the period ending in FY 2007. The organization has good operating cash flow, with an operating cash flow margin of 10.7% and average debt service coverage of 6.4 times, although we note that debt service is interest expense only.

*No debt plans, as NCCI funds all capital needs from operating cash flow.

CHALLENGES:

*Modest financial resources, with total resources covering debt by 0.65 times and operations by 0.25 times (or 3 months). Total resources have been generally stable, increasing to \$35.6 million in FY 2007 from \$31.5 million in FY 2006. A mitigant to the modest balance sheet is that all of NCCI's resources are unrestricted and invested in cash or highly liquid Treasury investments. As such, they can be fully used for operating and debt service expenses. We note that financial resources do not include the full value of the organization's headquarters in Boca Raton, Florida, with the appraised value as of July 2008 (reflecting recent market declines) still more than \$30 million higher than carrying value of \$46 million as of 9/30/08. Further, the organization has over \$58 million of cash and investments, with the discrepancy between total resources and total cash and investments attributable in part to a \$12 million Accrued Pension and Postretirement Benefit Obligation and \$3 million in deferred income.

*Vulnerability to underwriting cycle in the workers compensation insurance sector. The industry had seen rising overall premium growth in recent years, but premium growth has moderated more recently and is expected to decrease in the near term. As NCCI's revenues are highly linked to the sector's revenue base, it is expected to see a reduction in revenue growth over the next one to two years. However, as the organization is able to adjust its current year net revenues through pricing adjustments, as well as the issuance of customer credits, we believe that any revenue decrease would not likely have a near term credit impact.

*Debt structure, with NCCI's \$55 million of privately placed senior unsecured notes maturing in 2014 with no principal amortization. The notes are fixed rate (paying 5.09%) and can be accelerated with the occurrence of specified Events of Default. The organization is bound by two financial covenants. The first is a Consolidated Adjusted Net Worth Covenant, which must be greater than \$30 million at all times; the organization was well in excess of the threshold as of fiscal year end 2007. The second is a limitation on Priority Debt (as defined in the agreement) to no more than 10% of consolidated total assets; NCCI has no priority debt at this time. NCCI can choose to refinance its outstanding notes at maturity (2014) or may refund the debt. As of fiscal year end 2007, NCCI has only \$58 million in total cash and investments as compared to \$55 million of notes. However, NCCI should be able to build cash and investments through retained operating surpluses to meet the maturity schedule in the event it is unable to refinance the debt. Additionally, the organization has a \$20 million revolving credit facility in place with Bank of America, N.A. which can be increased upon NCCI's request to \$30 million.

Outlook

NCCI Holding's stable rating outlook is based on Moody's expectation that the organization will remain an important organization serving the workers compensation industry, maintain balanced operating margins and acceptable balance sheet resources, and will incur no additional debt in the medium-term.

What Could Change the Rating - UP

Significant growth in financial resources through retention of operating surpluses while limiting additional debt and increase in the formal partnerships with additional entities for reporting, research and rate filing, resulting in substantial growth in net revenues.

What Could Change the Rating - DOWN

Deterioration or significant change in market position or significant change in regulatory structure of workers compensation insurance line, as well as emergence of viable competitors offering data or services currently provided by NCCI. Declines in financial resources or additional borrowing could put pressure on balance sheet coverage of debt.

KEY DATA AND RATIOS (FY 2007 financial results):

Total Long-Term Obligations: \$55.0 million

Total Financial Resources: \$35.6 million

Total Cash and Investments: \$58.5 million

Unrestricted Resources to Debt: 0.65 times

Total Cash and Investments to Debt: 1.1 times

Unrestricted Resources to Operations: 0.25 times

Three-Year Average Operating Margin: 3.6%, net of customer credits

Operating Cash Flow Margin: 10.7%

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