

**UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

IN RE HCC INSURANCE HOLDINGS, INC. SECURITIES LITIGATION

Case No. 4:07-cv-801

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**NOTICE OF PENDENCY OF CLASS ACTION AND PROPOSED SETTLEMENT,
MOTION FOR ATTORNEYS' FEES AND SETTLEMENT FAIRNESS HEARING**

If you purchased or otherwise acquired HCC Insurance Holdings, Inc. securities between May 3, 2005 and November 17, 2006, inclusive (the "Class Period"), you may be entitled to a payment from this class action settlement.

A federal court authorized this notice. This is not a solicitation from a lawyer.

- If approved by the Court, the Settlement will provide a \$10 million settlement fund for the benefit of eligible investors who purchased or otherwise acquired shares of HCC Insurance Holdings, Inc. ("HCC") securities between May 3, 2005 and November 17, 2006, inclusive, and were allegedly damaged thereby (the "Class").
- The Settlement resolves a lawsuit alleging that HCC and certain of its officers and directors misled investors about HCC's financial condition and practices and its operations.
- Your legal rights are affected whether you act or do not act. Read this notice carefully.
- The Court will review the Settlement at the Settlement Fairness Hearing to be held on July 17, 2008.

YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT	
SUBMIT A CLAIM FORM BY JULY 31, 2008	The only way to get a payment.
EXCLUDE YOURSELF BY JUNE 26, 2008	Get no payment. This is the only option that allows you to ever bring or be part of any <u>other</u> lawsuit against the Defendants and the other Released Parties about the Settled Claims.
OBJECT BY JUNE 26, 2008	Write to the Court about why you do not like the Settlement. You will still be a member of the Class.
GO TO A HEARING ON JULY 17, 2008	Ask to speak in Court about the Settlement at the Settlement Fairness Hearing.
DO NOTHING	Get no payment. Give up rights.

- These rights and options—and the deadlines to exercise them—are explained in this notice.
- The Court in charge of this case still has to decide whether to approve the Settlement and whether to finally certify this as a class action. Payments will be made if the Court approves the Settlement and after appeals are resolved. Please be patient.

SUMMARY OF THIS NOTICE

(a) Statement of Plaintiff Recovery

Pursuant to this proposed Settlement, a Gross Settlement Fund consisting of \$10 million in cash, plus interest, has been established. Based on Plaintiffs' estimate of the number of shares of common stock entitled to participate in the Settlement, and assuming that all such shares entitled to participate do so, Plaintiffs estimate that the average recovery per damaged share of HCC common stock would be approximately \$0.27 per share, before deduction of Court-awarded attorneys' fees and expenses.¹ A Class Member's actual recovery will be a proportion of the Net Settlement Fund determined by comparing his or her Recognized Claim to the total Recognized Claims of all Class Members who submit acceptable Proofs of Claim. An individual Class Member's actual recovery will depend on, for example: (1) the total number of claims submitted; (2) when the Class Member purchased HCC securities during the Class Period; (3) the purchase price paid; (4) the type of security purchased; and (5) whether those HCC securities were held at the end of the Class Period or sold during the Class Period (and, if sold, when they were sold and the amount received). See the Plan of Allocation beginning on page 8 for more information on your Recognized Claim.

(b) Statement of Potential Outcome if the Case Continued to Be Litigated

The parties disagree on both liability and damages and do not agree on the average amount of damages, if any, that would be recoverable if Plaintiffs were to have prevailed on each claim alleged. The issues on which the parties disagree include, but are not limited to: (a) whether Defendants made any material misstatements or omissions; (b) whether Defendants acted with the required state of mind; (c) the amount by which HCC securities were allegedly artificially inflated (if at all) during the Class Period; (d) the extent to which the various matters that Plaintiffs alleged were false and misleading influenced (if at all) the trading price of HCC securities at various times during the Class Period; (e) the extent to which the various allegedly adverse material facts that Plaintiffs alleged were omitted influenced (if at all) the trading price of HCC securities at various times during the Class Period; (f) whether any purchasers of HCC securities have suffered damages as a result of the alleged misstatements and omissions in HCC's public statements; (g) the extent of such damages, assuming they exist; (h) the appropriate economic model for measuring damages; and (i) the extent to which external factors, such as general market and industry conditions, influenced the trading price of HCC securities at various times during the Class Period.

¹ An allegedly damaged share might have been traded more than once during the Class Period, and the indicated average recovery would be the total for all purchasers of that share.

The Defendants deny that they did anything wrong, deny any liability to Plaintiffs, and deny that Plaintiffs have suffered any losses attributable to Defendants' actions. While Plaintiffs believe they have meritorious claims, Plaintiffs recognize that there are significant obstacles in their way to recovery.

(c) Statement of Attorneys' Fees and Costs Sought

Plaintiffs' Lead Counsel intend to make a motion asking the Court to award them attorneys' fees not to exceed 30% of the Gross Settlement Fund and to reimburse them, from the Gross Settlement Fund, for litigation expenses that they incurred, in an amount not to exceed \$120,000. If the Court approves the fee and expense motion, the average cost per share of common stock will be approximately \$0.09. The average cost per share will vary depending on the number of acceptable claims submitted. Plaintiffs' Counsel have expended considerable time and effort in the prosecution of this litigation without receiving any payment, and have advanced the expenses of the litigation, such as the cost of experts, in the expectation that if they were successful in obtaining a recovery for the Class they would be paid from such recovery. In this type of litigation it is customary for counsel to be awarded a percentage of the common fund recovered as their attorneys' fees.

(d) Further Information

Further information regarding the Action and this Notice may be obtained by contacting the Claims Administrator: Strategic Claims Services, 866-274-4004, www.strategicclaims.net or Plaintiffs' Lead Counsel: Labaton Sucharow LLP, 212-907-0630, www.labaton.com.

Do Not Call The Court With Questions About The Settlement

(e) Reasons for the Settlement

For Plaintiffs, the principal reason for the Settlement is the immediate benefit to be provided to the Class. This benefit must be compared to the risk that no recovery might be achieved after a contested trial and likely appeals, possibly years into the future.

For Defendants, who deny all allegations of wrongdoing or liability whatsoever, the principal reason for the Settlement is to eliminate the expense, risks, and uncertain outcome of the litigation.

WHAT THIS NOTICE CONTAINS

	Page
A. BASIC INFORMATION	3
1. Why did I get this notice package?	3
2. What is this lawsuit about?	3
3. Why is this a class action?	3
4. Why is there a settlement?	3
B. WHO IS IN THE SETTLEMENT	3
5. How do I know if I am part of the Settlement?	3
6. Are there exceptions to being included in the Class?	4
7. What if I am still not sure if I am included?	4
C. THE SETTLEMENT BENEFITS—WHAT YOU GET	4
8. What does the Settlement provide?	4
9. How much will my payment be?	4
D. HOW YOU GET A PAYMENT—SUBMITTING A PROOF OF CLAIM FORM	4
10. How can I get a payment?	4
11. When would I get my payment?	4
12. What am I giving up to get a payment and by staying in the Class?	4
E. EXCLUDING YOURSELF FROM THE SETTLEMENT	5
13. How do I get out of the proposed Settlement?	5
14. If I do not exclude myself, can I sue the Defendants and the other Released Parties for the same thing later?	6
15. If I exclude myself, can I get money from the proposed Settlement?	6
F. THE LAWYERS REPRESENTING YOU	6
16. Do I have a lawyer in this case?	6
17. How will the lawyers be paid?	6
G. OBJECTING TO THE SETTLEMENT	6
18. How do I tell the Court that I do not like the proposed Settlement?	6
19. What is the difference between objecting and excluding?	7
H. THE COURT'S SETTLEMENT FAIRNESS HEARING	7
20. When and where will the Court decide whether to approve the proposed Settlement?	7
21. Do I have to come to the hearing?	7
22. May I speak at the hearing?	7
I. IF YOU DO NOTHING	7
23. What happens if I do nothing at all?	7
J. GETTING MORE INFORMATION	7
24. Are there more details about the proposed Settlement?	7
25. How do I get more information?	8
K. PLAN OF ALLOCATION OF NET SETTLEMENT FUND AMONG CLASS MEMBERS	8
L. SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES	10

A. BASIC INFORMATION

1. Why did I get this notice package?

You or someone in your family may have purchased or otherwise acquired HCC Insurance Holdings, Inc. securities between May 3, 2005 and November 17, 2006, inclusive.

The Court directed that this Notice be sent to Class Members because they have a right to know about a proposed Settlement of a class action lawsuit, and about all of their options, before the Court decides whether to approve the Settlement. The Court will review the Settlement at a Settlement Fairness Hearing on July 17, 2008. If the Court approves the Settlement, and after objections and appeals are resolved, an administrator appointed by the Court will make the payments that the Settlement allows.

This package explains the lawsuit, the Settlement, Class Members' legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of the case is the United States District Court for the Southern District of Texas, Houston Division, and the case is known as *In re HCC Insurance Holdings, Inc. Securities Litigation*, No. 4:07-cv-801. This case was assigned to United States District Judge Sim Lake. The people who sued are called Plaintiffs, and the company and the persons they sued are called Defendants.

Defendants named in the Complaint in this case are: HCC Insurance Holdings, Inc.; James R. Crane (a member of HCC's Compensation Committee during the Class Period); Edward H. Ellis, Jr. (HCC's Chief Financial Officer during the Class Period); Walter J. Lack (Chair of HCC's Compensation Committee during a portion of the Class Period); Christopher L. Martin (HCC's General Counsel during the Class Period); Michael A.F. Roberts (a member of HCC's Compensation Committee during the Class Period); and Stephen L. Way (HCC's Chairman and Chief Executive Officer during the Class Period).

2. What is this lawsuit about?

The main complaint in the Action is the Consolidated Amended Class Action Complaint filed on July 20, 2007 (the "Complaint"). The Complaint generally alleges, among other things, that (1) HCC and the Individual Defendants allegedly violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by issuing false and misleading press releases and other statements during the Class Period—May 3, 2005 through and including November 17, 2006—regarding the dating practices for stock options issued by HCC, in a scheme to artificially inflate the value of HCC securities and (2) the Individual Defendants as control persons are allegedly liable under Section 20(a) of the Securities Exchange Act of 1934. The Complaint also claims that HCC issued press releases and financial statements that had materially false and misleading information about the company's finances during the Class Period. The Complaint further alleges that Plaintiffs and other Class Members purchased HCC securities during the Class Period at artificially inflated prices and were damaged thereby. Defendants deny that they did anything wrong.

The Action seeks money damages against the Defendants for violations of the federal securities laws. Defendants deny all allegations of misconduct contained in the Complaint, and deny having engaged in any wrongdoing whatsoever. The Settlement should not be construed or seen as evidence of or an admission or concession on the part of any Defendant with respect to any claim or of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that Defendants have asserted.

3. Why is this a class action?

In a class action, one or more people called class representatives (in this case Lead Plaintiffs Bristol County Retirement System and Plymouth County Retirement System), sue on behalf of people who have similar claims. They are known as class members. Here, the Court certified this as a class action, for purposes of the Settlement only. Bringing a case, such as this one, as a class action allows adjudication of many similar claims of persons and entities that might be economically too small to bring in individual actions. One court resolves the issues for all Class Members, except for those who exclude themselves from the Class. The Court will decide whether to finally certify this as a class action at the Settlement Fairness Hearing.

4. Why is there a settlement?

The Court did not finally decide in favor of Plaintiffs or Defendants. Instead, both sides, with the assistance of retired United States District Judge Nicholas Politan acting as a mediator, agreed to a settlement. That way, they avoid the risks and cost of a trial, and the people affected will get compensation immediately, rather than after the time it would take to have a trial and exhaust all appeals. The Class Representatives and their attorneys think the Settlement is best for all Class Members.

B. WHO IS IN THE SETTLEMENT

To see if you will get money from this Settlement, you first have to decide if you are a Class Member.

5. How do I know if I am part of the Settlement?

The Court directed, for the purpose of the proposed Settlement, that everyone who fits this description is a Class Member, unless they take steps to exclude themselves: *all persons who purchased or otherwise acquired HCC Insurance Holdings, Inc. securities between May 3, 2005 and November 17, 2006, inclusive, and were allegedly damaged thereby.*

6. Are there exceptions to being included in the Class?

Excluded from the Class are: (i) each of the Defendants; (ii) members of the family of each of the Individual Defendants; (iii) each person who at any time served as an officer or director of HCC and members of their respective families; and (iv) any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has or had a controlling interest or which is related to or affiliated with any of the Defendants, and the legal representatives, agents, affiliates, heirs, successors-in-interest or assigns of any such excluded person or entity. Also excluded from the Class are any putative Class Members who exclude themselves by filing a request for exclusion in accordance with the requirements explained below.

If one of your mutual funds purchased or otherwise acquired shares of HCC securities during the Class Period, that alone does not make you a Class Member. You are a Class Member only if you directly purchased or otherwise acquired HCC securities during the Class Period. Check your investment records or contact your broker to see if you purchased or otherwise acquired HCC securities during the Class Period.

If you sold HCC securities during the Class Period, that alone does not make you a Class Member. You are a Class Member only if you **purchased or otherwise acquired** your shares or notes during the Class Period.

7. What if I am still not sure if I am included?

If you are still not sure whether you are included, you can ask for free help. You can call **1-866-274-4004** or visit **www.strategicclaims.net** for more information. Or you can fill out and return the Proof of Claim and Release (“Proof of Claim”) form described on this page, in question 10, to see if you qualify.

C. THE SETTLEMENT BENEFITS—WHAT YOU GET

8. What does the Settlement provide?

In exchange for the Settlement and dismissal of the Action, the Defendants have agreed to create a \$10 million fund (before interest) to be divided, after deduction of Court-awarded attorneys’ fees and expenses, settlement administration costs, and any applicable taxes, among all Class Members who send in valid Proof of Claim forms.

9. How much will my payment be?

Your share of the fund will depend on several things, including: (1) the total amount of Recognized Claims sent in by other Class Members; (2) how many HCC securities you bought; (3) how much you paid for them; (4) when you bought them; (5) whether or when you sold them (and, if so, for how much you sold them).

Your Recognized Claim will be calculated according to the formula shown below in the Plan of Allocation. It is unlikely that you will get a payment for your entire Recognized Claim, given the number of potential Class Members. After all Class Members have sent in their Proof of Claim forms, the payment you get will be a portion of the Net Settlement Fund based on your Recognized Claim divided by the total of everyone’s Recognized Claims. See the Plan of Allocation beginning on page 8 for more information on your Recognized Claim.

D. HOW YOU GET A PAYMENT—SUBMITTING A PROOF OF CLAIM FORM

10. How can I get a payment?

To qualify for a payment, you must send in a completed Proof of Claim form. A Proof of Claim form is being circulated with this Notice. You may also get a Proof of Claim form on the Internet at the websites for the Claims Administrator or Plaintiffs’ Lead Counsel: **www.strategicclaims.net** or **www.labaton.com**. Please read the instructions carefully, fill out the Proof of Claim form, include all the documents the form asks for, sign it, and mail it postmarked no later than **July 31, 2008**.

11. When would I get my payment?

The Court will hold a hearing on **July 17, 2008**, to decide whether to approve the Settlement. All Proofs of Claim need to be submitted by July 31, 2008. If the Court approves the Settlement after that, there may be appeals, which can take time to resolve, perhaps more than a year. It also takes time for all the Proofs of Claim to be processed. Please be patient.

12. What am I giving up to get a payment and by staying in the Class?

Unless you exclude yourself, you will stay in the Class, which means that upon the “Effective Date” you will release all “Settled Claims” (as defined below) against the “Released Parties” (as defined below).

“Settled Claims” means any and all claims, debts, demands, rights, actions or causes of action, obligations, losses, damages, judgments, suits, liabilities, matters and issues of any kind or nature whatsoever (including, but not limited to, any claims for damages, interest, attorneys’ fees, expert or consulting fees, and any other costs, expenses or liabilities whatsoever), whether asserted individually or in a representative capacity, whether based on federal, state, local, statutory or common law or any other law, rule or regulation (including, without limitation, Sections 10 and 20 of the Securities Exchange Act of 1934, 15 U.S.C. §§ 78j, 78t, and Rule 10b-5 promulgated thereunder, other state or federal securities laws, rules or regulations, and any and all claims involving allegations of fraud or breach of any duty, negligence or otherwise), whether fixed or contingent, suspected or unsuspected, disclosed or undisclosed, hidden or concealed, accrued or un-accrued, liquidated or un-liquidated, at law or in equity, matured or un-matured, whether

class, representative or individual in nature, including both known claims and Unknown Claims (as defined below), (i) that have been asserted in this Action by Plaintiffs or any other Class Member against any of the Released Parties, or (ii) that could have been asserted in any forum by Plaintiffs or any other Class Member against any of the Released Parties, arising out of, in connection with, or directly or indirectly relating in any way to the allegations, transactions, facts, events, acts, matters or occurrences, representations or omissions involved, set forth, or referred to in the Complaint or any of the complaints filed in this Action and which relate in any way to the purchase or other acquisition of shares of the common stock or debt instruments of HCC during the Class Period. "Settled Claims" shall also include any and all claims arising out of, in connection with or relating in any way to the Settlement or resolution of the Action, other than claims to enforce the terms of the Settlement. Settled Claims does not include any claims arising in *Bacas, et al. v. Way, et al.*, 4:07-CV-00456 (S.D. Tex.), or any criminal or regulatory action brought against Defendants by any governmental or regulatory agency.

"Unknown Claims" means any and all Settled Claims which any Plaintiff or Class Member does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties, and any Settled Defendants' Claims which any Defendant does not know or suspect to exist in his, her, or its favor, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Settled Claims and Settled Defendants' Claims, the parties stipulate and agree that upon the Effective Date, Plaintiffs and Defendants shall expressly waive and relinquish to the fullest extent permitted by law, and each Class Member shall be deemed to have waived and relinquished, and by operation of the Judgment shall have expressly waived and relinquished, any and all provisions, rights and benefits conferred by federal law, any law of any state or territory of the United States, or principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

It is the intention of Plaintiffs and Defendants that, notwithstanding the provisions of Section 1542 or any similar provisions, rights and benefits conferred by law, and notwithstanding the possibility that Plaintiffs, Defendants, or their counsel may discover or gain a more complete understanding of the facts, events or law that, if presently known or fully understood, would have affected the decision to enter into this Stipulation, any and all Settled Claims, including Unknown Claims, shall be fully, finally and forever settled. Plaintiffs and Defendants acknowledge, and Class Members by operation of law shall be deemed to have acknowledged, that the inclusion of "Unknown Claims" in the definition of Settled Claims and Settled Defendants' Claims was separately bargained for and was a key element of the Settlement.

"Released Parties" means any and all of the Defendants and any person or entity acting or purporting to act for or on their behalf with respect to the Settled Claims, including but not limited to their past or present subsidiaries, parents, successors and predecessors, officers, directors, agents, employees, stockholders, accountants, commercial bank lenders, representatives, affiliates, attorneys, insurers and any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with any of the Defendants, and the legal representatives, heirs, successors-in-interest or assigns of the Defendants.

The "Effective Date" will occur when an Order by the Court approving the Settlement becomes final and is not subject to appeal as set out more fully in the Stipulation and Agreement of Settlement on file with the Court.

If you remain a member of the Class, all of the Court's orders will apply to you and legally bind you.

E. EXCLUDING YOURSELF FROM THE SETTLEMENT

If you do not want a payment from this Settlement, but you want to keep any right you may have to sue or continue to sue the Defendants and the other Released Parties, on your own, about the Settled Claims, then you must take steps to get out. This is called excluding yourself—or is sometimes referred to as "opting out" of the settlement Class. Defendants may withdraw from and terminate the Settlement if putative Class Members who purchased in excess of a certain amount of HCC securities purchased during the Class Period exclude themselves from the Class.

13. How do I get out of the proposed Settlement?

To exclude yourself from the settlement Class, you must send a signed letter by mail stating that you "request exclusion from the Class in *In re HCC Insurance Holdings, Inc. Securities Litigation*, No. 4:07-cv-801." Your letter must state the date(s), price(s), and number(s) of shares or notes of all your purchases, acquisitions, and sales of HCC securities during the Class Period. In addition, be sure to include your name, address, telephone number, and your signature. You must mail your exclusion request postmarked no later than **June 26, 2008**, to:

In re HCC Insurance Holdings, Inc. Securities Litigation EXCLUSIONS
c/o Strategic Claims Services
Claims Administrator
PO Box 230
600 North Jackson Street, Suite 3
Media, PA 19063

You cannot exclude yourself by telephone or by e-mail. Your exclusion request must comply with these requirements in order to be valid. If you write to request to be excluded, you will not get any settlement payment, and you cannot object to the Settlement. You will not be legally bound by anything that happens in this lawsuit, and you may be able to sue (or continue to sue) Defendants and the other Released Parties in the future.

14. If I do not exclude myself, can I sue the Defendants and the other Released Parties for the same thing later?

No. Unless you exclude yourself, you give up any rights to sue Defendants and the other Released Parties for any and all Settled Claims. If you have a pending lawsuit speak to your lawyer in that case immediately. You must exclude yourself from *this* Class to continue your own lawsuit. Remember, the exclusion deadline is **June 26, 2008**.

15. If I exclude myself, can I get money from the proposed Settlement?

No. If you exclude yourself, do not send in a Proof of Claim form to ask for any money. But, you may exercise any right you may have to sue, continue to sue, or be part of a different lawsuit against Defendants and the other Released Parties.

F. THE LAWYERS REPRESENTING YOU

16. Do I have a lawyer in this case?

The Court appointed the law firms of Labaton Sucharow LLP in New York, New York and Chargois & Herron, LLP in The Woodlands, Texas to represent all Class Members. These lawyers are called Plaintiffs’ Lead Counsel and Plaintiffs’ Liaison Counsel, respectively. You will not be separately charged for these lawyers. The Court will determine the amount of Plaintiffs’ Lead Counsel’s fees and expenses, which will be paid from the Gross Settlement Fund. If you want to be represented by your own lawyer, you may hire one at your own expense.

17. How will the lawyers be paid?

Plaintiffs’ Lead Counsel will be asking the Court to award them, from the Gross Settlement Fund, attorneys’ fees not to exceed 30% of the Gross Settlement Fund and to reimburse them for litigation expenses, such as the cost of experts, that they have incurred for the prosecution of the Action, in an amount not to exceed \$120,000.

Once all the Proofs of Claim are processed and claims are calculated, Plaintiffs’ Lead Counsel, without further notice to the Class, will apply to the Court for an order distributing the net Settlement proceeds to the members of the Class. Counsel will also ask the Court to approve payment of the Claims Administrator’s fees and expenses incurred in connection with giving notice and administering the Settlement.

G. OBJECTING TO THE SETTLEMENT

You can tell the Court that you do not agree with the Settlement or some part of it.

18. How do I tell the Court that I do not like the proposed Settlement?

If you are a Class Member you can object to the Settlement or any of its terms, the certification of the class, the proposed Plan of Allocation and/or the application by Plaintiffs’ Lead Counsel for an award of fees and expenses. You may write to the Court setting out your objection. You may give reasons why you think the Court should not approve any part or all of the Settlement terms or arrangements. The Court will consider your views if you file a proper objection within the deadline identified, and according to the following procedures.

To object, you must send a signed letter stating that you object to the proposed Settlement in *In re HCC Insurance Holdings, Inc. Securities Litigation*, No. 4:07-cv-801. Be sure to include your name, address, telephone number, and your signature, identify the date(s), price(s), and number(s) of shares or notes of all purchases, acquisitions, and sales of HCC securities you made during the Class Period, and state the reasons why you object to the Settlement. Your objection must be filed with the Court and mailed or delivered to all the following on or before June 26, 2008:

THE COURT:

Clerk of the Court
United States District Court for the Southern District of Texas, Houston Division
United States Courthouse
515 Rusk Avenue
Houston, TX 77002

PLAINTIFFS’ COUNSEL:

Nicole M. Zeiss Labaton Sucharow LLP 140 Broadway New York, NY 10005	Damon Chargois Chargois & Herron, LLP 2201 Timberloch Place, Suite 110 The Woodlands, TX 77380
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DEFENDANTS’ COUNSEL:

Gerard G. Pecht David J. Van Susteren Darryl W. Anderson Fulbright & Jaworski L.L.P. 1301 McKinney, Suite 5100 Houston, TX 77010-3095	John J. Villa Margaret A. Keeley Jonathan M. Landy Williams & Connolly LLP 725 Twelfth St., NW Washington, D.C. 20005	Robert C. Baker Baker, Keener & Nahra, LLP 633 West Fifth Street, Suite 5400 Los Angeles, CA 90071	Daniel K. Hedges John A. Irvine Porter & Hedges LLP 1000 Main Street, 36th Floor Houston, TX 77002
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19. What is the difference between objecting and excluding?

Objecting is simply telling the Court that you do not like something about the proposed Settlement. You can object only if you stay in the Class. Excluding yourself is telling the Court that you do not want to be part of the Class. If you exclude yourself, you have no basis to object because the case no longer affects you.

H. THE COURT'S SETTLEMENT FAIRNESS HEARING

The Court will hold a hearing to decide whether to approve the proposed Settlement. You may attend, and you may ask to speak, but you do not have to do so.

20. When and where will the Court decide whether to approve the proposed Settlement?

The Court will hold a Settlement Fairness Hearing at **3:00 p.m. on July 17, 2008**, at the United States District Court for the Southern District of Texas, Houston Division, 515 Rusk Avenue, Houston, TX 77002. At this hearing the Court will consider whether the Settlement is fair, reasonable and adequate. At the Settlement Fairness Hearing, the Court also will consider the proposed Plan of Allocation for the proceeds of the Settlement and the application of Plaintiffs' Lead Counsel for attorneys' fees and reimbursement of expenses. The Court will take into consideration any written objections filed in accordance with the instructions set out in question 18 above. The Court also may listen to people who have properly indicated, within the deadline identified above, an intention to speak at the hearing, but decisions regarding the conduct of the hearing will be made by the Court. *See* question 22 for more information about speaking at the hearing. After the hearing, the Court will decide whether to approve the Settlement, and, if the Settlement is approved, how much attorneys' fees and expenses should be awarded to Plaintiffs' Lead Counsel. We do not know how long these decisions will take.

You should be aware that the Court may change the date and time of the Settlement Fairness Hearing without another notice being sent. Thus, if you want to come to the hearing, you should check with Plaintiffs' Lead Counsel before coming to be sure that the date and/or time has not changed.

21. Do I have to come to the hearing?

No. Plaintiffs' Counsel will answer questions the Court may have. But, you are welcome to come at your own expense. If you submit an objection, you do not have to come to Court to talk about it. As long as you filed and sent your written objection on time, the Court will consider it. You may also pay your own lawyer to attend, but it is not necessary. Class Members do not need to appear at the hearing or take any other action to indicate their approval.

22. May I speak at the hearing?

If you object to the Settlement, you may ask the Court for permission to speak at the Settlement Fairness Hearing. To do so, you must include with your objection (*see* question 18 above) a statement stating that it is your "Notice of Intention to Appear in *In re HCC Insurance Holdings, Inc. Securities Litigation*, No. 4:07-CV-801." Persons who intend to object to the Settlement, the Plan of Allocation, and/or Plaintiffs' Counsel's application for an award of attorneys' fees and expenses and desire to present evidence at the Settlement Fairness Hearing must include in their written objections the identity of any witness they may call to testify and exhibits they intend to introduce into evidence at the Settlement Fairness Hearing. You cannot speak at the hearing if you excluded yourself from the Class or if you have not provided written notice of your intention to speak at the Settlement Fairness Hearing by the deadline identified, and in accordance with the procedures described in questions 18 and 20 above.

I. IF YOU DO NOTHING

23. What happens if I do nothing at all?

If you do nothing, you will get no money from this Settlement and you will be precluded from starting a lawsuit, continuing with a lawsuit, or being part of any other lawsuit against the Defendants and the other Released Parties about the Settled Claims in this case, ever again. To share in the Net Settlement Fund you must submit a Proof of Claim form (*see* question 10). To start, continue or be a part of any other lawsuit against the Defendants and the other Released Parties about the Settled Claims in this case you must exclude yourself from this Class (*see* question 13).

J. GETTING MORE INFORMATION

24. Are there more details about the proposed Settlement?

This notice summarizes the proposed Settlement. More details are in a Stipulation and Agreement of Settlement dated March 25, 2008 (the "Stipulation"). You may review the Stipulation filed with the Court, which may be inspected during business hours at the Office of the Clerk of the United States District Court for the Southern District of Texas, Houston Division, 515 Rusk Avenue, Houston, TX 77002.

You also can call the Claims Administrator toll free at **1-866-274-4004**; write to ***In re HCC Insurance Holdings, Inc., Securities Litigation*, c/o Strategic Claims Services, Claims Administrator, PO Box 230, 600 North Jackson Street, Suite 3, Media, PA 19063**; or visit the website at **www.strategicclaims.net**, where you can find answers to common questions about the Settlement, download copies of the Stipulation or Proof of Claim form, and locate other information to help you determine whether you are a Class Member and whether you are eligible for a payment.

Please Do Not Call The Court With Questions About The Settlement

25. How do I get more information?

For even more detailed information concerning the matters involved in this Action, you may review documents filed during the case, the Stipulation, and the Orders entered by the Court, by inspecting the case file maintained at the Office of the Clerk of the United States District Court for the Southern District of Texas, Houston Division, 515 Rusk Avenue, Houston, TX 77002, during regular business hours.

K. PLAN OF ALLOCATION OF NET SETTLEMENT FUND AMONG CLASS MEMBERS

The \$10,000,000 Cash Settlement Amount and the interest earned thereon is called the Gross Settlement Fund. The Gross Settlement Fund, less all taxes, approved costs, fees and expenses (the “Net Settlement Fund”) will be distributed to members of the Class who timely submit acceptable Proofs of Claim (“Authorized Claimants”). Class Members who do not submit acceptable Proofs of Claim will not share in the Settlement proceeds, but will otherwise be bound by the terms of the Settlement.

The Claims Administrator will determine each Authorized Claimant’s *pro rata* share of the Net Settlement Fund based upon each Authorized Claimant’s “Recognized Claim,” according to the Plan of Allocation described below. The Recognized Claim formula is not intended to be an estimate of the amount of what a Class Member might have been able to recover after a trial; nor is it an estimate of the amount that will be paid to Authorized Claimants pursuant to the Settlement. The Recognized Claim formula is the basis upon which the Net Settlement Fund will be proportionately allocated to the Authorized Claimants. The Court will be asked to approve the Claims Administrator’s determinations before the Net Settlement Fund is distributed to Authorized Claimants. No distributions to Authorized Claimants who would otherwise receive less than \$10.00 will be made, given the administrative expenses of processing and mailing such checks.

Defendants, their respective counsel, and all other Released Parties shall have no responsibility for or liability whatsoever for the investment or distribution of the Settlement Fund, the Net Settlement Fund, the Plan of Allocation or the determination, administration, calculation, or payment of any Proof of Claim or non-performance of the Claims Administrator, the payment or withholding of taxes owed by the Settlement Fund or any losses incurred in connection therewith. Plaintiffs likewise shall have no such liability for their reasonable efforts to execute, administer and distribute the Settlement.

The following proposed Plan of Allocation reflects the Plaintiffs’ allegations that the price of HCC securities was inflated artificially, by reason of allegedly false and misleading statements made by the Defendants. Defendants deny any allegations of wrongdoing.

The artificial inflation allegedly began on May 3, 2005 after HCC issued a press release announcing its first quarter 2005 results. Plaintiffs allege that this press release, and subsequent statements throughout the Class Period, made materially false and misleading representations and omissions about the business, management, and operations of HCC.

Plaintiffs allege that the artificial inflation was gradually eliminated after disclosures in August 2006, October 2006 and after the market close on November 17, 2006, when HCC announced the results of its investigation into its stock option practices and announced the resignation of Chairman and CEO Way and General Counsel Martin. The price of HCC common stock, which had closed at \$31.74 per share on November 17, fell approximately 5% to close at \$30.15 per share at the close of trading on November 20, 2006, the next trading day, representing the largest stock drop during the Class Period. The Plan of Allocation described below, takes into account the statistical significance of each of the stock drops and the strength of each claim.

The price of HCC common stock partly rebounded in the 90-day period following the Class Period, ending February 14, 2007. Because the price of HCC common stock rebounded in the 90-day period following the November 17, 2006 end of the Class Period, an adjustment is required under the PSLRA relating to post-Class Period trading.

PLAN OF ALLOCATION

To the extent there are sufficient funds in the Net Settlement Fund, each Authorized Claimant will receive an amount equal to the Authorized Claimant’s claim (“Recognized Claim”), as defined below. If, however, the amount in the Net Settlement Fund is not sufficient to permit payment of the total of all Recognized Claims, then each Authorized Claimant shall be paid the percentage of the Net Settlement Fund that each Authorized Claimant’s Recognized Claim bears to the total of the claims of all Authorized Claimants. If Recognized Claims exceed their designated amount of the Net Settlement Fund, claims will be paid on a *pro rata* basis. Payment in this manner shall be deemed conclusive against all Authorized Claimants.

Gains on purchases of HCC securities during the Class Period will be netted against losses on purchases during the Class Period. The covering purchase of a “short” sale is not an eligible purchase. Gifts and transfers of securities are also not eligible purchases.

A Recognized Claim will be calculated by security as described below.

1. Equity Securities

For Class Members who conducted multiple transactions in HCC publicly traded common stock during the Class Period,² the earliest subsequent sale will be matched first against those shares in the Claimant’s opening position on the first day of the Class Period, and then matched chronologically thereafter against each purchase made during the Class Period (“FIFO Matching”).

²Publicly traded common stock includes HCC stock traded on all foreign exchanges. Transactions for stock will be matched to other transactions on the same exchanges.

Recognized Claims for common stock are based on the daily per share amounts of artificial inflation present in HCC's stock price and shall be calculated as follows:

I. For shares of HCC common stock purchased or otherwise acquired on or after May 3, 2005 through August 9, 2006 and:

- (a) Sold on or before August 9, 2006, the Recognized Claim per share is \$0. This determination was made because the purchase and the sale occurred before any adverse information was publicly disclosed. Thus, any losses that Class Members may have suffered with respect to shares of HCC common stock that were purchased from May 3, 2005 through August 9, 2006, and that were sold on or before August 9, 2006, were not related to the alleged misstatements or omissions and are not compensable through an action for violation of the securities laws;
- (b) Sold on or after August 10, 2006 but before the close of business on August 14, 2006, the Recognized Claim per share is:
 - i. The purchase price minus the sale price; and
 - ii. Authorized Claimants will share no more than 2% of the Net Settlement Fund on the basis of claims filed, which takes into account the strength of the claims during this time period.

II. For shares of HCC common stock purchased or otherwise acquired on or after May 3, 2005 through August 14, 2006 and:

- (a) Sold on or after August 15, 2006 but before the close of business on October 30, 2006, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. The Alleged Inflation amount of \$0.77 per share;
- (b) Sold on or after October 31, 2006 but before the close of business on November 17, 2006, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. The Alleged Inflation amount of \$1.51 per share;
- (c) Sold on or after November 20, 2006 but before the close of business on February 14, 2007, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. The Alleged Inflation amount of \$3.13 per share;
- (d) Still held as of the close of trading on February 14, 2007, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus \$30.97³; and
 - ii. The Alleged Inflation amount of \$3.13 per share.

III. For shares of HCC common stock purchased or otherwise acquired on or after August 15, 2006 through October 30, 2006 and:

- (a) Sold on or after October 31, 2006 but before the close of business on November 17, 2006, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. The Alleged Inflation amount of \$0.75 per share;
- (b) Sold on or after November 20, 2006 but before the close of business on February 14, 2007, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. The Alleged Inflation amount of \$2.37 per share;
- (c) Still held as of the close of trading on February 14, 2007, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus \$30.97; and
 - ii. The Alleged Inflation amount of \$2.37 per share.

IV. For shares of HCC common stock purchased or otherwise acquired on or after October 31, 2006 through November 17, 2006:

- (a) Sold on or after November 20, 2006 but before the close of business on February 14, 2007, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. The Alleged Inflation amount of \$1.62 per share.
- (b) Still held as of the close of trading on February 14, 2007, the Recognized Claim per share is the lesser of:
 - i. The purchase price minus \$30.97; and
 - ii. The Alleged Inflation amount of \$1.62 per share.

2. Debt Securities

For Class Members who conducted multiple transactions in HCC publicly traded debt securities during the Class Period, sales will be matched first against those notes in the Claimant's opening position on the first day of the Class Period, and then matched chronologically thereafter against each purchase made during the Class Period ("FIFO Matching"). HCC had publicly traded debt securities traded during the Class Period: 2.0% Convertible Exchange Notes due September 1, 2021 ("2021 Notes"), and 1.30% Convertible Notes due April 1, 2023 ("2023 Notes") (collectively, the "Notes").

³\$30.97 represents the average price of HCC common stock over the 90-day period between November 20, 2006 and February 14, 2007.

In recognition of the risks involved in establishing the element of loss causation for these claims and the efficiency of the market for the Notes, Authorized Claimants with respect to the Notes will share in an amount not to exceed 5% of the Net Settlement Fund on the basis of claims filed. Recognized Claims for Notes is based on the daily per share amounts of artificial inflation present in HCC's debt securities and shall be calculated as follows.

V. For HCC Notes purchased from May 3, 2005 through October 30, 2006 and:

- (a) Sold on or before October 30, 2006, the Recognized Claim per Note is \$0. This determination was made because the purchase and the sale occurred before any negative price reaction to adverse information that was publicly disclosed. Thus, any losses that Class Members may have suffered with respect to shares of HCC debt securities that were purchased from May 3, 2005 through and including October 30, 2006, that were sold on or before October 30, 2006, were not related to the alleged misstatements or omissions and are not compensable through an action for violation of the securities laws;
- (b) Sold on or after October 31, 2006 but on or before November 17, 2006, the Recognized Claim per Note is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. \$45.60 per \$1,000 of face value for the 2021 Notes, and \$41.60 per \$1,000 of face value for the 2023 Notes;
- (c) Sold on or after November 20, 2006, the Recognized Claim per Note is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. \$119.80 per \$1,000 of face value for the 2021 Notes, and \$108.30 per \$1,000 of face value for the 2023 Notes.

VI. For HCC Notes purchased from October 31, 2006 through November 17, 2006 and:

- (a) Sold on or after November 20, 2006, the Recognized Claim per Note is the lesser of:
 - i. The purchase price minus the sale price; and
 - ii. \$74.20 per \$1,000 of face value for the 2021 Notes, and \$66.70 per \$1,000 of face value for the 2023 Notes.

L. SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES

If you purchased or otherwise acquired HCC common stock (NYSE ticker: HCC; CUSIP 404132102), the 2021 Notes or the 2023 Notes (CUSIP 404132AC6, 404132AA0, 404132AB8) between May 3, 2005 and November 17, 2006, inclusive, for the beneficial interest of a person or organization other than yourself, the Court has directed that, WITHIN SEVEN (7) DAYS OF YOUR RECEIPT OF THIS NOTICE, you either: (a) provide to the Claims Administrator the name and last known address of each person or organization for whom or which you purchased or otherwise acquired HCC securities during such time period or; (b) request additional copies of this Notice and the Proof of Claim form, which will be provided to you free of charge, and within seven (7) days mail the Notice and Proof of Claim form directly to the beneficial owners of those HCC securities.

If you choose to follow alternative procedure (b), the Court has directed that, upon such mailing, you send a statement to the Claims Administrator confirming that the mailing was made as directed. You are entitled to reimbursement from the Gross Settlement Fund of your reasonable expenses actually incurred in connection with the foregoing, including reimbursement of postage expense and the cost of ascertaining the names and addresses of beneficial owners. Those expenses will be paid upon request and submission of appropriate supporting documentation. All communications concerning the foregoing should be addressed to the Claims Administrator:

In re HCC Insurance Holdings, Inc. Securities Litigation
c/o Strategic Claims Services
Claims Administrator
PO Box 320
600 North Jackson Street, Suite 3
Media, PA 19063
Toll-free telephone: 866-274-4004

Dated: April 17, 2008

By Order of the Court

CLERK OF THE COURT

**UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

IN RE HCC INSURANCE HOLDINGS, INC. SECURITIES LITIGATION	X : : : X	Case No. 4:07-cv-801 <u>CLASS ACTION</u>
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PROOF OF CLAIM AND RELEASE

I. GENERAL INSTRUCTIONS

1. To recover from the Settlement Fund as a Member of the Class based on the claims in the action entitled *In re HCC Insurance Holdings, Inc. Securities Litigation*, No. 4:07-cv-801 (the "Action"), you must complete and, on page 15 hereof, sign this Proof of Claim and Release form. If you fail to submit a timely, properly completed and addressed (as set forth in paragraph 3 below) Proof of Claim and Release, your claim may be rejected and you may be precluded from any recovery from the Settlement Fund created in connection with the Settlement of the Action.

2. Submission of this Proof of Claim and Release, however, does not assure that you will share in the Settlement Fund.

3. YOU MUST MAIL YOUR COMPLETED AND SIGNED PROOF OF CLAIM AND RELEASE POSTMARKED ON OR BEFORE JULY 31, 2008, ADDRESSED AS FOLLOWS:

In re HCC Insurance Holdings, Inc. Securities Litigation
c/o Strategic Claims Services
Claims Administrator
PO Box 230
600 North Jackson Street, Suite 3
Media, PA 19063

If you are NOT a Member of the Class (as defined in the Notice of Pendency of Class Action and Proposed Settlement, Motion for Attorneys' Fees and Settlement Fairness Hearing) DO NOT submit a Proof of Claim and Release form.

4. If you are a Member of the Class and you have not timely requested exclusion, you will be bound by the terms of the Judgment entered in the Action, WHETHER OR NOT YOU SUBMIT A PROOF OF CLAIM AND RELEASE.

II. DEFINITIONS

All other capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Notice of Pendency of Class Action and Proposed Settlement, Motion for Attorneys' Fees and Settlement Fairness Hearing ("Notice") which accompanies this Proof of Claim and Release.

III. IDENTIFICATION OF CLAIMANT

1. If you purchased or otherwise acquired (including by exchange, conversion or otherwise) HCC securities (including common stock and notes) during the Class Period and held the securities in your name, you are the beneficial purchaser or acquirer as well as the record purchaser or acquirer. If, however, you purchased or otherwise acquired HCC securities during the Class Period and the securities were registered in the name of a third party, such as a nominee or brokerage firm, you are the beneficial purchaser or acquirer of these securities, but the third party is the record purchaser or acquirer of these securities.

2. Use Part I of this form entitled "Claimant Identification" to identify each beneficial purchaser or acquirer of HCC securities which forms the basis of this claim, as well as the purchaser or acquirer of record, if different. **THIS CLAIM MUST BE SUBMITTED BY THE ACTUAL BENEFICIAL PURCHASER(S) OR AUTHORIZED ACQUIRER(S) OR LEGAL REPRESENTATIVE(S) OF SUCH PURCHASER(S) OR ACQUIRER(S) OF THE HCC SECURITIES UPON WHICH THIS CLAIM IS BASED.**

3. All joint beneficial purchasers or acquirers must sign this claim. Executors, administrators, guardians, conservators and trustees must complete and sign this claim on behalf of Persons represented by them and their authority must accompany this claim and their titles or capacities must be stated. The Social Security (or taxpayer identification) number and telephone number of one of the beneficial owner(s) may be used in verifying this claim. Failure to provide the foregoing information could delay verification of your claim or result in rejection of your claim.

Part II: Schedule of Transactions in HCC Stock

A. Number of shares of HCC common stock held at the beginning of trading on May 3, 2005: _____

B. Purchases or other acquisitions, including by way of exchange, conversion or otherwise (from May 3, 2005 to February 14, 2007, inclusive) of HCC common stock:

	Trade Date (Month / Day / Year)	Type of Security	Number of Shares Purchased or Acquired	Total Purchase Price*
1.	□□/□□/□□	□□□□□□□□	□□□□□□□□	\$□□□□□□.□□
2.	□□/□□/□□	□□□□□□□□	□□□□□□□□	\$□□□□□□.□□
3.	□□/□□/□□	□□□□□□□□	□□□□□□□□	\$□□□□□□.□□

C. Sales (from May 3, 2005 to February 14, 2007, inclusive) of HCC common stock:

	Trade Date (Month / Day / Year)	Type of Security	Number of Shares Sold	Total Sale Price*
1.	□□/□□/□□	□□□□□□□□	□□□□□□□□	\$□□□□□□.□□
2.	□□/□□/□□	□□□□□□□□	□□□□□□□□	\$□□□□□□.□□
3.	□□/□□/□□	□□□□□□□□	□□□□□□□□	\$□□□□□□.□□

D. Number of shares of HCC common stock held at close of trading on February 14, 2007: _____

* Excluding taxes, fees and commissions.

Part III: Schedule of Transactions in HCC Notes

A. Provide the principal amount of the Notes specified below that you held at the beginning of trading on May 3, 2005 and the close of trading on February 14, 2007:

Type of Note	Principal held at beginning of trading on May 3, 2005	Principal held at close of trading on February 14, 2007
2.0% Convertible Exchange Notes due September 1, 2021 ("2021 Notes")	\$□□□□□□.□□	\$□□□□□□.□□
1.30% Convertible Notes Due April 1, 2023 ("2023 Notes")	\$□□□□□□.□□	\$□□□□□□.□□

B. Purchases or other acquisitions, including by way of exchange, conversion or otherwise (from May 3, 2005 to February 14, 2007, inclusive) of HCC Notes:

	Trade Date (Month / Day / Year)	Specify 2021 or 2023 Note	Principal Amount	Purchase Price per \$1,000 of Principal Amount*	Aggregate Cost*
1.	□□/□□/□□	□□□□	\$□□□□□□.□□	\$□□□□□□.□□	\$□□□□□□.□□
2.	□□/□□/□□	□□□□	\$□□□□□□.□□	\$□□□□□□.□□	\$□□□□□□.□□
3.	□□/□□/□□	□□□□	\$□□□□□□.□□	\$□□□□□□.□□	\$□□□□□□.□□

C. Sales (from May 3, 2005 to February 14, 2007, inclusive) of HCC Notes:

	Trade Date (Month / Day / Year)	Specify 2021 or 2023 Note	Principal Amount	Sale Price per \$1,000 of Principal Amount*	Aggregate Received*
1.	□□/□□/□□	□□□□	\$□□□□□□.□□	\$□□□□□□.□□	\$□□□□□□.□□
2.	□□/□□/□□	□□□□	\$□□□□□□.□□	\$□□□□□□.□□	\$□□□□□□.□□
3.	□□/□□/□□	□□□□	\$□□□□□□.□□	\$□□□□□□.□□	\$□□□□□□.□□

If you require additional space, attach extra schedules in the same format as above. Sign and print your name on each additional page.

* Excluding taxes, fees and commissions.

YOU MUST READ THE RELEASE AND SIGN ON PAGE 15. FAILURE TO SIGN THE RELEASE MAY RESULT IN A DELAY IN PROCESSING OR THE REJECTION OF YOUR CLAIM.

PART III

Certification

UNDER THE PENALTY OF PERJURY, I (WE) CERTIFY THAT:

1. The number shown on this form is my correct TIN; and

2. I (We) certify that I am (we are) NOT subject to backup withholding under the provisions of Section 3406 (a)(1) (C) of the Internal Revenue Code because: (a) I am (we are) exempt from backup withholding; or (b) I (we) have not been notified by the Internal Revenue Service that I am (we are) subject to backup withholding as a result of a failure to report all interest or dividends; or (c) the Internal Revenue Service has notified me (us) that I am (we are) no longer subject to backup withholding.

NOTE: If you have been notified by the Internal Revenue Service that you are subject to backup withholding, you must cross out Item 2 above.

SEE ENCLOSED FORM W-9 INSTRUCTIONS

The Internal Revenue Service does not require your consent to any provision of this document other than the certification required to avoid backup withholding.

I (We) declare under penalty of perjury under the laws of the United States of America that the foregoing information supplied by the undersigned is true and correct.

Executed this _____ day of _____, in _____, _____.

(Month/Year)

(City)

(State/Country)

(Signature of Joint Claimant, if any)

(Sign your name here)

(Type or print your name here)

(Type or print your name here)

(Capacity of person(s) signing, e.g., Beneficial Purchaser, Executor or Administrator)

**ACCURATE CLAIMS PROCESSING TAKES A SIGNIFICANT AMOUNT OF TIME.
THANK YOU FOR YOUR PATIENCE.**

Reminder Checklist:

1. Please sign the above release and certification.
2. Remember to attach supporting documentation.
3. Do not send original or copies of stock certificates.
4. Keep a copy of your claim form for your records.
5. If you desire an acknowledgment of receipt of your claim form, please send it Certified Mail, Return Receipt Requested.
6. If you move, please send the Claims Administrator your new address.

In re HCC Insurance Holdings, Inc. Securities Litigation
c/o Strategic Claims Services
Claims Administrator
PO Box 230
600 North Jackson Street, Suite 3
Media, PA 19063

FIRST CLASS MAIL
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FIRST CLASS MAIL

PLEASE FORWARD—IMPORTANT LEGAL NOTICE