

QUANTA CAPITAL HOLDINGS LTD

Form 424B3

December 08, 2005

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Registration File No.: 333-129255

SUBJECT TO COMPLETION, DATED DECEMBER 5, 2005

CANADIAN OFFERING MEMORANDUM

CONFIDENTIAL

Private Placement in Canada

3,000,000 Shares

Quanta Capital Holdings Ltd.

% Series A Preferred Shares

(Liquidation Preference U.S.\$25.00 Per Share)

This Canadian Offering Memorandum constitutes an offering of the securities described herein only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell such securities. This Canadian Offering Memorandum is not, and under no circumstances is it to be construed as, an advertisement or a public offering of the securities referred to in this document. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this Canadian Offering Memorandum or the merits of the securities described herein and any representation to the contrary is an offence. **Friedman, Billings, Ramsey Group, Inc., a national investment bank and an affiliate of Friedman, Billings, Ramsey & Co., Inc., owns approximately 5.2% of Quanta Capital Holdings Ltd.'s common shares as of November 30, 2005. W. Russell Ramsey has served as a non-executive director of Quanta Capital Holdings Ltd. since September 2003 and he is also a co-founder, a non-executive director and a former executive officer of Friedman, Billings, Ramsey Group, Inc. Wallace L. Timmeny has served as a non-executive director of Quanta Capital Holdings Ltd. since September 2003 and he is also a non-executive director of Friedman, Billings, Ramsey Group, Inc. As a result of the foregoing relationships, Quanta Capital Holdings Ltd. may be considered to be a "connected issuer" of Friedman, Billings, Ramsey & Co., Inc. as such term is defined in National Instrument 33-105 Underwriting Conflicts. Canadian investors should refer to the heading "Certain Relationships and Transactions" contained in this Canadian Offering Memorandum for additional information.**

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

BB&T Capital Markets

The date of this Canadian Offering Memorandum is , 2005

CANADIAN OFFERING MEMORANDUM

(Alberta, Manitoba, Ontario and Québec)

Quanta Capital Holdings Ltd., referred to hereafter as the Company, is hereby offering 3,000,000 of its % series A preferred shares, par value U.S.\$0.01 per share, referred to hereafter as the series A preferred shares. Additionally, the

Company has granted the underwriters a 30-day option to purchase up to an additional 450,000 series A preferred shares solely to cover over-allotments, if any.

Upon liquidation, dissolution or winding-up, the holders of the series A preferred shares will be entitled to receive from the Company's assets legally available for distribution to shareholders, a liquidation preference of U.S.\$25.00 per share, plus declared but unpaid dividends and additional amounts, if any, to the date fixed for distribution. Dividends on the series A preferred shares will be payable on a non-cumulative basis only when, as and if declared by the Company's board of directors, quarterly in arrears on the fifteenth day of March, June, September and December of each year, commencing on March 15, 2006. Dividends declared on the series A preferred shares will be payable at an initial rate equal to % of the liquidation preference per annum (equivalent to U.S.\$ per share) up to but not including June 15, 2006. On June 15, 2006, December 15, 2006, June 15, 2007 and December 15, 2007, the dividend rate will reset to the dividend rate per annum in effect immediately prior to the reset plus % of the liquidation preference per annum (equivalent to U.S.\$ per share). From and after December 15, 2007, dividends declared on the series A preferred shares will be payable at a rate equal to % of the liquidation preference per annum (equivalent to U.S.\$ per share).

On and after December 15, 2010, the Company may redeem the series A preferred shares, in whole or in part, at any time, at the redemption price described in the U.S. Prospectus Supplement (as defined below), plus declared but unpaid dividends and additional amounts, if any, to the date of redemption. The Company may not redeem the series A preferred shares before December 15, 2010 except that the Company may redeem the series A preferred shares before that date at a redemption price of U.S.\$26.00 per share, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption, if the Company submits to the holders of its common shares a proposal for an amalgamation, consolidation, merger, arrangement, reconstruction, reincorporation, de-registration or any other similar transaction involving the Company that requires, or if the Company submits any proposal for any other matter that, as a result of any change in Bermuda law after the date of the U.S. Prospectus Supplement (as defined below), whether by enactment or official interpretation, that requires, in either case, a vote of the holders of the series A preferred shares at the time outstanding, whether voting as a separate series or together with any other series or class of preferred shares as single class. If the Company experiences a change of control, it may be required to make offers to redeem the series A preferred shares at a price of U.S.\$25.25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption and on the terms described in the U.S. Prospectus Supplement (as defined below). The series A preferred shares have no stated maturity and will not be subject to any sinking fund and will not be convertible into any of the Company's other securities or property.

Attached herewith and forming part of this Canadian Offering Memorandum is a preliminary U.S. prospectus supplement dated , 2005 (the "U.S. Prospectus Supplement") along with the accompanying U.S. shelf prospectus dated November 2, 2005 (the "U.S. Shelf Prospectus", and collectively with the U.S. Prospectus Supplement, the "U.S. Prospectus"), as filed with the United States Securities and Exchange Commission, regarding the offer for sale of the Company's series A preferred shares being made in the United States. Except as otherwise provided herein, capitalized terms used in this document without definition have the meanings assigned to them in the U.S. Prospectus. The offering of the Company's series A preferred shares in Canada is being made solely by this Canadian Offering Memorandum and any decision to purchase such shares should be based solely on information contained in this document. No person has been authorized to give any information or to make any representations concerning this offering other than those contained herein. This Canadian Offering Memorandum constitutes an offering of the securities described herein in the Canadian provinces of Alberta, Manitoba, Ontario and Québec only.

This Canadian Offering Memorandum is for the confidential use of only those persons to whom it is delivered by the underwriters in connection with the offering of the Company's series A preferred shares

in the provinces of Alberta, Manitoba, Ontario and Québec only. The underwriters reserve the right to withdraw, cancel or modify this offering and to reject orders in whole or in part.

Investing in the Company's series A preferred shares involves risks. Canadian investors should refer to the heading “Risk Factors” contained in the U.S. Prospectus for additional information.

CERTAIN RELATIONSHIPS AND TRANSACTIONS

Friedman, Billings, Ramsey Group, Inc., a national investment bank and an affiliate of Friedman, Billings, Ramsey & Co., Inc., owns approximately 5.2% of the Company's common shares as of November 30, 2005. W. Russell Ramsey has served as a non-executive director of the Company since September 2003 and he is also a co-founder, a non-executive director and a former executive officer of Friedman, Billings, Ramsey Group, Inc. Wallace L. Timmeny has served as a non-executive director of the Company since September 2003 and he is also a non-executive director of Friedman, Billings, Ramsey Group, Inc. Additionally, 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 the Company. From time to time some of the underwriters may provide other investment banking services to the Company 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. As a result of the foregoing relationships, the Company may be considered to be a “connected issuer” of the underwriters in this offering as such term is defined in National Instrument 33-105 Underwriting Conflicts. Canadian investors should refer to the headings “Directors and Executive Officers” and “Underwriting” contained in the U.S. Prospectus Supplement for additional information. The underwriters did not require that the Company proceed with this offering and the decision to proceed with this offering was initiated by the Company. The terms of the offering have been determined by negotiations between the Company and the underwriters and the proceeds of the offering will not be applied for the benefit of the underwriters.

RESPONSIBILITY

Except as otherwise expressly required by applicable law or as agreed to in contract, no representation, warranty, or undertaking (express or implied) is made and no responsibilities or liabilities of any kind or nature whatsoever are accepted by any underwriter or dealer as to the accuracy or completeness of the information contained in this Canadian Offering Memorandum or any other information provided by the Company in connection with the offering.

RESALE RESTRICTIONS

The distribution of the Company's series A preferred shares in Canada is being made on a private placement basis only and is exempt from the requirement that the Company prepare and file a prospectus with the relevant Canadian regulatory authorities. Accordingly, any resale of the Company's series A preferred shares must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction and which may require resales to be made in accordance with exemptions from registration and prospectus requirements. Canadian purchasers are advised to seek legal advice prior to any resale of the Company's series A preferred shares.

The Company is not a “reporting issuer”, as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada in which its series A preferred shares will be offered. Under no circumstances will the Company be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of its series A preferred shares to the public in Canada or in any province or territory thereof. Canadian investors are advised that the Company has no intention to file a prospectus or similar document with any

securities regulatory authority in Canada qualifying the resale of its series A preferred shares.

3

REPRESENTATIONS OF PURCHASERS

Each Canadian investor who purchases the Company's series A preferred shares will be deemed to have represented to the Company, the underwriters and any dealer who sells such shares to such purchaser that: (i) the offering of such shares was made exclusively through the Canadian Offering Memorandum and was not made through an advertisement of such shares in any printed media of general and regular paid circulation, radio, television or telecommunications, including electronic display, or any other form of advertising in Canada; (ii) such purchaser has reviewed the terms referred to above under "Resale Restrictions"; (iii) where required by law, such purchaser is purchasing as principal for its own account and not as agent; and (iv) such purchaser or any ultimate purchaser for which such purchaser is acting as agent is entitled under applicable Canadian securities laws to purchase such shares without the benefit of a prospectus qualified under such securities laws, and without limiting the generality of the foregoing: (a) in the case of a purchaser located in a province other than Ontario, without the dealer having to be registered, (b) in the case of a purchaser located in the province of Alberta, Manitoba and Québec, such purchaser is an "accredited investor" as defined in section 1.1 of National Instrument 45-106 Prospectus and Registration Exemptions ("NI 45-106"), and (c) in the case of a purchaser located in Ontario, such purchaser, or any ultimate purchaser for which such purchaser is acting as agent, is an "accredited investor", other than an individual, as defined in NI 45-106 and is a person to which a dealer registered as an international dealer in Ontario may sell the Company's series A preferred shares.

In addition, each purchaser of the Company's series A preferred shares resident in Ontario who receives a purchase confirmation, by the purchaser's receipt thereof, will be deemed to have represented to the Company, the underwriters and the dealer from whom such purchase confirmation was received, that such purchaser: (a) has been notified by the Company (i) that the Company is required to provide information ("**personal information**") pertaining to the purchaser as required to be disclosed in Schedule I of Form 45-106F1 under NI 45-106 (including its name, address, telephone number and the number and value of any of the Company's series A preferred shares purchased), which Form 45-106F1 is required to be filed by the Company under NI 45-106; (ii) that such personal information will be delivered to the Ontario Securities Commission (the "**OSC**") in accordance with NI 45-106; (iii) that such personal information is being collected indirectly by the OSC under the authority granted to it under the securities legislation of Ontario; (iv) that such personal information is being collected for the purposes of the administration and enforcement of the securities legislation of Ontario; and (v) that the public official in Ontario who can answer questions about the OSC's indirect collection of such personal information is the Administrative Assistant to the Director of Corporate Finance at the OSC, Suite 1903, Box 5520, Queen Street West, Toronto, Ontario M5H 3S8, Telephone: (416) 593-8086; and (b) by purchasing the Company's series A preferred shares, has authorized the indirect collection of the personal information by the OSC. Further the purchaser acknowledges that its name, address, telephone number and other specified information, including the number of the Company's series A preferred shares it has purchased and the aggregate purchase price to the purchaser, may be disclosed to other Canadian securities regulatory authorities and become available to the public in accordance with the requirements of applicable laws. By purchasing the Company's series A preferred shares, the purchaser consents to the disclosure of such information.

TAXATION AND ELIGIBILITY FOR INVESTMENT

Any discussion of taxation and related matters contained in this Canadian Offering Memorandum does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the

Company's series A preferred shares. Canadian investors should consult their own legal and tax advisers with respect to the tax consequences of an investment in such shares in their particular circumstances and with respect to the eligibility of such shares for investment by the purchaser under relevant Canadian federal and provincial legislation and regulations. Canadian investors should consult with their own U.S. legal and tax advisers concerning the U.S. federal income tax consequence of an investment in the Company's series A preferred shares.

4

RIGHTS OF ACTION FOR DAMAGES OR RESCISSION

(Ontario)

Securities legislation in certain of the Canadian private placement provinces provides purchasers of the Company's series A preferred shares pursuant to this Canadian Offering Memorandum with a remedy for damages or rescission, or both, in addition to any other rights they may have at law, where this Canadian Offering Memorandum and any amendment to it contains a "Misrepresentation". Where used herein, "Misrepresentation" means an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make any statement not misleading in light of the circumstances in which it was made. These remedies, or notice with respect to these remedies, must be exercised or delivered, as the case may be, by the purchaser within the time limits prescribed by applicable securities legislation.

Ontario

Section 130.1 of the Securities Act (Ontario) provides that every purchaser of securities pursuant to an offering memorandum (such as this Canadian Offering Memorandum) shall have a statutory right of action for damages or rescission against the issuer and any selling security holder, if any, on whose behalf the distribution is made in the event that the offering memorandum contains a Misrepresentation. A purchaser who purchases securities offered by an offering memorandum during the period of distribution has, without regard to whether the purchaser relied upon the Misrepresentation, a right of action for damages or, alternatively, while still the owner of the securities, for rescission against the issuer and the selling security holders, if any, provided that:

- (a) if the purchaser exercises its right of rescission, it shall cease to have a right of action for damages against the issuer and the selling security holders, if any;
- (b) the issuer and the selling security holders, if any, will not be liable if they prove that the purchaser purchased the securities with knowledge of the Misrepresentation;
- (c) the issuer and the selling security holders, if any, will not be liable for all or any portion of damages that they can prove do not represent the depreciation in value of the securities as a result of the Misrepresentation relied upon; and
- (d) in no case shall the amount recoverable exceed the price at which the securities were offered.

Section 138 of the Securities Act (Ontario) provides that no action shall be commenced to enforce these rights more than:

- (a) in the case of an action for rescission, 180 days from the day of the transaction that gave rise to the cause of action; or
- (b) in the case of an action for damages, the earlier of:
 - (i)

180 days from the day that the purchaser first had knowledge of the facts giving rise to the cause of action; or

(ii) three years from the day of the transaction that gave rise to the cause of action.

The rights referred to in section 130.1 of the Securities Act (Ontario) do not apply in respect of an offering memorandum (such as this Canadian Offering Memorandum) delivered to a prospective purchaser in connection with a distribution made in reliance on the exemption from the prospectus requirement in section 2.3 of NI 45-106 (the “accredited investor” exemption) if the prospective purchaser is:

- (a) a Canadian financial institution or a Schedule III bank;
- (b) the Business Development Bank of Canada incorporated under the Business Development Bank of Canada Act (Canada); or
- (c) a subsidiary of any person referred to in paragraphs (a) and (b), if the person owns all of the voting securities of the subsidiary, except the voting securities required by law to be owned by directors of that subsidiary.

5

The foregoing summary is subject to the express provisions of the Securities Act (Ontario) and the rules, regulations and other instruments thereunder, and reference is made to the complete text of such provisions contained therein. Such provisions may contain limitations and statutory defences on which the Company and the selling shareholders, if any, may rely. The enforceability of these rights may be limited as described herein under “Enforcement of Legal Rights”.

The rights of action discussed above will be granted to the purchasers to whom such rights are conferred upon acceptance by the relevant dealer of the purchase price for the Company's series A preferred shares. The rights discussed above are in addition to and without derogation from any other right or remedy which purchasers may have at law. Similar rights may be available to investors resident in other Canadian jurisdictions under local provincial securities laws.

ENFORCEMENT OF LEGAL RIGHTS

The Company is a Bermuda holding company. All, or substantially all, of the Company's directors and officers and the experts named herein, may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the Company or such persons. All or a substantial portion of the assets of the Company and such other persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgement against the Company or such persons in Canada or to enforce a judgement obtained in Canadian courts against the Company or such persons outside of Canada.

LANGUAGE OF DOCUMENTS

Upon receipt of this document, you hereby confirm that you have expressly requested that all documents evidencing or relating in any way to the sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, vous confirmez par les présentes que vous avez expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

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

SUBJECT TO COMPLETION, DATED DECEMBER 5, 2005

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 2, 2005)

3,000,000 Shares

Quanta Capital Holdings Ltd.

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

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

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

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

convertible into any of our other securities or property.

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

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

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

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

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

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

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

Friedman Billings Ramsey

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

The date of this prospectus supplement is , 2005

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus relate to the offer and sale by us of the series A preferred shares. You should rely only on the information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the underwriters are not making an offer to sell the series A preferred shares in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this

prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, results of operations, financial condition and prospects may have changed since those dates.

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

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

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

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

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

PROSPECTUS SUMMARY

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

Our Company

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

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

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

Our objective is to target insurance and reinsurance products and areas where we believe we can derive a competitive advantage from our technical underwriting skills and risk assessment resources and that meet our risk and long-term profitability criteria. We proactively manage our allocation of capital and resources among our insurance and reinsurance product lines and among areas within those product lines. We intend to focus on our specialty insurance and reinsurance product lines where we believe we can take advantage of our technical expertise and have the ability to realize an underwriting profit. We plan to assess market conditions on an ongoing basis to selectively seek out opportunities to expand our business as well as reduce our capacity in product lines which we believe no longer afford attractive returns. While we expect our returns to be impacted by the cyclical nature

of the insurance and reinsurance industry, we believe that products and policies within specialty insurance and reinsurance lines that require technical underwriting and risk assessment expertise experience less competitive pricing pressure and volatility over a period of time because of barriers to entering these markets, which exist principally due to the difficulty of acquiring experienced and specialized personnel with these skills.

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

Recent Developments

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

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

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

Based on our discussions with A.M. Best, upon implementation of the plan described below, we believe that A.M. Best will conclude its review, remove us from negative watch and initially ascribe a negative outlook to our current "A-" rating. The plan designed to retain our current rating of "A-" (excellent) has two elements. The first element of our plan is the completion of the Property Transaction and Casualty Reinsurance Transaction described below, which is intended to reduce our capital requirements in light of A.M. Best's revised capital requirements and the probable maximum losses associated with our business. The second element of this plan is the completion of this offering and

the concurrent offering described below to increase our available rated capital. We expect that the qualification of our rating with a negative outlook will adversely affect our business, our opportunities to write new and renewal business and our ability to retain key employees. We will continue to work with A.M. Best in 2006 and intend to actively seek the return of our rating to "A-" (excellent)

S-2

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

Property Transaction

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

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

Casualty Reinsurance Transaction

As part of the first element of our plan, we also commuted two of our casualty reinsurance treaties back to the insurance company which had reinsured it with us, which we refer to as the Casualty Reinsurance Transaction. This

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

S-3

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

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

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

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

Following the Transactions, we will focus on our specialty insurance and reinsurance product lines where we believe we can take advantage of our technical underwriting and risk assessment expertise and have the ability to realize an underwriting profit, including professional liability and environmental liability. We also intend to continue to expand

our business to help diversify our business mix and mitigate our exposure and our risks to any one product or territory, including through our Lloyd's syndicate and our European Union and London sourced business through Quanta Europe and Quanta U.K.

Offerings

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

Changes in Corporate Governance and Management

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

S-4

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

S-5

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

S-6

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.

S-7

The Offering

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

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

S-8

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

Redemption

On and after December 15, 2010, we may redeem the series A preferred shares, in whole or in part, at any time, at the redemption price described in "Description of the Series A Preferred Shares — Redemption" in this prospectus supplement, plus declared but unpaid dividends and additional amounts, if any, without accumulation of any undeclared dividends to the date of redemption.

At any time prior to December 15, 2010, if we submit to the holders of our common shares a proposal for an amalgamation, consolidation, merger, arrangement, reconstruction, reincorporation, de-registration or any other similar transaction involving Quanta Holdings that requires, or if we submit any proposal for any other matter that, as a result of any change in Bermuda law after the date of this prospectus supplement (whether by enactment or official interpretation) requires, in either case, a vote of the holders of the series A preferred shares at the time outstanding, whether voting as a separate series or together with any other series or class of preferred shares as a single class (alone or with one or more other classes or series of preferred shares), we have the option to redeem all of the outstanding series A preferred shares at a redemption price of \$26 per share, plus declared but unpaid dividends and additional amounts, if any, without accumulation of any undeclared dividends to the date of redemption.

We may also redeem the series A preferred shares before December 15, 2010 as described under "Description of the Series A Preferred Shares — Tax Redemption" in this prospectus supplement.

See "Description of the Series A Preferred Shares — Redemption" in this prospectus supplement and "Description of Share Capital — Preferred Shares — Redemption" and "Description of Share Capital — Preferred Shares — Restrictions in Event of Default in Dividends on Preferred Shares" in the accompanying prospectus.

Redemption at the Option of the Holder

Upon the occurrence of specified change of control events, each holder of preferred shares will, subject to legally available funds and the terms and conditions of our bye-laws and memorandum of association, have the right to require us to redeem any or all of its shares at a redemption price equal to \$25.25 per share, plus an

S-9

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

redemption. We will pay the redemption price in cash. Holders will have no other right to require us to redeem the preferred shares at any time. See "Description of the Series A Preferred Shares — Redemption at the Option of Holders" in this prospectus supplement.

Ranking

The series A preferred shares:

- rank senior to our junior stock with respect to the payment of dividends and distributions upon our liquidation, dissolution or winding-up. Junior stock includes our common shares and any other class of our shares that ranks junior to the series A preferred shares either as to the payment of dividends or as to the distribution of assets upon any liquidation, dissolution or winding-up;
- rank at least equally with any class of our shares ranking on parity with the series A preferred shares as to dividends and distributions upon our liquidation, dissolution or winding-up, which we refer to as parity stock. As of the date of this prospectus supplement, no series of parity stock or stock ranking senior to the series A preferred shares has been issued; and
- are equity interests and do not constitute indebtedness and rank junior to all of our indebtedness and other non-equity claims against us with respect to assets available to satisfy claims, including in the event of our liquidation, dissolution or winding-up.

Liquidation Rights

Upon any liquidation, holders of the series A preferred shares are entitled to receive from our assets legally available for distribution to shareholders, before any distribution is made to holders of common shares or other junior stock, a liquidation preference in the amount of \$25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date fixed for distribution without accumulation of any undeclared dividends. See "Description of the Series A Preferred Shares — Liquidation Rights" in this prospectus supplement and "Description of Share Capital — Preferred Shares — Liquidation, Dissolution or Winding Up" in the accompanying prospectus.

Voting Rights

Generally, the holders of the series A preferred shares will not have any voting rights. Whenever dividends on the series A preferred shares have not been declared by the board of directors and paid for an aggregate of six full dividend periods (whether or not consecutive), the holders of the series A preferred shares, together with the holders

of all other current or future classes or series of parity stock, will vote together as a single class to elect two directors to our board of directors. The terms of office of such additional directors will terminate whenever dividends on the series A preferred shares and the parity stock then outstanding have been paid in full, or declared and sufficient funds have been set aside, for at least four dividend periods. In addition, certain transactions that would vary the rights of holders of the series A preferred shares cannot be made without the approval in writing of the holders of 75% of the series A preferred shares then outstanding or the sanction of a resolution passed by a majority of the votes cast at a separate meeting of the holders of the series A preferred shares. See "Description of the Series A Preferred Shares — Voting Rights" in this prospectus supplement and "Description of Share Capital — Preferred Shares — Voting Rights" in the accompanying prospectus.

Limitations on Transfer and
Ownership

Our bye-laws and Certificate of Designation provide generally that any shareholder owning, directly, indirectly or, in the case of any U.S. Person (as defined herein), constructively or by attribution, shares with more than 9.5% of the total voting power of all shares (including the series A preferred shares) entitled to vote generally at an election of directors will have the voting rights attached to such shares reduced so that it may not exercise more than 9.5% of the total voting rights. The reduction in votes is generally to be applied proportionately among all shareholders who are members of the first shareholder's "control group" (as defined herein). See "Description of the Series A Preferred Shares — Limitations on Voting Rights and Restrictions on Transfer" in this prospectus supplement and "Description of Share Capital — Limitation on Voting Rights" and "— Restrictions on Transfer" in the accompanying prospectus.

Maturity

The series A preferred shares do not have any maturity date, and, except as described above, we are not required to redeem the series A preferred shares. Accordingly, the series A preferred shares will remain outstanding indefinitely, unless and until we decide or are required to redeem them.

Listing

We have applied to list the series A preferred shares on Nasdaq under the symbol "QNTAP." We expect that, if approved, trading of the series A preferred shares on Nasdaq will commence within a 30-day period after initial delivery of the series A preferred shares. See "Underwriting" in this prospectus supplement.

Ratings
S-11

The series A preferred shares have not been rated.

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

S-12

Summary Historical Consolidated Financial Information

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

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

S-13

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

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

S-14

(\$ in thousands, except for share and per share amounts)

Predecessor	Quanta Capital Holdings Ltd. ⁽⁹⁾			
For the year ended December 31,	For the period ended	For the period from May	For the year ended December	For the nine months ended September 30,

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	2000	2001	2002	September 3, 2003	23, 2003 to December 31, 2003 ⁽⁸⁾	31, 2004	(unaudited) 2004	2005
Selected Ratios:								
Loss ratio ⁽²⁾						83.9%	84.3%	81.2%
Acquisition expense ratio ⁽³⁾						22.8%	24.0%	21.1%
General and administrative expense ratio ⁽⁴⁾						13.3%	12.5%	16.3%
Net expense ratio ⁽⁵⁾						36.1%	36.5%	37.4%
Combined ratio ⁽⁶⁾						120.0%	120.8%	118.6%
Annualized investment yield						2.7%	2.6%	3.3%

**Predecessor Pro
Forma Data**

(unaudited):

Net income as shown above	\$ 1,872	\$ 2,112	\$ 2,693	\$ 1,400
Pro forma provision for income taxes ⁽⁷⁾	728	822	1,048	545
Net income adjusted for pro forma income taxes	\$ 1,144	\$ 1,290	\$ 1,645	\$ 856
Pro forma net income per share basic and diluted ⁽¹⁾	\$ 1.05	\$ 1.18	\$ 1.51	\$ 0.78

S-15

(\$ in thousands)

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

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

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

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

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

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

related to our technical services activities for the same period.

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

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

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

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

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

S-16

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

Statement of operations by product line	Year ended December 31, 2004		
	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)

S-17

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

⁽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.

S-18

RISK FACTORS

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

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

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

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

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

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

S-19

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

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

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

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

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

S-20

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

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

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

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

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

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

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

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

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

S-21

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

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

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

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

Upon the occurrence of a specified change of control events, we will be required to offer to redeem the series A preferred shares at a price of \$25.25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption. If a change of control were to occur, we cannot assure you that we would have sufficient funds to pay the redemption price in cash for all tendered shares, and we may require third party financing to do so. We

cannot assure you that we would be able to obtain this financing on favorable terms, if at all. We may also be constrained from purchasing the series A preferred shares by the terms of our current and then existing borrowing agreements. Our current letter of credit and revolving credit facility does, and any future credit agreements or other agreements relating to our indebtedness may, contain provisions prohibiting the redemption of the series A preferred shares under certain circumstances, or expressly prohibit our redemption of the series A preferred shares upon a change of control or may provide that a change of control constitutes an event of default under that agreement. If a change of control occurs at a time when we are prohibited from redeeming the series A preferred shares for cash, we could seek the consent of our lenders to redeem the series A preferred shares. If we do not obtain consent, we would not be permitted to redeem the series A preferred shares for cash.

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

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

S-22

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

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

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

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

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

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

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

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

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

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

S-23

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

S-24

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

• our limited operating history;

S-25

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

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

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

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

S-26

USE OF PROCEEDS

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

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS

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

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

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

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

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

S-27

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2005, on an actual basis and on an adjusted basis for the completion of this offering and the concurrent offering of common equity, and the application of

the net proceeds therefrom, as described elsewhere in this prospectus supplement.

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

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

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

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

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

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

share.

- (5)The calculation of "as adjusted" additional paid in capital assumes the receipt of proceeds of approximately \$41.9 million in excess of the par value of the common shares from the issuance of 10,739,856 common shares in the concurrent offering (assuming an offering price of \$4.19 per common share, which is its closing price on November 30, 2005) less estimated issuance costs of approximately \$3.1 million.
- (6)The "actual" accumulated deficit assumes \$68.5 million estimated net loss from Hurricanes Katrina and Rita. The calculation of "as adjusted" accumulated deficit does not include our net loss estimate of between \$8 million and \$15 million from Hurricane Wilma, which will impact our results for the fourth quarter of 2005. Our hurricane loss estimates are subject to a high level of uncertainty due to extremely complex and unique causation and coverage issues associated with the events. As a result, our losses from hurricanes may be materially greater or less than estimated losses and any additional losses could have a further material adverse impact on our financial results.
- (7)The calculation of "as adjusted" accumulated deficit does not include the net cost of the Transactions of approximately \$2.5 million.
- (8)The calculation of "as adjusted" accumulated deficit does not include a lump sum severance payment that we believe we may make to Tobey J. Russ of approximately \$3.5 million. In addition, during the fourth quarter of 2005, we plan to adopt certain cost reduction strategies. In connection with the execution of these cost reduction strategies, we anticipate that we will incur approximately \$1.0 million in costs related to the exit of the property reinsurance and technical risk property businesses and approximately \$3.0 million in costs related to employee reduction and attrition during the fourth quarter of 2005.

S-28

SELECTED HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

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

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

S-29

	(\$ in thousands, except for share and per share amounts)							
	Predecessor				Quanta Capital Holdings Ltd. ⁽⁹⁾			
	For the year ended December 31,			For the period ended September 3,	For the period from May 23, 2003 to December 31, 2003 ⁽⁸⁾		For the year ended December 31,	For the nine months ended September 30, 2004 (unaudited)
	2000	2001	2002	2003			2004	2004
Statement of Operations Data								
Revenues:								
Gross premiums written	\$ —	\$ —	\$ —	\$ —	20,465	\$ 494,412	\$ 370,428	\$ —
Net premiums written	—	—	—	—	20,060	419,541	312,487	—
Net premiums earned (excluding reinstatement premiums)	\$ —	\$ —	\$ —	\$ —	1,940	\$ 241,321	\$ 152,463	\$ —
Less: net reinstatement premiums earned for hurricanes	—	—	—	—	—	(4,181)	(2,850)	—
Net premiums earned	\$ —	\$ —	\$ —	\$ —	1,940	\$ 237,140	\$ 149,613	\$ —
Technical services revenues	29,218	28,448	28,628	20,350	11,680	32,485	22,580	—
Net investment income	53	33	23	13	2,290	14,307	9,811	—
Net realized gains	—	—	—	—	109	228	665	—
Other income	—	—	—	—	126	2,995	775	—
Total revenues	29,271	28,481	28,651	20,363	16,145	287,155	183,444	—
Expenses:								
Net losses and loss expenses (including hurricane losses)	—	—	—	—	1,191	137,587	83,926	—
Add: net losses and loss expenses for hurricanes	—	—	—	—	—	61,329	42,250	—
Total net losses and loss expenses	—	—	—	—	1,191	198,916	126,176	—
Acquisition expenses	—	—	—	—	164	53,995	35,885	—
Direct technical services costs	17,615	17,576	17,193	12,992	8,637	23,182	15,442	—
General and administrative	9,784	8,793	8,765	5,971	44,630	65,643	46,097	—

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

S-30

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

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

outstanding during the year.

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

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

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

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

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

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

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

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

S-31

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

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

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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)

S-32

Nine months ended September 30, 2005

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

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

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

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

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

S-33

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

S-34

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

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

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

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

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

S-35

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.

S-36

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.

S-37

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- Technical services. Our technical services segment provides diversified environmental investigation, remediation and engineering services, assessment services, other technical and

information management services primarily in the environmental area in the U.S. Our technical services segment also provides technical and information management services to our specialty insurance and reinsurance segments.

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

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

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

Main Drivers of our Results

Revenues

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

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

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

Our investment income depends on the average invested assets in our investment portfolios and the yield that we earn on those invested assets. Our investment yield is a function of market interest rates and the credit quality and maturity period of our invested assets. Our investment portfolio consists principally of fixed income securities, short-term liquidity funds, cash, and cash equivalents. In addition, we realize capital gains or losses on sales of investments as a result of changing market conditions, including changes in market interest rates and changes in the credit quality of our invested assets. Under U.S. GAAP, our available-for-sale investments are carried at fair market value with unrealized gains and losses on the investments included on our balance sheet in accumulated other comprehensive income net of income taxes as a separate component of shareholders' equity. Our

trading investments that relate to deposits associated with non-risk bearing contracts are recorded at estimated fair value with the change in fair value included in net realized gains and losses on investments in the consolidated statement of operations and comprehensive loss. The objective of our current investment strategy is to preserve investment principal, maintain liquidity and to manage duration risk between investment assets and insurance liabilities, while maximizing investment returns through a diversified portfolio. Our investment returns are benchmarked against certain specified indices. However, the volatility in claim payments and the interest rate environment can significantly affect the returns we generate on our investment portfolios.

Expenses

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

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

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

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

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

Results of Operations

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

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

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

S-39

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

S-40

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

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

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

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

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

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

S-41

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.

S-42

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 be 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.

S-43

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.

S-44

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

S-45

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

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

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

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

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

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

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

Depreciation and amortization of intangible assets. Depreciation and amortization of intangible assets was \$2.9 million for the nine months ended September 30, 2005 an increase of \$1.5 million

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

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

Year ended December 31, 2004

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

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

Revenues

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

Premiums. We commenced writing insurance and reinsurance business during the fourth quarter of 2003 and we believe we were well positioned to fully commence underwriting operations by the beginning of 2004. Gross premiums written and net premiums written were \$494.4 million and \$419.5 million for the year ended December 31, 2004. We believe that our specialty reinsurance segment capitalized on the reinsurance opportunities during the January and July 2004 renewal seasons. The specialty reinsurance segment generated \$251.8 million, or 50.9%, and \$249.2 million, or 59.4%, of our gross and net premiums written during the year ended December 31, 2004. Our specialty insurance segment generated \$242.6 million, or 49.1%, and \$170.3 million, or 40.6%, of gross and net

premiums written during the year ended December 31, 2004. The increase in our specialty insurance segment gross and net premiums written was primarily due to growth in U.S. insurance business as we received additional regulatory approvals and state licenses and developed key distribution channels through brokerage relationships.

S-47

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

S-48

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

S-49

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.

S-50

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.

S-51

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

S-52

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.

S-53

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.

S-54

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	
	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.

S-55

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)

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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.

S-56

Nine months ended September 30, 2005 and 2004

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

Specialty insurance

	Nine months ended September 30,	Nine months ended September 30,	Change
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	2005	2004 (\$ in thousands)	
Gross premiums written	\$ 299,059	\$ 175,389	\$ 123,670
Premiums ceded	(94,944)	(55,466)	(39,478)
Net premiums written	\$ 204,115	\$ 119,923	\$ 84,192
Net premiums earned	\$ 141,026	\$ 42,148	\$ 98,878
Other income	787	—	787
Net losses and loss expenses	(92,200)	(23,098)	(69,102)
Acquisition expenses	(23,213)	(10,451)	(12,762)
General and administrative expenses	(45,523)	(23,607)	(21,916)
Net underwriting loss	\$ (19,123)	\$ (15,008)	\$ (4,115)
Ratios:			
Loss and loss expense ratio	65.4%	54.8%	(10.6)%
Acquisition expense ratio	16.5%	24.8%	8.3%
General and administrative expense ratio	22.3%	19.7%	(2.6)%
Combined ratio	104.2%	99.3%	(4.9)%

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

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

S-57

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
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(\$ in thousands)

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

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

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

*Warranty is written as reinsurance

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

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

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

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

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

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

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

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

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

on the reinsurance treaties that we have entered into for our specialty insurance product lines.

S-59

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.

S-60

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	
	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,

S-61

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

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

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

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

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

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

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

General and administrative expenses. Direct and allocated indirect general and administrative expenses totaled \$17.5 million for the nine months ended September 30, 2005 an increase of \$2.1 million compared to \$15.4 million for the nine months ended September 30, 2004. Our general and

administrative expense ratio was 9.6% of net premiums written for the nine months ended September 30, 2005 an increase of 1.6% compared to 8.0% for the nine months ended September 30, 2004 and was due to the decrease in our net premiums written.

Technical services

Nine months ended September 30, 2005 and 2004

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

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

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

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

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

Year ended December 31, 2004

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

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

Ratios:

Loss and loss expense ratio	66.3%	92.1%	83.9%
Acquisition expense ratio	19.0%	24.5%	22.8%
General and administrative expense ratio	20.2%	8.6%	13.3%
Combined ratio	105.5%	125.2%	120.0%

Specialty insurance

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

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

During the year ended December 31, 2004 we wrote, in our technical risk property product line, a residential builders' and contractors' program that provides warranty, general liability, builders' risk and excess liability coverage's for new home contractors throughout the U.S. This program, which we refer to as the HBW program, accounted for

approximately \$138.1 million, or 96.7%, of the technical risk property line of business and \$138.1 million, or 56.9%, of total specialty insurance segment gross written premiums in the year ended December 31, 2004. The policies in the program are underwritten through a third party agent that we believe is an established specialist in this technical field.

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

S-64

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

S-65

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

S-66

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.

S-67

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

S-69

December 31, 2004	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
		(\$ in thousands)		

Available-for-sale
Fixed maturities:

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

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

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

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

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

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

*ratings as assigned by Standard & Poor's Corporation

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

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

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

Our deferred acquisition costs and unearned premiums, net of deferred reinsurance premiums, totaled \$50.7 million and \$288.7 million, as of September 30, 2005 compared to \$41.5 million and \$200.5 million as of December 31, 2004. These increases are due to the growth in our premiums written during the nine months ended September 30, 2005. These amounts represent premiums and acquisition expenses on written contracts of insurance and reinsurance that

will be recognized in earnings in future periods. Substantially all of these amounts will be recognized over the next 12 months.

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

S-71

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

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

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

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

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

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

Liquidity

Operating Cashflow

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

S-72

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.

S-73

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

S-74

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:

Contractual obligations	Total	Payments due by period			
		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, our opportunities to write new and renewal business and our ability to retain key employees. There is no assurance as to what rating actions A.M. Best may take now or in the future or whether A.M. Best will remove any qualification of our rating. For further information regarding A.M. Best's rating action and our plans in response to the ratings action, see "Business — Recent Developments."

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

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

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

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

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

S-76

Ratings

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

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

Critical Accounting Policies and Estimates

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

Non-Traditional Contracts

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

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

S-77

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.

S-78

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

S-79

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

Property Transaction

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

S-80

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	Casualty	
	Subject to	Reinsurance	
	the Property	Subject to the	
	Transaction	Property	Total
		Transaction	
		(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.

S-81

Offerings

The second element of our plan designed to maintain our rating with A.M. Best is the completion of this offering and a concurrent offering of our common equity to increase our available rated capital. We estimate that we will receive

aggregate gross proceeds (before underwriting discounts and other offering expenses) of approximately \$120 million from these two offerings.

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.

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- **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

S-83

Analysis of Financial Condition and Results of Operations and our consolidated financial statements contained in this prospectus supplement. 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.

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

S-84

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	
	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.

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.

S-85

- 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 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

S-86

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 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

S-88

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 provides 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

S-89

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.

S-90

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- **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 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.

S-91

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 retrocessionaires 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.

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

S-92

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.

S-94

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 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.

S-95

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 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,

S-96

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 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."

S-97

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.

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,

S-98

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.

S-99

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.

S-100

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

S-101

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.

S-102

DESCRIPTION OF THE SERIES A PREFERRED SHARES

The following description of the terms of the series A preferred shares supplements the description of the general terms and provisions of the preferred shares set forth under "Description of Share Capital — Preferred Shares" beginning on page 32 of the accompanying prospectus. The following summary of the terms of the series A preferred shares does not purport to be complete and is qualified in its entirety by reference to the Certificate of Designation creating the series A preferred shares, which will be included as an exhibit to documents that we file with the SEC. Terms used in this prospectus supplement that are otherwise not defined will have the meanings given to them in the accompanying prospectus. As used in this section, "we," "us," "our" and "Quanta Capital" mean Quanta Capital Holdings Ltd. and do not include its subsidiaries.

General

On _____, 2005, our board of directors approved the Certificate of Designation setting forth the specific rights, preferences, limitations and other terms of the series A preferred shares.

The series A preferred shares:

- rank senior to our junior stock with respect to the payment of dividends and distributions upon our liquidation, dissolution or winding-up. Junior stock includes our common shares and any other class of our shares that ranks junior to the series A preferred shares either as to the payment of dividends or as to the distribution of assets upon any liquidation, dissolution or winding-up;
- rank at least equally with any class of our shares ranking on parity with the series A preferred shares as to dividends and distributions upon our liquidation, dissolution or winding-up, which we refer to as parity stock. As of the date of this prospectus supplement, no series of parity stock or stock ranking senior to the series A preferred shares has been issued; and
- are equity interests and do not constitute indebtedness and will rank junior to all of our indebtedness and other non-equity claims against us with respect to assets available to satisfy

claims, including in the event of our liquidation, dissolution or winding-up.

At present, we have no issued shares that are senior to or in parity with respect to payment of dividends and distribution of assets upon our liquidation, dissolution or winding-up with the series A preferred shares. Our board of directors may from time to time create and issue preferred shares of other series without the approval of our shareholders and fix their relative rights, preferences and limitations.

We will generally be able to pay dividends and distributions upon liquidation, dissolution or winding-up only out of lawfully available funds for such payment (i.e., after satisfaction of indebtedness and other non-equity claims). The series A preferred shares will be fully-paid and nonassessable when issued, which means that holders will have paid their purchase price in full and that we may not ask them to surrender additional funds. 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 will not be convertible into, or exchangeable for, shares of any other class or series or other securities of ours or our property or assets. If we experience a change of control, we may be required to make offers to redeem the series A preferred shares at a price of \$25.25 per share, plus declared but unpaid dividends and additional amounts, if any, to the date of redemption and on the terms described in this prospectus supplement. The series A preferred shares have no stated maturity and will not be subject to any sinking fund and will not be convertible into any of our other securities or property.

Dividends

Dividends on the series A preferred shares are non-cumulative. Consequently, if our board of directors does not authorize and declare a dividend for any dividend period, holders of the series A preferred shares will not be entitled to receive a dividend for such period, and such undeclared

S-103

dividend will not accumulate and be payable. We will have no obligation to pay dividends for a dividend period after the dividend payment date for such period if our board of directors has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to the series A preferred shares.

Holders of series A preferred shares will be entitled to receive, only when, as and if declared by our board of directors, out of funds legally available for the payment of dividends under Bermuda law, non-cumulative cash dividends from the original issue date, quarterly in arrears on the fifteenth day of March, June, September and December of each year, commencing on March 15, 2006 without accumulation of any undeclared dividends. To the extent declared, these dividends will accumulate, with respect to each dividend period, in an initial amount per share equal to % of the liquidation preference per annum (equivalent to \$ per share) up to but not including June 15, 2006. On June 15, 2006, December 15, 2006, June 15, 2007 and December 15, 2007, dividends will reset and accumulate when and if declared, with respect to each subsequent dividend period, at the dividend rate per annum in effect immediately prior to the reset plus % of the liquidation preference per annum (equivalent to \$ per share). From and after December 15, 2007, dividends declared on the series A preferred shares will accumulate, with respect to each dividend period, in an amount per share equal to % of the liquidation preference per annum (equivalent to \$ per share). In the event that we issue additional series A preferred shares after the original issue date, to the extent declared, dividends on such additional series A preferred shares may accumulate from the original issue date or any other date we specify at the time such additional series A preferred shares are issued.

Dividends will be payable to holders of record of the series A preferred shares as they appear in our register of members on the applicable record date, which shall be the last calendar day of the month preceding that dividend payment date or such other record date fixed by our board of directors that is not more than 60 nor less than 10 days prior to such dividend payment date. These dividend record dates will apply regardless of whether a particular dividend record date is a business day. As used in this prospectus supplement, "business day" means a day that is a Monday, Tuesday, Wednesday, Thursday or Friday and is not a day on which banking institutions in New York City or Hamilton, Bermuda generally are authorized or obligated by law or executive order to close.

A dividend period is the period from and including a dividend payment date to but excluding the next dividend payment date, except that the initial dividend period will commence on and include the original issue date of the series A preferred shares and will end on and exclude the March 15, 2006 dividend payment date. Dividends payable on the series A preferred shares will be computed on the basis of a 360-day year consisting of twelve 30-day months. If any date on which dividends would otherwise be payable is not a business day, then the dividend payment date will be the next succeeding business day after the original dividend payment date, and no additional dividends will accumulate on the amount so payable from such date to such next succeeding business day.

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 outstanding series A preferred shares and parity stock have been declared and paid or declared and a sum sufficient for the payment thereof has been set aside:

- no dividend shall be paid or declared on our common shares or any other shares of our junior stock, other than a dividend payable solely in our common shares or other junior stock; and
- no common shares or other junior stock shall be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than (1) as a result of a reclassification of junior stock for or into other junior stock or the exchange or conversion of one share of junior stock for or into another share of junior stock, (2) through the use of the proceeds of a substantially contemporaneous sale of junior stock or (3) as permitted by the bye-laws of Quanta Holdings in effect on the date of issuance of the series A preferred shares.) See "Risk Factors — If we determine that your ownership of our shares may result in adverse consequences, we may require you to sell your shares to us" in the accompanying prospectus.

S-104

When dividends are not paid (or duly provided for) in full on any dividend payment date (or, in the case of parity stock (as defined below) having dividend payment dates different from the dividend payment dates pertaining to the series A preferred shares, on a dividend payment date falling within the related dividend period for the series A preferred shares) upon the series A preferred shares and any parity stock, all dividends declared by the board of directors of Quanta Holdings or a duly authorized committee of the board upon the series A preferred shares and all such parity stock and payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the series A preferred shares, on a dividend payment date falling within the related dividend period for the series A preferred shares) shall be declared by the board or such committee pro rata so that the respective amounts of such dividends shall bear the same ratio to each other as all declared but unpaid dividends per series A preferred share and all parity stock payable on such dividend payment date (or, in the case of parity stock having dividend payment dates different from the dividend payment dates pertaining to the series A preferred shares, on a dividend payment date falling within the related dividend period for the series A preferred shares) bear to each other.

As used in this prospectus supplement, "junior stock" means any class or series of our shares that ranks junior to the series A preferred shares either as to the payment of dividends or as to the distribution of assets upon any liquidation, dissolution or winding-up of Quanta Holdings. Junior stock includes our common shares.

As used in this prospectus supplement, "parity stock" means any class or series of our shares that ranks equally with the series A preferred shares as to payment of dividends and in the distribution of assets on any liquidation, dissolution or winding-up of Quanta Holdings. At present, we have not issued shares that would be considered parity stock with the series A preferred shares.

Certain Restrictions on Payment of Dividends

Quanta Holdings is a holding company and has no direct operations. The ability of Quanta Holdings to pay dividends or distributions depends almost exclusively on the ability of its subsidiaries to pay dividends to Quanta Holdings. Under Bermuda law, Quanta Holdings may not declare or pay a dividend if there are reasonable grounds for believing that Quanta Holdings is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of Quanta Holding's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Further, our operating subsidiaries are subject to significant regulatory restrictions limiting their ability to declare and pay dividends. 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. As of September 30, 2005, Quanta Bermuda could contribute approximately \$76 million to Quanta Holdings without regulatory approval. The capital requirements of A.M. Best may also act as a constraint on the amount of dividends we may be able to pay.

We have obtained a consent under our current letter of credit and revolving credit facility for the issuance of, and the payment of dividends on, the series A preferred shares, which is conditioned upon the review and approval by the administrative agent of the facility of the terms of the series A preferred shares. Although we believe that the administrative agent will consent to the issuance of the series A preferred shares under our current letter of credit and revolving credit facility, we expect that the facility will prohibit us from paying dividends on the series A preferred shares so long as there is a default under that agreement. Future credit agreements or other agreements relating to our indebtedness may also contain provisions prohibiting or limiting the payment of dividends on our series A preferred shares under certain circumstances.

Payment of Additional Amounts

We will make all payments on the series A preferred shares free and clear of and without withholding or deduction at source for, or on account of, any present or future taxes, fees, duties,

S-105

assessments or governmental charges of whatever nature imposed or levied by or on behalf of the government of Bermuda or any other jurisdiction in which we are organized (a "taxing jurisdiction") or any political subdivision or taxing authority thereof or therein, unless such taxes, fees, duties, assessments or governmental charges are required to be withheld or deducted by (x) the laws (or any regulations or rulings promulgated thereunder) of a taxing jurisdiction or any political subdivision or taxing authority thereof or therein or (y) an official position regarding the application, administration, interpretation or enforcement of any such laws, regulations or rulings (including, without limitation, a

holding by a court of competent jurisdiction or by a taxing authority in a taxing jurisdiction or any political subdivision thereof). If a withholding or deduction at source is required, we will, subject to certain limitations and exceptions described below, pay to the holders of the series A preferred shares such additional amounts as dividends as may be necessary so that every net payment made to such holders, after the withholding or deduction, will not be less than the amount provided for in the Certificate of Designation to be then due and payable.

We will not be required to pay any additional amounts for or on account of:

- (1) any tax, fee, duty, assessment or governmental charge of whatever nature that would not have been imposed but for the fact that such holder was a resident, domiciliary or national of, or engaged in business or maintained a permanent establishment or was physically present in, the relevant taxing jurisdiction or any political subdivision thereof or otherwise had some connection with the relevant taxing jurisdiction other than by reason of the mere ownership of, or receipt of payment under, such series A preferred shares or any series A preferred shares presented for payment more than 30 days after the Relevant Date. The "Relevant Date" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the dividend disbursing agent on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to holders, notice to that effect shall have been duly given to the holders of the series A preferred shares;
- (2) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge or any tax, assessment or other governmental charge that is payable otherwise than by withholding or deduction from payment of the liquidation preference;
- (3) any tax, fee, duty, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder of such series A preferred shares to comply with any reasonable request by us addressed to the holder within 90 days of such request (a) to provide information concerning the nationality, residence or identity of the holder or (b) to make any declaration or other similar claim or satisfy any information or reporting requirement, which is required or imposed by statute, treaty, regulation or administrative practice of the relevant taxing jurisdiction or any political subdivision thereof as a precondition to exemption from all or part of such tax, fee, duty, assessment or other governmental charge;
- (4) any withholding or deduction required to be made pursuant to any EU Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meetings of 26-27 November 2000, 3 June 2003 or any law implementing or complying with, or introduced in order to conform to, such EU Directive; or
- (5) any combination of items (1), (2), (3) and (4).

In addition, we will not pay additional amounts with respect to any payment on any such series A preferred shares to any holder who is a fiduciary, partnership, limited liability company or other pass-thru entity other than the sole beneficial owner of such series A preferred shares if such payment would be required by the laws of the relevant taxing jurisdiction (or any political subdivision or relevant taxing authority thereof or therein) to be included in the income for tax purposes of a beneficiary or partner or settlor with respect to such fiduciary or a member of such partnership,

limited liability company or other pass-thru entity or a beneficial owner to the extent such beneficiary, partner or settlor would not have been entitled to such additional amounts had it been the holder of the series A preferred shares.

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. See "— Tax Redemption" in this prospectus supplement.

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 distribution in the amount of \$25 per share plus declared but unpaid dividends and additional amounts, if any, without accumulation of any undeclared dividends before any distribution of assets is made to holders of our common shares, or any of our other shares ranking junior to the series A preferred shares. Holders of the series A preferred shares will not be entitled to any other amounts from us after they have received their full liquidation preference.

In any such distribution, if our assets are not sufficient to pay the liquidation preferences in full to all holders of the series A preferred shares and all holders of any parity stock, the amounts paid to the holders of the series A preferred shares and to the holders of any parity stock will be paid pro rata in accordance with the respective aggregate liquidation preferences of those holders. If the liquidation preference has been paid in full to all holders of the series A preferred shares and any holders of parity stock, the holders of our other capital shares shall be entitled to receive all of our remaining assets according to their respective rights and preferences.

A consolidation, amalgamation, merger, arrangement or reconstruction involving Quanta Holdings or the sale or transfer of all or substantially all of the share capital or the property or business of Quanta Holdings will not be deemed to constitute a liquidation, dissolution or winding-up of Quanta Holdings.

Redemption

The series A preferred shares are not subject to any sinking fund, retirement fund, purchase fund or other similar provisions. The series A preferred shares are not redeemable prior to December 15, 2010, except as described below. On and after that date, the series A preferred shares will be redeemable at our option, in whole or in part, upon not less than 30 nor more than 60 days, prior written notice, at the redemption price per share set forth below, plus declared but unpaid dividends and additional amounts, if any, thereon to the applicable redemption date, if redeemed during the twelve-month period beginning on December 15 of the years indicated below:

Year	Per Share Redemption Price
2010	\$
2011	\$
2012	\$
2013	\$
2014	\$
2015 and thereafter	\$

At any time prior to December 15, 2010, we have the option to redeem the series A preferred shares if we submit to the holders of our common shares a proposal for an amalgamation, consolidation, merger, arrangement, reconstruction, reincorporation, de-registration or any other similar transaction involving Quanta Holdings that requires, or if we submit any proposal for any other matter that, as a result of any change in Bermuda law after the

date of this prospectus supplement (whether by enactment or official interpretation) that requires, in either case, a vote of the

S-107

holders of the series A preferred shares at the time outstanding, whether voting as a separate series or together with any other series or class of preferred shares as a single class (alone or with one or more other classes or series of preferred shares). Our option to redeem the series A preferred shares under such circumstances shall be upon not less than 30 nor more than 60 days prior written notice to redeem all of the outstanding series A preferred shares for cash at a redemption price of \$26 per share, plus declared but unpaid dividends and additional amounts, if any, without accumulation of any undeclared dividends to the date of redemption.

If the series A preferred shares are to be redeemed, the notice of redemption shall be given by first class mail to the holders of record of the series A preferred shares to be redeemed, mailed not less than 30 nor more than 60 days prior to the date fixed for redemption thereof; provided that, if the series A preferred shares are held in book-entry form through The Depository Trust Company, or DTC, we may give such notice in any manner permitted by DTC. Each notice of redemption will include a statement setting forth:

- the redemption date;
- the number of series A preferred shares to be redeemed and, if less than all the series A preferred shares held by such holder are to be redeemed, the number of such series A preferred shares to be redeemed from such holder;
- the redemption price; and
- the place or places where holders may surrender certificates evidencing the series A preferred shares for payment of the redemption price.

If notice of redemption of any series A preferred shares has been given and if the funds necessary for such redemption have been set aside by us for the benefit of the holders of the series A preferred shares so called for redemption, then, from and after the redemption date, dividends will cease to accumulate on such series A preferred shares, and all rights of the holders of such series A preferred shares will terminate, except the right to transfer the series A preferred shares prior to the redemption date and the right to receive the redemption price.

In case of any redemption of only part of the series A preferred shares at the time in issue, the series A preferred shares to be redeemed shall be selected either pro rata or in such other manner as we may determine to be fair and equitable.

Tax Redemption

We will have the option to redeem for cash the series A preferred shares at any time in whole or from time to time in part, upon not less than 30 days nor more than 60 days prior written notice in accordance with the procedures described under "— Redemption" above, at a redemption price of \$25 per share plus declared but unpaid dividends and additional amounts, if any, to the date of redemption, without interest on such unpaid dividends, if there is a "change in tax law" that, in the opinion of counsel experienced in such matters, would require us or any successor corporation to pay any additional amounts with respect to the series A preferred shares and the payment of those additional amounts cannot be avoided by the use of any reasonable measures available to us or any successor corporation.

In addition, we will have the option to redeem for cash any or all series A preferred shares at any time in whole or from time to time in part, upon not less than 30 days nor more than 60 days prior written notice in accordance with the procedures set forth under "— Redemption" above, at a redemption price of \$25 per share plus declared but unpaid dividends and additional amounts, if any, to the date of redemption, without interest on such unpaid dividends, if the entity formed by a consolidation, merger or amalgamation involving us or the entity to which we convey, transfer or lease substantially all our properties and assets is required to pay additional amounts in respect of any tax, assessment or governmental charge imposed on any holder of series A preferred shares as a result of a change in tax law that occurred after the date of the consolidation, merger, amalgamation, conveyance, transfer or lease and the payment of those additional amounts cannot be avoided by the use of any reasonable measures available to us or any successor corporation.

S-108

A "change in tax law" that would trigger the provisions of the preceding paragraph would be (a) a change in or amendment to laws, regulations or rulings of any jurisdiction, political subdivision or taxing authority described in the next sentence, (b) a change in the official application or interpretation of those laws, regulations or rulings or (c) any execution of or amendment to any treaty affecting taxation to which any jurisdiction, political subdivision or taxing authority described in the next sentence is party after the date of this prospectus supplement. The jurisdictions, political subdivisions and taxing authorities referred to in the previous sentence are (a) Bermuda or any political subdivision or governmental authority of or in Bermuda with the power to tax, (b) any jurisdiction from or through which we or our dividend disbursing agent are making payments on the series A preferred shares or any political subdivision or governmental authority of or in that jurisdiction with the power to tax or (c) any other jurisdiction in which Quanta Holdings or a successor corporation is organized or generally subject to taxation or any political subdivision or governmental authority of or in that jurisdiction with the power to tax.

Redemption at the Option of Holders

If a Change of Control (as defined below) occurs, you will have the right, exercisable at your option, subject to legally available funds and to the terms and conditions of our bye-laws and memorandum of association, to require us to redeem any or all of your preferred shares. We will redeem the series A preferred shares at a price equal to \$25.25 for each series A preferred share to be redeemed plus an amount equal to any declared but unpaid dividends and additional amounts, if any, without accumulation of any undeclared dividends to, but excluding, the Change of Control redemption date (as defined below), unless such Change of Control redemption date falls after a record date and on or prior to the corresponding dividend payment date, in which case (1) we will pay the full amount of accumulated but unpaid dividends, including additional amounts, if any, payable on such dividend payment date only to the holder of record at the close of business on the corresponding record date and (2) the redemption price payable on the Change of Control redemption date will include only the redemption price of \$25.25 per share, but will not include any amount in respect of dividends declared and payable on such corresponding dividend payment date. We will be required to redeem the series A preferred shares as of a date (which we refer to as the Change of Control redemption date) that is not more than 30 calendar days after we mail to all holders of the series A preferred shares a notice regarding the Change of Control as described below. If such thirtieth calendar day is not a business day, the Change of Control redemption date will be the next succeeding business day. We will pay the redemption price in cash.

A "Change of Control" will be deemed to have occurred upon the occurrence of any of the following:

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the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of our assets (determined on a consolidated basis) to any person or group (as such term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"));

- the adoption of a scheme of arrangement the consummation of which would result in our liquidation or dissolution;
- the acquisition, directly or indirectly, by any person or group (as such term is used in Section 13(d)(3) of the Exchange Act), of beneficial ownership (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the aggregate voting power of our voting shares;
- the consummation of any amalgamation, merger or consolidation to which we are a party the result of which is that, immediately after such transaction, the holders of all of our outstanding voting shares immediately prior to such transaction hold 50% or less of the aggregate voting power of the voting shares of the person surviving such transaction; or
- during any period of two consecutive years, individuals (other than directors elected by the holders of series A preferred shares and parity stock) who at the beginning of such period comprised our board of directors (together with any new directors whose election by such

S-109

board of directors or whose nomination for election by our shareholders was approved by a vote of a majority of our directors (other than directors elected by the holders of series A preferred shares and parity stock) then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of our board of directors then in office (other than directors elected by the holders of series A preferred shares and parity stock).

The phrase "all or substantially all" of our assets is likely to be interpreted by reference to applicable law at the relevant time, and will be dependent on the facts and circumstances existing at such time. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer is of "all or substantially all" of our assets.

Within 30 calendar days after the occurrence of a Change of Control, we are obligated to (1) mail to all holders of series A preferred shares at their addresses shown in the register of the registrar and to beneficial owners as required by applicable law or (2) to cause DTC to send a notice to its participants that own series A preferred shares a notice regarding the Change of Control, stating, among other things:

- the event causing a Change of Control;
- the date of such Change of Control;
- the last date on which the redemption right triggered by such Change of Control may be exercised;
- the Change of Control redemption price;
- the Change of Control redemption date;
- the name and address of the paying agent; and
- the procedures that holders must follow to exercise this right.

To exercise this right, you must deliver a written notice to the transfer agent prior to the close of business on the business day immediately before the Change of Control redemption date. The required redemption notice upon a Change of Control must state:

- if certificated preferred shares have been issued, the certificate numbers of the series A preferred shares, or if not, such information as may be required under applicable DTC procedures;
- the number of series A preferred shares to be redeemed; and

- that we are to redeem such series A preferred shares pursuant to the applicable provisions of the series A preferred shares and subject to the terms and conditions contained in our bye-laws and memorandum of association.

You may withdraw any Change of Control redemption notice by a written notice of withdrawal delivered to the transfer agent prior to the close of business on the business day before the Change of Control redemption date. The notice of withdrawal must state:

- the number of the withdrawn series A preferred shares;
- if certificated series A preferred shares have been issued, the certificate numbers of the series A preferred shares, or if not, such information as may be required under applicable DTC procedures; and
- the number, if any, of series A preferred shares that remain subject to your Change of Control redemption notice.

A holder must either effect book-entry transfer or deliver the series A preferred shares to be redeemed, together with necessary endorsements, to the office of the transfer agent after delivery of the Change of Control redemption notice to receive payment of the Change of Control redemption

S-110

price. You will receive payment in cash on the later of the Change of Control redemption date or the time of book-entry transfer or the delivery of the series A preferred shares. If the transfer agent holds cash sufficient to pay the Change of Control redemption price of the series A preferred shares on the business day following the Change of Control redemption date, then, immediately after the Change of Control redemption date:

- the series A preferred shares will cease to be outstanding;
- dividends will cease to accumulate; and
- all other rights of the holder will terminate.

This will be the case whether or not book-entry transfer of the series A preferred shares is made or whether or not the series A preferred shares are delivered to the transfer agent.

The Change of Control redemption feature of the series A preferred shares may in certain circumstances make more difficult or discourage a takeover of our company. The Change of Control redemption feature, however, is not the result of our knowledge of any specific effort:

- to accumulate common shares;
 - to obtain control of our company by means of a merger, tender offer, solicitation or otherwise;
- or
- by management to adopt a series of anti-takeover provisions.

Instead, the terms of the Change of Control redemption feature resulted from negotiations between the underwriters and us.

We could, in the future, enter into certain transactions, including certain recapitalizations, that would not constitute a Change of Control with respect to the Change of Control redemption feature of the series A preferred shares but that would increase the amount of our (or our subsidiaries') outstanding indebtedness.

We will comply with any applicable provisions of Rule 13e-4 and any other tender offer rules under the Exchange Act in connection with any offer by us to redeem the preferred shares.

Certain Restrictions on Redemptions

Under Bermuda law, the source of funds that may be used by a company to pay amounts to shareholders on the redemption of their shares in respect of the nominal or par value of their shares is limited to (1) the capital paid up on the shares being redeemed, (2) funds of the company otherwise available for payment of dividends or distributions or (3) the proceeds of a new issuance of shares made for purposes of the redemption, and in respect of the premium over the nominal or par value of their shares is limited to (a) funds otherwise available for dividends or distributions or (b) out of the company's share premium account before the redemption date.

Under Section 42 of the Companies Act 1981, or the Companies Act, no redemption may be made by a company if, on the date of the redemption, there are reasonable grounds for believing that the company is, or after the redemption would be, unable to pay its liabilities as they become due. In addition, if the redemption price is to be paid out of funds otherwise available for dividends or distributions, no redemption may be made if the realizable value of its assets would thereby be less than the aggregate of its liabilities, issued share capital and share premium accounts. A minimum issued share capital of \$12,000 must always be maintained.

Our ability to effect a redemption of the series A preferred shares may be subject to the performance of our subsidiaries. Distribution to us from our insurance subsidiaries will also be subject to applicable insurance laws and regulatory constraints.

Under Bermuda law, we may not redeem our preferred shares (including the series A preferred shares) at any time if we have reasonable grounds for believing that we are, or after the redemption would be, unable to pay our liabilities as they become due. Preferred shares (including the series A

S-111

preferred shares) may not be redeemed except out of the capital paid up thereon or out of our funds that would otherwise be available for dividends or distributions or out of the proceeds of a new issue of shares made for the purpose of the redemption. The premium, if any, payable on redemption must be provided for out of our funds that would otherwise be available for dividends or distributions or out of our share premium account before the preferred shares are redeemed. Preference shares also may not be redeemed if as a result of the redemption, our issued share capital would be reduced below the minimum capital specified in the memorandum of association of Quanta Holdings. As of September 30, 2005, Quanta Bermuda could contribute approximately \$76 million to Quanta Holdings' without regulatory approval.

Our secured letter of credit and revolving credit facility does, and any future credit agreements or other agreements relating to our indebtedness may, contain provisions prohibiting the redemption of the preferred shares under certain circumstances, or expressly prohibit our redemption of the preferred shares upon a Change of Control or may provide that a Change of Control constitutes an event of default under that agreement. If a Change of Control occurs at a time when we are prohibited from redeeming preferred shares for cash, we could seek the consent of our lenders to redeem the preferred shares or attempt to refinance this debt. If we do not obtain consent, we would not be permitted to redeem the preferred shares for cash.

Voting Rights

Except as provided below, the holders of the series A preferred shares will have no voting rights.

Whenever dividends payable on series A preferred shares have not been declared by the board of directors and paid for an aggregate amount equivalent to six full quarterly dividends (whether or not consecutive) on all of the series A preferred shares or any class or series of parity stock then outstanding, the holders of the series A preferred shares, together with the holders of each such class or series of parity stock, will have the right, voting together as a single class regardless of class or series, to elect two directors of our board of directors, provided that the election of any such directors shall not cause us to violate the corporate governance requirements of The Nasdaq Stock Market, Inc. (or any other exchange or quotation system on which our securities may be listed or quoted) that listed companies must have a majority of independent directors.

Whenever dividends on the series A preferred shares and the parity stock then outstanding have been paid in full, or declared and sufficient funds have been set aside, for at least four dividend periods, whether or not consecutive, the right of holders of the series A preferred shares and the parity stock to be represented by directors will cease (but subject always to the same provision for the vesting of such rights in the case of any future suspension of payments in an amount equivalent to dividends for six full dividend periods whether or not consecutive), and the terms of office of the additional directors elected or appointed to the board of directors will terminate. In determining whether dividends have been paid for four dividend periods during the period in which such special voting power has vested in the holders of the series A preferred shares and the parity stock as described in the preceding paragraph, we may take account of any dividend we elect to pay for such a dividend period after the regular dividend payment date for that period has passed.

At any time when such special voting power has vested in the holders of the series A preferred shares and the parity stock as described in the preceding paragraph, such right may be exercised initially either at a special meeting of the holders of the series A preferred shares and parity stock or at any annual general meeting of shareholders, and thereafter at annual general meetings of shareholders. At any time when such special right has vested, our chairman or president will, upon the written request of the holders of record of at least 10% of the series A preferred shares and the parity stock then outstanding addressed to our secretary, call a special general meeting of the holders of the series A preferred shares and parity stock for the purpose of electing directors. Such meeting will be held at the earliest practicable date in such place as may be designated pursuant to our bye-laws (or if there be no designation, at our principal office in Bermuda). Notwithstanding the foregoing, no such special meeting will be called during the period within 90 days immediately preceding the date fixed for the next annual general meeting of shareholders.

S-112

At any annual or special general meeting at which the holders of the series A preferred shares and the parity stock have the special right to elect directors as described above, the presence, in person or by proxy, of the holders of more than 50% of the series A preferred shares and the parity stock will be required to constitute a quorum for the election of any director by the holders of the series A preferred shares and the parity stock, voting as a class. At any such meeting or adjournment thereof the absence of a quorum of the series A preferred shares and the parity stock will not prevent the election of directors other than those to be elected by the series A preferred shares and the parity stock, voting as a class, and the absence of a quorum for the election of such other directors will not prevent the election of the directors to be elected by the series A preferred shares and the parity stock, voting as a class. Whether a plurality, majority or other portion of the series A preferred shares and any other voting preferred shares have been voted in favor of any matter shall be determined by reference to the aggregate voting power, as determined under our bye-laws and Certificate of Designation, of the series A preferred shares and voting preferred shares voted. See "Risk Factors — Provisions in our charter documents may reduce or increase the voting power associated with our shares" in the

accompanying prospectus and "— Limitations on Voting Rights and Restrictions on Transfer."

Any director elected by the holders of the series A preferred shares and the parity stock may be removed at any time without cause by the holders of record of a majority of the aggregate voting power, as determined under our bye-laws, of series A preferred shares and any other shares of voting parity stock then outstanding (voting together as a single class) when they have the special voting rights described above. So long as such special voting rights shall continue, any vacancy in the office of such a director (other than prior to the initial election after a nonpayment event) may be filled by the written consent of such other director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding series A preferred shares and any other shares of voting parity stock then outstanding (voting together as a single class) when they have the voting rights described above. Any vote of shareholders to remove, or to fill a vacancy in the office of, such a director may be taken only at a special general meeting of such shareholders, called as provided above for an initial election of such directors after a series A preferred shares and the parity stock have the special right to elect directors as described above (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the shareholders of Quanta Holdings, in which event such election shall be held at such next annual or special general meeting of shareholders). The directors elected by the holders of the series A preferred shares and the parity stock shall each be entitled to one vote per director on any matter. Each such director elected at any special general meeting of shareholders or by written consent of the other directors elected by the holders of the series A preferred shares and the parity stock shall hold office until the next annual meeting of the shareholders of Quanta Holdings if such office shall not have previously terminated as above provided.

During any period in which the holders of the series A preferred shares and the parity stock have the right to vote as a class for directors as described above, any vacancies in our board of directors (other than directors elected by the holders of series A preferred shares) will be filled by vote of a majority of our board of directors pursuant to our bye-laws. During such period, the directors so elected by the holders of the series A preferred shares and the parity stock will continue in office (1) until the next succeeding annual general meeting or until their successors, if any, are elected by such holders and qualify or (2) unless required by applicable law, rule or regulation to continue in office for a longer period, until termination of the right of the holders of the series A preferred shares and the parity stock to vote as a class for directors, if earlier. Immediately upon any termination of the right of the holders of the series A preferred shares and the parity stock to vote as a class for directors as provided herein, the terms of office of the directors then in office so elected by the holders of the series A preferred shares and the parity stock will terminate.

Without the written consent of the holders of at least 75% of the series A preferred shares at the time outstanding or the sanction of a resolution passed by a majority of the votes cast at a separate meeting of the holders of the series A preferred shares, we may not take any action that would vary the rights attached to the series A preferred shares or effect any amalgamation that would vary the

S-113

rights of the series A preferred shares. Notwithstanding the foregoing, the issuance of any shares that are senior to, in parity with or junior to the series A preferred shares with respect to payment of dividends and distribution of assets upon our liquidation, dissolution or winding-up or our purchase or redemption of any of our own shares will not be deemed a variation of the rights of the series A preferred shares. Holders of the series A preferred shares are not entitled to vote on any sale of all or substantially all of the assets of Quanta Holdings. The Companies Act provides that in certain circumstances, non-voting shares have the right to vote (for example without limitation, converting a limited liability company to unlimited liability company, discontinuance of a company from Bermuda, or conversion of preferred shares into redeemable preferred shares).

Without the consent of the holders of the series A preferred shares, so long as such action does not affect the special rights, preferences, privileges and voting powers of the series A preferred shares, taken as a whole, we may amend, alter, supplement or repeal any terms of the series A preferred shares:

- to cure any ambiguity, or to cure, correct or supplement any provision contained in the Certificate of Designation for the series A preferred shares that may be defective or inconsistent; or
- to make any provision with respect to matters or questions arising with respect to the series A preferred shares that is not inconsistent with the provisions of the Certificate of Designation.

On any item on which the holders of the series A preferred shares are entitled to vote, such holders will be entitled to one vote for each series A preferred share held.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding series A preferred shares shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been set aside by us for the benefit of the holders of series A preferred shares to effect such redemption.

Limitations on Voting Rights and Restrictions on Transfer

Holders of the series A preferred shares only have the right to vote in limited circumstances, as set forth above under "— Voting Rights." Pursuant to a mechanism specified in our bye-laws and Certificate of Designation, the voting rights exercisable by a shareholder may be limited. Our bye-laws and Certificate of Designation provide generally that any shareholder owning, directly, indirectly or, in the case of any U.S. Person, constructively or by attribution, shares (including shares of series A preferred 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. "U.S. Person" means (1) an individual who is a citizen or resident of the United States, (2) a corporation or partnership that is, as to the United States, a domestic corporation or partnership, (3) an estate that is subject to United States federal income tax on its income regardless of its source, and (4) a trust if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust.

S-114

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 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. For further information, see "Description of Share Capital — Limitation on Voting Rights" and "— Restrictions on Transfer" in the accompanying prospectus.

Conversion

The series A preferred shares are not convertible into or exchangeable for any other securities or property of Quanta Holdings.

Listing of the Series A Preferred Shares

We have applied to list the series A preferred shares on Nasdaq under the symbol "QNTAP." We expect that, if approved, trading of the series A preferred shares on Nasdaq will commence within a 30-day period after initial delivery of the series A preferred shares.

Transfer Agent

The transfer agent for the series A preferred shares is The Bank of New York, whose principal executive office is located at One Wall Street, New York, NY 10286.

Book-Entry; Delivery and Form

The series A preferred shares will be represented by one or more global securities that will be deposited with and registered in the name of The Depository Trust Company, or DTC, or its nominee. This means that we will not issue certificates to you for the series A preferred shares except in limited circumstances. The global securities will be issued to DTC, the depository for the series A preferred shares, who will keep a computerized record of its participants (for example, your broker) whose clients have purchased the series A preferred shares. Each participant will then keep a record of its clients. Unless exchanged in whole or in part for a certificated security, a global security may not be transferred. However, DTC, its nominees, and their successors may transfer a global security as a whole to one another. Beneficial interests in the global securities will be shown on, and transfers of the global securities will be made only through, records maintained by DTC and its participants.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. DTC holds securities that its participants (direct participants) deposit with DTC. DTC also records the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for direct participants' accounts. This eliminates the need to exchange certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Neither we nor the underwriters take any responsibility for these operations or procedures, and you are urged to contact DTC or its participants directly to discuss these matters.

S-115

DTC's book-entry system is also used by other organizations such as securities brokers and dealers, banks and trust companies that work through a direct participant. The rules that apply to DTC and its participants are on file with the SEC.

DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc.

When you purchase series A preferred shares through the DTC system, the purchases must be made by or through a direct participant, who will receive credit for the series A preferred shares on DTC's records. Since you actually own the series A preferred shares, you are the beneficial owner and your ownership interest will only be recorded in the direct (or indirect) participants' records. DTC has no knowledge of your individual ownership of the series A preferred shares. DTC's records only show the identity of the direct participants and the amount of the series A preferred shares held by or through them. You will not receive a written confirmation of your purchase or sale or any periodic account statement directly from DTC. You will receive these from your direct (or indirect) participant. Thus, the direct (or indirect) participants are responsible for keeping accurate account of the holdings of their customers like you.

We will wire dividend payments to DTC's nominee and we will treat DTC's nominee as the owner of the global securities for all purposes. Accordingly, we will have no direct responsibility or liability to pay amounts due on the global securities to you or any other beneficial owners in the global securities.

Any redemption notices will be sent by us directly to DTC, who will in turn inform the direct participants, who will then contact you as a beneficial owner.

It is DTC's current practice, upon receipt of any payment of dividends or liquidation amounts, to credit direct participants' accounts on the payment date based on their holdings of beneficial interests in the global securities as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to direct participants whose accounts are credited with preferred securities on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global securities, and voting by participants, will be based on the customary practices between the participants and owners of beneficial interests, as is the case with the series A preferred shares held for the account of customers registered in "street name." However, payments will be the responsibility of the participants and not of DTC or us.

Series A preferred shares represented by global securities will be exchangeable for certificated securities with the same terms in authorized denominations only if:

- DTC is unwilling or unable to continue as depository or if DTC ceases to be a clearing agency registered under applicable law and a successor depository is not appointed by us within 90 days; or
- we determine not to require all of the series A preferred shares to be represented by global securities.

If the book-entry-only system is discontinued, the transfer agent will keep the registration books for the series A preferred shares at its corporate office.

S-116

MATERIAL TAX CONSIDERATIONS

The following summary sets forth the material U.S. federal income tax consequences particular to the series A preferred shares and does not purport to be complete. The summary supplements and is qualified by the discussion of material United States federal income tax consequences set forth under "Material Tax Considerations" in the accompanying prospectus. This summary deals only with holders of the series A preferred shares that are U.S. Persons. In addition, the following summary does not address the U.S. federal income tax consequences that may be relevant to special classes of shareholders, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers or traders in securities, tax exempt organizations, partnerships and other pass-through entities, persons whose functional currency is not the U.S. dollar, expatriates, persons who are considered with respect to Quanta Holdings or any of its subsidiaries as 10% U.S. Shareholders (as defined in the accompanying prospectus) or persons who hold the series A preferred shares as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under the Code. This discussion is based upon the Code, the regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. In addition, this discussion does not apply to shareholders that are subject to the alternative minimum tax. This discussion does not include any description of the tax laws of any state or local governments within the United States or any non-U.S. jurisdiction that may be applicable to the series A preferred shares or the holders of the series A preferred shares and does not address any aspect of U.S. federal taxation other than income taxation. Prospective investors should consult their professional advisors concerning the possible tax consequences of an investment in the series A preferred shares.

Taxation of Dividends

Subject to the discussions in the accompanying prospectus relating to the potential application of the controlled foreign corporation, related person insurance income and passive foreign investment company rules, cash distributions, if any, made with respect to the series A preferred 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 using U.S. tax principles). We believe dividends paid by us to non-corporate holders on the series A preferred shares before 2009 (which, if proposed legislation is adopted, would be extended through 2010) should be eligible for reduced rates of tax up to a maximum of 15% as "qualified dividend income" if, as is intended, we successfully list the series A preferred shares on Nasdaq. Even in such case, dividends paid by Quanta Holdings would not be eligible for the reduced rate of tax if Quanta Holdings was a PFIC in the year in which the dividends are paid, or in the prior year, or if certain holding period or other requirements were not met by the shareholder receiving the dividend. Legislation was recently introduced in the United States 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. Qualified dividend income is subject to tax at capital gain rates. Dividends paid by us generally will be foreign sourced 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 Code. To the extent such distributions exceed Quanta Holdings' earnings and profits, they will be treated first as a return of the shareholder's basis in their shares to the extent thereof, and then as gain from the sale of a capital asset.

Redemption of Series A Preferred Shares

A redemption of the series A preferred shares will be treated under section 302 of the Code as a dividend if Quanta Holdings has sufficient earnings and profits, as described in the accompanying prospectus under "Material Tax

Considerations — U.S. Taxation of Holders of Shares — Shareholders Who Are U.S. Persons — Dividends," unless the redemption satisfies one of the tests set forth in section 302(b) of the Code enabling the redemption to be treated as a sale or exchange. Under the relevant Code section 302(b) tests, the redemption should be treated as a sale or exchange only if it

S-117

(1) is substantially disproportionate, (2) constitutes a complete termination of the holder's stock interest in Quanta Holdings or (3) is "not essentially equivalent to a dividend." In determining whether any of these tests are met, shares considered to be owned by the holder by reason of certain constructive ownership rules set forth in the Code, as well as shares actually owned, must generally be taken into account. It may be more difficult for a U.S. Person who owns, actually or constructively by operation of the attribution rules, any of our other shares to satisfy any of the above requirements. The determination as to whether any of the alternative tests of section 302(b) of the Code is satisfied with respect to a particular holder of the series A preferred shares depends on the facts and circumstances as of the time the determination is made.

Classification of Quanta Holdings, Quanta Bermuda or Quanta Europe as a Controlled Foreign Corporation.

As described in the accompanying prospectus, each "10% U.S. Shareholder" of a foreign corporation that is a controlled foreign corporation, or a CFC, for an uninterrupted period of 30 days or more during a taxable year, and who owns directly, indirectly through foreign entities, or constructively, shares in such corporation on the last day of such year in which such corporation is a CFC, 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 F income is not distributed. See "Material Tax Considerations — U.S. Taxation of Holders of Shares — Shareholders who are U.S. Persons — Classification of Quanta Holdings, Quanta Bermuda or Quanta Europe as a CFC" in the accompanying prospectus. Whenever dividends payable on series A preferred shares have not been declared by the board of directors and paid for an aggregate amount equivalent to six full quarterly dividends (whether or not consecutive) on all of the series A preferred shares or any class or series of parity stock then outstanding, holders would be entitled to certain voting rights as set forth under "Description of the Series A Preferred Shares — Voting Rights." It is possible that the IRS could assert that accrual of these voting rights could cause certain U.S. Persons that hold series A preferred shares to own, directly, indirectly through foreign entities, or constructively, 10% or more of the total voting power of all classes of shares and could cause such 10% U.S. Shareholders as a group to own, directly, indirectly through foreign entities, or constructively, 25% or more (in the case of our non-U.S. insurance subsidiaries) or 50% or more (in the case of Quanta Holdings) of the total vote or value of all classes of our shares. The consequences of us or any of our foreign subsidiaries being treated as a controlled foreign corporation are discussed in the accompanying prospectus under "Material Tax Considerations — U.S. Taxation of Holders of Shares."

Due to the anticipated dispersion of series A preferred share ownership among holders, we believe that no U.S. Person who owns series A preferred shares directly, indirectly through foreign entities, or constructively should be subject to treatment as a 10% U.S. Shareholder of a CFC on the default of the series A preferred shares. We can make no assurances, however, that the IRS will not assert such treatment, and that a court will not sustain such challenge.

S-118

UNDERWRITING

General

We and the underwriters named below have entered into an underwriting agreement covering the series A preferred 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 series A preferred shares set forth opposite its name in the following table:

Name of Underwriter	Number of Series A Preferred Shares
Friedman, Billings, Ramsey & Co., Inc. BB&T Capital Markets, a division of Scott & Stringfellow, Inc.	
Total	3,000,000

The underwriters' obligations are several, which means that each underwriter is required to purchase a specific number of series A preferred 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 series A preferred 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 our series A preferred shares offered by this prospectus supplement and the accompanying prospectus, if any such shares are taken. However, the underwriters are not obligated to take or pay for our series A preferred shares covered by the underwriters' over-allotment option described below, unless and until this option is exercised.

The series A preferred 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

This prospectus supplement and the accompanying 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 this prospectus supplement and the accompanying prospectus electronically. Friedman, Billings, Ramsey & Co., Inc., as representative, may agree to allocate a number of our series A preferred shares to underwriters for sale to their online brokerage account holders. The representative will allocate our series A preferred shares to underwriters that may make Internet distributions on the same basis as other allocations. Other than this prospectus supplement and the accompanying 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 supplement and the accompanying prospectus.

Nasdaq National Market Listing

We have applied to list the series A preferred shares on the Nasdaq National Market System under the symbol “QNTAP.”

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 supplement, to purchase up to an aggregate of 450,000 additional

S-119

series A preferred shares at the public offering price, less the underwriting discount and commission set forth on the cover page of this prospectus supplement.

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 series A preferred 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 series A preferred shares offered by this prospectus supplement.

Commissions and Expenses

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

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 series A preferred shares. We will receive proceeds of \$ million (\$ 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	\$	\$	\$
Underwriting discount and expenses payable by us ⁽¹⁾	\$	\$	\$
Proceeds to us before expenses	\$	\$	\$

⁽¹⁾Includes reimbursement of the underwriters' expenses, including attorney fees, of approximately \$.

⁽²⁾Assumes overallotment option is not exercised.

We estimate that our total expenses for this offering will be \$.

Lock-Up Agreements

We have agreed, for a period of 90 days after the date of this prospectus supplement, 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 series A preferred shares;
- not to grant or sell any option or contract to purchase any of our series A preferred 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 series A preferred shares.

These agreements also prohibit us from entering into any of the foregoing transactions with respect to any securities that are convertible into or exchangeable for our series A preferred shares.

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.

S-120

Stabilization

In connection with the offering, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our series A preferred 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 series A preferred shares while the offering is in progress. Stabilizing transactions may include making short sales of our series A preferred shares, which involve the sale by the underwriter of a greater number of series A preferred shares than it is required to purchase in the offering, and purchasing series A preferred 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 the series A preferred shares in the open market. In making this determination, each underwriter will consider, among other things, the price of the series A preferred shares available for purchase in the

open market compared to the price at which the underwriter may purchase the series A preferred 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 series A preferred 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 the series A preferred 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 the series A preferred shares in the open market in stabilizing transactions or to cover short sales, the underwriters can require the selling group members that sold those the series A preferred shares as part of the offering to repay the selling concession received by them.

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

Our Relationship with the Underwriters

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. 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.

S-121

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 series A preferred 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 this prospectus supplement have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as set forth in their reports included herein. Such financial statements are included 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 supplement.

S-122

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

For purposes of this prospectus supplement, 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 supplement 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; and
- 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 and November 28, 2005 and our Current Reports on Form 8-K/A filed on March 16, 2005 and December 2, 2005.

All reports and other documents we file pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this prospectus supplement and prior to the termination of this offering of the series A preferred shares, but excluding any information furnished to, rather than filed with, the SEC, will also be incorporated by reference into this prospectus supplement and deemed to be part of this prospectus supplement 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 supplement is delivered, upon written or oral request, a copy of any or all documents that are incorporated by reference into this prospectus supplement by reference, but not delivered with the prospectus supplement, other than exhibits to such documents unless such exhibits are specifically incorporated by reference into the documents that this prospectus supplement 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.

S-123

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
Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2005 and 2004	F-4
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

F-1

QUANTA CAPITAL HOLDINGS LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS

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

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	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	16,669	3,749
Deposit liabilities	52,564	43,365
Deferred income and other liabilities	4,795	4,935
Junior subordinated debentures	61,857	41,238
Total liabilities	\$ 1,051,922	\$ 549,824
Commitments and contingencies (Note 10)		
Shareholders' equity		
Preferred shares (\$0.01 par value; 25,000,000 shares authorized; none issued and outstanding at September 30, 2005 and December 31, 2004)	\$ —	\$ —
Common shares (\$0.01 par value; 200,000,000 shares authorized; 56,810,020 and 56,798,218 issued and outstanding at September 30, 2005 and December 31, 2004)	568	568
Additional paid-in capital	523,843	523,771
Accumulated deficit	(144,256)	(93,058)
Accumulated other comprehensive loss	(7,955)	(372)
Total shareholders' equity	\$ 372,200	\$ 430,909
Total liabilities and shareholders' equity	\$ 1,424,122	\$ 980,733

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

F-2

QUANTA CAPITAL HOLDINGS LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS

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

	Three Months Ended		Nine Months Ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Revenues				
Gross premiums written	\$ 171,542	\$ 116,729	\$ 512,816	\$ 370,428
Net premiums written	\$ 115,965	\$ 85,969	\$ 386,206	\$ 312,487
Change in net unearned premiums	(15,419)	(20,446)	(89,166)	(162,874)
Net premiums earned	100,546	65,523	297,040	149,613
Technical services revenues	16,019	7,727	31,516	22,580
Net investment income	6,991	3,258	18,403	9,811
Net realized (losses) gains on investments	(1,168)	297	(789)	665
Net foreign exchange (losses) gains	(311)	(43)	(336)	85
Other income	1,945	264	5,540	690
Total revenues	124,022	77,026	351,374	183,444
Expenses				
Net losses and loss expenses	121,087	77,963	241,102	126,176
Acquisition expenses	22,998	16,424	62,718	35,885
Direct technical services costs	13,133	5,231	23,993	15,442
General and administrative expenses	23,574	14,294	68,427	44,700
Interest expense	1,200	—	2,971	—
Depreciation of fixed assets and amortization of intangible assets	1,079	560	2,879	1,397
Total expenses	183,071	114,472	402,090	223,600
Loss before income taxes	(59,049)	(37,446)	(50,716)	(40,156)
Income tax expense	35	—	482	—
Net loss	(59,084)	(37,446)	(51,198)	(40,156)
Other comprehensive (loss) income				
Net unrealized investment (losses) gains arising during the period, net of income taxes	(7,222)	5,053	(8,557)	(235)
Foreign currency translation adjustments	94	(19)	185	(39)

Reclassification of net realized losses (gains) on investments included in net loss, net of income taxes	1,168	(297)	789	(665)
Other comprehensive (loss) income	(5,960)	4,737	(7,583)	(939)
Comprehensive loss	\$ (65,044)	\$ (32,709)	\$ (58,781)	\$ (41,095)
Weighted average common share and common share equivalents —				
Basic	56,810,020	56,798,218	56,804,119	56,798,218
Diluted	56,810,020	56,798,218	56,804,119	56,798,218
Basic loss per share	\$ (1.04)	\$ (0.66)	\$ (0.90)	\$ (0.71)
Diluted loss per share	\$ (1.04)	\$ (0.66)	\$ (0.90)	\$ (0.71)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

F-3

QUANTA CAPITAL HOLDINGS LTD.
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (Expressed in thousands of U.S. dollars except for share and per share amounts)

	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Share capital – preferred shares of par value \$0.01 each	\$ —	\$ —
Share capital – common shares of par value \$0.01 each		
Balance at beginning of period	568	568
Issued during period	—	—
Balance at end of period	568	568
Additional paid-in capital		
Balance at beginning of period	523,771	524,235
Common shares issued during period	72	—
Net offering costs	—	(464)
Balance at end of period	523,843	523,771
Accumulated deficit		
Balance at beginning of period	(93,058)	(38,477)
Net loss for period	(51,198)	(40,156)
Balance at end of period	(144,256)	(78,633)
Accumulated other comprehensive loss		
Balance at beginning of period	(372)	1,157
Net change in unrealized losses on investments, net of tax	(7,768)	(900)
Foreign currency translation adjustments	185	(39)
Balance at end of period	(7,955)	218

Total shareholders' equity \$ 372,200 \$ 445,924

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

F-4

QUANTA CAPITAL HOLDINGS LTD.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of U.S. dollars)

	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Cash flows from operating activities		
Net loss	\$ (51,198)	\$ (40,156)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation of property and equipment	2,324	842
Amortization of intangible assets	555	555
Amortization of discounts on investments	901	2,751
Net realized losses (gains) on investments	789	(665)
Net change in fair value of derivative instruments	496	274
Non-cash stock compensation expense	72	—
Changes in assets and liabilities:		
Restricted cash and cash equivalents	(3,123)	2,251
Accrued investment income	(408)	(759)
Premiums receivable	(25,335)	(121,366)
Losses and loss adjustment expenses recoverable	(139,315)	(2,787)
Deferred acquisition costs	(9,227)	(35,986)
Deferred reinsurance premiums	(34,851)	(43,043)
Other accounts receivable	1,878	153
Other assets	(6,003)	(1,849)
Reserve for losses and loss adjustment expenses	310,200	120,079
Unearned premiums	123,046	205,916
Environmental liabilities assumed	5,664	(321)
Reinsurance balances payable	9,373	22,727
Accounts payable and accrued expenses	11,217	(6,744)
Deferred income and other liabilities	(140)	1,101
Deposit liabilities	9,199	—
Net cash provided by operating activities	206,114	102,973
Cash flows used in investing activities		
Proceeds from sale of fixed maturities and short-term investments	1,023,526	614,638

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Purchases of fixed maturities and short-term investments	(1,179,661)	(685,419)
Purchases of property and equipment	(3,114)	(3,537)
Net cash used in investing activities	(159,249)	(74,318)
Cash flows used in financing activities		
Net offering costs	—	(464)
Proceeds from junior subordinated debentures, net of issuance costs	19,591	—
Net cash provided by (used in) financing activities	19,591	(464)
Increase in cash and cash equivalents	66,456	28,191
Cash and cash equivalents at beginning of period	32,775	36,694
Cash and cash equivalents at end of period	\$ 99,231	\$ 64,885

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

F-5

QUANTA CAPITAL HOLDINGS LTD.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; expressed in thousands of US dollars except for share and per share amounts, or as otherwise stated)

1. Description of business and basis of presentation

Quanta Capital Holdings Ltd. (“Quanta Holdings”), incorporated on May 23, 2003, is a holding company organized under the laws of Bermuda. Quanta Holdings and its subsidiaries, collectively referred to as the “Company,” were formed to provide specialty insurance, reinsurance, risk assessment and risk technical services and products on a global basis. Quanta Holdings conducts its insurance and reinsurance operations principally through wholly-owned subsidiaries operating in Bermuda, the United States of America and Europe.

On February 22, 2005 the Company announced the opening of a London insurance branch following the receipt, by Quanta Europe, of approval to establish this branch office. The branch office underwrites specialty insurance lines including environmental liability, professional liability, financial institutions and trade and political risk.

Interim financial information

These unaudited condensed consolidated financial statements include the accounts of the Company and have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of management, the condensed consolidated financial statements include all adjustments necessary (consisting of only normal and recurring accruals) for a fair statement of the financial position and results of operations as at the end of and for the interim periods presented. The results of operations for any interim period are not necessarily indicative of the results that may be expected for any other interim period or for a full year. All significant inter-company balances and transactions have been eliminated on consolidation.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2004, included in the Form 10-K filed by

the Company with the SEC on March 30, 2005.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities reported at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes the amounts included in the unaudited condensed consolidated financial statements reflect management's best estimates and assumptions, the actual results could ultimately be materially different from the amounts currently provided for in the unaudited condensed consolidated financial statements. The Company's principal estimates and assumptions relate to the development and determination of the following:

- reserves for losses and loss adjustment expenses;
- certain estimated premiums written, unearned premiums and receivables;
- reinsurance balances recoverable;
- the valuation of goodwill and intangible assets;
- environmental liabilities assumed;
- investment valuations;
- annual incentive plan provisions; and
- deferred income taxes and liabilities.

F-6

QUANTA CAPITAL HOLDINGS LTD.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; expressed in thousands of US dollars except for share and per share amounts, or as otherwise stated)

During the three months ended September 30, 2004, the Company renamed its consulting segment as the technical services segment. Accordingly, the consulting revenues and direct consulting costs captions in the income statement, previously included in the Company's Form 10-Q for the three and nine months periods ended September 30, 2004, have been renamed technical service revenues and direct technical service costs.

2. Significant accounting policies

A detailed discussion and analysis of the Company's significant accounting policies is provided in the notes to the Company's audited consolidated financial statements as of and for the year ended December 31, 2004 included in its Form 10-K.

Non-Traditional Contracts

The Company writes non-traditional contracts of insurance and reinsurance. The Company may account for these transactions as deposits held on behalf of 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.

During the three and nine months ended September 30, 2005, the Company recognized in other income \$0.9 million and \$2.7 million of fees and revenues relating to non-traditional contracts which were 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, \$0.2 million and \$0.5 million of other income recognized during the three and nine months ended September 30, 2005 relate to fees earned from a surplus relief life reinsurance arrangement with a U.S. insurance company which meets the Company’s definition of a non-traditional contract. In the fourth quarter of 2004, under this contract the Company entered into an arrangement with a client and assumed, through novation agreements, several life reinsurance contracts it had made. Because the Company assumed these contracts, the 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 the Company’s assumption of the contracts it received a fee. The arrangement, among other things, also provides that on certain dates and during specific periods, the client has the right but not the obligation to recapture the life reinsurance contracts the Company has assumed, provided that the underlying cedants do not reasonably withhold their consent to this recapture. The Company believes 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.

The Company believes the arrangement, including the 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 results in deposit accounting. Although the Company believes its client will exercise the recapture, it is not assured that this will be the case. If the Company’s client does not recapture the underlying insurance contracts in the future, the Company may be viewed as having had the risks described above and, as a result, the Company could be deemed to have retained life reinsurance risk and, as a result, 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 the

F-7

QUANTA CAPITAL HOLDINGS LTD.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; expressed in thousands of US dollars except for share and per share amounts, or as otherwise stated)

consolidated statement of operations. If deposit accounting had not been used with respect to this particular arrangement, the Company 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, the Company believes that the recognition of these premiums written would not have had a material effect on the Company’s financial position and results of operations. However, as the underlying life insurance contracts mature the effect on the Company’s 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, the Company does not believe it is exposed to a reasonable possibility of significant loss.

3. Recent accounting pronouncements

In June 2005, the Financial Accounting Standards Board’s (“FASB”) Emerging Issues Task Force (“EITF”) decided not to provide additional guidance on the meaning of other than temporary impairment and directed the staff to issue

proposed FASB Staff Position (“FSP”) EITF 03-1-a “Implementation Guidance for the Application of Paragraph 16 of EITF 03-1” as final and will be retitled FSP FAS 115-1 “The meaning of other than temporary impairment and its Application to Certain Investments.” It replaces existing guidance and clarifies that an impairment should be recognized as a loss at a date no later than the date the impairment is deemed other-than-temporary, even if the decision to sell has not been made. The FASB decided that FSP FAS 115-1 would be effective for other than temporary impairment analysis conducted in periods beginning after September 15, 2005. The Company anticipates that the adoption of FSP FAS 115-1 will not have a material effect on the Company's consolidated results of operations, financial position or cash flows.

In December 2004, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004) “Share-based payment” (“SFAS 123(R)"). SFAS 123(R) replaces SFAS No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”) and supersedes Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations (“APB 25”). Generally, the approach in SFAS 123(R) is similar to SFAS 123, however, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on their fair values and, accordingly, SFAS 123(R) does not allow pro forma disclosure as an alternative to financial statement recognition. SFAS 123(R) is effective for the beginning of the first annual period beginning after September 15, 2005. The Company is currently evaluating the effects of this statement on its financial reporting.

In March 2005, the Staff of the SEC issued Staff Accounting Bulletin No. 107 (“SAB 107”) providing guidance on SFAS 123(R). SAB 107 was issued to assist issuers in their initial implementation of FAS 123(R) and enhance the information received by investors and other users of the financial statements. The Company is evaluating the impact that the guidance in SAB 107 will have on its financial reporting.

F-8

QUANTA CAPITAL HOLDINGS LTD.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; expressed in thousands of US dollars except for share and per share amounts, or as otherwise stated)

4. Segment information

During the three months ended September 30, 2005, the Company changed the composition of its reportable segments such that the Lloyd's operating segment, which was previously a reportable segment, is aggregated with the company's specialty insurance reportable segment. Since our Lloyd's syndicate was not established until the fourth quarter of 2004, the prior year comparatives do not require restatement.

The following tables summarize the Company's results before income taxes for each reportable segment for the three and nine months ended September 30, 2005 and 2004 based on the reportable segments in effect during the quarter ended September 30, 2005.

Three months ended September 30, 2005

Statement of operations by Specialty Specialty Underwriting Technical Adjustments Consolidated

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segment	insurance	reinsurance	total	services	and	
					eliminations	
Direct insurance	\$90,630	\$—	\$90,630	\$—	\$—	90,630
Reinsurance assumed	6,718	74,194	80,912	—	—	80,912
Total gross premiums written	97,348	74,194	171,542	—	—	171,542
Premiums ceded	(35,258)	(20,319)	(55,577)	—		