

EATON CORP
Form 425
September 12, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (date of earliest event reported): September 12, 2012

EATON CORPORATION

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction
of incorporation)

1-1396
(Commission
File No.)

34-0196300
(IRS Employer
Identification No.)

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Eaton Center

Cleveland, Ohio 44114

(Address of principal executive offices)

(216) 523-5000

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events.

On September 12, 2012, Eaton Corporation (Eaton) and Cooper Industries plc (Cooper) issued a joint press release announcing the record dates and meeting dates for their respective shareholder meetings in connection with the proposed acquisition of Cooper by Eaton pursuant to the Transaction Agreement (the Transaction Agreement), dated as of May 21, 2012, as amended by Amendment No. 1 to the Transaction Agreement, dated as of June 22, 2012, by and among Eaton, Cooper, Eaton Corporation Limited (formerly known as Abeiron Limited), Abeiron II Limited (formerly known as Comdell Limited), Turlock B.V., Eaton Inc. and Turlock Corporation. The special meeting of Eaton is being held to seek shareholder approval of the Transaction Agreement and related matters. There will be two meetings of the Cooper shareholders in connection with the transaction, the first of which is convened by order of the Irish High Court, and the second of which is an extraordinary general meeting held pursuant to Cooper s articles of association. Both meetings are being held to seek shareholder approval of the scheme of arrangement in accordance with Irish law, and the approval of related matters by the Cooper shareholders will also be sought at the extraordinary general meeting.

Each of Eaton s and Cooper s shareholders of record at the close of business on Thursday, September 13, 2012, will be entitled to vote at their respective shareholder meetings. Each shareholder meeting is scheduled to be held on Friday, October 26, 2012. The Eaton shareholder meeting will be held at Eaton Center, located at 1111 Superior Avenue, Cleveland, Ohio 44114. The Cooper shareholder meetings will be held at 600 Travis Street, Houston, Texas 77002. Eaton and Cooper will begin mailing a joint proxy statement/prospectus to their respective shareholders in the coming days.

A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits.

(d) List of Exhibits

EXHIBIT

NO.	DESCRIPTION
99.1	Joint Press Release, dated September 12, 2012.

No Offer or Solicitation

This communication is not intended to and does not constitute an offer to sell or the solicitation of an offer to subscribe for or buy or an invitation to purchase or subscribe for any securities or the solicitation of any vote or approval in any jurisdiction pursuant to the acquisition or

otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

IMPORTANT INFORMATION HAS BEEN AND WILL BE FILED WITH THE SEC

A registration statement on Form S-4 has been filed with the SEC, which includes the Joint Proxy Statement of Eaton and Cooper that also constitutes a Prospectus of Eaton Corporation plc.¹ The registration statement was declared effective on September 7, 2012. Eaton and Cooper plan to mail to their respective shareholders (and to Cooper Equity Award Holders for information only) the definitive Joint Proxy Statement/Prospectus (including the Scheme) in connection with the transaction. **Investors and shareholders are urged to read the Joint Proxy Statement/Prospectus (including the Scheme) and other relevant documents filed or to be filed with the SEC carefully because they contain or will contain important information about Eaton, Cooper, Eaton Corporation plc, the transaction and related matters.** Investors and security holders will be able to obtain free copies of the definitive Joint Proxy Statement/Prospectus (including the Scheme) and other documents filed with the SEC by Eaton Corporation plc, Eaton and Cooper through the website maintained by the SEC at www.sec.gov. In addition, investors and shareholders will be able to obtain free copies of the definitive Joint Proxy Statement/Prospectus (including the Scheme) and other documents filed by Eaton and Eaton Corporation plc with the SEC by contacting Eaton Investor Relations at Eaton Corporation, 1111 Superior Avenue, Cleveland, OH 44114 or by calling (888) 328-6647, and will be able to obtain free copies of the definitive Joint Proxy Statement/Prospectus (including the Scheme) and other documents filed by Cooper by contacting Cooper Investor Relations at c/o Cooper US, Inc., P.O. Box 4446, Houston, Texas 77210 or by calling (713) 209-8400.

PARTICIPANTS IN THE SOLICITATION

Cooper, Eaton and Eaton Corporation plc and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the respective shareholders of Cooper and Eaton in respect of the transaction contemplated by the Joint Proxy Statement/Prospectus. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of the respective shareholders of Cooper and Eaton in connection with the proposed transaction, including a description of their direct or indirect interests, by security holdings or otherwise, will be set forth in the definitive Joint Proxy Statement/Prospectus when it is filed with the SEC. Information regarding Cooper's directors and executive officers is contained in Cooper's Annual Report on Form 10-K for the year ended December 31, 2011 and its Proxy Statement on Schedule 14A, dated March 13, 2012, which are filed with the SEC. Information regarding Eaton's directors and executive officers is contained in Eaton's Annual Report on Form 10-K for the year ended December 31, 2011 and its Proxy Statement on Schedule 14A, dated March 16, 2012, which are filed with the SEC.

¹ Currently named Eaton Corporation Limited but expected to be re-registered as Eaton Corporation plc prior to the consummation of the transaction.

FORWARD-LOOKING STATEMENTS

This communication may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning Eaton, Eaton Corporation plc, the acquisition and other transactions contemplated by the Transaction Agreement, our acquisition financing, our long-term credit rating and our revenues and operating earnings. These statements or disclosures may discuss goals, intentions and expectations as to future trends, plans, events, results of operations or financial condition, or state other information relating to Eaton or Eaton Corporation plc, based on current beliefs of management as well as assumptions made by, and information currently available to, management. Forward-looking statements generally will be accompanied by words such as anticipate, believe, plan, could, estimate, expect, forecast, guidance, intend, may, possible, potential, predict, project or other similar words, phrases or expressions. These forward-looking statements are subject to various risks and uncertainties, many of which are outside of our control. Therefore, you should not place undue reliance on such statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include adverse regulatory decisions; failure to satisfy other closing conditions with respect to the Acquisition; the risks that the new businesses will not be integrated successfully or that we will not realize estimated cost savings and synergies; our ability to refinance the bridge loan on favorable terms and maintain our current long-term credit rating; unanticipated changes in the markets for our business segments; unanticipated downturns in business relationships with customers or their purchases from Eaton; competitive pressures on our sales and pricing; increases in the cost of material, energy and other production costs, or unexpected costs that cannot be recouped in product pricing; the introduction of competing technologies; unexpected technical or marketing difficulties; unexpected claims, charges, litigation or dispute resolutions; new laws and governmental regulations. The foregoing list of factors is not exhaustive. You should carefully consider the foregoing factors and the other risks and uncertainties that affect our business described in our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other documents filed from time to time with the SEC. We do not assume any obligation to update these forward-looking statements.

No statement in this communication is intended to constitute a profit forecast for any period, nor should any statements be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for Eaton.

STATEMENT REQUIRED BY THE TAKEOVER RULES

The directors of Eaton Corporation accept responsibility for the information contained in this communication. To the best of the knowledge and belief of the directors of Eaton Corporation (who have taken all reasonable care to ensure such is the case), the information contained in this communication is in accordance with the facts and does not omit anything likely to affect the import of such information.

Persons interested in 1% or more of any relevant securities in Eaton or Cooper may from the date of this communication have disclosure obligations under Rule 8.3 of the Irish Takeover Panel Act, 1997, Takeover Rules 2007 (as amended).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

EATON CORPORATION

By: /s/ R. H. Fearon

Name: R. H. Fearon

Title: Vice Chairman and Chief Financial and Planning
Officer

Date: September 12, 2012

Index of Exhibits

EXHIBIT

NO.	DESCRIPTION	
99.1	Joint Press Release, dated September 12, 2012.	
	olor: #000000" align="right">	32,203
		60,000
		5,000
		23.29
		24.95
		877,515
		475,392
		36,206
	Christopher J.B. Williams	
	Time-vesting RSA ⁽⁴⁾	
	Performance-vesting RSA ⁽⁵⁾	
		5/25/2011
		5/25/2011
		0
		31,025
		93,168
		31,056

1,000,003

3,000,010

(1) These amounts represent the potential maximum value of the 2011 cash performance awards to Mr. Molbeck, Mr. Irick and Mr. Kelbel granted pursuant to our 2008 FIP. The maximum amount of a cash performance award is based upon the Company's achievement of pretax income. For 2011, the maximum amounts, as a percentage of pretax income, were: Mr. Molbeck - 1.0%, Mr. Irick - 0.25% and Mr. Kelbel - 0.25%. For 2011, our pretax income was \$355.0 million. The actual amounts of cash performance awards paid to plan participants for 2011 (as reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table) were as follows:

	(\$)
Mr. Molbeck	2,600,000
Mr. Irick	550,000
Mr. Kelbel	880,000

Mr. Cook and Mr. Williams did not receive cash performance awards for 2011. They were eligible for, and did receive, discretionary annual incentive awards for performance during 2011 totaling \$400,000 and \$1,000,000, respectively.

(2) In connection with an amendment to his employment agreement in 2011, Mr. Irick received a grant of 20,439 shares of time-vesting restricted stock on November 15, 2011. The shares of restricted stock vest on November 15, 2015. Dividends will be payable on the restricted stock during the vesting period.

(3) In connection with Mr. Whamond's voluntary resignation, the Company modified certain previously-granted awards to permit Mr. Whamond to retain such awards, subject to their original vesting provisions. The amounts in the table represent the incremental fair value of these modifications on September 13, 2011, the modification date. The time-vesting restricted stock will vest on May 20, 2012. Dividends will be payable on the restricted stock during the vesting period. Of the 60,000 options with an exercise price of \$23.29, 20,000 will vest on each of May 20, 2012, May 20, 2013, and May 20, 2014. The options will expire on May 20, 2015. The 5,000 options with an exercise price of \$24.95 will vest on August 24, 2012 and expire on August 24, 2016.

(4) In connection with the commencement of his employment with the Company, Mr. Williams received a grant of time-vesting restricted stock on May 25, 2011. The shares of restricted stock vest on April 30, 2016. Dividends will be payable on the restricted stock during the vesting period.

(5) In connection with the commencement of his employment with the Company, Mr. Williams received a grant of performance-vesting restricted stock on May 25, 2011. The restricted stock vests on April 30, 2016, subject to the Company's achievement of compound annual growth in book value per share as compared to the Company's peers according to the following schedule:

Company Growth Rate vs. Median Peer Company Growth Rate	% Vesting
< 100%	0 %
= 100%	33.3 %
> 100% and < 120%	Interpolated

≥ 120%

100 %

Dividends will be payable on the restricted stock during the vesting period.

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2011 Outstanding Equity Awards at Fiscal Year End Table

The following table summarizes outstanding equity awards held by each of the Named Executive Officers as of December 31, 2011.

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards:
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$) ⁽¹⁾	Option Expiration Date	Number of Shares of Stock or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
John N. Molbeck, Jr.	150,000	—	31.92	5/9/2012				
	37,500	—	24.47	4/4/2013				
					35,474 ⁽²⁾	975,535		
							106,421 ⁽²⁾	2,926,578
Brad T. Irick	10,000	40,000 ⁽³⁾	24.56	5/26/2016				
					10,000 ⁽⁴⁾	275,000		
					20,439 ⁽⁵⁾	562,073		
Barry J. Cook	100,000	—	30.05	1/4/2012				
	60,000	40,000 ⁽⁶⁾	20.86	11/19/2014				
					29,160 ⁽⁷⁾	801,900		
Craig J. Kelbel	100,000	—	31.92	5/9/2012				
					15,855 ⁽⁸⁾	436,013		

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					21,710 ⁽⁷⁾	597,025		
W. Tobin	40,000	60,000 ⁽⁹⁾	23.29	5/20/2015				
Whamond	5,000	5,000 ⁽¹⁰⁾	24.95	8/24/2016				
					32,203 ⁽¹¹⁾	885,583		
Christopher J.B. Williams					31,056 ⁽¹²⁾	854,040		
							93,168 ⁽¹²⁾	2,562,120

(1) The exercise price corresponds to our closing stock price on the grant date (the measurement date for accounting purposes).

(2) These shares vest on May 31, 2013.

(3) 10,000 of these options vest on each of May 26, 2012, May 26, 2013, May 26, 2014, and May 26, 2015.

(4) These shares vest on May 26, 2014.

(5) These shares vest on November 15, 2015.

(6) 20,000 of these options vest on each of November 19, 2012 and November 19, 2013.

(7) These shares vest on January 4, 2015.

(8) These shares vest on December 31, 2013.

(9) 20,000 of these options vest on each of May 20, 2012, May 20, 2013, and May 20, 2014.

(10) These options vest on August 24, 2012.

(11) These shares vest on May 20, 2012.

(12) These shares vest on April 30, 2016.

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2011 Option Exercises and Stock Vested Table

The following table summarizes the exercise of options and the vesting of stock awards by each of our Named Executive Officers during the year ended December 31, 2011:

Name	Option Awards		Stock Awards	
	Number of Shares	Value	Number of Shares	Value
	Acquired on	Realized	Acquired on	Realized on
	Exercise	on Exercise	Vesting	Vesting
	(#)	(\$) ⁽¹⁾	(#)	(\$) ⁽²⁾
John N. Molbeck, Jr.	—	—	—	—
Brad T. Irick	—	—	—	—
Barry J. Cook	80,000	386,724	—	—
Craig J. Kelbel	100,000	253,895	—	—
W. Tobin Whamond	—	—	—	—
Christopher J.B. Williams	—	—	—	—

(1) The value realized is calculated by multiplying the spread between the market price on the date of exercise and the exercise price of the option by the number of shares acquired on exercise.

(2) The value realized is calculating by multiplying the market price on the day of vesting by the number of shares vesting.

2011 Nonqualified Deferred Compensation Table

The following table contains information concerning benefits received by each of the Named Executive Officers under nonqualified deferred compensation plans during the year ended December 31, 2011:

Name	Executive	Company	Aggregate	Aggregate	Aggregate
	Contributions	Contributions	Earnings	Withdrawals/	Balance
	in Last FY	in Last FY	in Last FY	Distributions	at Last FYE
	(\$)	(\$)	(\$) ⁽¹⁾	(\$)	(\$)
John N. Molbeck, Jr.	950,000	—	95,404	—	3,504,570 ⁽²⁾
Christopher J.B. Williams	233,333	—	2,227	—	235,560 ⁽³⁾

(1) None of this amount is considered above-market earnings under SEC regulations. Earnings on deferred compensation are deemed above-market only if the rate exceeds 120% of the applicable federal long-term rate, with compounding.

(2) Of this amount, \$2,340,060 was previously reported as compensation to Mr. Molbeck in prior years.

(3) Of this amount, none was previously reported as compensation to Mr. Williams in prior years.

Mr. Molbeck and Mr. Williams receive deferred compensation under their respective employment agreements. We have implemented a Nonqualified Deferred Compensation Plan for each of Mr. Molbeck and Mr. Williams under which this deferred compensation is paid. Mr. Molbeck and Mr. Williams remain eligible to participate in their respective plans for so long as each remains an employee of HCC. Under this plan, monthly contributions are credited to their respective accounts in an amount equal to one-twelfth of the annual deferred compensation under each's employment agreement. The amount credited to his account will accrue earnings, which shall compound monthly, at the executive's election, which may be changed once per quarter, at one of the following rates: the prime rate (3.25% for 2011), the rate of return on HCC common stock (-2.90% for 2011), or the rate of return on the S&P 500 (0.0% for 2011). Payment of Mr. Molbeck's or Mr. Williams' account balance will occur within 30 days of his separation from service with HCC (subject to a six-month delay if necessary in order to comply with Internal Revenue Code Section 409A) and will be payable to him (or in the event of his death, to his beneficiary) in a single lump sum. Each plan is administered by our Compensation Committee. No separate trust or fund shall be created, and all benefits payable under the plan will be paid from HCC's general assets.

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Employment Agreements and Potential Payments Upon Certain Events

We have entered into employment agreements with our CEO, CFO and the other Named Executive Officers. Notwithstanding these employment agreements, each executive has the right to voluntarily terminate his employment at any time. The employment agreements set forth the general terms and conditions of each executive officer's employment and provide for certain severance benefits upon the occurrence of certain events. We do not maintain a separate severance plan for our Named Executive Officers. Severance benefits are limited to those set forth in the Named Executive Officer's employment agreement.

The following discussion (i) summarizes the material terms of each Named Executive Officer's employment agreement and (ii) sets forth in a tabular format the incremental compensation that would be payable to such Named Executive Officer in the event of his termination of employment under various scenarios, which we refer to as "termination events," including the Named Executive Officer's voluntary resignation or retirement, involuntary termination for "Cause," involuntary termination without "Cause," termination by the executive for "Good Reason," termination in connection with a "Change of Control," termination in the event of "Disability," and termination in the event of death, where each of these defined terms has the meaning ascribed to it in the respective executive's employment agreement. In accordance with applicable SEC rules, the following discussion assumes:

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that the termination event in question occurred on December 30, 2011, the last business day of 2011; and

-

with respect to calculations based on our stock price, we used \$27.50, which was the reported closing price of our common stock on December 30, 2011.

The tables contained in this section do not include payments made to a Named Executive Officer with respect to contracts, agreements, plans or arrangements to the extent they do not discriminate in scope, terms or operation, in favor of our executive officers and that are available generally to all salaried employees, such as our 401(k) plan. The actual amounts that would be paid upon a Named Executive Officer's termination of employment can only be determined at the time of such executive officer's termination. Due to the number of factors that affect the nature and amount of any compensation or benefits provided upon the termination events, any actual amounts paid or distributed may be higher or lower than reported below. Factors that could affect these amounts include the timing during the year of any such event, our stock price at such time, the 90-day Treasury bill rate used to discount payments and the executive officer's age and service.

Each Named Executive Officer is party to equity award agreements relating to options and/or restricted stock granted under our 2004 Flexible Incentive Plan and/or our 2008 Flexible Incentive Plan. These agreements and plans may provide that a Named Executive Officer is entitled to additional consideration in the event of a termination event.

John N. Molbeck, Jr.

General

Pursuant to the terms of his employment agreement, effective May 5, 2009, Mr. Molbeck serves as our Chief Executive Officer. Mr. Molbeck's employment agreement expires on May 31, 2013. During the term of his employment agreement, Mr. Molbeck receives an annual salary of \$1,950,000 (consisting of a base salary of \$1,000,000 and deferred compensation of \$950,000). Mr. Molbeck is eligible to receive bonus compensation under the 2008 Flexible Incentive Plan. Mr. Molbeck and his qualified beneficiaries are also entitled to medical coverage at no cost during the term of his agreement and for a period following the termination of Mr. Molbeck's employment. The benefits continue until, in general, the later of the date Mr. Molbeck or his spouse dies or, in the case of Mr. Molbeck's qualified beneficiaries, the date such person would cease to be eligible for coverage under our group health plan had Mr. Molbeck remained an employee. His employment agreement provides that upon termination for any reason, Mr. Molbeck will serve HCC as a consultant for a period of six years and nine months and receive an annual consulting fee of \$256,200. Mr. Molbeck's right to receive the annual consulting fee was vested at the inception of his employment agreement, and such fees remain payable in the event of Mr. Molbeck's death or disability. We agreed to this consulting arrangement, as well as the no-cost medical coverage described above, during Mr. Molbeck's previous employment agreement with us and continued to be obligated to such arrangements; therefore, we included these provisions in his most recent employment agreement. Mr. Molbeck is also entitled to certain other perquisites, including supplementary term life insurance of \$1,000,000 at our expense and personal travel on the corporate aircraft. If his employment agreement is terminated, Mr. Molbeck has agreed to certain provisions relating to non-competition (for two years post-termination), confidentiality, and non-solicitation of customers and employees (for two years post-termination).

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Benefits upon the Occurrence of Certain Termination Events

In addition to the amounts listed below, Mr. Molbeck is entitled to all accrued compensation, unreimbursed expenses and other benefits through the date of termination in the event of his termination.

Element	Involuntary Termination				Termination in Connection with Change of Control		
	Voluntary Resignation or Retirement	Involuntary Termination for Cause	Involuntary Termination by HCC without Cause	Termination by Executive for Good Reason	(without Cause or for Good Reason)	Termination in the Event of Disability	Termination in the Event of Death
	(\$)	(\$)	(\$)	(\$) ⁽¹⁾	(\$) ⁽¹⁾	(\$)	(\$)
Cash Severance Payment ⁽²⁾	—	—	5,766,550	12,591,550	12,591,550	2,841,550	2,841,550
Consulting Fee Payment ⁽³⁾	1,729,350	1,729,350	1,729,350	1,729,350	1,729,350	1,729,350	1,729,350
Bonus Payment ⁽⁴⁾	—	—	—	—	—	2,600,000	2,600,000
Continued Health Coverage ⁽⁵⁾	861,740	861,740	861,740	861,740	861,740	861,740	508,492
Restricted Stock Awards ⁽⁶⁾	—	—	975,535	975,535	3,902,113	975,535	975,535
TOTAL	2,591,090	2,591,090	9,333,175	16,158,175	19,084,753	9,008,175	8,654,927

(1) Good Reason includes Mr. Molbeck's termination or replacement as CEO, including following a Change of Control.

(2) In the event of termination without Cause or for Good Reason, Mr. Molbeck will receive a discounted lump sum equal to (i) the amount of base salary and deferred compensation due for the greater of 12 months or the remainder of the term of his employment agreement, plus (ii) an amount, in lieu of benefits other than medical, equal to \$4,650 times the number of months remaining in the term, plus (iii) (a) the average of the annual bonuses that were paid to Mr. Molbeck for the prior two years, or (b) in the event of a termination for Good Reason resulting from his termination or replacement as CEO, the aggregate of the base salary and annual bonus received by Mr. Molbeck for

the two full calendar years prior to termination.

In the event of termination due to disability or death, Mr. Molbeck or his estate, as applicable, will receive a discounted lump sum equal to (i) base salary and deferred compensation for the lesser of 18 months or the remaining term of the employment agreement, plus (ii) an amount, in lieu of benefits other than medical, equal to \$4,650 times (x) in the event of disability, the number of months remaining in the term of the employment agreement, or (y) in the event of death, the lesser of 18 months or the number of months remaining in the term.

The values included in the table above relating to cash severance payments are the total amount, with no discount applied.

(3) In the event of termination due to disability or death, Mr. Molbeck or his estate, as applicable, will receive a discounted lump sum equal to the consulting fee that would have been payable if Mr. Molbeck had retired on the expiration date of the employment agreement and provided consulting services for the entire consulting period. In addition, in the event of termination for any other reason than disability or death, although no payment will be due at termination, we have agreed to retain Mr. Molbeck as a consultant for six years and nine months after the date of such termination. The values included in the table above relating to consulting fee payments are the total amount, with no discount applied.

(4) In the event of termination due to disability or death, Mr. Molbeck or his estate, as applicable, is eligible to receive the bonus that would have been payable under the 2008 Flexible Incentive Plan for the year in which such death or disability occurred. The estimate of the potential bonus under the 2008 Flexible Incentive Plan that could be due to Mr. Molbeck is based on the actual bonus paid for 2011 assuming the Compensation Committee would not exercise its authority to reduce such bonus.

(5) In the event of termination for any reason, Mr. Molbeck and/or his qualified beneficiaries are entitled to receive continued health coverage through COBRA at Company expense for as long as such coverage is available and thereafter shall receive reimbursement for a comparable individual policy or for coverage through an employer plan for a period commencing on the date COBRA coverage ends and ending on, (i) in the case of Mr. Molbeck or his spouse, the date he or she dies or, (ii) in the case of Mr. Molbeck's qualified beneficiaries, the dates they would have ceased to be eligible for coverage under our health plans had Mr. Molbeck remained an employee of the Company. The following assumptions have been used to calculate the value of the expected benefits: coverage is provided for health care premiums for Mr. Molbeck and his spouse for life, initial average annual cost of coverage (grossed up for taxes) of \$21,196 for two adults or \$11,032 for individual coverage, and 4.67% annual health insurance premium trend.

(6) The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreements for the restricted stock. In general, all restricted stock will vest upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). In addition, the performance-vesting restricted stock will vest pro-rata for the portion of the performance period in which Mr. Molbeck was employed in the case of his termination by death or disability. The time-vesting restricted stock will vest if Mr. Molbeck's employment terminates due to disability or death or for any reason other than Cause (as defined in the restricted stock grant agreement). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 30, 2011.

Brad T. Irick

General

Pursuant to the terms of his employment agreement, effective May 10, 2010, as amended December 28, 2011,

Mr. Irick serves as Executive Vice President and Chief Financial Officer of HCC. His employment agreement expires on December 31, 2015. During the term of his employment agreement, Mr. Irick received an annual base salary of \$425,000 for 2011 (increasing to \$550,000 on January 1, 2012). Mr. Irick is eligible to receive annual cash and/or equity bonuses at the discretion of our Compensation Committee. Mr. Irick is also entitled to certain perquisites, including Company-provided life insurance. If the employment agreement is terminated, Mr. Irick has agreed to certain provisions relating to non-competition (for 12 months post-termination for any reason), confidentiality, and non-solicitation of customers and employees (for 24 months post-termination for any reason).

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Benefits upon the Occurrence of Certain Termination Events

In addition to the amounts listed below, Mr. Irick is entitled to all accrued compensation, unreimbursed expenses and other benefits through the date of termination in the event of his termination.

Element	Termination				Termination	Termination	Termination
	Voluntary Resignation or Retirement	Involuntary Termination for Cause	Involuntary Termination by HCC without Cause	Termination by Executive for Good Reason	in Connection with Change of Control (without Cause or for Good Reason)		
	(\$)	(\$)	(\$)	(\$)	(\$) ⁽¹⁾	(\$)	(\$)
Cash Severance Payment ⁽²⁾	—	—	1,027,083	1,027,083	1,027,083	212,500	212,500
Bonus Payment ⁽³⁾	—	—	—	—	—	550,000	550,000
Restricted Stock Awards ⁽⁴⁾	—	—	837,073	—	837,073	837,073	837,073
Stock Option Awards ⁽⁵⁾	—	—	117,600	117,600	117,600	117,600	117,600
TOTAL	—	—	1,981,756	1,144,683	1,981,756	1,717,173	1,717,173

(1) Includes a material change in the nature or status of Mr. Irick's duties within 12 months following a Change of Control.

(2) In the event of termination without Cause, termination for Good Reason, or termination in connection with a Change of Control, Mr. Irick will receive a discounted lump sum equal to the amount of base salary due for the remainder of the term of his employment agreement.

In the event of termination due to disability or death, Mr. Irick or his estate, as applicable, will receive, an amount equal to six months of base salary.

The values included in the table above relating to cash severance payments are the total amount, with no discount applied.

(3) In the event of termination due to disability or death, Mr. Irick or his estate, as applicable, is eligible to receive, at the CEO's discretion, a bonus payment for the year in which such death or disability occurred. The estimate of the potential bonus that could be due to Mr. Irick is based on the actual bonus paid for 2011 assuming the CEO would not exercise his authority to reduce such bonus.

(4) The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreement for the restricted stock. In general, all restricted stock will vest if Mr. Irick's employment terminates due to disability or death or by the Company for any reason other than Cause (as defined in the restricted stock grant agreement), or upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 30, 2011.

(5) The acceleration of vesting of stock options, if any, is governed under the terms of Mr. Irick's option agreement governing the grants. In general, all option grants will vest if Mr. Irick's employment is terminated in the event of disability or death. In addition, under Mr. Irick's option agreement, options will vest in the event of involuntary termination without Cause, termination for Good Reason, or termination in connection with a Change of Control. Amounts in the table above represent the intrinsic value of unvested options as of December 30, 2011.

Barry J. Cook

General

Pursuant to the terms of his service agreement, effective January 1, 2009, as renewed on March 30, 2012, Mr. Cook serves as an Executive Vice President of HCC and Chief Executive Officer of HCC Insurance Holdings (International) Limited with oversight for our international operations. Mr. Cook's employment agreement expires on March 31, 2016. Under the terms of the service agreement, either party may terminate the agreement without cause on six months' notice; provided, however, that in the event we terminate the agreement without cause, we must pay Mr. Cook's base salary and benefits through the end of the term. Mr. Cook received a salary of \$839,261 (£543,000) in 2011. In addition, Mr. Cook is eligible to receive annual cash and/ or equity bonuses at the discretion of our Compensation Committee. Mr. Cook is also entitled to certain perquisites, including supplemental medical coverage and Company-provided life insurance. If the agreement is terminated, Mr. Cook has agreed to certain provisions relating to non-competition (for one year post-termination), confidentiality and non-solicitation of customers and employees (for one year post-termination).

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Benefits upon the Occurrence of Certain Termination Events

In addition to the amounts listed below, Mr. Cook is entitled to all accrued compensation, unreimbursed expenses and other benefits through the date of termination in the event of his termination. All amounts have been converted to U.S. dollars from British pounds sterling at the rate of 1.5456.

Element	Termination in			Connection with		
	Voluntary Resignation or Retirement	Involuntary Termination for Cause	Involuntary Termination by HCC without Cause	Change of Control (without Cause or for Good Reason)	Termination in the Event of Disability	Termination in the Event of Death
	(\$) ⁽¹⁾	(\$) ⁽²⁾	(\$) ⁽¹⁾	(\$)	(\$) ⁽³⁾	(\$)
Cash Severance Payment ⁽⁴⁾	—	—	419,630	419,630	—	—
Bonus Payment	—	—	—	—	—	—
Continued Health Coverage ⁽⁵⁾	—	—	2,536	2,536	—	—
Restricted Stock Awards ⁽⁶⁾	—	—	801,900	801,900	801,900	801,900
Stock Option Awards ⁽⁷⁾	—	—	—	265,600	265,600	265,600
Other ⁽⁸⁾	—	—	13,861	13,861	—	—
TOTAL	—	—	1,237,927	1,503,527	1,067,500	1,067,500

(1) Mr. Cook's employment may be terminated by either party upon six months' notice. However, if the Company terminates Mr. Cook's employment for any reason other than for Cause, then Mr. Cook will receive his base salary and benefits for the remainder of the term.

(2) "For Cause" is not defined in Mr. Cook's service agreement. However, under the agreement, Mr. Cook may be subject to summary termination upon the occurrence of certain events, which are set forth in detail in the service agreement.

(3) We may summarily terminate Mr. Cook's service agreement if he becomes incapacitated from effectively performing his duties for a period of 180 days in any twelve-month period.

(4) In the event we terminate Mr. Cook's employment other than for Cause, Mr. Cook will receive a lump sum equal to his annual salary for the longer of the remainder of the term of the service agreement or 6 months.

(5) In the event we terminate Mr. Cook's employment other than for Cause, Mr. Cook will receive medical coverage for the longer of the remainder of the service agreement term or 6 months.

(6) The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreement for the restricted stock. In general, all restricted stock will vest if Mr. Cook's employment terminates due to disability or death or by the Company for any reason other than Cause (as defined in the restricted stock grant agreement), or upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 30, 2011.

(7) The acceleration of vesting of stock options, if any, is governed under the terms of Mr. Cook's various option agreements governing the grants. In general, all option grants will vest if Mr. Cook's employment is terminated in the event of disability or death. In addition, under certain of Mr. Cook's option agreements, options will vest in connection with a Change of Control. Amounts in the table above represent the intrinsic value of unvested options as of December 30, 2011.

(8) In the event we terminate Mr. Cook's employment other than for Cause, Mr. Cook will receive Company-provided life insurance for the longer of the remainder of the service agreement term or 6 months.

Craig J. Kelbel

General

Pursuant to the terms of his employment agreement, effective March 1, 2007, as amended March 30, 2012, Mr. Kelbel serves as Executive Vice President of HCC and President and Chief Executive Officer of HCC Life Insurance Company with oversight for our life, accident and health operations. His employment agreement expires on January 31, 2015. Mr. Kelbel receives an annual base salary of \$612,000 during the term of the agreement (increasing to \$750,000 on April 1, 2012). Mr. Kelbel is eligible to receive bonus compensation under the 2008 Flexible Incentive Plan. If Mr. Kelbel is not a participant under our 2008 Flexible Incentive Plan, he is eligible to receive annual cash and/or equity bonuses at the discretion of our Compensation Committee. Mr. Kelbel and his qualified beneficiaries are entitled to extended medical coverage after termination (other than voluntary resignation or retirement or for Cause) of his employment at Company expense. The benefits continue, in general, in the case of Mr. Kelbel and his spouse, until Mr. Kelbel or his spouse becomes eligible for Medicare, or, in the case of Mr. Kelbel's qualified beneficiaries, until the date such person would have ceased to be eligible for coverage under our group health plan had Mr. Kelbel remained an employee. Mr. Kelbel is also entitled to certain other perquisites, including use of a Company-owned golf club membership. The agreement provides that upon Mr. Kelbel's retirement or upon termination for any reason other than Cause, Mr. Kelbel will serve HCC as a consultant for a period equal to the number of whole years after January 1, 2002 in which Mr. Kelbel was a full-time employee of HCC and will receive an annual consulting fee of \$75,000. If the employment agreement is terminated, Mr. Kelbel has agreed to certain provisions relating to non-competition (for two years post-termination), confidentiality, and non-solicitation of customers and employees (for two years post-termination).

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Benefits upon the Occurrence of Certain Termination Events

In addition to the amounts listed below, Mr. Kelbel is entitled to all accrued compensation, unreimbursed expenses, and other benefits through the date of termination in the event of his termination.

Element	Termination				Termination		
	Voluntary Resignation or Retirement	Involuntary Termination for Cause	Involuntary Termination by HCC without Cause	Termination by Executive for Good Reason	in Connection with Change of Control (without Cause or for Good Reason)	in the Event of Disability	in the Event of Death
	(\$)	(\$)	(\$)	(\$)	(\$) ⁽¹⁾	(\$)	(\$)
Cash Severance Payment ⁽²⁾	—	—	1,276,800	1,276,800	1,276,800	957,600	957,600
Consulting Fee Payment ⁽³⁾	750,000	—	750,000	750,000	750,000	750,000	750,000
Bonus Payment ⁽⁴⁾	—	—	880,000	880,000	880,000	880,000	880,000
Continued Health Coverage ⁽⁵⁾	—	—	171,302	171,302	171,302	171,302	120,926
Restricted Stock Awards ⁽⁶⁾	—	—	1,033,038	—	1,033,038	1,033,038	1,033,038
TOTAL	750,000	—	4,111,140	3,078,102	4,111,140	3,791,940	3,741,564

(1) Includes a material change in the nature or status of Mr. Kelbel's duties within 12 months following a Change of Control.

(2) In the event of termination without Cause, termination for Good Reason, or termination in connection with a Change of Control, Mr. Kelbel will receive a discounted lump sum equal to (i) the amount of base salary due for the remainder of the term of the employment agreement plus (ii) an amount, in lieu of benefits other than medical, equal to \$2,200 times the number of months remaining in the term.

In the event of termination due to death or disability, Mr. Kelbel or his estate, as applicable, will receive a discounted lump sum equal to (i) the amount of base salary due for the lesser of 18 months or the remainder of the term of the employment agreement, and (ii) an amount, in lieu of benefits other than medical, equal to \$2,200 times the lesser of 18 months or the number of months remaining in the term of the employment agreement.

The values included in the table above relating to cash severance payments are the total amount, with no discount applied.

(3) In the event of termination without Cause, termination for Good Reason, or termination in connection with a Change of Control, Mr. Kelbel will receive the consulting fee that would have been earned had he provided consulting services for the entire consulting period. In addition, in the event of termination for any other reason than with Cause, although no payment will be due at termination, we have agreed to retain Mr. Kelbel as a consultant after the date of such termination for a period equal to the number of whole years between January 1, 2002 and the date of termination. The values included in the table above relating to consulting fee payments are the total amount, with no discount applied.

(4) In the event of termination without Cause, termination for Good Reason, termination in connection with a Change of Control, or termination due to death or disability, Mr. Kelbel or his estate, as applicable, will receive any bonus that would have been payable under the 2008 Flexible Incentive Plan. The estimate of the potential bonus under the 2008 Flexible Incentive Plan that could be due to Mr. Kelbel is based on the actual bonus paid for 2011 assuming the Compensation Committee would not exercise its authority to reduce such bonus.

(5) In the event of termination for any reason other than voluntary termination by Mr. Kelbel or termination for Cause, Mr. Kelbel and/or his qualified beneficiaries are entitled to receive continued health coverage through COBRA at Company expense for as long as such coverage is available and thereafter shall receive reimbursement for a comparable individual policy or for coverage through an employer plan for a period commencing on the date COBRA coverage ends and ending on, (i) in the case of Mr. Kelbel or his spouse, the dates he or she becomes eligible for Medicare coverage or, (ii) in the case of Mr. Kelbel's qualified beneficiaries, the dates they would have ceased to be eligible for coverage under our health plans had Mr. Kelbel remained an employee. The following assumptions have been used to calculate the value of the expected benefits: coverage is provided for health care premiums for Mr. Kelbel and his spouse until Mr. Kelbel becomes eligible for Medicare, initial average annual cost of coverage of \$13,495 for two adults or \$7,024 for individual coverage, and 4.48% annual health insurance premium trend.

(6) The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreements for the restricted stock. In general, all restricted stock will vest if Mr. Kelbel's employment terminates due to disability or death or by the Company for any reason other than Cause (as defined in the restricted stock grant agreement), or upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 30, 2011.

W. Tobin Whamond

Mr. Whamond voluntarily resigned as Executive Vice President and Chief Operating Officer of HCC, effective September 13, 2011 (the "Effective Date"). In connection with his resignation, he executed a separation agreement that provided for the following payments:

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A separation payment of \$1,860,000 (subject to applicable withholding taxes).

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Vesting of certain equity awards:

—

On May 20, 2009, Mr. Whamond was granted (i) 100,000 options to purchase the Company's common stock and (ii) 32,203 shares of restricted common stock. As of the Effective Date, 40,000 of these options and none of the shares of restricted stock had vested. Under the terms of his separation agreement, the remaining options and all of his restricted stock will continue to vest according to schedule. Mr. Whamond may exercise all of these vested options until May 20, 2015.

—

On August 24, 2010, Mr. Whamond was granted 25,000 options to purchase the Company's common stock. As of the Effective Date, 5,000 of those options had vested. Under the terms of his separation agreement, the 5,000 options scheduled to vest on August 24, 2012 will vest at such time. All other unvested options granted in August 2010 were cancelled without consideration as of the Effective Date. Mr. Whamond may exercise these options until August 24, 2016.

In addition, Mr. Whamond received the value of his accrued, but unused, vacation time, reimbursement for any reasonable and necessary business expense incurred prior to the Effective Date, and payment for three months of COBRA medical coverage.

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Christopher J.B. Williams

General

Pursuant to the terms of his employment agreement, effective May 1, 2011, Mr. Williams currently serves as our President and will be appointed as our Chief Executive Officer no later than May 31, 2013. Mr. Williams' employment agreement expires on May 1, 2016. During the term of his employment agreement, Mr. Williams receives an annual salary of \$1,350,000 (consisting of a base salary of \$1,000,000 and deferred compensation of \$350,000), increasing to an annual salary of \$1,950,000 (consisting of a base salary of \$1,000,000 and deferred compensation of \$950,000) upon his appointment as Chief Executive Officer. Mr. Williams is eligible to receive bonus compensation under the 2008 Flexible Incentive Plan. Mr. Williams is also entitled to certain other perquisites, including supplementary term life insurance of \$1,000,000 at our expense and personal travel on the corporate aircraft. If his employment agreement is terminated, Mr. Williams has agreed to certain provisions relating to non-competition (for two years post-termination), confidentiality, and non-solicitation of customers and employees (for two years post-termination).

Benefits upon the Occurrence of Certain Termination Events

In addition to the amounts listed below, Mr. Williams is entitled to all accrued compensation, unreimbursed expenses and other benefits through the date of termination in the event of his termination.

Element	Termination				Termination in Connection with Change of Control		
	Voluntary Resignation or Retirement	Involuntary Termination for Cause	Involuntary Termination by HCC without Cause	Termination by Executive for Good Reason	(without Cause or for Good Reason)	Termination in the Event of Disability	Termination in the Event of Death
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash Severance Payment ⁽¹⁾	—	—	6,850,000	6,850,000	6,850,000	2,025,000	2,025,000
Bonus Payment ⁽²⁾	—	—	—	—	—	1,000,000	1,000,000
Restricted Stock Awards ⁽³⁾	—	—	854,040	854,040	3,416,160	1,166,840	1,166,840

TOTAL	—	—	7,704,040	7,704,040	10,266,160	4,191,840	4,191,840
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(1) In the event of termination without Cause or termination for Good Reason, Mr. Williams will receive a discounted lump sum equal to (i) the amount of base salary and deferred compensation due for the greater of 12 months or the remainder of the term of his employment agreement plus (ii) (a) the average of annual bonuses that were paid to Mr. Williams for the prior two years (provided that if such termination is prior to Mr. Williams' appointment as CEO or as a result of the failure of Mr. Williams to be appointed CEO on or before May 31, 2013, the amount payable will be no less than 50% of the aggregate of his base salary and deferred compensation), or (b) in the event of a termination for Good Reason following his appointment as CEO, the aggregate of the base salary and bonus received by Mr. Williams for the two full calendar years prior to termination.

In the event of termination due to disability or death, Mr. Williams or his estate, as applicable, will receive a discounted lump sum equal to (i) base salary and deferred compensation for the lesser of 18 months or the remaining term of the employment agreement.

The values included in the table above relating to cash severance payments are the total amount, with no discount applied.

(2) In the event of termination due to disability or death, Mr. Williams or his estate, as applicable, is eligible to receive the bonus that would have been payable under the 2008 Flexible Incentive Plan for the year in which such death or disability occurred. The estimate of the potential bonus under the 2008 Flexible Incentive Plan that could be due to Mr. Williams is based on the actual bonus paid for 2011 assuming the Compensation Committee would not exercise its authority to reduce such bonus.

(3) The acceleration of vesting of restricted stock, if any, is governed under the terms of the grant agreements for the restricted stock. In general, all restricted stock will vest upon a Change of Control (as defined in the 2008 Flexible Incentive Plan). In addition, the performance-vesting restricted stock will vest pro-rata for the portion of the performance period in which Mr. Williams was employed in the case of his termination by death or disability. The time-vesting restricted stock will vest if Mr. Williams' employment terminates due to disability or death or for any reason other than Cause (as defined in the restricted stock grant agreement). Amounts in the table above represent the intrinsic value of unvested restricted stock as of December 30, 2011.

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AUDIT COMMITTEE REPORT

The Audit Committee is composed of three Independent Directors and acts under a written charter adopted by the Board of Directors. The Audit Committee consists of Mr. Duer, Dr. Flagg (Chairperson) and Mr. Rosholt.

The Audit Committee is responsible for overseeing HCC's financial reporting process on behalf of the Board of Directors. The Audit Committee has the sole responsibility for the appointment and retention of HCC's independent registered public accounting firm and the approval of all audit and other engagement fees. The Audit Committee meets periodically with management, the internal auditors and the independent registered public accounting firm regarding accounting policies and procedures, audit results and internal accounting controls. The internal auditors and the independent registered public accounting firm have free access to the Audit Committee, without management's presence, to discuss the scope and results of their audit work.

HCC's management is primarily responsible for its consolidated financial statements and the quality and integrity of the reporting process, including establishing and maintaining systems of internal control over financial reporting and assessing the effectiveness of those controls. The independent registered public accounting firm PricewaterhouseCoopers LLP is responsible for auditing those financial statements and for expressing an opinion on the conformity of the consolidated financial statements with accounting principles generally accepted in the United States of America and on whether HCC maintained effective internal control over financial reporting.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2011 and management's report of the effectiveness of HCC's system of internal control over financial reporting with HCC's management and representatives of the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm the matters required to be discussed by the independent registered public accounting firm with the Audit Committee under the rules adopted by the Public Company Accounting Oversight Board. In addition, the Audit Committee discussed with the independent registered public accounting firm its independence from HCC and HCC's management, and has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence. The Audit Committee has also considered the compatibility of non-audit services, primarily tax activities, provided by the independent registered public accounting firm with such firm's independence.

PricewaterhouseCoopers LLP audited the financial records of HCC and its subsidiaries for the year ended December 31, 2011 and has served as HCC's independent registered public accounting firm since 1987. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual Meeting of Stockholders and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

In reliance on its review of the audited consolidated financial statements, the review of the report of management on the effectiveness of HCC's internal control over financial reporting, the discussions referred to above and the receipt of the written disclosures referred to above, the Audit Committee has recommended to the Board of Directors that the audited consolidated financial statements be included in HCC's Annual Report on Form 10-K for the year ended December 31, 2011, for filing with the SEC.

Submitted by the Audit Committee:
James C. Flagg, Ph.D., *Chairperson*

Walter M. Duer

Robert A. Rosholt

The Audit Committee report does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other filing under the Securities Act of 1933, or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates the Audit Committee report by reference therein.

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The following table sets forth certain information regarding the beneficial ownership of our common stock as of the record date by (a) each of our Named Executive Officers, (b) each of our directors and director nominees and (c) all of our directors and executive officers as a group, and (d) each person known to own beneficially more than 5% of our common stock.

The number of shares and percentage of beneficial ownership set forth below are based on shares of our common stock issued and outstanding. As of April 4, 2012, the number of shares of common stock outstanding was 102,343,690.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership ⁽²⁾	Percent of Common Stock Outstanding ⁽³⁾
Directors, Director Nominees, and Named Executive Officers⁽¹⁾		
Emmanuel T. Ballases	—	*
Judy C. Bozeman	— ⁽⁴⁾	*
Frank J. Bramanti	351,847 ⁽⁵⁾	*
Barry J. Cook	145,230 ⁽⁶⁾	*
Walter M. Duer	56,333.48 ⁽⁷⁾	*
James C. Flagg, Ph.D.	14,827	*
Thomas M. Hamilton	4,000 ⁽⁸⁾	*
Leslie S. Heisz	— ⁽⁹⁾	*
Brad T. Irick	50,439 ⁽¹⁰⁾	*
Craig J. Kelbel	141,065 ⁽¹¹⁾	*
Deborah H. Midanek	5,940	*
John N. Molbeck, Jr.	458,627 ⁽¹²⁾	*
James E. Oesterreicher	16,671	*
Robert A. Rosholt	28,774	*
J. Mikesell Thomas	—	*
W. Tobin Whamond	98,809 ⁽¹³⁾	*
Christopher J. B. Williams	141,330	*
All directors and executive officers as a group (20 persons)	1,950,049.48	1.91 %
Other 5% Beneficial Owners		

BlackRock, Inc.

40 East 52 nd Street	6,311,904 ⁽¹⁴⁾	6.17 %
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New York, NY 10022

T. Rowe Price Associates, Inc.

100 E. Pratt Street	6,710,040 ⁽¹⁵⁾	6.56 %
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Baltimore, MD 21202

Eaton Vance Management

2 International Place	7,555,198 ⁽¹⁶⁾	7.38 %
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Boston, MA 02110

* *Less than 1%.*

(1) The address for the directors, director nominees and Named Executive Officers is 13403 Northwest Freeway, Houston, TX 77040-6094.

(2) Directors and executive officers have sole voting and investment powers of the shares shown unless otherwise indicated.

(3) The calculation of this percentage assumes for each person:

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102,343,690 shares of common stock are issued and outstanding as of April 4, 2012 plus, as to that person only, such number of shares that may be acquired by that person as a result of the following two bullet points:

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The acquisition by such person of all shares that may be acquired upon the exercise of options to purchase shares that have vested or will vest by June 3, 2012; and

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The acquisition by such person of all shares that may be acquired upon the vesting of restricted stock between April 4, 2012 and June 3, 2012.

(4) Does not include 7,315.30 shares of common stock that Ms. Bozeman has elected to defer under the Director DCP.

(5) Includes (i) 1,125 shares owned by Mr. Bramanti's wife in trust for their children and (ii) 1,234 shares owned by Mr. Bramati's children. Mr. Bramanti disclaims beneficial ownership of the 2,359 shares in (i) and (ii).

(6) Includes 60,000 shares that Mr. Cook has the right to acquire upon the exercise of options that have vested or will vest by June 3, 2012.

(7) Includes (i) 37,500 shares that Mr. Duer has the right to acquire upon the exercise of options that have vested or will vest by June 3, 2012 and (ii) 2,006.48 shares owned by a family limited partnership.

(8) Does not include 11,467.69 shares of common stock that Mr. Hamilton has elected to defer under the Director DCP.

(9) Does not include 4,017.82 shares of common stock that Ms. Heisz has elected to defer under the Director DCP.

(10) Includes 20,000 shares that Mr. Irick has the right to acquire upon the exercise of options that have vested or will vest by June 3, 2012.

(11) Includes 100,000 shares that Mr. Kelbel has the right to acquire upon the exercise of options that have vested or will vest by June 3, 2012.

(12) Includes 187,500 shares that Mr. Molbeck has the right to acquire upon the exercise of options that have vested or will vest by June 3, 2012.

(13) Includes 65,000 shares that Mr. Whamond has the right to acquire upon the exercise of options that have vested or will vest by June 3, 2012.

(14) Based on a review of a Schedule 13G/A report filed on February 13, 2012, BlackRock, Inc. beneficially owned 6,710,040 shares as of December 30, 2011 with sole voting power as to 6,311,904 shares, shared voting power as to zero shares, sole dispositive power as to 6,311,904 shares and shared dispositive power as to zero shares. The Schedule 13G/A states that various persons have the right to receive, or power to direct the receipt of, dividends from or the proceeds from the sale of our common stock, but that no one person's interest in our common stock is more than 5% of the total outstanding.

(15) Based on a review of a Schedule 13G report filed on February 10, 2012, T. Rowe Price Associates, Inc. beneficially owned 6,710,040 shares as of December 31, 2011 with sole voting power as to 1,358,560 shares, shared voting power as to zero shares, sole dispositive power as to 6,710,040 shares and shared dispositive power as to zero shares. T. Rowe Price Associates, Inc. states that the securities are owned by various individual and institutional investors, which T. Rowe Price Associates, Inc. serves as investment advisor with power to direct investments and/or sole power to vote the securities. For purposes of the reporting requirements of the Securities Exchange Act of 1934, T. Rowe Price Associates, Inc. is deemed to be a beneficial owner of such securities; however, T. Rowe Price Associates, Inc. expressly disclaims that it is, in fact, the beneficial owner of such securities.

(16) Based on a review of a Schedule 13G report filed on January 10, 2012, Eaton Vance Management beneficially owned 7,555,198 shares as of December 31, 2011 with sole voting power as to 7,555,198 shares, shared voting power as to zero shares, sole dispositive power as to 7,555,198 shares and shared dispositive power as to zero shares.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, as defined under the Exchange Act, and persons who own more than 10% of a registered class of our equity securities to file initial reports of ownership and changes in ownership with the SEC. Such executive officers, directors and stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely upon a review of the copies of such forms furnished to us and written representations from our directors and executive officers, all persons subject to the reporting requirements of Section 16(a) filed all required reports on a timely basis in 2011.

OTHER BUSINESS

The Board of Directors has no knowledge of any other matter to be submitted at the 2012 Annual Meeting. If any other matter shall properly come before the annual meeting, the persons named in this Proxy Statement will have discretionary authority to vote the shares thereby represented in accordance with their best judgment.

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STOCKHOLDER PROPOSALS

Any stockholder proposal intended to be presented for consideration at the 2013 Annual Meeting of Stockholders and to be included in our Proxy Statement for such meeting must be in proper form and received by our Secretary at HCC's principal executive offices by the close of business on December 13, 2012. We recommend that a proponent submit any proposal by Certified Mail, Return Receipt Requested and that all proposals should be sent to the attention of the Secretary.

Stockholder proposals submitted outside of the procedure set forth above, which will not be included in our Proxy Statement, including nominations for directors, must be mailed to HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094, ATTN: Secretary, and must be received by the Secretary no earlier than January 27, 2013 and no later than February 26, 2013. If the proposal is received after that date, our proxy for the 2013 Annual Meeting of Stockholders may confer discretionary authority to vote on such matter without any discussion of such matter in the proxy statement for the 2013 Annual Meeting. With respect to the nomination of directors, refer to "Candidates for the Board — Stockholder Recommendations," which requirements will also apply.

Nothing in this section shall be deemed to require us to

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permit presentation of a stockholder proposal; or

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include in our proxy materials relating to our 2013 Annual Meeting any stockholder proposal

that does not meet all of the requirements for such presentation or inclusion contained in our Bylaws and/or state and federal securities laws and regulations in effect at that time.

HOUSEHOLDING

The SEC allows us to deliver a single proxy statement and annual report to an address shared by two or more of our stockholders. This delivery method, referred to as "householding," can result in significant cost savings for us. In order to take advantage of this opportunity, we, and banks and brokerage firms that hold your shares, have delivered only one proxy statement and annual report to multiple stockholders who share an address unless one or more of the stockholders has provided contrary instructions. We will deliver promptly, upon written or oral request, a separate copy of the proxy statement and annual report to a stockholder at a shared address to which a single copy of the documents was delivered. A stockholder who wishes to receive a separate copy of the proxy statement and annual report, now or in the future, may obtain one, without charge, by addressing a request to HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094, ATTN: Investor Relations. You may also obtain a copy of the proxy statement and annual report under the Financials portion of the Investor Relations section on our website at www.hcc.com. Stockholders of record sharing an address who are receiving multiple copies of proxy materials and annual reports and wish to receive a single copy of such materials in the future should submit their request by contacting us in the same manner. If you are the beneficial owner, but not the record holder, of the Company's shares and wish to receive only one copy of the proxy statement and annual report in the future, you will need to contact your broker, bank or other nominee to request that only a single copy of each document be mailed to all stockholders at the shared address in the future.

Form 10-K

We will furnish without charge to each person whose proxy is being solicited, upon request of any such person, a copy of our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC, including the consolidated financial statements and schedules thereto, but not the exhibits. Requests for copies of such report should be directed to Investor Relations, HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094. Copies of any exhibit to the Form 10-K will be forwarded upon receipt of a written request so addressed.

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For the date, time and location of the 2012 Annual Meeting and an identification of the matters to be voted upon at the 2012 Annual Meeting, please see the “Notice of Annual Meeting of Stockholders.” For the Board’s recommendations regarding those matters, please refer to “Proposal Number 1 — Election of Directors,” “Proposal Number 2 — Advisory Vote on Executive Compensation,” and “Proposal Number 3 — Ratification of Our Independent Registered Public Accounting Firm for 2012.” For information on how to obtain directions to be able to attend the meeting and vote in person, please contact Investor Relations, HCC Insurance Holdings, Inc., 13403 Northwest Freeway, Houston, Texas 77040-6094.

EACH STOCKHOLDER WHO DOES NOT EXPECT TO ATTEND THE ANNUAL MEETING OF STOCKHOLDERS IN PERSON IS URGED TO EXECUTE THE PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE OR SUBMIT THE PROXY BY TELEPHONE OR USING THE INTERNET. NO POSTAGE IS NECESSARY IF MAILED IN THE UNITED STATES.

April 12, 2012

By Order of the Board of Directors,

Randy D. Rinicella

Senior Vice President, General Counsel and Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 23, 2012

The Company’s 2012 Notice of Annual Meeting and Proxy Statement, 2011 Annual Report and other proxy materials are available under the “Investor Relations” tab on our website at [www. hcc.com](http://www.hcc.com).

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