HARMAN INTERNATIONAL INDUSTRIES INC /DE/
Form DEF 14A
October 21, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Harman International Industries, Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(4) Date Filed:

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED

400 Atlantic Street, Suite 1500
Stamford, CT 06901

October 21, 2008

Dear Harman International Stockholder:

You are cordially invited to attend the 2008 Annual Meeting of Stockholders of Harman International Industries, Incorporated. The meeting will be held on Wednesday, December 3, 2008, beginning at 11:00 a.m. at the JPMorgan Chase Building, 270 Park Avenue, New York, New York. Information about the meeting, the nominees for election as directors and other action to be taken is presented in the following Notice of Annual Meeting of Stockholders and Proxy Statement.

This Annual Meeting will be an important occasion as we will recognize the contributions of two board members who will retire from the Board following the meeting. Dr. Sidney Harman is the founder of our Company and has served as a member of senior management and the Board of Directors since 1980. Although Dr. Harman will retire as a director, he will continue as Chairman Emeritus. Ms. Shirley Mount Hufstedler has served as a director since 1986. We wish to thank both Dr. Harman and Ms. Hufstedler for their years of outstanding service to our Company.

At the meeting, management will also report on the Company s operations during fiscal 2008 and comment on the Company s outlook for the current fiscal year. The report will be followed by a question and answer period.

Please note that effective October 2008, the Company s headquarters moved from Washington, DC to Stamford, Connecticut.

It is important that your shares be represented at the meeting. To ensure representation of your shares, please sign, date and promptly return the enclosed proxy card or use the telephone or Internet voting procedures described on the proxy card.

We look forward to seeing you on December 3rd.

Sincerely,

Dinesh Paliwal
Chairman and Chief Executive Officer

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on December 3, 2008

The 2008 Annual Meeting of Stockholders of Harman International Industries, Incorporated (the Company) will be held at the JPMorgan Chase Building, 270 Park Avenue, New York, New York, on December 3, 2008, beginning at 11:00 a.m. The meeting will be held for the following purposes:

(1) to elect two directors to serve until the 2011 Annual Meeting of Stockholders;

(2) to consider and take action upon a proposal to approve amendments to the 2002 Stock Option and Incentive Plan;

(3) to consider and take action upon a proposal to approve the 2008 Key Executive Officers Bonus Plan; and

(4) to transact other business that properly comes before the meeting.

Information concerning the matters to be acted upon at the meeting is set forth in the accompanying Proxy Statement. Stockholders of record as of the close of business on October 6, 2008 are entitled to notice of, and to vote at, the meeting.

If you plan to attend the meeting and will need special assistance or accommodation due to a disability, please describe your needs on the enclosed proxy card. Also enclosed is the Company s Annual Report for fiscal 2008.

By Order of the Board of Directors,

Todd A. Suko
Secretary

Stamford, CT
October 21, 2008

IMPORTANT

Whether or not you plan to attend the meeting in person, please vote by signing, dating and promptly returning the proxy card in the enclosed postage prepaid envelope or by using the telephone or Internet voting procedures described on the proxy card.

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HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED
400 Atlantic Street
Suite 1500
Stamford, CT 06901

PROXY STATEMENT

This Proxy Statement provides information in connection with the solicitation of proxies by the Board of Directors (the Board) of Harman International Industries, Incorporated (the Company) for use at the Company s 2008 Annual Meeting of Stockholders or any postponement or adjournment thereof (the Meeting). This Proxy Statement also provides information you will need in order to consider and to act upon the matters specified in the accompanying Notice of Annual Meeting of Stockholders. This Proxy Statement and the enclosed proxy card are being mailed to stockholders on or about October 22, 2008.

Holders of record of the Company s common stock (Common Stock) as of the close of business on October 6, 2008 are entitled to vote at the Meeting. Each stockholder of record as of that date is entitled to one vote for each share of Common Stock held. On October 6, 2008, there were 58,530,866 shares of Common Stock outstanding.

You cannot vote your shares of Common Stock unless you are present at the Meeting or you have previously given your proxy. You can vote by proxy in one of three convenient ways:

in writing: sign, date and return the proxy card in the enclosed envelope;

by telephone: within the U.S. or Canada, call the toll-free telephone number shown on your proxy card and follow the instructions; or

by Internet: visit the website shown on your proxy card and follow the instructions.

You may revoke your proxy at any time prior to the vote at the Meeting by:

delivering a written notice revoking your proxy to the Company s Secretary at the address above;

delivering a new proxy bearing a date after the date of the proxy being revoked; or

voting in person at the Meeting.

All properly executed proxies, unless revoked as described above, will be voted at the Meeting in accordance with your directions on the proxy. With respect to the election of directors, you may vote for both nominees, withhold your vote for both nominees, or withhold your vote as to a specific nominee. If a properly executed proxy does not provide

instructions, the shares of Common Stock represented by your proxy will be voted:

FOR the election of each of the two director nominees to serve until the Company s 2011 Annual Meeting of Stockholders;

FOR approval of the amendments to the 2002 Stock Option and Incentive Plan;

FOR approval of the 2008 Key Executive Officers Bonus Plan; and

at the discretion of the proxy holders with regard to any other matter that is properly presented at the Meeting.

A majority of the outstanding shares of Common Stock must be present, in person or by proxy, to constitute a quorum at the Meeting.

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The Company s majority voting policy requires any director nominee in an uncontested election who receives a greater number of votes withheld than votes for his or her election to tender his or her resignation promptly following the certification of the election results. The Nominating and Governance Committee of the Board will consider all of the relevant facts and circumstances and make a recommendation to the Board with respect to whether to accept the resignation. Within 90 days, the Board is required to take action with respect to the recommendation and to publicly disclose its decision by issuing a press release. The majority voting policy is more fully described in The Board, Its Committees and Its Compensation Majority Voting Policy.

The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the Meeting will be required to approve the 2008 Key Executive Officers Bonus Plan and the amendments to the 2002 Stock Option and Incentive Plan. In addition, the New York Stock Exchange rules require that the total votes cast on the approval of the amendments to the 2002 Stock Option and Incentive Plan represent greater than 50% of the shares outstanding as of the record date.

Those who fail to return a proxy or attend the Meeting will not count towards determining any required vote or quorum. Stockholders and brokers returning proxies or attending the Meeting who abstain from voting on the election of our directors will count towards determining a quorum. Brokers holding shares of record for customers generally are not entitled to vote on certain matters unless they receive voting instructions from their customers. In the event that a broker does not receive voting instructions for these matters from its customers, a broker may notify us that it lacks voting authority to vote those shares. These broker non-votes refer to votes that could have been cast on the matter in question by brokers with respect to uninstructed shares if the brokers had received their customers instructions. These broker non-votes will be included in determining whether a quorum exists. Even if you do not instruct your broker how to vote on the election of directors, your broker may exercise its discretion to vote your shares on this proposal. Your broker may not vote on the approval of the 2008 Key Executive Officers Bonus Plan or the amendments to the 2002 Stock Option and Incentive Plan without your instruction. To be sure your shares are voted in the manner you desire, you should instruct your broker how to vote your shares.

The Company is soliciting your proxy and will pay the cost of preparing and mailing this Proxy Statement and the enclosed proxy card. The Company has retained BNY Mellon Shareowner Services LLC (Mellon) to assist in the solicitation of proxies for the Meeting. For these services, the Company will pay Mellon a base fee of $7,500 and will reimburse Mellon for out-of-pocket expenses. Additionally, employees of the Company may solicit proxies personally and by telephone. The Company s employees will receive no compensation for soliciting proxies other than their regular salaries. The Company may request banks, brokers and other custodians, nominees and fiduciaries to forward copies of these proxy materials to their principals and to request authority for the execution of proxies. The Company may reimburse such persons for their expenses in so doing.

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PROPOSAL NO. 1
ELECTION OF DIRECTORS

At the Meeting, two directors will be elected to serve three-year terms expiring at the 2011 Annual Meeting of Stockholders. This section contains information relating to the two director nominees and the directors whose terms of office extend beyond the Meeting. The nominees for election are Brian Carroll, who is currently a director, and Hellene S. Runtagh. Under the Note Purchase Agreement under which we issued our 1.25% Convertible Senior Notes due 2012, Kohlberg Kravis Roberts & Co. (KKR) has the right to designate a nominee to the Board so long as KKR continues to have ownership rights as to at least $200 million principal amount of the notes or until the occurrence of other specified events. In October 2007, Mr. Carroll was appointed a director after he was recommended by KKR pursuant to the purchase agreement. See Certain Relationships and Related Transactions Certain KKR Relationships on page 51 of this Proxy Statement. Ms. Runtagh was recommended to the Nominating and Governance Committee by a third-party search firm hired by the committee to provide assistance in finding potential director candidates.

The Board expects that the nominees will be available for election at the time of the Meeting. If, for any reason, a nominee should become unavailable for election, the shares of Common Stock voted FOR that nominee by proxy will be voted for a substitute nominee designated by the Board, unless the Board reduces the number of directors or allows that nominee s director position to remain vacant until a qualified nominee is identified.

Dr. Sidney Harman and Ms. Shirley Mount Hufstedler currently serve as directors of the Company. Each of Dr. Harman s and Ms. Hufstedler s term expires at the Meeting. As previously announced, Dr. Harman will not stand for re-election, but will continue to serve as Chairman Emeritus. The Nominating and Governance Committee is currently conducting a search for qualified candidates to serve as a director of the Company. Although we expect that there will be a vacancy on the Board immediately after the Meeting, you may not vote for more than two nominees, either in person or by proxy.

Under Delaware law and our Bylaws, a plurality of the votes cast is required for the election of directors. This means that the director nominee with the most votes for a particular Board position is elected for that position. You may vote for or withheld with respect to the election of directors. Only votes for or withheld are counted in determining whet a plurality has been cast in favor of a director. Abstentions are not counted for purposes of the election of directors.

Our majority voting policy requires, in an uncontested election, any nominee for director who receives a greater number of votes withheld from his or her election than votes for to promptly tender his or her resignation following certification of the election results. The Nominating and Governance Committee will promptly consider the resignation and a range of possible responses based on the circumstances that led stockholders to withhold votes, if known, and make a recommendation to the Board. The Board will act on the committee s recommendation within 90 days following certification of the results of the election.

The Board recommends a vote FOR election of each of the nominees.

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Nominees to be Elected at the Meeting

Mr. Brian F. Carroll, age 37, has served as a director of the Company since October 2007. Mr. Carroll has been a member of KKR since January 2006 and before that, an executive of KKR since July 1999. In addition, Mr. Carroll was an executive at KKR from 1995 to 1997, at which time he left KKR to attend business school at Stanford University. Prior to joining KKR in 1995, Mr. Carroll was with Donaldson, Lufkin & Jenrette. Mr. Carroll is also a member of the board of directors of Rockwood Specialties Group, Inc. and Sealy Corporation.

Hellene S. Runtagh, age 60, served as President and Chief Executive Officer of the Berwind Group, a diversified pharmaceutical services, industrial manufacturing and real estate company, in 2001. From 1998 through 2000, Ms. Runtagh was Executive Vice President of Universal Studios, a media and entertainment company. Prior to joining Universal Studios, Ms. Runtagh spent 27 years at General Electric Company, a diversified industrial company, in a variety of leadership positions. Ms. Runtagh also serves on the board of directors of IKON Office Solutions, Inc., the world s largest independent channel for document management systems and services, Lincoln Electric Holdings, Inc., a full-line manufacturer and reseller of welding and cutting products, and NeuStar Inc., a provider of clearinghouse services to the communications industry.

Directors Whose Terms Extend Beyond the Meeting

Dr. Harald Einsmann, age 74, has served as a director of the Company since October 2007. Dr. Einsmann currently serves as an Operating Partner and a member of the Board of Directors/Investment Committee of EQT, a leading European Private Equity Group sponsored by the Wallenberg group of Scandinavia. Dr. Einsmann also serves as a director of Tesco Plc, the Carlson Group, a provider of business and leisure travel, hotel, restaurant, cruise and marketing services, Checkpoint Systems, Inc., a provider of integrated system solutions for retail security, labeling and merchandising, and Rezidor Hotel Group in Scandinavia. Prior to joining EQT, Dr. Einsmann held senior management positions, as well as a seat on the Worldwide Board at The Procter and Gamble Company. His current term as a director expires at the 2010 Annual Meeting of Stockholders.

Ann McLaughlin Korologos, age 66, has been a director of the Company since 1995 and has served as Lead Director since May 2008. She served as Secretary of Labor of the United States from 1987 until 1989. Ms. Korologos is a director of AMR Corporation (and its subsidiary, American Airlines, Inc.), Host Hotels & Resorts, Inc., Kellogg Company and Vulcan Materials Company, a provider of construction aggregates. In April 2004, Ms. Korologos was elected Chairman of the RAND Corporation Board of Trustees. She is also a Chairman Emeritus of the Aspen Institute and previously served as a Senior Advisor to Benedetto, Gartland & Company, Inc. from 1996 to 2005. Her current term as a director expires at the 2010 Annual Meeting of Stockholders.

Edward H. Meyer, age 81, has been a director of the Company since 1990. Mr. Meyer has served as Chairman, Chief Executive Officer and Chief Investment Officer of Ocean Road Advisors, Inc., an investment management company, since January 2007. Mr. Meyer also served as Chairman, Chief Executive Officer and President of Grey Global Group, Inc., a global advertising and marketing services company, from 1972 to 2006. Mr. Meyer also serves as a director of Ethan Allen Interiors Inc., NRDC Acquisition Corp., a recently organized special purpose acquisition company, and National CineMedia, Inc., an in-theater advertising company. His current term as a director expires at the 2009 Annual Meeting of Stockholders.

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Dinesh Paliwal, age 50, has been a director of the Company since August 2007 and has served as Chairman of the Board since July 1, 2008. He has also served as Chief Executive Officer since July 2007 and served as President and Vice Chairman from July 2007 through June 2008. Prior to joining the Company, Mr. Paliwal served as a member of the Group Executive Committee of ABB Ltd from January 2001 until June 2007, a provider of industrial automation, power transmission systems and services. Mr. Paliwal also served as President of Global Markets and Technology of ABB Ltd from January 2006 until June 2007 and simultaneously, he served as Chairman and CEO of ABB North America from January 2004 until June 2007. He was President and CEO of ABB Automation from October 2002 to December 2005. Mr. Paliwal is a director of Embarq Corporation, a provider of telecommunication services. His current term as a director expires at the 2009 Annual Meeting of Stockholders.

Kenneth Reiss, age 65, has served as a director of the Company since February 2008. Prior to his retirement in June 2003, Mr. Reiss served with Ernst & Young beginning in 1965 and as a partner since 1977. Mr. Reiss held various leadership positions with Ernst & Young but spent the majority of his time as Coordinating Partner on significant global clients. Mr. Reiss serves on the board of directors of Eddie Bauer Holdings, Inc., a retailer of outerwear and footwear, and The Wet Seal, Inc., a national specialty retailer. His current term as a director expires at the 2010 Annual Meeting of Stockholders.

Gary G. Steel, age 55, has served as a director of the Company since December 2007. Mr. Steel has also served since January 2003 as a member of the Group Executive Committee of ABB Ltd, a provider of industrial automation, power transmission systems and services. Prior to joining ABB Ltd, Mr. Steel served in various executive positions with Royal Dutch Shell plc, most recently as Human Resource Director for Global Finance for Shell International B.V., a wholly owned subsidiary of Royal Dutch Shell plc. His current term as a director expires at the 2009 Annual Meeting of Stockholders.

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PROPOSAL NO. 2
APPROVAL OF AMENDMENTS TO THE 2002 STOCK OPTION AND INCENTIVE PLAN

On September 17 and October 21, 2008, the Compensation and Option Committee of the Board adopted, subject to stockholder approval, amendments to our 2002 Stock Option and Incentive Plan (the Incentive Plan). The proposed amendments would increase the number of shares of Common Stock available for issuance under the Incentive Plan by 760,000 shares, increase the limits on individual and total grants during any calendar year, expand the list of performance criteria that may be used for awards, change the initial and annual grants to non-management directors to restricted share units, preclude dividend equivalents for stock options and stock appreciation rights, reduce to one year the minimum three-year vesting period for awards of restricted shares and restricted share units, authorize the committee to cancel underwater options in connection with certain transactions, and make changes to comply with Section 409A of the Internal Revenue Code (collectively, the Incentive Plan Amendments).

The Incentive Plan initially authorized the issuance of 6,000,000 shares of Common Stock (adjusted for our two-for-one stock split in November 2003), of which 2,411,335 shares are available for future awards. All of the shares currently available for future awards under the Incentive Plan may be issued upon the exercise of incentive stock options and 224,229 shares may be issued as non-option awards denominated in shares of Common Stock. The Compensation and Option Committee believes that the increase in the aggregate number of shares available for future grants under the Incentive Plan is appropriate to permit the grant of equity awards at expected levels. The effective date of the Incentive Plan Amendments is September 17, 2008, the first date upon which the Incentive Plan Amendments were adopted and approved by the Compensation and Option Committee. If the Incentive Plan Amendments are not approved by the stockholders, they will be of no effect and the amount of shares available for issuance under the Incentive Plan will remain unchanged.

Under all of the Company s equity-based incentive plans, 2,941,282 shares of Common Stock are issuable under outstanding stock options and 458,681 shares are issuable under non-option awards, specifically restricted share units and restricted shares. The outstanding stock options have a weighted average exercise price of $62.52 and a weighted average remaining life of 7.87 years. In addition, 2,441,335 shares of Common Stock are available for grant under all of the Company s equity-based incentive plans.

The committee believes that equity-based compensation programs are an important element of the Company s continued financial and operational success. In approving the Incentive Plan Amendments, the committee considered the recent history of the Company s discretionary equity award grants and grants made under contractual obligations with officers of the Company under the Incentive Plan, the intended purpose of the Incentive Plan and the number of shares that would be reserved for issuance under the Incentive Plan, as amended (representing approximately 9.5% of the outstanding shares of Common Stock assuming all shares available under the Incentive Plan are issued). We believe these changes in the plan reflect best practices in our industry and allow the establishment of a stronger pay-for-performance culture.

You are being asked to approve the Incentive Plan Amendments. You should read and understand the terms of the Incentive Plan Amendments and Incentive Plan before you vote. A summary of the Incentive Plan, as it is proposed to be amended, appears below and the full text of the Incentive Plan, marked to show the Incentive Plan Amendments, is attached to this Proxy Statement as *Appendix A*. The affirmative vote of the holders of a majority of the outstanding shares of Common Stock present in person or by proxy at the Meeting will be required to approve the Incentive Plan Amendments.

The Board recommends a vote FOR approval of the Incentive Plan Amendments.

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Incentive Plan Summary

This summary of the Incentive Plan, as it is proposed to be amended, does not purport to be exhaustive and is expressly qualified in its entirety by reference to the full text of the Incentive Plan, which is attached to this Proxy Statement as *Appendix A*.

Administration

The Incentive Plan will continue to be administered by the Compensation and Option Committee, subject to the Board s discretion, and shall have the authority delegated to it by the Board from time to time.

Available Shares; Limitations on Awards

Under the Incentive Plan Amendments and subject to adjustments described below, no more than 6,760,000 shares of Common Stock may be issued in the aggregate under the Incentive Plan, of which 3,171,335 shares would be available for future awards. No more than 6,000,000 shares of Common Stock may be issued upon the exercise of incentive stock options granted under the Incentive Plan, of which 3,171,335 shares would be available for future awards. No plan participant may be awarded more than 750,000 options and appreciation rights, in the aggregate, under the Incentive Plan during any calendar year. No more than 2,150,000 shares of Common Stock may be issued as non-option awards denominated in shares of Common Stock under the Incentive Plan, of which 1,671,658 shares would be available for future awards. No plan participant may receive non-option awards denominated in shares of Common Stock of more than 750,000 shares during any calendar year or performance units in any calendar year having an aggregate maximum value as of their grant dates in excess of $2.0 million. The Incentive Plan Amendments would increase the number of options and appreciation rights that may be awarded, in the aggregate, during any calendar year from 600,000 to 750,000, and would increase the number of non-option awards denominated in shares of Common Stock that may be awarded to any participant during any calendar year from 50,000 to 750,000.

Eligibility

The Compensation and Option Committee may designate any officer, director or key employee of the Company, or any of its subsidiaries, or any other person who has agreed to serve in such capacity within 90 days of the date of a grant, to receive awards under the Incentive Plan; provided that non-management directors are only eligible to receive awards of restricted share units as described below. Currently, the Company has nine executive officers and eight non-management directors who are participants in the Incentive Plan. A total of approximately 350 persons are participants in the Incentive Plan.

Descriptions of Awards

Option Rights. Plan participants may receive options to purchase shares of Common Stock for an exercise price fixed on the date of the grant. The exercise price may not be less than the fair market value of the Common Stock on the date of the grant. Grants of option rights under the Incentive Plan may be incentive stock options or non-qualified stock options. An incentive stock option is an option that is intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code. A plan participant may pay the exercise price of an option in cash, by check, by the transfer of shares of unrestricted Common Stock owned for a period of time acceptable to the Compensation and Option Committee and having a value at the time of exercise equal to the exercise price, by any other consideration the committee may deem appropriate, or by a

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combination thereof. The committee shall determine the vesting schedule and requirements for continuous service associated with each grant of options and may provide for earlier vesting under specified circumstances. The vesting or exercise of option rights may be subject to the optionee or the Company achieving management objectives. No options shall be exercisable more than 10 years after the date of grant.

Appreciation Rights. Plan participants may also receive stock appreciation rights, which may be free-standing or tandem. A free-standing stock appreciation right allows the plan participant to receive the increase, if any, in the fair market value of the number of shares of Common Stock underlying the award during the life of the award. A tandem stock appreciation right is granted in connection with an option to purchase Common Stock and allows the participant to receive the spread, if any, between the fair market value of the Common Stock and the exercise price of the underlying option. The Compensation and Option Committee may specify that any amount payable upon the exercise of a stock appreciation right may be paid by the Company to the plan participant in cash, Common Stock or any combination thereof. In addition, awards of stock appreciation rights may be subject to other restrictions, including:

a maximum amount payable;

a waiting period prior to exercise;

the satisfaction of certain management objectives prior to exercise; and

exercisability only upon the occurrence of a change in control of the Company.

Restricted Shares. Plan participants may be awarded shares of Common Stock that are not transferable and are subject to forfeiture until certain restrictions are removed or conditions are satisfied. Removal of restrictions may be contingent on the achievement by the recipient or the Company of specific management objectives, as determined by the Compensation and Option Committee. Unless otherwise determined by the committee, recipients of restricted shares are entitled to vote their restricted shares and to receive the dividends paid on the shares.

Restricted Share Units. A restricted share unit is a right to receive one share of Common Stock or cash equal to the value of one share at the end of a specified period, subject to transfer restrictions and other conditions as determined by the Compensation and Option Committee. Restricted share units generally vest on the basis of the satisfaction of performance conditions established by the committee and/or continuing employment or other service for a specified period of time. The holder of a restricted share unit award has no rights as a stockholder with respect to the underlying shares unless and until the award vests and the award is settled in shares. However, the committee may provide for the payment of dividend equivalents in the form of cash or shares in an amount equal to the dividends that would have been payable if the shares were outstanding.

Performance Units. Plan participants may receive performance units that will become payable upon the achievement of specified management objectives during a performance period. The length of the performance period will be specified at the time the grant is made, but will not be less than three years. In addition, performance units may be subject to earlier lapse or other modification in the event of a change in control of the Company.

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Management Objectives

As stated above, awards of performance units will be, and other awards may be, made subject to certain management objectives. These objectives may be based on Company-wide objectives or objectives that are related to the performance of an individual participant, a subsidiary, a division, a department, a region or a function within the Company or its subsidiaries. For awards intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code, the objectives will be based on specified levels of, or growth in, one or more of the following areas:

- cash flow/net assets ratio;
- return on total capital or assets;
- return on consolidated equity;
- earnings or earnings per share;
- revenue;
- cash flow;
- stock price or total return to stockholders;
- operating income or earnings before interest and taxes (EBIT);
- earnings before interest, taxes, depreciation and amortization (EBITDA);
- enterprise value;
- cost initiatives, which can include targets involving capital expenditures, cost of purchased material and full-time and part-time payroll (such as the Global Footprint Index described under Compensation Discussion and Analysis Fiscal 2008 Compensation Fiscal 2008 Annual Incentive Compensation Awards on page 29 of this Proxy Statement); and/or
- economic value added or economic profit.

The Incentive Plan Amendments would add the last five groups of performance criteria. In addition, the Incentive Plan Amendments restate the first seven groups of performance criteria in order to comply with the requirements of Section 162(m) of the Internal Revenue Code.

If the Compensation and Option Committee determines that a change in the business, operations, corporate or capital structure of the Company, the manner in which the Company conducts its business, or other events or circumstances render the management objectives unsuitable, the committee may, in its discretion, modify the management objectives or the related minimum acceptable level of achievement, in whole or in part, as it deems appropriate and equitable, unless such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Internal Revenue Code.

Awards of Restricted Share Units to Non-Management Directors

Under the Incentive Plan Amendments, each person who becomes a non-management director will, on the date such person first becomes a non-management director, receive a grant of restricted share units. The number of restricted share units will be equal to $200,000 divided by the closing price of the Common Stock on the date of grant. After the Meeting, and annually thereafter, each person serving as a non-management director will receive additional grants of restricted share units. An individual who first becomes a non-management director at the Meeting or a subsequent annual meeting will not be entitled to the annual grant until the following annual meeting. The number of restricted share units awarded annually will be equal to $125,000 divided by the closing price of the Common Stock on the date of grant. The restricted share units included in each grant will (a) become exercisable at a rate of one-third on each anniversary of the date of the grant, until fully

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vested, (b) become fully exercisable upon the director s retirement from the Board, provided that the director has attained age 65 and completed 5 years of service as a director, and (c) become fully exercisable upon a change in control of the Company or death or disability of the director.

Term

The Incentive Plan Amendments will become effective as of September 17, 2008, subject to stockholder approval. No grants of any kind may be made under the Incentive Plan after November 8, 2012. All awards made under the Incentive Plan that remain outstanding subsequent to November 8, 2012 will continue to be governed by the terms of the Incentive Plan.

Prohibition on Repricings

The Compensation and Option Committee may not lower the exercise price of outstanding option rights without the approval of the Company s stockholders.

Transferability

Unless otherwise approved by the Compensation and Option Committee, options, appreciation rights or other derivative securities granted under the Incentive Plan may not be transferred other than by will or the laws of descent and distribution. Under no circumstances may awards be transferred for value.

Adjustments

The maximum number of shares of Common Stock which may be awarded under the Incentive Plan, and the number of shares and price per share applicable to any outstanding award, are subject to adjustment in the event of stock dividends, stock splits, combinations of shares, recapitalizations, mergers, consolidations or other reorganizations of the Company.

Amendments

The Compensation and Option Committee may amend the Incentive Plan at any time without the consent of stockholders, unless consent is required by law or the applicable rules of each securities exchange upon which the Common Stock is traded.

Compliance with Section 409A of the Internal Revenue Code

It is intended that the Incentive Plan and any grants made under the Incentive Plan will comply with the provisions of Section 409A of the Internal Revenue Code, so that plan participants will not be subject to adverse tax consequences under that Code Section.

Market Value of Underlying Securities of the Incentive Plan

Common Stock underlies all of the options and rights to be awarded under the Incentive Plan. The market value of the Common Stock at the close of trading on September 17, 2008 was $32.14 per share.

Federal Income Tax Consequences of the Incentive Plan

The following is a summary of certain federal income tax consequences relating to awards under the Incentive Plan, based on federal income tax laws currently in effect. This summary is not intended to and does not describe all of the possible tax consequences that could result from the acquisition, holding, exercise or disposition of an option right or shares of Common Stock purchased or granted pursuant to, or any other award granted under, the Incentive Plan and does not describe any state, local or foreign tax consequences.

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Tax Consequences to Participants

Incentive Stock Options. A plan participant will not recognize income upon the grant of an option intended to be an incentive stock option. Furthermore, a plan participant will not recognize ordinary income upon the exercise of an incentive stock option if he or she satisfies certain employment and holding period requirements although the exercise may be subject to alternative minimum tax. To satisfy the employment requirement, a plan participant must exercise the option not later than three months after he or she ceases to be an employee of the Company and its subsidiaries (one year if he or she is disabled). To satisfy the holding period requirement, a plan participant must hold the shares acquired upon exercise of the incentive stock option for more than two years from the grant of the option and more than one year after the shares are transferred to him or her. If these requirements are satisfied, the plan participant will be taxed on the difference between his or her basis in the shares and the net proceeds of the sale at capital gain rates on the sale of the shares.

If a plan participant disposes of shares of Common Stock acquired upon the exercise of an incentive stock option without satisfying the holding period requirement, the plan participant will usually recognize ordinary income at the time of disposition equal to the amount of the difference between the fair market value of the stock on the date the option is exercised and the exercise price of the option.

Non-Qualified Stock Options. In general, a plan participant will not recognize income at the time an option is granted. At the time of exercise of the option, he or she will recognize ordinary income if the shares are not subject to a substantial risk of forfeiture (as defined in Section 83 of the Internal Revenue Code). The amount of such income will be equal to the difference between the option exercise price and the fair market value of the shares of Common Stock on the date of exercise. At the time of the sale of the shares of Common Stock acquired pursuant to the exercise of an option, appreciation in value of the shares after the date of exercise will be treated as either short-term or long-term capital gain, and depreciation in value will be treated as short-term or long-term capital loss, depending on how long the shares have been held. Long-term capital gains may be eligible for reduced rates if the participant has satisfied applicable holding period requirements.

Appreciation Rights. A plan participant will not recognize income upon the grant of a stock appreciation right. In general, a participant will recognize ordinary income at the time he or she receives payment on a stock appreciation right in the amount of the payment.

Restricted Shares. In general, a plan participant will not recognize ordinary income upon receipt of restricted shares. The plan participant will recognize ordinary income when the shares are transferable by the plan participant or are no longer subject to a substantial risk of forfeiture, whichever occurs first. At such time, the plan participant will recognize ordinary income in an amount equal to the current fair market value of the shares. A plan participant may, however, elect to recognize ordinary income when the restricted shares are granted in an amount equal to the fair market value of the shares at that time, determined without regard to the restrictions. Any appreciation in the value of the shares after the date the shares become transferable or are no longer subject to substantial risk of forfeiture, or after the participant has made the election referred to in the preceding sentence, if applicable, will be treated as either short-term or long-term capital gain, and any depreciation in value will be treated as either short-term or long-term capital loss, depending upon how long the shares have been held.

Restricted Share Units. A plan participant will not recognize ordinary income upon the grant of restricted share units. In general, a plan participant will recognize ordinary income at the time he or she receives shares with respect to restricted share units in an amount equal to the current fair market value of the shares.

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Performance Units. A plan participant will not recognize income upon the grant of performance units. In general, a plan participant will recognize ordinary income at the time he or she receives payment with respect to performance units in the amount of the payment.

Tax Consequences to the Company

To the extent that a plan participant recognizes ordinary income as described above, the Company, or its subsidiary for which the plan participant performs services, will be entitled to a corresponding deduction provided that, among other things, the income meets the test of reasonableness, is an ordinary and necessary business expense, is not an excess parachute payment within the meaning of Section 280G of the Internal Revenue Code and is not disallowed by the $1,000,000 limitation on certain executive compensation under Section 162(m) of the Internal Revenue Code.

Incentive Plan Benefits

If the stockholders approve the Incentive Plan Amendments, there will be an annual grant of restricted share units under the Incentive Plan to each non-management director, commencing with the Meeting. In addition, the Incentive Plan Amendments provide for a one-time grant of restricted share units to each person who becomes a non-management director on or after the date of the Meeting, including Ms. Runtagh. An individual who first becomes a non-management director at the Meeting or a subsequent annual meeting will not be entitled to the annual grant until the following annual meeting. For the annual and one-time grants, the number of restricted share units awarded will be equal to $125,000 and $200,000, respectively, divided by the closing price of the Common Stock on the grant date.

In September 2008, the Compensation and Option Committee approved awards to Mr. Paliwal representing his annual equity award and an additional award to offset some of the reduction in value of the awards he received under his letter agreement in connection with joining the Company. These earlier awards were compensation for awards Mr. Paliwal forfeited in connection with leaving his former employer to join the Company. Mr. Paliwal s annual equity award consists of 72,748 stock options and 78,757 restricted share units, of which 28,757 restricted share units are subject to stockholder approval of the Incentive Plan Amendments. The 78,757 restricted share units will vest three years from the date of grant. For each restricted share unit, Mr. Paliwal will be entitled to one share of Common Stock. Under his letter agreement, if the Incentive Plan Amendments are not approved by stockholders, Mr. Paliwal will be entitled to restricted share units of an equal value granted outside the Incentive Plan.

Mr. Paliwal s additional award consists of 73,814 restricted share units, which are subject to approval of the Incentive Plan Amendments. For each of these restricted share units, Mr. Paliwal will be entitled to receive one share of Common Stock. Of the 73,814 restricted share units, 12,913 will vest on December 3, 2009, 32,460 will vest on March 1, 2010, 20,911 will vest on July 1, 2010, 3,765 will vest on July 1, 2011 and 3,765 will vest on July 1, 2012.

No other awards have been made subject to approval of the Incentive Plan Amendments. However, the committee is considering approving grants to Mr. Paliwal under the Incentive Plan to replace the special cash bonus he is entitled to under the November 2007 amendment to his letter agreement. The proposed award would be in the form of performance-based restricted share units, which would vest on November 9, 2012. The actual number of restricted share units payable would be subject to adjustment based on the Company s enterprise value on the vesting date, using the same target, threshold and maximum performance levels approved for the special cash bonus. However, the committee is also considering adjusting the enterprise value performance levels based on a $43 stock price. See Compensation Discussion and Analysis Executive Compensation Programs and Policies Long-Term Incentive Compensation and Executive Compensation Grants of Plan-Based Awards on pages 26 and 36 of this Proxy Statement for additional information regarding Mr. Paliwal s special cash bonus.

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PROPOSAL NO. 3
APPROVAL OF 2008 KEY EXECUTIVE OFFICERS BONUS PLAN

In October 2007, the Board unanimously approved, subject to stockholder approval, the 2007 Key Executive Officers Bonus Plan (the 2007 Plan). The 2007 Plan was subsequently approved by the stockholders at the 2007 Annual Meeting of Stockholders. The 2007 Plan allows cash bonuses paid under it to be considered performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code.

In September 2008, the Compensation and Option Committee approved the 2008 Key Executive Officers Bonus Plan (the 2008 Plan), subject to stockholder approval. The 2008 Plan amends and restates the 2007 Plan. The 2008 Plan will add to the stockholder equity goal performance measures consistent with the Incentive Plan and the Company s Management Incentive Compensation Plan, which is an annual incentive program for executive officers and other key employees. These amendments will allow us to apply consistent performance measures in granting incentive awards to our senior management, other executive officers and key employees.

You are being asked to approve the 2008 Plan. You should read and understand the terms of the 2008 Plan before you vote. A summary of the 2008 Plan appears below and the full text of the 2008 Plan is attached to this Proxy Statement as *Appendix B*. The affirmative vote of the holders of a majority of the outstanding shares of Common Stock present in person or by proxy at the Meeting will be required to approve the 2008 Plan. If the 2008 Plan is not approved, the 2007 Plan will continue in effect under its current terms.

The Board recommends a vote FOR approval of the 2008 Plan.

2008 Plan Summary

This summary of the 2008 Plan does not purport to be exhaustive and is expressly qualified in its entirety by reference to the full text of the 2008 Plan, which is attached to this Proxy Statement as *Appendix B*.

Administration

The 2008 Plan is administered by the Compensation and Option Committee, which has full authority to interpret and oversee the operation of the 2008 Plan. The Board may appoint a new plan committee at its discretion. The plan committee will in any event be comprised of not fewer than two directors, each of whom qualifies as an outside director for purposes of Section 162(m) of the Internal Revenue Code and the applicable Treasury regulations.

Eligibility

As under the 2007 Plan, the Company s Chief Executive Officer and any other executive officer of the Company designated by the Compensation and Option Committee will be eligible to receive an award under the 2008 Plan. Currently, there are three individuals who are designated as eligible to receive awards under the 2008 Plan.

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Performance Measures and Awards

No later than the 90th day of each fiscal year, the Compensation and Option Committee will meet to establish performance measures for the fiscal year and the maximum cash award payable to each plan participant if these goals are met. As under the 2007 Plan, cash awards paid under the 2008 Plan to a plan participant shall not exceed $3,000,000 during any fiscal year.

After the end of each fiscal year, the committee will meet to determine whether the performance measures for the fiscal year were met. If the goals were met, the committee will establish the amount of the cash award to be paid to each plan participant, exercising discretion only to decrease the award amount.

Performance Measures

The performance measures under the 2008 Plan will be based on specified levels of, or growth in, one or more of the following areas:

- return on stockholder equity;
- cash flow/net assets ratio;
- return on total capital or assets;
- return on consolidated equity;
- earnings or earnings per share;
- revenue;
- cash flow;
- stock price or total return to stockholders;
- operating income or earnings before interest and taxes (EBIT);
- earnings before interest, taxes, depreciation and amortization (EBITDA);
- enterprise value;
- cost initiatives, which can include targets involving capital expenditures, cost of purchased material and full-time and part-time payroll (such as the Global Footprint Index described under Compensation Discussion and Analysis Fiscal 2008 Compensation Fiscal 2008 Annual Incentive Compensation Awards on page 29 of this Proxy Statement); and/or
- economic value added or economic profit.

If the Compensation and Option Committee determines that a change in the business, operations, corporate or capital structure of the Company, the manner in which the Company conducts its business, or other events or circumstances render the management objectives unsuitable, the committee may, in its discretion, modify the management objectives or the related minimum acceptable level of achievement, in whole or in part, as it deems appropriate and equitable,

unless such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Internal Revenue Code.

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Change in Control

In the event of a change in control of the Company, each plan participant shall be entitled to the award amount for that fiscal year without proration or any other reduction, provided that he or she is employed by the Company at the time of the change in control or, if the plan participant is no longer employed by the Company, the plan participant s employment is terminated after commencement of discussions that resulted in a change in control of the Company but within 180 days prior to the change in control.

Term

If the stockholders approve the 2008 Plan, it will become effective as of July 1, 2008 and will remain effective until five years after the date approved by the stockholders.

Tax Deductibility of Awards

The Company intends for awards made under the 2008 Plan to constitute performance-based compensation as defined in Section 162(m) of the Internal Revenue Code. As applicable to the Company, Section 162(m) generally disallows a tax deduction to public companies for compensation over $1,000,000 paid to a corporation s top executives, but does not include performance-based compensation in determining whether the $1,000,000 threshold has been exceeded.

2008 Plan Benefits

Under the 2008 Plan, the Compensation and Option Committee will establish performance goals at the beginning of each fiscal year and the maximum amount of a cash award that is payable to each plan participant if the goals are met. At the end of each fiscal year, the committee will determine whether the goals were met and, if so, the amount of the cash award to be paid to each plan participant. Therefore, the dollar value of future awards under the 2008 Plan that will be received by or allocated to any person or group, or in the aggregate, is not determinable.

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THE BOARD, ITS COMMITTEES AND ITS COMPENSATION

The Board of Directors

The Board currently consists of nine directors. Seven of the directors are independent directors and two directors are current or former members of the Company s senior management. Each of the Company s non-management directors, other than Dr. Harman and the director nominee, meets the qualifications for independence under the listing standards of the New York Stock Exchange. Following the Meeting, the Board will consist of eight members, seven of whom are independent.

Director Compensation

Fiscal 2008 Compensation

For services rendered during fiscal 2008, non-management directors received an annual retainer fee of $60,000, plus $1,500 for each committee meeting attended on a day other than the day of a Board meeting. We do not pay fees to directors who are officers of the Company or its subsidiaries. The Company reimburses all directors for expenses incurred in attending Board and committee meetings.

On the date of our 2007 Annual Meeting of Stockholders, each then-current non-management director received an option to purchase 5,000 shares of Common Stock. Each of Mr. Carroll, Mr. Steel, Mr. Reiss and Dr. Einsmann received an option to purchase 8,000 shares of Common Stock upon joining the Board. All of these options were granted under the Incentive Plan. The exercise price of the options was the fair market value of the shares of Common Stock on the date of grant. Each option vests at a rate of 20% per year and expires 10 years after the date of grant.

For his service as Non-Executive Chairman during fiscal 2008, Dr. Harman received an annual retainer of $200,000, prorated for his length of service. In addition, Dr. Harman received an option to purchase 8,000 shares of Common Stock upon becoming a non-management director in February 2008. Dr. Harman is a named executive officer for fiscal 2008 and his compensation as a director is included in the Summary Compensation Table on page 33 of this Proxy Statement.

The following table sets forth compensation earned by each of our non-management directors, other than Dr. Harman, for his or her service as a director during fiscal 2008.

Name(1)	Fees Earned or Paid in Cash(2)	Option Awards(3)(4)	Total
Brian Carroll(5)	$ 45,000	$ 99,557	$ 144,557
Harald Einsmann(5)	46,500	99,557	146,057
Shirley Mount Hufstedler	67,500	266,781	334,281
Ann McLaughlin Korologos	69,000	266,781	335,781
Edward Meyer	69,000	266,781	335,781
Kenneth Reiss(6)	30,000	20,677	50,677
Gary Steel(7)	45,000	47,219	92,219

(1)

Gina Harman resigned as a director of the Company in August 2007 and as President of the Company s Consumer division in January 2008. As an officer of the Company, Ms. Harman did not receive compensation for her service as a director in fiscal 2008. Her compensation as an employee is described under the caption Certain Relationships and Related Transactions Certain Family Relationships on page 51 of this Proxy Statement.

(2) Includes annual retainer and meeting attendance fees paid to each non-management director, other than Dr. Harman, for his or her service as a director during fiscal 2008. For each of

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Mr. Carroll, Dr. Einsmann, Mr. Reiss and Mr. Steel, the annual cash retainer was prorated based on his term of service.

(3) On December 17, 2007, each non-management director, other than Dr. Harman, Mr. Steel and Mr. Reiss, was granted an option to purchase 5,000 shares of Common Stock. The grant date fair value of each award, calculated in accordance with Financial Accounting Standards Board Statement No. 123(R) (revised 2004), Share-Based Payment (FAS 123R), was $134,421. Each of Mr. Carroll, Dr. Einsmann, Mr. Reiss and Mr. Steel was granted an option to purchase 8,000 shares of Common Stock upon joining the Board. The grant date fair values of these awards, calculated in accordance with FAS 123R, were as follows: Mr. Carroll ($251,473), Dr. Einsmann ($251,473), Mr. Reiss ($123,675) and Mr. Steel ($215,073). The amounts shown in the table represent the expense recognized for financial statement purposes for the fiscal year ended June 30, 2008, in accordance with FAS 123R, with respect to stock options awarded to our non-management directors. Pursuant to Securities and Exchange Commission (the Commission) rules, the amounts shown exclude the impact of estimated forfeitures related to service-based conditions. See Note 12, *Stock Option and Incentive Plan*, to our consolidated financial statements in our Form 10-K for the year ended June 30, 2008, for information regarding the assumptions made in determining these values.

(4) As of June 30, 2008, the number of outstanding options held by each of our non-management directors, other than Dr. Harman, was as follows: Mr. Carroll (13,000 shares), Dr. Einsmann (13,000 shares), Ms. Hufstedler (86,000 shares), Ms. Korologos (75,600 shares), Mr. Meyer (86,000 shares), Mr. Reiss (8,000 shares) and Mr. Steel (8,000 shares).

(5) Mr. Carroll and Dr. Einsmann joined the Board in October 2007.

(6) Mr. Reiss joined the Board in February 2008.

(7) Mr. Steel joined the Board in December 2007.

Changes in Director Compensation for Fiscal 2009

In June 2008, the Compensation and Option Committee completed a review of the Company s non-management director compensation program to determine whether the program was appropriate and competitive with respect to cash and equity components and total compensation. The committee also analyzed how the program compared to practices at comparable companies. As part of its review, the committee received advice from legal counsel and Steven Hall & Partners, which was engaged by the committee earlier in 2008 to review the Company s non-management director compensation program. As a result of this process, the committee adopted changes to the program, effective July 1, 2008. The changes to equity compensation are subject to stockholder approval as described under the caption Proposal No. 2 Approval of Amendments to the 2002 Stock Option and Incentive Plan. The changes approved in June include:

the annual retainer fee to all non-management directors increased from $60,000 to $70,000;

the annual equity grant to non-management directors of stock options to purchase 5,000 shares of Common Stock will be replaced with an annual grant of restricted share units equal to $125,000 divided by the closing price of the Common Stock on the date of grant;

a $1,500 meeting fee will be paid to each non-management director for each meeting of the Board or any committee attended;

the chairperson of each of the Board s standing committees will receive an additional annual retainer fee as follows: Audit Committee ($25,000), Compensation and Option Committee ($10,000) and Nominating and Governance Committee ($10,000); and

the Lead Director will receive an additional annual retainer fee of $20,000.

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The committee s decision to replace the annual grant of stock options with restricted share units was based on a significant decline in the use of stock options as director compensation at comparable companies. The change in meeting fees and additional annual retainer fees for committee chairs and the Lead Director were approved to differentiate compensation based on a director s responsibilities and time requirements.

Corporate Governance

The Board and senior management believe that one of their primary responsibilities is to promote a culture of ethical behavior throughout the Company by setting examples and by displaying a sustained commitment to instilling and maintaining deeply ingrained principles of honesty and decency. Consistent with these principles the Company has, among other things, adopted:

written charters for our Audit Committee, Compensation and Option Committee and Nominating and Governance Committee;

Corporate Governance Guidelines that describe the principles under which the Board operates;

a Code of Ethics for Senior Executive and Financial Officers and Directors and a Code of Business Conduct applicable to all employees; and

a Board Policy that requires directors to submit their resignation if they do not receive a majority of votes for their election.

The committee charters, corporate governance guidelines, ethics codes and majority voting policy are available on the Company s website (*www.harman.com*) in the Corporate Governance section of the Investor Information page. Copies of these documents are also available upon written request to the Company s Secretary. The Company will post information regarding any amendment to, or waiver from, its Code of Ethics for Senior Executive and Financial Officers and Directors on its website under the Corporate Governance section of the Investor Information page.

The Board periodically reviews its corporate governance policies and practices. Based on these reviews, the Board expects to adopt changes to policies and practices that are in the best interests of the Company and as appropriate to comply with any new requirements of the Commission or the New York Stock Exchange.

Director Independence

As part of the Company s Corporate Governance Guidelines, the Board has established a policy requiring a majority of the members of the Board to be independent. The Board has also adopted a policy establishing independence standards to assist the Board in determining the independence of the non-management directors. Those standards reflect, among other things, the requirements under the listing standards of the New York Stock Exchange. The independence standards for non-management directors are attached to this Proxy Statement as *Appendix C*.

The Board has determined that each of Mr. Carroll, Dr. Einsmann, Ms. Hufstedler, Ms. Korologos, Mr. Meyer, Mr. Reiss, Ms. Runtagh and Mr. Steel, is independent of the Company and its management within the meaning of the New York Stock Exchange listing standards and satisfies the Company s independence standards.

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Majority Voting Policy

Under our majority voting policy, in an uncontested election of directors, any nominee who receives a greater number of votes withheld than votes for his or her election will, promptly following the certification of the stockholder vote, tender his or her written resignation to the Board for consideration by the Nominating and Governance Committee. The Nominating and Governance Committee will consider the resignation and will make a recommendation to the Board concerning whether to accept or reject it.

In determining its recommendation to the Board, the Nominating and Governance Committee will consider all factors it considers relevant, which may include:

- the stated reason or reasons why stockholders who cast withhold votes for the director did so;
- the qualifications of the director (including, for example, whether the director serves on the Audit Committee of the Board as an audit committee financial expert and whether there are one or more other directors qualified, eligible and available to serve on the Audit Committee in such capacity); and
- whether the director s resignation from the Board would be in the Company s best interests and the best interests of the stockholders.

The Nominating and Governance Committee also will consider a range of possible alternatives concerning the director s tendered resignation as it deems appropriate, which may include:

- acceptance of the resignation;
- rejection of the resignation; or
- rejection of the resignation coupled with a commitment to seek to address and cure the underlying reasons reasonably believed by the Nominating and Governance Committee to have substantially resulted in the withheld votes.

Under our majority voting policy, the Board will take formal action on the recommendation no later than 90 days following the certification of the results of the stockholders meeting. In considering the recommendation, the Board will consider the information, factors and alternatives considered by the Nominating and Governance Committee and any additional information that the Board considers relevant. The Company will publicly disclose the Board s decision promptly after the decision is made in a press release. If applicable, the Board will also disclose the reason or reasons for rejecting the tendered resignation.

Communications with the Board

Stockholders and other interested parties may communicate with the Board, the non-management directors or specific directors by mail addressed to: Board of Directors, c/o Harman International Industries, Incorporated, 400 Atlantic Street, Suite 1500, Stamford, Connecticut 06901, Attn: General Counsel. The mailing envelope should also clearly indicate whether the communication is intended for the Board, the non-management directors or a specific director. The General Counsel or the Internal Auditor will review all these communications and will, within a reasonable period of time after receiving the communications, forward all communications to the appropriate director or directors, other than those communications that are merely solicitations for products or services or relate to matters that are of a type that are clearly improper or irrelevant to the functioning of the Board or the business and affairs of the Company.

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Board Meetings

The Board held fifteen meetings during fiscal 2008. Each director attended at least 75% of the total number of meetings of the Board and committees on which he or she served during the period he or she was a director in fiscal 2008.

The Board has established a policy that the non-management directors meet in executive session, without members of the Company s management present, at each regularly scheduled meeting of the full Board. In May 2008, the independent directors designated Ann McLaughlin Korologos as Lead Director. In this role, Ms. Korologos is responsible for chairing executive sessions and other meetings of the Board in the absence of the Chairman. The Board expects to designate the Lead Director on an annual basis.

Annual Meetings of Stockholders

As part of the Company s Corporate Governance Guidelines, the Board has adopted a policy that each director is expected to make reasonable efforts to attend stockholders meetings. All Board members who were directors at the time of the meeting attended the Company s 2007 Annual Meeting of Stockholders.

Audit Committee

The Audit Committee currently consists of Mr. Reiss (Chairman), Dr. Einsmann, Ms. Hufstedler, Ms. Korologos and Mr. Meyer. During fiscal 2008, the Audit Committee held seven meetings. The Board has determined that each member of the Audit Committee is independent under the New York Stock Exchange listing standards and each is financially literate and experienced in financial matters. The Board has also determined that Mr. Reiss is an audit committee financial expert within the meaning of applicable Commission regulations.

The Audit Committee assists the Board in its oversight of the Company s financial reporting, focusing on the integrity of the Company s financial statements, the Company s compliance with legal and regulatory requirements, the qualifications and independence of the Company s independent auditor and the performance of the Company s internal audit function and independent auditor. The Audit Committee s primary responsibilities include:

- acting as the direct contact with the Company s independent auditor, who is ultimately accountable to the Audit Committee and the Board;
- appointing the independent auditor, setting the terms of compensation and retention for the independent auditor and overseeing the work of the independent auditor;
- pre-approving all audit and non-audit services provided to the Company by the independent auditor, except for items exempt from pre-approval requirements under applicable law; and
- acting in respect of all other matters as to which Audit Committee action is required by law or New York Stock Exchange listing standards.

The Audit Committee s responsibilities and key practices are more fully described in its written charter. A report of the Audit Committee appears on page 57 of this Proxy Statement.

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Compensation and Option Committee

The Compensation and Option Committee currently consists of Mr. Meyer (Chairman), Mr. Carroll and Ms. Korologos. During fiscal 2008, the Compensation and Option Committee held seven meetings. Each member of the Compensation and Option Committee is independent under the New York Stock Exchange listing standards.

The Compensation and Option Committee assists the Board in overseeing executive compensation and administers the Company s executive bonus, option and incentive, deferred compensation and retirement plans. The Compensation and Option Committee s primary responsibilities include:

- evaluating the performance of and establishing compensation for the Company s Chief Executive Officer;
- establishing compensation levels for the Company s directors and executive officers and reviewing executive compensation matters generally;
- making recommendations to the Board with respect to approval and adoption of all cash and equity-based incentive plans;
- reviewing and approving the Compensation Discussion and Analysis to be included in the annual proxy statement; and
- approving awards of options, restricted shares, restricted share units and other equity rights to executive officers.

The Compensation and Option Committee s responsibilities and key practices are discussed more fully in its charter. A report of the Compensation and Option Committee appears on page 57 of this Proxy Statement.

Nominating and Governance Committee

The Nominating and Governance Committee currently consists of Ms. Korologos (Chairwoman), Mr. Meyer and Mr. Steel. During fiscal 2008, the Nominating and Governance Committee held seven meetings. Each member of the Nominating and Governance Committee is independent under the New York Stock Exchange listing standards.

The Nominating and Governance Committee assists the Board in carrying out its oversight responsibilities relating to the composition of the Board and certain corporate governance matters. The Nominating and Governance Committee s primary responsibilities include considering and making recommendations to the Board with respect to:

- nominees for election to the Board consistent with criteria approved by the Board or the Nominating and Governance Committee, including director candidates submitted by the Company s stockholders; and
- the Company s codes of conduct and corporate governance policies, and overseeing the evaluation of the performance of the Board and the Company s management against these policies.

The Nominating and Governance Committee s responsibilities and key practices are more fully described in its charter.

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Director Nominees

The Nominating and Governance Committee utilizes a variety of methods for identifying and evaluating director nominees. The Committee may consider candidates recommended by the Company s directors, members of management, professional search firms or stockholders. These candidates may be considered at any point during the year.

Qualifications

In evaluating nominees for election as a director, the Nominating and Governance Committee considers a number of factors, including the following:

- personal and professional qualities, characteristics, attributes, accomplishments and reputation in the business community and otherwise;
- reputation in a particular field or area of expertise;
- current knowledge and contacts in the markets in which the Company does business and in the Company s industry and other industries relevant to the Company s business;
- the ability and willingness to participate fully in board activities, including attendance at, and active participation in, meetings of the Board and its committees;
- the skills and personality of the nominee and how the Nominating and Governance Committee perceives the nominee will fit with the existing directors and other nominees in maintaining a Board that is collegial and responsive to the needs of the Company and its stockholders;
- the willingness to represent the best interests of all of the Company s stockholders and not just one particular constituency; and
- diversity of viewpoints, background and experience, compared to those of existing directors and other nominees.

The Nominating and Governance Committee will also consider other criteria for director candidates included in the Company s Corporate Governance Guidelines or as may be established from time to time by the Board.

Stockholder Recommendations

The Nominating and Governance Committee will evaluate director candidates recommended by a stockholder in the same manner as candidates otherwise identified by the Nominating and Governance Committee. The Company has never received any recommendations for director candidates from stockholders. In considering director candidates recommended by stockholders, the Nominating and Governance Committee will also take into account such factors as it considers relevant, including the length of time that the submitting stockholder has been a stockholder of the Company and the aggregate amount of the submitting stockholder s investment in the Company.

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Stockholders may recommend candidates at any time, but to be considered by the Nominating and Governance Committee for inclusion in the Company s proxy statement for the next annual meeting of stockholders, recommendations must be submitted in writing no later than 120 days before the first anniversary of the date the proxy statement was mailed to stockholders in connection with the previous year s annual meeting. A stockholder s notice must contain the following:

- the name of the director candidate, the name of the stockholder recommending the director candidate for consideration, and the written consent of the director candidate and stockholder to be publicly identified;

- a written statement by the director candidate agreeing to be named in the Company s proxy materials and serve as a member of the Board if nominated and elected;

- a written statement by the director candidate and the recommending stockholder agreeing to make available to the Nominating and Governance Committee all information reasonably requested in connection with the Nominating and Governance Committee s consideration of the director candidate; and

- the director candidate s name, age, business and residential address, principal occupation or employment, number of shares of Common Stock and other securities beneficially owned, a resume or similar document detailing personal and professional experiences and accomplishments, and all other information relating to the director candidate that would be required to be disclosed in a proxy statement or other filing made in connection with the solicitation of proxies for the election of directors, the Commission regulations and the New York Stock Exchange listing standards.

The stockholder s notice must be signed by the stockholder recommending the director candidate for consideration and sent to the following address: Harman International Industries, Incorporated, 400 Atlantic Street, Suite 1500, Stamford, Connecticut 06901, Attn: Corporate Secretary (Nominating and Governance Committee Communication / Director Candidate Recommendation).

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COMPENSATION DISCUSSION AND ANALYSIS

Overview

Decisions with respect to compensation for our executive officers are made by the Compensation and Option Committee of the Board. The following discussion and analysis are focused on the compensation for our executive officers during fiscal 2008, with additional detail provided for our named executive officers listed in the Summary Compensation Table on page 33 of this Proxy Statement.

Executive Compensation Program Objectives

The Company s executive compensation program is intended to attract, retain and motivate the key people necessary to lead the Company to achieve its strategic objective of increased stockholder value over the long term, reflecting the Compensation and Option Committee s belief that executive compensation should seek to align the interests of the Company s executives with those of our stockholders. In establishing compensation, the committee seeks to provide our executive officers with a competitive total compensation package.

Compensation and Option Committee

Our executive compensation program is designed and implemented under the direction of our Compensation and Option Committee, which is comprised solely of independent directors. The committee is authorized to retain advisors with respect to compensation matters. The committee periodically consults with outside advisors, and uses survey data provided by compensation consultants, in connection with its decisions with respect to executive compensation matters.

Executive Compensation Programs and Policies

The components of our executive compensation program provide for a combination of fixed and variable compensation. As described in more detail below, these components are:

- base salary;
- annual incentive compensation;
- long-term incentive compensation (exclusively for our Chief Executive Officer);
- long-term equity incentive compensation;
- severance and change-in-control arrangements; and
- employee benefits and other perquisites.

Base Salary

The base salary for each of our executive officers represents the fixed portion of their total compensation. Base salaries are determined on the basis of management responsibilities, level of experience and tenure with our Company, as well as internal and market comparisons, including surveys furnished from time to time by outside compensation consulting firms concerning practices of other companies, primarily companies engaged in electronics and

manufacturing industries, with revenues comparable to the Company. In setting base salaries for executive officers, the committee seeks to provide a reasonable level of fixed compensation that is competitive with base salaries for comparable positions at similar companies.

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At the request of the committee, Mr. Paliwal, our Chief Executive Officer, makes annual recommendations with respect to changes in base salary for our executive officers. Neither Mr. Paliwal nor any other executive officer participates in the committee s decisions regarding the base salaries of our executive officers.

Annual Incentive Compensation

The Company maintains annual incentive compensation programs for its executive officers and other key employees that provide for awards in the form of cash bonuses.

The Company s 2007 Key Executive Officers Bonus Plan (the 2007 Plan) is an annual incentive program for the Company s most senior executive officers. Awards payable under the 2007 Plan are intended to qualify as performance-based compensation for federal income tax purposes. Under the 2007 Plan, the Company s Chief Executive Officer and any other executive officer designated by the committee are eligible to receive awards. In fiscal 2008, the committee established a return on stockholder equity goal for the fiscal year and a maximum cash award payable to each plan participant if that goal was met. Annual cash awards payable to any plan participant under the 2007 Plan cannot exceed $3 million. The committee maintains discretion under the 2007 Plan to decrease the amount paid to any participant in the 2007 Plan.

You are being asked to approve the 2008 Key Executive Officers Bonus Plan (the 2008 Plan) which amends and restates the 2007 Plan. The 2008 Plan will, among other things, add performance measures that are consistent with those under the Management Incentive Compensation Plan (the MIC Plan) as described below. If the 2008 Plan is not approved, no awards under the 2008 Plan will be made and the 2007 Plan will continue in effect under its current terms.

The Company also maintains the MIC Plan for executive officers, as well as other key employees. Under the MIC Plan, executive officers are eligible to receive a cash bonus expressed as a percentage of base salary. The bonus award payable to any plan participant can range from zero to 100% of the plan participant s annual base salary. In order to receive an award under the MIC Plan, the Company or executive s business unit must achieve preestablished performance targets. Subject to the committee s discretion, the performance metrics are revenue growth, operating income, free cash flow and a global footprint index comprised of three components based on capital expenditures, full-time equivalent employees and material purchases. The targets for each metric are established by reference to the Company s internal business plan. Based on the achievement of these targets after completion of the fiscal year, a preliminary value is determined in a range from 50% to 150% of the target award. Plan participants are then evaluated based upon performance against individual objectives. Performance against these objectives results in a multiplier from zero to 120% of the preliminary value determined based on Company or business unit performance. The committee retains the authority to award discretionary cash bonuses to executives who participate in the MIC Plan under circumstances in which the performance targets are not met in a fiscal year.

Under Mr. Paliwal s letter agreement, his target annual incentive award is 150% of his annual base salary, with a maximum award of 200% of his base salary. For fiscal 2008, under his letter agreement Mr. Paliwal was entitled to a minimum award of 150% of his base salary. Beginning in fiscal 2009, the award can range from zero to 200% of his base salary, based on achievement of the same Company-wide performance measures established under the MIC Plan for the applicable fiscal year and Mr. Paliwal s individual performance.

The Compensation and Option Committee believes annual incentive compensation is a key element of the total compensation of each executive officer. The committee also believes that as an executive progresses to greater levels of responsibility within the Company, the annual incentive

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award opportunity should represent an increasing portion of the executive s potential annual compensation. Further, the committee believes that conditioning a significant portion of executive compensation on the Company s results and individual performance appropriately motivates executives to achieve the Company s financial and other objectives thereby enhancing stockholder value, and also assists the Company in attracting and retaining executive officers and other key employees.

Long-Term Incentive Compensation

Under his letter agreement, Mr. Paliwal has the ability to earn a special bonus in November 2012 based on a comparison of the Company s enterprise value over a five-year period. The amount of the special bonus is up to $75 million. No bonus will be paid if the Company s enterprise value at the end of the measurement period is less than 1.3 times the Company s enterprise value on November 9, 2007. The Compensation and Option Committee believed this award was a key element of the total compensation of Mr. Paliwal. The committee also believed the award aligned Mr. Paliwal s interests with those of our stockholders and created a long-term incentive for future performance. See Executive Compensation Grants of Plan-Based Awards on page 36 of this Proxy Statement for additional information regarding this award.

Long-Term Equity Incentive Compensation

The Company s equity incentive plans are administered by the Compensation and Option Committee and are designed to provide incentive compensation to executive officers and other key employees, in the form of stock options, restricted shares and restricted share units. The grants are designed to align the interests of management with those of our stockholders and are intended as a long-term incentive for future performance.

Historically, the committee considered equity awards for the Company s most senior executive officers annually and equity awards to other executive officers and key employees every 18 months. In fiscal 2008, all stock option awards under these equity incentive plans were granted at an exercise price equal to the market price of the Common Stock on the date of grant. The option awards generally vested over five years commencing one year from the date of grant and expire after ten years. In addition, the committee granted performance-based option awards to certain executive officers in February 2008. A substantial majority of the option grants that have been awarded to executive officers under the Company s equity incentive plans are non-qualified stock options, thereby providing the Company with the ability to realize tax benefits upon the exercise of these option awards. Awards of restricted shares and restricted share units granted under the plans are subject to forfeiture for a period of at least three years. The committee views equity awards under the equity incentive plans or outside these plans as an additional means to attract management and to encourage management retention.

When making equity-based incentive awards, the committee takes into consideration the dates on which the Company expects to make public announcements regarding earnings as well as other events or circumstances that have not been publicly announced that may be deemed material to the Company, our stockholders and other investors.

The committee intends to make appropriate executive compensation decisions so that our executives receive a total compensation package that is competitive and has a significant component that is at risk. The increase in the value of equity awards is directly linked to an increase in stockholder return, subject to continued employment by the executives with respect to unvested equity awards. The committee believes, as a general matter, that this positive result should not negatively impact future compensation decisions.

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Severance and Change-in-Control Arrangements

Under the terms of the Company s equity incentive plans and the related award agreements, unvested stock options, restricted shares and restricted share unit awards become fully vested upon a change in control of the Company.

The Company has severance agreements with Mr. Paliwal and Herbert Parker, the Company s Chief Financial Officer. These agreements provide for severance benefits in the event of a termination of employment under specified circumstances following a change in control of the Company. These agreements provide for additional gross up payments to these executives for excise taxes, if applicable. The excise tax gross up payments are intended to make these executives whole for any adverse tax consequences they may become subject to under the federal tax laws and to preserve the level of severance deemed to be appropriate under the terms of these agreements and the Company s other compensation programs. The Company believes that these provisions are a reasonable part of the compensation package for these executives and consistent with the practice of many other public companies.

The Company also has employment agreements with Mr. Paliwal, Mr. Parker, Helmut Schinagel and other executive officers. The provisions of the agreements with Mr. Paliwal and Mr. Parker provide, among other things, for severance compensation if the executive officer is terminated without cause or leaves for good reason, whether or not a change in control is involved. Mr. Schinagel is the Company s Chief Technology Officer and is based in Germany. Employment agreements with executives are customary in Germany and many other countries outside the United States. Among other things, his agreement provides for severance benefits upon termination of employment under certain circumstances.

These agreements are described in more detail under the captions Executive Compensation Grants of Plan-Based Awards Employment Agreements and Executive Compensation Severance and Change in Control Benefits Severance and Employment Agreements on pages 38 and 43 of this Proxy Statement. The committee believes that these benefits are necessary and appropriate in order to attract and retain qualified senior executives.

Employee Benefits

The Company provides certain executive officers with supplemental retirement, termination and death benefits under the Company s Supplemental Executive Retirement Plan. Each of Dr. Geiger and Mr. Schinagel is entitled to pension and related benefits under the terms of his employment agreement. As described above, these differences in retirement benefits derive from their employment in Germany, where substantially all of the Company s employees participate in a defined benefit pension program. The Company also provides its executive officers employed in the United States with the opportunity to participate in a deferred compensation plan. These plans are described under the captions Executive Compensation Pension Benefits Supplemental Executive Retirement Plan and Executive Compensation Nonqualified Deferred Compensation on pages 41 and 42 of this Proxy Statement.

The Company s executive officers are also eligible to participate in other company-sponsored benefit plans available to employees generally, including medical and life insurance. Employees, including executive officers, that are employed in the United States are eligible to participate in a company-sponsored 401(k) defined contribution plan.

The Compensation and Option Committee believes that these benefits are necessary and appropriate in order to attract and retain qualified executive officers insofar as these benefits are generally made available by similarly situated companies.

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Executive Perquisites

The Company provides executive officers with certain perquisites that have historically been provided and that the committee believes enhance our ability to attract and retain qualified executives. These perquisites include the use of Company owned or leased cars and reimbursement of car-related expenses. These cars use infotainment systems and other products designed and manufactured by the Company and permit these executives to experience and evaluate these products. In addition, on occasion, the spouses of our executives travel with them to attend business-related functions.

The Company has a fractional ownership interest in a corporate aircraft for use by management for business purposes. The committee believes that the use of corporate aircraft enables executives to devote maximum time and attention to the Company s business and enhances their productivity and availability while traveling. In fiscal 2008, consistent with past practice, the Board also authorized the use of this aircraft for non-business use by the Company s former Executive Chairman, prior to his retirement. Going forward, the Company will no longer permit non-business use of the aircraft.

As Executive Chairman, the Company provided Dr. Harman with an assistant, who also provided him with non-business related services. The Company estimated the portion of those services that were not directly related to Company business and reported that portion of this employee s salary and benefits as compensation to Dr. Harman. As a result of Dr. Harman s retirement, the Company ceased providing him with this benefit and did not transfer the benefit to Mr. Paliwal, the current Chairman and Chief Executive Officer.

The committee has determined it is appropriate to provide these perquisites in order to attract and retain our executive officers by offering compensation opportunities that are competitive with those offered by similarly situated public companies. In determining the total compensation payable to our executive officers, the committee considers perquisites in the context of the total compensation which our executive officers are eligible to receive. However, given the fact that perquisites represent a relatively small portion of the executive s total compensation, the availability of these perquisites does not materially influence the decisions made by the committee with respect to other elements of the total compensation to which the Company s executive officers are entitled or awarded. For a description of the perquisites received by our named executive officers during fiscal 2008, see the information under the caption Executive Compensation Summary Compensation Table All Other Compensation on page 35 of this Proxy Statement.

Stock Ownership Guidelines

The Compensation and Option Committee encourages ownership of Common Stock by our executive officers and other key employees, including through awards under our equity incentive compensation plans. The Company does not currently have a policy that requires our executives to own a specific number of shares, or dollar amount, of Common Stock, nor do we require our executives to retain any specific percentage of shares received upon exercise of options or upon vesting of any restricted shares. However, the committee is considering adopting a formal policy regarding the executive officers ownership of Common Stock that would take effect in fiscal 2009.

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Internal Revenue Code Section 162(m)

As applicable to the Company, Section 162(m) of the Internal Revenue Code provides that compensation in excess of $1 million paid to the chief executive officer or to any of the other three most highly compensated executive officers (not including the chief financial officer) of a public company is not deductible for federal income tax purposes unless the compensation qualifies as performance-based compensation under Section 162(m). Bonus awards under our 2007 Plan and 2008 Plan and option grants and certain other awards under our equity incentive plans, are intended to qualify as performance-based compensation under Section 162(m). The committee reviews on an annual basis the potential impact of this deduction limitation on executive compensation. The committee intends to continue to evaluate the Company s potential exposure to this deduction limitation.

Fiscal 2008 Compensation

Base Salary

In September 2007, the Compensation and Option Committee considered changes to the base salaries for our executive officers for fiscal 2008. The base salaries for Mr. Paliwal, Dr. Geiger and Mr. Schinagel were established by the terms of their respective employment agreements with the Company. Mr. Paliwal recommended to the committee that the base salaries of all other named executive officers remain unchanged. The committee accepted this recommendation.

In January 2008, upon Mr. Paliwal s recommendation, the committee reconsidered the base salary of Blake Augsburger, President of the Company s Professional division, in connection with his appointment to the additional position of U.S. Country Manager. The committee increased Mr. Augsburger s salary from $395,000 to $425,000. In addition, Mr. Parker s base salary was set in his employment agreement when he joined the Company.

Fiscal 2008 Annual Incentive Compensation Awards

For fiscal 2008, the committee designated Mr. Paliwal, Dr. Harman, Mr. Brown and Dr. Geiger as participants in the 2007 Plan, set the return on stockholder equity goal at 10% and set the maximum award for each participant at $2 million. At its meeting in September 2008, the committee determined that the return on stockholder equity goal had not been met. As a result, no awards were paid under the 2007 Plan.

In December 2007, the committee approved Mr. Paliwal s target annual incentive award provided for in his letter agreement and the target awards for the executive officers who are participants in the MIC Plan. The target awards were set at a percentage of base salary. At the same time, the committee approved the performance measures and goals for the awards. The awards were subject to the Company achieving levels of performance for the following metrics:

Revenue Growth. The committee selected this metric because it is useful for evaluating the Company s overall performance.

Operating Income. The committee selected this metric because it is a strong indicator of core business earnings.

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Free Cash Flow. The committee selected this metric because it provides a measure of the Company s ability to generate cash and reinvest in growth initiatives. Free cash flow is a non-GAAP measure. The committee calculated free cash flow as operating income plus depreciation and amortization plus change in working capital. The change in working capital includes net accounts receivable from third parties plus net inventories less trade accounts payable to third parties.

Global Footprint Index. The committee selected this metric because it is useful for evaluating the Company s success in optimizing its global footprint in manufacturing, engineering and sourcing, to drive profitable growth and to enhance stockholder value. The global footprint index is calculated as follows:

The following table sets forth the threshold, target and maximum levels of performance, the weights of each performance metric and actual performance for each of these metrics in fiscal 2008.

Performance Metric	Weight	Threshold	Target	Maximum	Actual Performance
Revenue Growth	20%	11.9%	16.9%	21.9%	15.8%
Operating Income	30%	$ 353,106	$ 441,382	$ 529,658	$ 198,570
Free Cash Flow	30%	$ 366,901	$ 458,626	$ 504,489	$ 241,184
Global Footprint Index	20%	86%	95%	104%	90%

The following table sets forth the target awards and actual payouts, each as a percentage of base salary, for Mr. Paliwal and the executive officers who were participants in the MIC Plan for fiscal 2008.

Name	Target Annual Incentive Award (% of base salary)	Actual Payout (% of base salary)
Dinesh Paliwal	150.0%	150.0%
Helmut Schinagel	70.0%	22.5%
Blake Augsburger	55.0%	71.8%
Erich Geiger	100.0%	32.2%
Kevin Brown(1)	60.0%	19.3%

(1) Mr. Brown resigned as Chief Financial Officer in May 2008. Under a letter agreement, he remained entitled to his target award under the MIC Plan, adjusted for the Company s attainment of the performance measures under the plan.

Sandra Robinson resigned from her executive officer position in November 2007. Under a letter agreement, Ms. Robinson s annual incentive award for fiscal 2008 was fixed at $115,000.

Mr. Parker joined the Company in June 2008 and was not eligible for an annual incentive award for fiscal 2008. Dr. Harman retired in December 2007. As a result, he was not eligible to receive an annual incentive award for fiscal 2008.

In addition, in fiscal 2008, Mr. Paliwal received a one-time cash bonus of $1,200,000 in connection with his joining the Company and an additional one-time bonus of $350,000 in connection with an amendment to his employment agreement in November 2007.

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Fiscal 2008 Equity Awards

During fiscal 2008, the Compensation and Option Committee approved equity awards to each of Mr. Paliwal and Mr. Parker in connection with his joining the Company. Mr. Paliwal received grants of stock options, restricted shares and restricted share units under his employment agreement. In addition, the committee approved additional grants to Mr. Paliwal of stock options in October 2007 and restricted share units in January 2008 in connection with an amendment to his employment agreement in November 2007. A portion of his initial awards and the January 2008 awards were intended to compensate Mr. Paliwal for awards he forfeited in connection with leaving his former employer to join the Company. Mr. Parker received grants of stock options and restricted shares.

In February 2008, the Compensation and Option Committee approved performance-based stock option grants to Dr. Geiger and Mr. Augsburger along with other key employees. The number of stock options that will vest is determined by performance measures over a three-year period. The committee decided to grant these performance-based awards to align payout with the achievement of long-term performance goals. To determine the number of stock options that will vest, the Company s total stockholder return (Company TSR) will be compared to the total stockholder return of a peer group (Peer TSR) over a three-year period beginning on the date of grant (the Performance Period). The stock options will be cancelled if the Company TSR over the Performance Period is negative, or if the Company TSR is below the 50th percentile of the Peer TSR. If the Company TSR ranks at the 50th percentile of the Peer TSR, 33% of the stock options will vest. If the Company TSR ranks at or above the 75th percentile of the Peer TSR, 100% of the stock options will vest. If the Company TSR ranks between the 50th percentile and the 75th percentile of the Peer TSR, the number of stock options that vest will be determined by straight-line interpolation between 33% and 100%. See Proposal No. 2 Approval of Amendments to the 2002 Stock Option and Incentive Plan Incentive Plan Benefits on page 12 of this Proxy Statement.

The awards made to our named executive officers are described in more detail under the captions Executive Compensation Grants of Plan-Based Awards and Executive Compensation Outstanding Equity Awards at Fiscal Year-End on pages 36 and 39 of this Proxy Statement.

For additional information regarding the compensation received by our named executive officers in fiscal 2008, see the information under the caption Executive Compensation Summary Compensation Table on page 33 of this Proxy Statement.

Recent Changes in Compensation

In July 2008, the committee approved changes to the Company s executive compensation policies and programs that will take effect in fiscal 2009. The changes were approved after the committee received advice from Executive Compensation Advisors (ECA), which was engaged by the committee earlier in 2008 to review the Company s executive compensation program. In advising the committee, ECA provided a comparative analysis of a peer group of companies for base salary, annual incentive compensation, long-term equity incentive compensation and Mr. Paliwal s long-term incentive compensation. The changes adopted by the committee include (a) annual incentive awards for executive officers will generally be based on the same performance measures, consistent with the measures currently provided for under the MIC Plan, (b) long-term equity grants that generally consisted of 100% stock options will now consist of 50% stock options, 25% time-vested restricted share units and 25% performance-based restricted share units, (c) stock

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options will vest ratably over three years rather than five years and (d) the time period between grants for all executive officers will be 12 months. In addition, the committee is also considering approving grants to Mr. Paliwal under the Incentive Plan to replace the long-term cash incentive award he is entitled to under the November 2007 amendment to his letter agreement. The committee is also considering adjusting the enterprise value performance levels at which the award would be payable, based on a $43 stock price. The committee believes replacing Mr. Paliwal s cash award with a performance-based equity award will further align Mr. Paliwal s interests with those of our stockholders, will be more tax efficient and will simplify accounting treatment of the award.

The committee approved these changes to ensure the Company s executive compensation program remains competitive and consistent with current practices at comparable companies. The committee also believes these changes will better align the interests of executive officers with the interests of Company stockholders.

In September 2008, the committee approved base salaries, target annual incentive awards and long-term equity grants for the Company s executive officers. ECA provided the committee with further benchmarking analysis, based on data from independent sources, of base salaries and similar types of awards for executive officers at the Company s peer group. The committee determined to maintain base salaries for all executive officers at fiscal 2008 levels. The committee also approved the following annual incentive and long-term equity awards, consistent with the changes described above:

	Target Annual Incentive Award	Long-Term Equity Incentive Awards		
Name	(as a % of Base Salary)	Stock Options	Time-Vested RSUs	Performance Based RSUs
Dinesh Paliwal	150%	72,748	78,757(1)	0
Herbert Parker	75%	34,483	7,759	7,759
Helmut Schinagel	70%	13,793	3,103	3,103
Blake Augsburger	75%	27,586	6,207	6,207
Klaus Blickle	75%	34,483	7,759	7,759
Richard Sorota	65%	20,690	4,655	4,655
John Stacey	65%	20,690	4,655	4,655
David Karch	75%	17,242	3,879	3,879
Todd Suko	65%	20,690	4,655	4,655

(1) Includes a grant of 28,757 restricted share units that is subject to stockholder approval of the Incentive Plan Amendments as described under the caption Proposal No. 2 Approval of Amendments to the 2002 Stock Option and Incentive Plan.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table discloses all compensation earned for fiscal 2008 by our Chairman and Chief Executive Officer, our former Executive Chairman, the individuals who served as our Chief Financial Officer during fiscal 2008, the three other most highly paid executive officers who were employed by the Company as of June 30, 2008, and a former executive officer. We refer to these individuals as our named executive officers.

sition	Year	Salary	Bonus(1)	Stock Awards(2)	Option Awards(2)	Non-Equity Incentive Plan Compensation(3)	Change in Pension and Nonqualified Deferred Compensation Earnings	All Other Compensation(4)	
al(5)	2008	$ 1,125,000	$ 1,200,000	$ 3,921,112	$ 2,772,258	$ 1,687,500	$ 1,527,846	$ 4,598,115	$
Chief ficer									
r(6)	2008	38,462	100,000	6,139	147,770	0		0	
e Chief cer									
agel(7)	2008	956,618	0	698,522	903,386	230,078	90,641	23,414	
e	2007	509,995	613,113	517,212	583,438	0	862,374	52,962	
Chief Officer									
rger	2008	403,269	0	0	539,218	305,200	41,160	37,702	
rofessional									
an(8)	2008	686,539	0	0	1,588,720	0	(12)	444,188	
tive	2007	1,050,000	0	0	2,436,681	1,050,000	534,263	281,591	
9)	2008	1,000,000	0	328,599	2,139,280	322,000	1,369,786	88,338	
tive Vice ief cer and logy	2007	1,000,000	250,000	327,701	3,141,255	1,000,000	5,096,760	147,065	
(10)	2008	500,000	0	0	647,863	96,600	199,612	926,519	
tive Vice Chief cer	2007	490,384	0	0	885,194	325,000	148,568	42,437	
son(11)	2008	273,885	115,000	0	122,704	0	42,397	1,017,858	
President erations									

(1) For Mr. Paliwal and Mr. Parker, represents a one-time cash bonus received in connection with joining the Company. For Ms. Robinson, represents an annual incentive award, the amount of which was fixed pursuant to a

letter agreement.

(2) Represents the expense recognized for financial statement reporting purposes for the year ended June 30, 2008, in accordance with FAS 123R, with respect to (a) restricted shares and restricted share units (under the column titled Stock Awards) awarded to our named executive officers, (b) stock options (under the column titled Option Awards) awarded to our named executive officers, and (c) Mr. Paliwal s long-term incentive award granted in November 2007 (under the column titled Stock Awards). Pursuant to the Commission s rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For a description of the assumptions used in determining the fair value of equity awards under

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FAS 123R, see Note 12, *Stock Option and Incentive Plan*, to our consolidated financial statements in our Form 10-K for the year ended June 30, 2008 and Note 11, *Stock Option and Incentive Plan*, to our consolidated financial statements in our Form 10-K for the year ended June 30, 2007.

(3) Represents awards granted under our MIC Plan. No awards were paid for fiscal 2008 under our 2007 Key Executive Officers Bonus Plan.

(4) Includes compensation as described under the caption All Other Compensation below.

(5) Mr. Paliwal was appointed Chairman effective July 1, 2008 in addition to his position as Chief Executive Officer. Mr. Paliwal also served as President and Vice Chairman of the Company from July 1, 2007 through June 30, 2008.

(6) Mr. Parker joined the Company in June 2008.

(7) Mr. Schinagel was appointed Executive Vice President and Chief Technology Officer in September 2008. Mr. Schinagel s compensation is paid in Euros and has been translated into U.S. dollars at the exchange rate in effect on June 30, 2008 in the case of bonus payments, and at the average exchange rate for the 12 months ended June 30, 2008, as applicable, in the case of salary and other amounts.

(8) Dr. Harman served as Executive Chairman of the Company through December 17, 2007 and retired as an employee of the Company in February 2008. Dr. Harman continued to serve as Non-Executive Chairman of the Board of Directors through June 30, 2008 and will continue to serve as a director through the Meeting. Dr. Harman s compensation for his service as a non-management director during fiscal 2008 is reported under All Other Compensation below.

(9) Dr. Geiger served as Executive Vice President, Chief Strategy Officer and Chief Technology Officer through August 31, 2008, the date he retired from the Company.

(10) Mr. Brown served as Chief Financial Officer of the Company through May 31, 2008. He continued as an employee until August 15, 2008.

(11) Ms. Robinson served as Vice President Financial Operations and Chief Accounting Officer of the Company through November 12, 2007. She continued as an employee until May 15, 2008.

(12) The pension value for Dr. Harman decreased by $210,951. See Pension Benefits on page 41 of this Proxy Statement.

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All Other Compensation

The following table provides information regarding each component of compensation included in the All Other Compensation column in the Summary Compensation Table.

Name	Company 401(k) Contributions(1)	Value of Insurance Premiums(2)	Non-Business Use of Aircraft(3)	Automobile Related Expenses(4)	Other (5)(6)(7)(8)	Total
Dinesh Paliwal	$ 6,900	$ 46,038	$ 0	$ 28,899	$ 4,516,278	$ 4,598,115
Herbert Parker	0	0	0	0	0	0
Helmut Schinagel	0	10,900	0	12,514	0	23,414
Blake Augsburger	13,818	900	0	22,984	0	37,702
Sidney Harman	11,596	2,500	235,572	26,177	168,343	444,188
Erich Geiger	13,650	5,568	0	60,038	9,082	88,338
Kevin Brown	13,505	1,485	0	18,757	892,772	926,519
Sandra Robinson	12,503	0	0	12,739	992,616	1,017,858

(1) Represents Company contributions to our Retirement Savings Plan.

(2) For Mr. Augsburger, Dr. Harman, Dr. Geiger and Mr. Brown, represents life insurance premiums paid by the Company for coverage in excess of $50,000. For Mr. Paliwal, represents life insurance premiums paid by the Company for coverage in excess of $50,000 and premiums paid for a life insurance policy, an accidental death and dismemberment insurance policy and a long-term disability insurance policy. For Mr. Schinagel, represents premiums paid by the Company for an accidental death and dismemberment insurance policy.

(3) Represents the incremental cost incurred by the Company for the named executive officers non-business use of aircraft leased by the Company. The incremental cost includes all variable costs incurred by the Company for non-business flights, but excludes fixed lease payments paid by the Company for use of the aircraft.

(4) Includes reimbursement of car payments or lease value of car provided to the named executive officer, as follows: Mr. Paliwal ($26,174), Mr. Schinagel ($12,514), Mr. Augsburger ($21,892), Dr. Harman ($25,463), Dr. Geiger ($60,038), Mr. Brown ($12,750) and Ms. Robinson ($12,739). Also includes reimbursement of gasoline, repair and maintenance costs and parking, none of which individually exceeded $25,000 or 10% of the total amount of perquisites and personal benefits provided to the named executive officer.

(5) For Mr. Paliwal, includes (a) a one-time cash payment of $350,000 received in connection with an amendment to his letter agreement in November 2007 to offset the awards he forfeited in connection with leaving his former employer to join the Company, and (b) $4,072,806 received upon settlement of restricted share units that were granted to him on July 1, 2007 and vested on March 1, 2008 to offset the awards he forfeited in connection with leaving his former employer to join the Company. Upon vesting, Mr. Paliwal was eligible to receive the greater of $3,974,000 plus interest or the fair market value of the restricted share units. On March 1, 2008, the fair market value for the restricted share units was less than $3,974,000.

(6) For Mr. Paliwal, Dr. Geiger and Dr. Harman, includes reimbursement of legal expenses as follows: Mr. Paliwal ($93,472), Dr. Geiger ($9,082) and Dr. Harman ($60,000). For Dr. Harman, also includes $38,206 for a personal

assistant and $70,137 as compensation for his service as Non-Executive Chairman of the Board from February 23, 2008 to June 30, 2008.

(7) For Mr. Brown, includes reimbursement of $11,309 in legal fees and $881,463 in severance and other benefits payable under his employment agreement in connection with his resignation from the Company.

(8) For Ms. Robinson, includes $48,152 in legal fees paid by the Company on behalf of Ms. Robinson and $944,464 in severance and other benefits payable under a letter agreement in connection with her resignation from the Company.

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Grants of Plan-Based Awards

The following table shows all plan-based awards granted to the named executive officers in fiscal 2008.

rant ate	Date of Board or Committee Action	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards(8)			All Other Stock Awards: Number of Shares of Stock or Units(1)	All Other Option Awards: Number of Securities Underlying Options(2)	
		Threshold	Target	Maximum	Threshold	Target	Maximum			
02/2007	05/08/2007								100,000	$
02/2007	05/08/2007							64,579		
02/2007	05/08/2007							32,291		
11/2007	09/11/2007			2,000,000(4)						
18/2007	10/18/2007								100,000	
29/2007	11/20/2007	0	50,000,000	75,000,000(6)						
17/2007	12/17/2007	1,687,500	1,687,500	2,250,000(5)						
02/2008	11/20/2007							34,608		
02/2008	04/30/2008								131,783	
02/2008	04/30/2008							5,500		
17/2007	12/17/2007	0	717,899	1,025,570(7)						
17/2007	12/17/2007	0	214,500	386,100(7)						
22/2008	02/22/2008				6,667	20,000(8)				
11/2007	09/11/2007			2,000,000(4)						
25/2008	(9)								8,000	
11/2007	09/11/2007			2,000,000(4)						
22/2008	02/22/2008				2,000	6,000(8)				
11/2007	09/11/2007			2,000,000(4)						
17/2007	12/17/2007	0	300,000	500,000(7)						

(1) For Mr. Paliwal, represents grants of 64,579 restricted shares and 66,899 restricted share units. Of the 64,579 restricted shares, 5,169 vested on March 1, 2008, 15,000 vest 20% annually beginning July 1, 2008, 5,418 vest on March 1, 2009, 23,992 vest on March 1, 2010 and 15,000 vest on July 1, 2010. Of the 34,608 restricted share units granted on July 2, 2008, 2,770 vested on March 1, 2008, 8,039 vest 20% annually beginning January 2,

2009, 2,903 vest on March 1, 2009, 12,857 vest on March 1, 2010 and 8,039 vest on July 1, 2010. The 32,291 restricted share units granted on July 2, 2007 vested on March 1, 2008. For Mr. Parker, represents restricted shares that vest on June 2, 2011.

(2) The stock options held by the named executive officers, other than Mr. Parker, vest annually at a rate of 20% commencing on the first anniversary of the date of grant. Of the 131,783 stock options held by Mr. Parker, 50,000 vest annually at a rate of 20% commencing on the first anniversary of the date of grant, 49,066 vest on February 2, 2009 and 32,717 vest on May 13, 2010.

(3) Represents the grant date value in accordance with FAS 123R of the restricted shares, restricted share units and stock options granted to our named executive officers in fiscal 2008.

(4) Represents awards payable under the 2007 Key Executive Officers Bonus Plan. The maximum amounts represent the amount payable to the named executive officer if a predetermined return on stockholder equity goal established by the Compensation and Option Committee was met for fiscal 2008. The return on stockholder equity goal for fiscal 2008 was 10%, which the Company did not achieve. As a result, no awards were paid for fiscal 2008 under the plan.

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(5) Represents award payable to Mr. Paliwal under his letter agreement. The target award was set at 150% of his annual base salary and subject to the same performance goals applicable to awards under the MIC Plan for fiscal 2008. However, Mr. Paliwal s letter agreement entitled him to a minimum award for fiscal 2008 of 150% of his base salary. See Compensation Discussion and Analysis Fiscal 2008 Compensation Fiscal 2008 Annual Incentive Compensation Awards on page 29 of this Proxy Statement.

(6) Represents a bonus payable to Mr. Paliwal pursuant to an amendment to his letter agreement with the Company. The amount of the special bonus will be determined based on a fixed formula that varies based on the enterprise value of the Company on November 9, 2012 (the Measurement Date). Under the amendment, enterprise value is defined generally as the sum of the market capitalization of the Company s outstanding equity securities plus net debt. The enterprise value on the Measurement Date (the Final EV) must exceed 1.3 times the enterprise value of the Company as of November 9, 2007 (the Base EV) for any payment to be due. If the Final EV is two times Base EV, Mr. Paliwal will receive a payment of $50 million. If the Final EV is three times or more Base EV, Mr. Paliwal will receive a payment of $75 million. In the event that the Final EV is between 1.3 and 2 or between 2 and 3 times Base EV, a straight-line interpolation will be used to determine the amount payable to Mr. Paliwal. No special bonus is payable in the event that the Final EV is less than 1.3 times Base EV. The maximum special bonus payable under the arrangement is $75 million. The enterprise value is subject to adjustment for a spin-off and an extraordinary dividend. The special bonus amount will be offset by the value of the 100,000 stock options granted to Mr. Paliwal on July 1, 2007 and the 100,000 stock options granted to Mr. Paliwal on October 18, 2007.

(7) Represents awards payable under our MIC Plan. For additional information regarding these awards, see Compensation Discussion and Analysis Fiscal 2008 Compensation Fiscal 2008 Annual Incentive Compensation Awards.

(8) Represents awards of performance-based stock options that will vest three years from the date of grant. To determine the number of stock options that will vest, the Company s total stockholder return (Company TSR) will be compared to the total stockholder return of a peer group (Peer TSR) over a three-year period beginning on the date of grant (the Performance Period). The stock options will be cancelled if the Company TSR over the Performance Period is negative, or if the Company TSR is below the 50th percentile of the Peer TSR. If the Company TSR ranks at the 50th percentile of the Peer TSR, 33% of the stock options will vest. If the Company TSR ranks at or above the 75th percentile of the Peer TSR, 100% of the stock options will vest. If the Company TSR ranks between the 50th percentile and the 75th percentile of the Peer TSR, the number of stock options that vest will be determined by straight-line interpolation between 33% and 100%.

(9) In February 2008, Dr. Harman became a non-management director. As a result, he automatically received stock options under our 2002 Stock Option and Incentive Plan which was previously approved by the Board and our stockholders.

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Employment Agreements

Mr. Paliwal serves as Chairman and Chief Executive Officer pursuant to a letter agreement with the Company. The letter agreement provides for an annual base salary of no less than $1,125,000 and a maximum annual incentive award of 200% of his base salary. In addition, Mr. Paliwal is eligible to receive an annual equity grant equal to two times his annual incentive award for the immediately preceding fiscal year. Mr. Paliwal also received a one-time cash bonus of $1,200,000 in connection with joining the Company and an additional one-time cash payment of $350,000 in connection with an amendment to his letter agreement in November 2007 to offset the awards he forfeited in connection with leaving his former employer to join the Company. In connection with this amendment, Mr. Paliwal also received a special bonus, the terms of which are described above in the Grants of Plan-Based Awards table. Mr. Paliwal is also permitted to participate in the Company s employee benefit plans and programs. For a description of severance compensation payable to Mr. Paliwal under this agreement and his severance agreement, see Severance and Change in Control Benefits Severance and Employment Agreements on page 43 of this Proxy Statement.

Mr. Parker serves as Executive Vice President and Chief Financial Officer pursuant to a letter agreement with the Company. Under the terms of the letter agreement, Mr. Parker is entitled to an annual base salary of no less than $500,000 and will be eligible to earn an annual incentive award up to 90% of his annual base salary. Mr. Parker also is entitled to participate in the Company s employee benefit plans and programs. For a description of severance compensation payable to Mr. Parker under this agreement and his severance agreement, see Severance and Change in Control Benefits Severance and Employment Agreements on page 43 of this Proxy Statement.

Mr. Schinagel serves as Executive Vice President and Chief Technology Officer pursuant to an employment agreement with the Company. The agreement provides for an annual base salary of 650,000. Additionally, Mr. Schinagel is eligible to earn a target bonus equal to 70% of his base salary and a maximum bonus of 105% of his base salary. Mr. Schinagel is also entitled to a retirement benefit of annual pension payments equal to 12.5% of his average base salary while working for us, subject to a 2.5% annual increase for each year of service Mr. Schinagel has been with us beyond five years, up to a maximum of 30% of his base salary. The pension benefit Mr. Schinagel is entitled to under his employment agreement will be reduced by any pension benefit he is entitled to from previous employers. The employment agreement may be terminated by us or Mr. Schinagel for any reason upon six months notice. However, any termination without cause will not be effective until September 30, 2011, and Mr. Schinagel would remain entitled to his base salary and benefits until such time.

Prior to his retirement on August 31, 2008, Dr. Geiger served as Executive Vice President, Chief Strategy Officer and Chief Technology Officer pursuant to an employment agreement with the Company. The agreement provided for an annual base salary of $1,000,000 and a target bonus of 100% of his salary based on certain performance parameters established annually by us. The agreement also provided that Dr. Geiger was eligible to participate in our Deferred Compensation Plan and that we would maintain Dr. Geiger s life insurance policy and provide disability and death benefits to him. Dr. Geiger remains entitled to an annual pension benefit equal to the greater of $988,755 or 50% of the average of his highest five consecutive years of eligible salary and incentive compensation plan bonus (after taking into consideration pension benefits he has earned under a prior employment agreement with a subsidiary of the Company). The employment agreement terminated on August 31, 2008, upon Dr. Geiger s retirement. On January 15, 2007, we entered into a consulting agreement with Dr. Geiger which became effective upon his retirement and terminates in August 2011. Under this agreement, Dr. Geiger will be entitled to $40,000 for each month he provides consulting services to us.

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Outstanding Equity Awards at Fiscal Year-End

The following table provides information regarding stock options, restricted shares and restricted share units held by the named executive officers that were outstanding at June 30, 2008.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Option Exercisable	Number of Securities Underlying Unexercised Option Unexercisable(1)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (2)	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested(3)
Dinesh Paliwal	0	100,000		$ 116.65	07/02/2017		
	0	100,000		87.58	10/18/2017		
						59,410(4)	$ 2,458,980
						31,838(5)	1,317,775
Herbert Parker	0	131,783		43.65	06/02/2018		
						5,500(6)	227,645
Helmut Schinagel	10,000	40,000		83.67	10/02/2016		
	5,000	20,000		120.83	05/01/2017		
						25,000(7)	1,034,750
Blake Augsburger	2,400	0		18.89	09/24/2012		
	4,800	1,200		75.22	03/24/2014		
	2,400	3,600		82.00	08/16/2015		
	4,000	6,000		85.36	06/01/2016		
	5,000	20,000		120.83	05/01/2017		
			20,000	42.32	02/22/2018		
Sidney Harman	0	8,000		43.48	02/25/2018		
Erich Geiger	39,000	14,000		50.03	09/23/2013		
	60,000	40,000		98.62	09/03/2014		
	40,000	60,000		82.00	08/16/2015		
	20,000	80,000		78.00	08/10/2016		
			6,000	42.32	02/22/2008		

					12,000(8)	496,680
Kevin Brown	6,000	2,000	41.40	08/01/2013		
	4,000	1,000	75.22	03/24/2014		
	10,000	15,000	82.00	08/16/2015		
	10,000	40,000	78.00	08/10/2016		
Sandra Robinson	2,400	0	75.22	03/24/2014		
	1,600	0	82.00	08/16/2015		
	1,200	0	120.83	05/01/2017		

(1) The non-performance-based stock options held by the named executive officers, other than Mr. Parker, vest annually at a rate of 20% commencing on the first anniversary of the date of grant. Of the 131,783 stock options held by Mr. Parker, 50,000 vest annually at a rate of 20% commencing on the first anniversary of the date of grant, 49,066 vest on February 2, 2009 and 32,717 vest on May 13, 2010.

(2) Represents performance-based stock options that vest on February 22, 2011. The number of stock options that will vest is subject to adjustment based on the Company s achievement of pre-established performance goals. See Grants of Plan-Based Awards on page 36 of this Proxy Statement.

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(3) Based upon a market value per share of $41.39, the closing market price of the Common Stock on June 30, 2008.

(4) Of the 59,410 restricted shares held by Mr. Paliwal, 15,000 vest 20% annually beginning July 1, 2008, 5,418 vest on March 1, 2009, 23,992 vest on March 1, 2010 and 15,000 vest on July 1, 2010.

(5) Of the 31,838 restricted share units held by Mr. Paliwal, 8,039 vest 20% annually beginning January 2, 2009, 2,903 vest on March 1, 2009, 12,857 vest on March 1, 2010 and 8,039 vest on July 1, 2010.

(6) The restricted shares held by Mr. Parker vest on June 2, 2011.

(7) The restricted share units held by Mr. Schinagel vest on October 2, 2009.

(8) The restricted shares held by Dr. Geiger vested on August 16, 2008.

Option Exercises and Stock Vested

The following table provides information regarding the acquisition of Common Stock by the named executive officers upon the exercise of stock options and vesting of restricted shares and restricted share units during fiscal 2008.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized Upon Exercise(1)	Number of Shares Acquired on Vesting	Value Realized on Vesting(2)
Dinesh Paliwal	0	$ 0	40,230	$ 4,399,893
Herbert Parker	0	0	0	0
Helmut Schinagel	0	0	0	0
Blake Augsburger	0	0	0	0
Sidney Harman	700,000	18,637,500	0	0
Erich Geiger	42,000	893,000	0	0
Kevin Brown	0	0	0	0
Sandra Robinson	28,000	659,456	0	0

(1) Based on the difference between the market price of the Common Stock on the date of exercise and the relevant exercise price.

(2) Includes 32,291 restricted share units that vested on March 1, 2008, for which Mr. Paliwal received $4,072,806 (including interest) pursuant to his letter agreement to offset the awards he forfeited in connection with leaving his former employer to join the Company. For an additional 2,770 restricted share units and 5,169 restricted shares that vested on March 1, 2008, the amount realized on vesting is based on a value per share of $41.20, the closing price of the Common Stock on February 29, 2008.

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Pension Benefits

The following table provides information for the named executive officers regarding the present value of benefits as of June 30, 2008 and payments during fiscal 2008 under our Supplemental Executive Retirement Plan (Supplemental Plan), and employment agreements with Dr. Geiger and Mr. Schinagel.

Name	Plan Name	Number of Years Credited Service(1)	Present Value of Accumulated Benefit(2)(3)	Payments During Last Fiscal Year
Dinesh Paliwal	Supplemental Plan	22	$ 1,527,846	$ 0
Helmut Schinagel	Employment Agreement	1	953,015	0
Blake Augsburger	Supplemental Plan	6	150,459	0
Sidney Harman	Supplemental Plan	43	9,324,558	0
Erich Geiger	Employment Agreement	15	12,069,255	162,937
Kevin Brown	Supplemental Plan	4	394,117	0
Sandra Robinson	Supplemental Plan	23	1,673,528	0

(1) As of June 30, 2008, Mr. Paliwal had one year of service with the Company. Under his letter agreement, Mr. Paliwal was credited with 21 years of service under the Supplemental Plan upon joining the Company, which was equal to his years of service at his previous employer. As a result of the additional credited years of service, the present value of Mr. Paliwal s pension benefits at June 30, 2008 was increased by $1,292,541.

(2) See Note 16, *Retirement Benefits*, to our consolidated financial statements in our Form 10-K for the year ended June 30, 2008, for information regarding the assumptions made in determining these values.

(3) For each of Mr. Paliwal, Dr. Geiger and Mr. Schinagel, the amounts payable will be reduced by benefits payable under pension or other retirement plans from previous employers.

Supplemental Executive Retirement Plan

The Supplemental Plan provides supplemental retirement, termination and death benefits to certain executive officers and key employees designated by the Board. Benefits under the Supplemental Plan payable upon termination or death are described under the caption Severance and Change in Control Benefits Supplemental Executive Retirement Plan on page 46 of this Proxy Statement. The Compensation and Option Committee administers the Supplemental Plan. Each of the named executive officers, other than Mr. Parker, Dr. Geiger and Mr. Schinagel, has been designated as a participant. All Supplemental Plan benefits are subject to deductions for Social Security and federal, state and local taxes.

Retirement benefits are based on the average of the participant s highest cash compensation (base salary and bonus) during any five consecutive years of employment by the Company (Average Cash Compensation). Participants retiring at age 65 or older receive an annual retirement benefit equal to either (a) 31/3% of Average Cash Compensation per year of service up to a maximum of 50%, or (b) 2% of Average Cash Compensation per year of service up to a maximum of 30%, as designated by the Company. Each of Mr. Paliwal, Dr. Harman, Mr. Brown and Ms. Robinson has been designated as a participant entitled to receive an annual retirement benefit of up to 50% of

Average Cash Compensation, and Mr. Augsburger has been designated as a participant entitled to receive an annual retirement benefit of up to 30% of Average Cash Compensation. Unless another form of payment is approved by the administrative committee for the Supplemental Plan,

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benefits are payable monthly in the form of a life annuity. If the participant dies after benefits have commenced but prior to receiving 10 years of benefits, they are paid to the participant s beneficiary for the remainder of that period.

Other Retirement Benefits

Dr. Geiger is entitled to receive an annual pension benefit under his former employment agreement with the Company equal to the greater of $988,755 or 50% of the average of his highest five consecutive years of eligible salary and incentive compensation plan bonus (after taking into consideration pension benefits he has earned under a prior employment agreement with a subsidiary of the Company).

Mr. Schinagel is entitled to receive an annual pension benefit pursuant to his employment agreement with the Company equal to 12.5% of his average base salary during his time of service with the Company. This benefit will be increased by 2.5% for each year Mr. Schinagel is employed by the Company beyond five years, up to a maximum of 30%. Mr. Schinagel is entitled to this pension benefit once he reaches age 60 and is no longer employed by the Company; provided, however, that if Mr. Schinagel is terminated for good cause as determined by the German Civil Code on or before October 2, 2011, he will not be entitled to any pension benefit from the Company. Mr. Schinagel s annual pension benefit will be reduced by any other pension benefits he is entitled to from previous employers.

Nonqualified Deferred Compensation

Our Deferred Compensation Plan provides supplemental retirement benefits for executive officers designated by the Compensation and Option Committee. Prior to the beginning of each fiscal year, each plan participant may elect to defer up to 100% of his or her annual base salary and bonus on a pre-tax basis to a deferral account. These amounts are always fully vested and subject to a 10% penalty on any unscheduled withdrawals. We may decide to make contributions on a pre-tax basis to a plan participant s account, subject to a vesting schedule. In the event of a change in control of the Company, any unvested amounts vest immediately and the Company indemnifies the plan participant for any expense incurred in enforcing his or her rights under the Deferred Compensation Plan.

Plan participants specify that portion of their accounts to be deemed invested in designated benchmark funds. This may be changed once in any calendar month by the plan participant. The Company credits earnings to the accounts based on the rate of return of the designated funds. For fiscal 2008, the designated funds produced returns ranging from (26.54)% to 7.36%. Upon retirement or termination of employment other than due to death, plan participants may receive their account balances in the form of a lump-sum payment or in annual installments. In the event of death prior to the commencement of benefits or during payment of installments, the balances in a plan participant s vested accounts as of the date of death are payable to the plan participant s beneficiaries.

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The following table provides information for the named executive officers regarding contributions and earnings during fiscal 2008 and balances as of June 30, 2008, for our Deferred Compensation Plan.

Name	Executive Contributions in Last FY(1)	Aggregate Earnings in Last FY(2)	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE(3)
Dinesh Paliwal	0	0	0	0
Helmut Schinagel	0	0	0	0
Blake Augsburger	0	0	0	0
Sidney Harman	0	0	0	0
Erich Geiger(4)	0	(708,121)	0	4,565,939
Kevin Brown(5)	25,000	(16,739)	0	125,677
Sandra Robinson(6)	0	(7,132)	0	180,727

(1) Mr. Brown s contribution to the Deferred Compensation Plan was reported as compensation for fiscal 2008 under the caption Summary Compensation Table on page 33 of this Proxy Statement.

(2) None of the aggregate earnings in fiscal 2008 were reported as compensation for the named executive officers for fiscal 2008 under the caption Summary Compensation Table on page 33 of this Proxy Statement.

(3) Includes amount reported as compensation to the named executive officers in the Company s proxy statements for prior years as follows: Mr. Brown ($88,293) and Dr. Geiger ($3,502,762).

(4) Dr. Geiger retired on August 31, 2008. He received his entire account balance in a lump sum payment in September 2008.

(5) Mr. Brown resigned as an employee of the Company in August 2008. He will receive a lump sum payment of $86,992 in October 2008 and three additional payments of $38,734 payable annually beginning in October 2008.

(6) Ms. Robinson resigned as an employee of the Company in May 2008. She will receive a lump sum payment of $164,530 on November 15, 2008. The remaining balance will be paid in five equal annual installments beginning on November 15, 2008.

Severance and Change in Control Benefits

We provide benefits to each of the named executive officers in the event his or her employment is terminated. We provide these benefits through our Supplemental Plan and 2007 Key Executive Officers Bonus Plan and employment and severance agreements we have entered into with some of the named executive officers.

Severance and Employment Agreements

We have entered into severance agreements with Mr. Paliwal and Mr. Parker. However, Mr. Parker s severance agreement was not in effect on June 30, 2008. As a result, the terms of his agreement are not described below or reflected in the summary of benefits payable to Mr. Parker upon termination or a change in control of the Company. Mr. Paliwal s severance provides that if, within six months prior to or two years following a change in control of the

Company, Mr. Paliwal is terminated without cause or under certain circumstances terminates his own employment, he is entitled to receive a severance payment. The severance payment is equal to three times the sum of

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Mr. Paliwal s highest annual base salary during any period prior to his termination plus his highest incentive pay during the three fiscal years preceding the change in control.

Mr. Paliwal is deemed to have been terminated without cause if he is terminated by us for any reason other than:

- conviction of a felony; or
- willful gross neglect or willful gross misconduct with respect to employment duties which results in material economic harm to the Company.

Mr. Paliwal is entitled to severance compensation if he terminates his employment within six months prior to or two years following a change in control under the following circumstances:

- failure to maintain his office (or one substantially equivalent) with the Company;
- significant adverse change in authority, power, function, responsibilities or duties;
- reduction in base salary and bonus;
- termination or reduction in employee benefits;
- a subsequent change in control of the Company in which the successor company does not assume all of the Company s duties and obligations under the severance agreement; or
- relocation of his principal place of work of more than 50 miles or that requires him to travel away from his office 20% or more than was required in any of the three years immediately prior to the change in control.

In addition, Mr. Paliwal is entitled to severance compensation if he terminates his employment within six months prior to the change in control for good reason, which includes the following circumstances:

- reduction in base salary and bonus;
- failure by the Company s stockholders to elect or reelect him as a member of the Board;
- diminution in any titles or a material diminution in duties or responsibilities; or
- change in reporting relationship.

A change in control is defined as:

- the acquisition by any person, entity or group of 25% or more of our voting stock, other than the Company or its subsidiaries or a company benefit plan, other than in a transaction that is not deemed a change in control as defined in the next bullet;
- a reorganization, merger, consolidation, sale or other disposition of all or substantially all of our assets, or any other transaction having a similar effect unless:
  - the holders of our voting stock immediately prior to the transaction beneficially own more than 50% of the combined voting power of the surviving entity;

no person, entity or group beneficially owns 25% or more of the combined voting power of the surviving entity; and

a majority of the directors of the surviving entity were directors of the Company prior to the transaction;

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when a majority of our directors (a) have not been approved by two-thirds of our then directors or (b) were elected or appointed as a result of an actual or threatened election contest; or

approval by our stockholders of a complete liquidation or dissolution of the company.

The severance agreement also provides that we will pay Mr. Paliwal an additional amount for excise taxes, subject to a limitation based on the overall cost of the severance agreement, including any additional payment for excise taxes. Additionally, the agreement provides that Mr. Paliwal shall not engage in any competitive activity, as defined in the agreement, without our written consent, during the term of the agreement and for a period of one year after his employment is terminated.

We have also entered into letter agreements with Mr. Paliwal and Mr. Parker. The provisions of these agreements provide for severance compensation if the executive officer is terminated without cause, whether or not a change in control has occurred. Mr. Paliwal is entitled to receive a severance payment equal to (1) two times the sum of his annual base salary plus his target annual bonus at the time of his termination, (2) a pro rata annual bonus based on actual performance and the portion of the fiscal year he was employed, (3) any unpaid bonus for the fiscal year preceding the year of termination and (4) accelerated vesting of a pro rata number of any unvested restricted shares of the restricted stock award, inducement stock award and stock option award he received upon joining the Company. If Mr. Parker is terminated within his first year of employment, he is entitled to receive continuation of his salary for one year, COBRA benefits and, subject to the approval of the Compensation and Option Committee, accelerated vesting of the stock option and restricted share awards he received upon joining the Company.

In addition, Mr. Paliwal s letter agreement entitles him to a pro rata portion of his special bonus under certain circumstances. The amount of the special bonus will be determined based on a fixed formula that varies based on the enterprise value of the Company on November 9, 2012 (the Measurement Date). If Mr. Paliwal s employment is terminated due to death or disability prior to the Measurement Date, he is entitled to a pro rata portion of the award payable at the end of the measurement period based on the elapsed portion of the five-year measurement period. If his employment is terminated by the Company (other than for cause, death or disability) or by him for good reason prior to the Measurement Date, Mr. Paliwal will receive a pro rata portion of the special bonus as follows: 50% of the award payable at the end of the measurement period if his employment is terminated prior to November 9, 2008; 75% of the award payable at the end of the measurement period if his employment is terminated after November 9, 2008 and on or prior to November 9, 2009; and 100% of the award payable at the end of the measurement period if his employment is terminated after November 9, 2009. In the event of a change in control of the Company on or prior to November 9, 2009, Mr. Paliwal will receive a pro rata portion of $50 million based on the elapsed portion of the five-year measurement period. If the change in control occurs after November 9, 2009, the award payable to Mr. Paliwal will be determined by comparing the Company s enterprise value on November 9, 2007 to the Company s enterprise value on the date the change in control is consummated. Under this circumstance, the performance thresholds and award amounts will be ratably reduced to reflect the elapsed portion of the five-year measurement period. The special bonus may exceed these reduced amounts based on a straight-line interpolation but in no event will the special bonus exceed $75 million.

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Supplemental Executive Retirement Plan

Mr. Paliwal and Mr. Augsburger are eligible for benefits under the Supplemental Plan in the event of a change in control of the Company or termination of employment under certain circumstances. Benefits payable under the Supplemental Plan are based on the average of the participant s highest cash compensation (base salary and bonus) during any five consecutive years of employment by the Company (Average Cash Compensation).

A participant whose employment is terminated prior to age 65 with at least 15 years of service, and who is not otherwise entitled to retirement benefits under the Supplemental Plan, is entitled to an annual termination benefit equal to either (a) 30% of Average Cash Compensation, increased by 4% for each year of service over 15 years, up to a maximum of 50%, or (b) 15% of Average Cash Compensation, increased by 3% for each year of service over 15 years, up to a maximum of 30%, as designated by the Company. The termination benefit commences upon the later of termination of the participant s employment, other than due to death, or the participant reaching age 55. Mr. Paliwal has been designated as a participant entitled to receive an annual termination benefit of up to 50% of Average Cash Compensation and Mr. Augsburger has been designated as a participant entitled to receive an annual termination benefit of up to 30%.

Additionally, if a participant s employment is terminated for any reason other than death within three years after a change in control of the Company, the participant vests with the maximum designated retirement benefit regardless of age or years of service and the Company indemnifies the participant for any expense incurred in enforcing the participant s rights in the retirement benefit under the Supplemental Plan. Under the Supplemental Plan, a change in control is defined in the same manner as under Mr. Paliwal s severance agreement, as described above.

A pre-retirement death benefit equal to two or three times the highest annual cash compensation achieved by a participant during his or her employment with the Company is paid to the beneficiaries of a participant who dies prior to the commencement of benefits under the Supplemental Plan. Mr. Paliwal has been designated as a participant entitled to receive a death benefit equal to three times his highest annual cash compensation, and Mr. Augsburger has been designated as a participant entitled to receive a death benefit equal to two times his highest annual cash compensation. The benefit is paid to the participant s designated beneficiary in a single lump sum or, at the request of the beneficiary and with the consent of the administrative committee, the benefit may be paid in another form providing the actuarial equivalent of the lump-sum payment.

2007 Key Executive Officers Bonus Plan

In the event of a change in control of the Company, each participant in the 2007 Key Executive Officers Bonus Plan is entitled to the award amount for that fiscal year without proration or any other deduction, provided that he or she is employed by us at the time of the change in control or, if the plan participant is no longer employed by us, the participant s employment is terminated after commencement of discussions that resulted in a change in control of the Company but within 180 days prior to the change in control. Under this plan, a change in control is defined in the same manner as under Mr. Paliwal s severance agreement, as described above.

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Summary of Benefits

The following tables quantify potential compensation that would become payable to each of Mr. Paliwal, Mr. Parker, Dr. Geiger, Mr. Schinagel and Mr. Augsburger under the agreements and Company plans and policies discussed above if his employment had terminated on June 30, 2008, given his base salary as of that date, and, if applicable, the closing price of the Common Stock on June 30, 2008.

Due to the factors that may affect the amount of any benefits provided upon the events described below, any actual amounts paid or payable may be different than those shown in these tables. Factors that could affect these amounts include the date the termination event occurs, the base salary of an executive officer on the date of termination of employment and the price of the Common Stock when the termination event occurs.

For Dr. Harman, Mr. Brown and Ms. Robinson, a discussion follows these tables regarding the compensation actually received upon their retirement or resignation.

Dinesh Paliwal

	Cash Severance Payments	Tax Gross Up Payments	Acceleration of Equity Awards	Pension Benefits(1)	Total
Voluntary Termination	$ 0	$ 0	$ 0	$ 1,527,846	$ 1,527,846
Termination With Cause	0	0	0	1,527,846	1,527,846
Termination Without Cause/Good Reason	7,312,500(2)(3)	0	1,690,161(6)	3,059,526	12,062,187
Death	1,687,500(2)(3)	0	0	8,437,500	10,125,000
Disability	1,687,500(2)	0	0	3,059,526	4,747,026
Retirement	0	0	0	1,527,846	1,527,846
Change in Control	21,359,165(4)(5)	4,611,245	3,776,755(7)	1,527,846	31,275,011

(1) Includes death benefit and present value of accumulated retirement benefits, as applicable, that Mr. Paliwal would be entitled to under our Supplemental Plan.

(2) Represents the amount payable under Mr. Paliwal s letter agreement.

(3) Based on the Company s enterprise value on June 30, 2008, we have assumed that no award will be payable under Mr. Paliwal s special bonus at the end of the five-year performance period.

(4) Represents amount payable under Mr. Paliwal s severance agreement.

(5) Includes award for fiscal 2008 that Mr. Paliwal is entitled to under the 2007 Key Executive Officers Bonus Plan upon a change in control of the Company.

(6) Under the terms of Mr. Paliwal s letter agreement, he is entitled to accelerated vesting of 20,000 stock options and 40,835 restricted shares. The amount shown represents the value of the restricted shares on June 30, 2008, at $41.39 per share, the closing price of the Common Stock on that date. The exercise price for each of

Mr. Paliwal s unvested stock options was greater than the closing price of the Common Stock on June 30, 2008.

(7) Under the terms of Mr. Paliwal s agreements representing awards of stock options, restricted shares and restricted share units, any unvested awards become vested upon a change in control, as defined in the award agreements. The amount shown represents the value of the restricted shares and restricted share units on June 30, 2008, at $41.39 per share, the closing price of the Common Stock on that date. The exercise price for each of Mr. Paliwal s unvested stock options was greater than the closing price of the Common Stock on June 30, 2008.

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Herbert Parker

	Cash Severance Payments	Acceleration of Equity Awards	Total
Voluntary Termination	$ 0	$ 0	$ 0
Termination With Cause	0	0	0
Termination Without Cause	516,919(1)	227,645(2)	744,564
Death	0	0	0
Disability	0	0	0
Retirement	0	0	0
Change in Control(3)	0	0	0

(1) Represents continued salary and benefits payable under Mr. Parker s letter agreement for one year if his employment is terminated without cause during his first year of employment.

(2) Subject to Compensation and Option Committee approval, the stock option and restricted share awards granted to Mr. Parker under his letter agreement upon joining the Company will automatically vest if he is terminated without cause in his first year of employment. The amount shown represents the value of the unvested restricted shares on June 30, 2008, at $41.39 per share, the closing price of the Common Stock on that date. As of June 30, 2008, the exercise price for each of Mr. Parker s unvested stock option grants was greater than the closing price of the Common Stock and therefore, the value of the stock option grants is not included in the amount shown.

(3) On July 28, 2008, Mr. Parker entered into a severance agreement which would have entitled him to a total payment of $1,304,645 upon a change in control if the agreement had been in effect on June 30, 2008. This amount includes a cash severance payment of $1,077,000 and $227,645 for the accelerated vesting of restricted shares on June 30, 2008, at $41.39 per share, the closing price of the Common Stock on that date. The exercise price for each of Mr. Parker s unvested stock options was greater than the closing price of the Common Stock on June 30, 2008.

Helmut Schinagel

	Cash Severance Payments(1)	Acceleration of Equity Awards	Pension Benefits(2)	Total
Voluntary Termination	$ 0	$ 0	$ 953,015	$ 953,015
Termination With Cause	0	0	0	0
Termination Without Cause	3,326,765(3)	0	953,015	4,279,780
Death	7,874,000(4)	0	0	7,874,000
Disability	0	0	0	0
Retirement	0	0	953,015	953,015
Change in Control	3,326,765(3)	1,034,750(5)	953,015	5,314,530

(1) Mr. Schinagel s compensation is paid in Euros and has been translated into U.S. dollars at the exchange rate in effect on June 30, 2008.

(2) Represents the present value of accumulated retirement benefits that Mr. Schinagel would be entitled to under his employment agreement.

(3) Includes salary payable to Mr. Schinagel under his employment agreement through September 30, 2011, the earliest date his employment can be terminated by us without cause.

(4) Represents a lump-sum death benefit payable by the Company under Mr. Schinagel s employment agreement. In the event of Mr. Schinagel s accidental death, the benefit is paid under an insurance policy for which premiums are paid by the Company.

(5) Under the terms of Mr. Schinagel s agreements representing awards of stock options and restricted share units, any unvested awards become vested upon a change in control, as defined in the award agreements. The amount shown represents the value of unvested restricted share units on June 30, 2008, at $41.39 per share, the closing price of the Common Stock on that date. The exercise price for each of Mr. Schinagel s unvested stock options was greater than the closing price of the Common Stock on June 30, 2008.

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Erich Geiger

	Cash Severance Payments	Acceleration of Equity Awards	Pension Benefits(1)	Deferred Compensation Plan Benefits(2)	Total
Voluntary Termination	$ 0(3)	$ 0	$ 12,069,255	$ 4,565,939	$ 16,635,194
Termination With Cause	0	0	12,069,255	4,565,939	16,635,194
Termination Without Cause	1,606,667(4)	0	12,069,255	4,565,939	18,241,861
Death	333,333	0	3,000,000	4,565,939	7,899,272
Disability	875,000	0	12,069,255	4,565,939	17,510,194
Retirement	0	0	12,069,255	4,565,939	16,635,194
Change in Control	3,606,667(4)(5)	496,680(6)	12,069,255	4,565,939	20,738,541

(1) Represents the death benefit or the present value of accumulated retirement benefits, as applicable, that Dr. Geiger would be entitled to under his employment agreement.

(2) Represents Dr. Geiger s aggregate balance under our Deferred Compensation Plan at June 30, 2008, as reported in the Nonqualified Deferred Compensation table.

(3) On January 15, 2007, Dr. Geiger entered into an agreement to provide consulting services to our Company on an exclusive basis. This consulting agreement became effective upon his retirement on August 31, 2008 and expires in August 2011. Dr. Geiger is entitled to $40,000 for each month he provides consulting services to the Company under this agreement.

(4) Includes salary payable to Dr. Geiger under his employment agreement through August 31, 2008, the earliest date his employment could have been terminated by us without cause. In addition, includes the maximum amount payable to Dr. Geiger under his consulting agreement described above.

(5) Includes award for fiscal 2008 that Dr. Geiger is entitled to under the 2007 Key Executive Officers Bonus Plan upon a change in control of the Company.

(6) Under the terms of Dr. Geiger s agreements representing awards of stock options and restricted shares, any unvested awards become vested upon a change in control, as defined in the award agreements. The amount shown represents the value of restricted shares on June 30, 2008, at $41.39 per share, the closing price of the Common Stock on that date. The exercise price for each of Dr. Geiger s unvested stock options was greater than the closing price of the Common Stock on June 30, 2008.

Blake Augsburger

	Cash Severance	Acceleration of Equity	Pension

	Payments	Awards	Benefits	Total
Voluntary Termination	$ 0	$ 0	$ 0	$ 0
Termination With Cause	0	0	0	0
Termination Without Cause	0	0	0	0
Death	0	0	1,146,431(1)	1,146,431
Disability	0	0	0	0
Retirement	0	0	0	0
Change in Control	0	0	333,770(2)	333,770

(1) Represents the death benefit that Mr. Augsburger is entitled to under our Supplemental Plan.

(2) Represents the present value of retirement benefits that Mr. Augsburger would be entitled to under our Supplemental Plan due to accelerated vesting of his benefit.

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Former Officers

Former Executive Chairman. Dr. Harman retired from his position as Executive Chairman effective December 17, 2007, and served as Non-Executive Chairman through February 22, 2008. Pursuant to a letter agreement, dated May 28, 2008, Dr. Harman will receive a transition allowance of $150,000 per year during the five-year period beginning in fiscal 2009. In addition, through June 30, 2008, the Company continued to provide Dr. Harman with an automobile, secretary and other support services in the same manner in effect immediately prior to the agreement. The agreement also includes a non-solicitation and standstill covenant that will apply through the third anniversary of Dr. Harman s retirement from the Board. Dr. Harman is also entitled to an annual benefit of $1,270,833 under our Supplemental Plan.

Former Chief Financial Officer. Mr. Brown served as Executive Vice President, Chief Financial Officer and Assistant Secretary through May 31, 2008. He remained an employee of the Company through August 15, 2008. In connection with his resignation, the Company entered into a letter agreement with Mr. Brown, dated May 2, 2008. Under the letter agreement, Mr. Brown is entitled to cash severance payments equal to $750,000, payable in 18 monthly installments. The Company also paid Mr. Brown a lump sum equal to $57,692 representing all unused vacation leave. In addition, the Company reimbursed Mr. Brown $11,309 for legal fees related to the negotiation of the agreement. Mr. Brown received a bonus of $96,600 for fiscal 2008 under the Company s MIC Plan. The Company has agreed to pay the cost of Mr. Brown s COBRA health benefits for a period of up to 18 months following his resignation or, if earlier, until he receives health benefits from a new employer. Mr. Brown is also entitled to his account balance under our Deferred Compensation Plan.

Former Vice President Financial Operations. Ms. Robinson served as Vice President Financial Operations and Chief Accounting Officer through November 12, 2007. She remained an employee of the Company through May 15, 2008. In connection with her resignation, the Company entered into an amended and restated letter agreement with Ms. Robinson, dated December 21, 2007. Under the letter agreement, Ms. Robinson is entitled to cash severance payments equal to $919,800, payable in installments over two years. The Company also paid Ms. Robinson a lump sum equal to $44,423 representing all unused vacation and accrued sick leave. Ms. Robinson also received a bonus of $115,000 for fiscal 2008. In addition, the Company paid $48,152 for Ms. Robinson s legal fees related to the negotiation of the agreement. Ms. Robinson is also entitled to an annual benefit of $198,200 under our Supplemental Plan once she reaches age fifty-five. The Company has also agreed to pay the cost of Ms. Robinson s COBRA health benefits for a period of up to 18 months following her resignation. Ms. Robinson is also entitled to her account balance under our Deferred Compensation Plan.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Company Policies Regarding Related Party Transactions

The Board has not adopted a formal written policy regarding a transaction or series of transactions involving the Company and a related party. A related party is one of our executive officers, directors, a person owning more than 5% of any class of our securities, an entity in which any of such persons is employed or is a partner or principal, or an immediate family member of such a person. The Board may consider the desirability of adopting a formal written policy during fiscal 2009. However, given our history and past practice, the Board may decide that such action is unnecessary.

While the Board has not adopted a formal written policy, directors are typically made aware of any transaction or transactions involving the Company and a related party. On an annual basis, we request that each of our directors and executive officers identify potential related party transactions involving the director or executive officer and his or her family. In addition, our Code of Business Conduct provides that employees are to avoid situations or activities where their personal interests are, or may appear to be, in competition with or in opposition to the Company s interests.

Certain Family Relationships

Two of Dr. Harman s adult children, Gina Harman and Lynn Harman, were employed by the Company during fiscal 2008. Gina Harman served as President of the Company s Consumer division through January 2008 and Lynn Harman continues to serve as corporate counsel. For fiscal 2008, Gina Harman received $389,666 in salary and perquisites. In connection with her resignation, the Compensation and Option Committee approved the acceleration of Ms. Harman s unvested stock options. The expense recognized by the Company for financial statement reporting purposes for fiscal 2008 with respect to stock option awards held by Ms. Harman was $565,900. For services rendered during fiscal 2008, Lynn Harman was paid salary and bonus of $217,662.

Gina Harman was employed by the Company for 22 years and Lynn Harman has been an employee for 13 years. Over this period, the directors have been made aware of their employment and have approved elements of their compensation arrangements. As an executive officer, Gina Harman s compensation for fiscal 2008 was approved by the Compensation and Option Committee which is comprised of our non-management directors.

Certain KKR Relationships

Brian F. Carroll, one of our directors, is a member of KKR & Co. LLC, which serves as a general partner of KKR.

On October 22, 2007, the Company entered into an agreement terminating its merger agreement with companies formed by investment funds affiliated with KKR and GS Capital Partners VI Fund, L.P. and its related funds (GSCP), which are sponsored by Goldman, Sachs & Co. Under this termination agreement, the Company, KKR, affiliates of KKR and GSCP agreed to release each other from all claims and actions arising out of or related to the merger agreement and the related transactions. In connection with this termination agreement, the Company issued $400.0 million of its 1.25% Convertible Senior Notes due 2012, of which $342.8 million was either purchased by an affiliate of KKR or for which KKR has substantial economic benefit and risk. The Company also agreed to provide KKR registration rights with respect to the notes purchased in the transaction and the Common Stock into which the notes may be converted.

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Further, in connection with the note purchase, KKR has the right to designate a nominee to the Company s Board of Directors, for the Board s consideration, which designee must be qualified and suitable to serve under all applicable Company policies and guidelines and other regulatory requirements, meet the independence requirements of the New York Stock Exchange and otherwise be acceptable to the Board in its good faith discretion. For so long as KKR continues to have ownership rights as to at least $200.0 million principal amount of the notes or until the occurrence of other specified events, KKR will have the right to select a successor designee in the event the designee ceases to serve on the Board, provided the membership requirements are met. Mr. Carroll was KKR s nominee. Based upon the recommendation of the Nominating and Governance Committee, the Board appointed Mr. Carroll as a director to serve for a term expiring at the Meeting.

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EQUITY COMPENSATION PLAN INFORMATION

As of June 30, 2008, the 1992 Incentive Plan and the 2002 Stock Option and Incentive Plan were the only compensation plans under which securities of the Company were authorized for issuance. These plans, including amendments to the 1992 Incentive Plan, were approved by our stockholders. The table provides information as of June 30, 2008:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under existing equity compensation plans(2)
Equity compensation plans approved by security holders	2,661,627	$ 73.40	3,073,041
Equity compensation plans not approved by security holders	0		0
Total	2,661,627	$ 73.40	3,073,041

(1) Includes 25,000 restricted share units issued under the 2002 Stock Option and Incentive Plan.

(2) Represents 3,073,041 shares of Common Stock available for issuance under the 2002 Stock Option and Incentive Plan. No further awards may be made under the 1992 Incentive Plan.

Including the awards granted through September 2008, (1) 2,941,282 shares of Common Stock may be issued upon exercise of outstanding stock options, (2) the Company s outstanding stock options have a weighted-average exercise price of $62.52, and (3) 2,411,335 shares of Common Stock are available for issuance under the 2002 Stock Option and Incentive Plan.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows, as of October 3, 2008, the beneficial ownership of shares of Common Stock for (a) all stockholders known by us to beneficially own more than 5% of the shares of Common Stock, (b) each of our current directors, (c) our named executive officers and (d) all of our directors and executive officers as a group. Unless otherwise noted, these persons have sole voting and investment power over the shares listed below. Some of the information in the table is based on information included in filings made by the beneficial owners with the Commission.

Name	Amount and Nature of Beneficial Ownership(1)	Percentage(2)
T. Rowe Price Associates, Inc.	4,156,772(3)	7.10%
Capital Research Global Investors	6,226,900(4)	10.64%
Capital World Investors	7,059,500(5)	12.06%
FMR LLC	4,646,631(6)	7.94%
Sidney Harman	2,923,080(7)	4.99%
Erich Geiger	54,000	*
Shirley Mount Hufstedler	170,662(8)	*
Edward Meyer	84,936	*
Ann McLaughlin Korologos	79,515	*
Dinesh Paliwal	122,381	*
Kevin Brown	42,000	*
Brian Carroll	1,600(9)	*
Harald Einsmann	1,600	*
Herbert Parker	5,500	*
Helmut Schinagel	25,000	*
Blake Augsburger	22,071	*
Sandra Robinson	22,223	*
Hellene Runtagh	0	
All directors and executive officers as a group (16 persons)	3,465,445	5.95%

* Less than 1%

(1) As required by the rules of the Commission, the table includes shares of Common Stock that may be acquired pursuant to stock options exercisable within 60 days from October 3, 2008 as follows: Ms. Hufstedler (72,600 shares), Mr. Meyer (72,600 shares), Ms. Korologos (62,200 shares), Mr. Brown (42,000 shares), Mr. Augsburger (19,800 shares), Mr. Paliwal (40,000 shares), Mr. Schinagel (25,000 shares) and all directors and executive officers as a group (312,100 shares). The table also includes shares of Common Stock held in the Retirement Savings Plan by all directors and executive officers as a group (18,073 shares). The table does not reflect acquisitions or dispositions of shares of Common Stock, including grants or exercises of stock options, after October 3, 2008.

(2) Based on 58,530,866 shares of Common Stock outstanding as of October 3, 2008.

(3)

Information with respect to T. Rowe Price Associates, Inc. (T. Rowe) is based on the Schedule 13G/A filed with the Commission on February 8, 2008 by T. Rowe. T. Rowe has sole dispositive power with respect to 4,156,772 shares of Common Stock and sole voting power

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with respect to 866,867 shares of Common Stock as of February 8, 2008. The address of T. Rowe is 100 E. Pratt Street, Baltimore, Maryland 21202.

(4) Information with respect to Capital Research Global Investors (CRGI) is based on the Schedule 13G/A filed with the Commission on July 10, 2008 by CRGI. CRGI, a division of Capital Research and Management Company (CRMC), has sole dispositive power with respect to 6,226,900 shares of Common Stock and sole voting power with respect to 3,920,000 shares of Common Stock as of July 10, 2008. The address of CRGI is 333 South Hope Street, Los Angeles, California 90071.

(5) Information with respect to Capital World Investors (CWI) is based on the Schedule 13G/A filed with the Commission on April 10, 2008 by CWI. CWI, a division of CRMC, has sole dispositive power with respect to 7,059,500 shares of Common Stock and sole voting power with respect to 3,033,700 shares of Common Stock as of April 10, 2008. The address of CWI is 333 South Hope Street, Los Angeles, California 90071.

(6) Information with respect to FMR LLC is based on Schedule 13G/A filed with the Commission on August 11, 2008 by FMR LLC. FMR LLC had sole dispositive power with respect to 4,646,631 shares of Common Stock and sole voting power with respect to 519,385 shares of Common Stock as of August 11, 2008. Edward C. Johnson III, Chairman of FMR LLC is also deemed to be the beneficial owner of the 4,646,631 shares of Common Stock beneficially owned by FMR LLC by virtue of his position with and ownership of FMR LLC. The address for FMR LLC is 82 Devonshire Street, Boston, Massachusetts 02109.

(7) Includes 1,097,764 shares held by the Sidney Harman 1987 Revocable Trust for which Dr. Harman has sole dispositive and sole voting power; 409,446 shares held by the Sidney Harman 2008 GRAT for which Dr. Harman serves as the sole trustee and has sole dispositive and sole voting power; 260,422 shares held as community property for which Dr. Harman has sole voting power but shared dispositive power; 154,416 shares held by the Jane Harman 25 Year Grantor Income Trust for which Dr. Harman has sole voting power but shared dispositive power; and 171,164 shares held in the Sidney Harman Charitable Remainder Trust for which Dr. Harman has sole dispositive and sole voting power. Also includes 409,446 shares held in trust for which Dr. Harman s spouse has sole dispositive and sole voting power. Dr. Harman s address is c/o Harman International Industries, Incorporated, 1101 Pennsylvania Avenue, N.W., Suite 1010, Washington, D.C. 20004.

(8) Includes 92,602 shares held by the Hufstedler Family Trust for which Ms. Hufstedler acts as co-trustee and for which she has shared dispositive power and shared voting power. Also includes 1,260 shares held by Ms. Hufstedler s spouse in an IRA.

(9) Mr. Carroll is a member of KKR which holds $342.8 aggregate principal amount of the Company s 1.25% Convertible Senior Notes due 2012 (Notes) as described under the caption Certain Relationships and Related Transactions Certain KKR Relationships on page 51 of this Proxy Statement. Mr. Carroll disclaims beneficial ownership of any Notes held by KKR.

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INDEPENDENT AUDITOR

Selection

KPMG LLP served as the Company s independent auditor for fiscal 2008 and has been selected by the Audit Committee to serve as the Company s independent auditor for fiscal 2009. Representatives of KPMG LLP will attend the Meeting, will have an opportunity to make a statement and will be available to respond to questions.

Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our annual financial statements for fiscal 2008 and fiscal 2007, and fees billed for other services rendered by KPMG LLP.

	Fiscal 2008	Fiscal 2007
Audit fees(1)	$ 3,720,000	$ 3,266,000
Audit-related fees(2)	34,000	56,000
Tax fees(3)	589,000	733,000
All other fees(4)	267,000	263,000
Total	$ 4,610,000	$ 4,318,000

(1) Audit fees consist principally of fees for the audit of our annual financial statements, including the audit of our internal controls over financial reporting, review of our financial statements included in our quarterly reports on Form 10-Q for those years and foreign statutory audits.

(2) Audit-related fees consist principally of the audit of our retirement savings plan and pension schemes.

(3) Tax fees consist principally of fees for tax compliance and preparation, tax advice and tax planning.

(4) All other fees consist principally of fees for consulting on various accounting matters and the preparation and audit of foreign export and import documents.

The Audit Committee s policy is to pre-approve all audit and non-audit services provided to the Company by the independent auditors (except for items exempt from pre-approval requirements under applicable laws and rules). All audit and non-audit services for fiscal 2008 were pre-approved by the Audit Committee. The Audit Committee has pre-approved certain services that KPMG is to provide to the Company in fiscal 2009, including quarterly review of financial statements, tax audits and tax advisory services and consultations on the Company s compliance with Section 404 of the Sarbanes Oxley Act of 2002.

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COMPENSATION AND OPTION COMMITTEE REPORT

The Compensation and Option Committee has reviewed and discussed with management the Compensation Discussion and Analysis. Based on that review and discussion, the Compensation and Option Committee recommended to the Board of Directors of the Company that the Compensation Discussion and Analysis be included in this Proxy Statement.

This report is submitted by the members of the Compensation and Option Committee.

Members of the Compensation and Option Committee

Edward H. Meyer (Chair)
Brian F. Carroll
Ann McLaughlin Korologos

AUDIT COMMITTEE REPORT

The Audit Committee is currently composed of five directors who are neither officers nor employees of the Company. All members of the Committee are independent as that term is defined by the New York Stock Exchange listing standards. The Committee operates under a written charter approved by the Board.

In connection with its review of the audited financial statements appearing in the Company s Annual Report on Form 10-K for fiscal 2008, the Committee:

- discussed these financial statements with the Company s management and KPMG LLP, the Company s independent auditors;
- discussed with KPMG LLP those matters required to be discussed under Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU § 380) and SAS No. 90 (Audit Committee Communications); and
- received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with KPMG LLP their independence.

Based on the review and discussions referred to above, the Committee recommended to the Board that the audited financial statements be included in the Company s Annual Report on Form 10-K for fiscal 2008, as filed with the Commission.

The Committee has selected and engaged KPMG LLP as the Company s independent auditor to audit and report to the Company s stockholders on the Company s financial statements for fiscal 2009.

This report is submitted by the members of the Audit Committee.

Members of the Audit Committee

Kenneth Reiss (Chair)
Dr. Harald Einsmann

Shirley Mount Hufstedler
Ann McLaughlin Korologos
Edward H. Meyer

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who beneficially own more than 10% of the Common Stock to file initial reports of ownership and reports of changes in ownership with the Commission. Based solely on a review of the copies of such forms furnished to us and written representations from our directors and executive officers, we believe that all Section 16(a) filing requirements applicable to our directors and executive officers were complied with during fiscal 2008, except that Mr. Paliwal inadvertently filed one late Form 4 related to a grant of restricted share units on January 2, 2008 and one late Form 4 related to the vesting and settlement of restricted share units on March 1, 2008; Dr. Harman inadvertently filed one late Form 4 related to the exercise of options on May 16, 2008; Mr. Steel inadvertently filed one late Form 4 related to an option grant on December 17, 2007; Mr. Sorota inadvertently filed one late Form 4 related to an option grant and a grant of restricted shares on January 14, 2008; Mr. Stacey inadvertently filed one late Form 4 related to an option grant and a grant of restricted shares on February 25, 2008; Mr. Parker inadvertently filed one late Form 4 related to an option grant on June 2, 2008; and Mr. Karch inadvertently filed one late Form 3 related to his appointment as an executive officer on May 6, 2008.

STOCKHOLDER PROPOSALS FOR 2009 ANNUAL MEETING OF STOCKHOLDERS

In order to be included in the Company s proxy materials for the 2009 Annual Meeting of Stockholders, a stockholder proposal must be received in writing by the Company at 400 Atlantic Street, Suite 1500, Stamford, CT 06901 by June 24, 2009 and otherwise comply with all requirements of the Commission for stockholder proposals. Please note that effective October 2008, the Company s headquarters moved from Washington, DC to Stamford, Connecticut.

The Company s Bylaws provide that any stockholder who desires to bring a proposal before an annual meeting must give timely written notice of the proposal to the Company s Secretary. To be timely, the notice must be delivered to the above address not less than 60 nor more than 90 days before the first anniversary of the date on which the Company first mailed its proxy materials for the immediately preceding annual meeting. Stockholder proposals for the 2009 Annual Meeting of Stockholders must be received not later than August 24, 2009. However, the Company s Bylaws also provide that if an annual meeting is called for a date that is not within 30 days before or after the anniversary of the prior year s annual meeting, then stockholder proposals for that annual meeting must be received no later than the close of business on the 10th day following the day on which public announcement is first made of the date of the upcoming annual meeting. The notice must also describe the stockholder proposal in reasonable detail and provide certain other information required by the Bylaws. A copy of the Bylaws is available upon request from the Company s Secretary.

The Company s Bylaws provide that notice of a stockholder s intent to make a nomination for director at the 2009 Annual Meeting of Stockholders must be received by the Secretary of the Company 90 days in advance of the annual meeting. The notice must include certain information regarding the nominees as required by the Bylaws. Stockholders may also submit recommendations for director candidates to the Nominating and Governance Committee by following the procedures described on page 22 of this Proxy Statement.

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OTHER MATTERS

The Board does not intend to present any other matter of business at the Meeting. However, if any other matter is properly presented at the Meeting, the shares represented by your proxy will be voted in accordance with the best judgment of the proxy holders.

By Order of the Board of Directors,

Dinesh Paliwal
Chairman and Chief Executive Officer

Stamford, CT
October 21, 2008

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Appendix A

HARMAN INTERNATIONAL INDUSTRIES, INCORPORATED

Amended and Restated
2002 Stock Option and Incentive Plan

1. **Purpose.** The purpose of the 2002 Stock Option and Incentive Plan , as amended and restated (this Plan) is to attract and retain officers, key employees, and Non-Officer Directors for Harman International Industries, Incorporated, a Delaware corporation (the Company) and its Subsidiaries and to provide to such persons incentives and rewards for superior performance. If this Plan is approved by the Company s stockholders, it will replace the Company s 1992 Incentive Plan.

2. **Definitions.** As used in this Plan,

Applicable Exchange Rules shall have the meaning set forth in Section 17(a) of this Plan.

Appreciation Right means a Tandem Appreciation Right or Free-Standing Appreciation Right granted pursuant to Section 5 of this Plan.

Base Price means the price to be used as the basis for determining the Spread upon the exercise of a Free-Standing Appreciation Right.

Board means the Board of Directors of the Company.

Code means the Internal Revenue Code of 1986, as amended from time to time.

Committee means the committee of the Board referred to in Section 16 of this Plan.

Common Stock means the shares of Common Stock, par value $0.01 per share, of the Company or any security into which such shares of Common Stock may be changed by reason of any transaction or event of the type referred to in Section 10 of this Plan.

Company has the meaning set forth in Section 1 of this Plan.

Covered Employee means an Eligible Participant who is, or is determined by the Committee to be likely to become, a covered employee within the meaning of Section 162(m) of the Code (or any successor provision).

Date of Grant means the date specified by the Committee on which a grant of Option Rights, Appreciation Rights or Performance Units or a grant or sale of Restricted Shares or Restricted Share Units shall become effective.

Director means a member of the Board.

Eligible Participant means a person who is selected by the Committee to receive benefits under this Plan and (a) who is at the time an officer, director or key employee of the Company or any one or more of its Subsidiaries, or (b) who has agreed to commence serving in any of such capacities within 90 days of the Date of Grant; provided, however, that a Non-Officer Director shall only be eligible to receive awards under Section 8 of this Plan.

Evidence of Award means an agreement, certificate, resolution or other type or form of writing or other evidence approved by the Committee which sets forth the terms and conditions of the Option Rights, Appreciation Rights, Performance Units, Restricted Shares or Restricted Share Units. An Evidence of Award may be in an electronic medium, may be limited to a notation on the books and records of the Company and, with the approval of the Committee, need not be signed by a representative of the Company or an Eligible Participant.

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Free-Standing Appreciation Right means an Appreciation Right granted pursuant to Section 5 of this Plan that is not granted in tandem with an Option Right.

Incentive Stock Options means Option Rights that are intended to qualify as incentive stock options under Section 422 of the Code or any successor provision.

Less-Than-80% Subsidiary means a Subsidiary with respect to which the Company, directly or indirectly, owns or controls less than 80% of the total combined Voting Power represented by all classes of stock issued by such Subsidiary.

Management Objectives means the measurable performance objective or objectives established pursuant to this Plan for Eligible Participants who have received grants of Performance Units or, when so determined by the Board, Option Rights, Appreciation Rights, Restricted Shares, Restricted Share Units, dividend credits or other awards pursuant to this Plan. Management Objectives may be described in terms of Company-wide objectives or objectives that are related to the performance of the individual Eligible Participant or of the Subsidiary, division, department, region or function within the Company or Subsidiary in which the Eligible Participant is employed. The Management Objectives may be made relative to the performance of other corporations. The Management Objectives applicable to any award to a Covered Employee that is intended to comply with Section 162(m) of the Code shall be based on specified levels of or growth in one or more of the following criteria:

(a) cash flow/net assets ratio;

(b) return on total capital or assets;

(c) Return on Consolidated Equity;

(d) earnings or earnings per share;

(e) revenue;

(f) cash flow; ~~and/or~~

(g) stock price or total return to stockholders
;

(h) operating income or earnings before interest and taxes (EBIT);

(i) earnings before interest, taxes, depreciation and amortization (EBITDA);

(j) enterprise value;

(k) cost initiatives, including relative growth and geographic or strategic targets involving one or more of the following: capital expenditures, cost of purchased material and full-time and part-time payroll; and/or

(l) economic value added or economic profit.

If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or other events or circumstances render the Management Objectives unsuitable, the Committee may in its discretion modify such Management Objectives or the related

minimum acceptable level of achievement, in whole or in part, as the Committee deems appropriate and equitable, except in the case of a Covered Employee where such action would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code. In such case, the Committee shall not make any modification of the Management Objectives or minimum acceptable level of achievement.

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Market Value per Share means, as of any particular date, (a) the closing sale price per share of Common Stock, regular way, as reported on the New York Stock Exchange Composite Tape or, if the shares of Common Stock are no longer traded on the New York Stock Exchange, on the principal exchange on which the shares of Common Stock are then traded, or, if the Common Stock is not then traded on an exchange, the last sale price as reported on the Nasdaq National Market System or other division of the Nasdaq on which the shares of Common Stock are then quoted, on the relevant date (or, if no trades are reported on that date, on the next preceding date on which a sale occurred), or (b) if clause (a) does not apply, the fair market value of the shares of Common Stock as determined in good faith by the Committee.

Non-Officer Director means a Director who is not an officer or employee of the Company or any Subsidiary.

Optionee means the optionee named in an Evidence of Award evidencing an outstanding Option Right.

Option Price means the purchase price payable on exercise of an Option Right.

Option Right means the right to purchase shares of Common Stock upon exercise of an option granted pursuant to Section 4 of this Plan.

Performance Period means, in respect of a Performance Unit, a period of time established pursuant to Section 7 of this Plan within which the Management Objectives relating to such Performance Unit must be achieved.

Performance Unit means a bookkeeping entry that records a unit equivalent to $100.00 awarded pursuant to Section 7 of this Plan.

Plan has the meaning set forth in Section 1 of this Plan.

Restricted Shares means shares of Common Stock granted or sold pursuant to Section 6(a) of this Plan as to which neither the substantial risk of forfeiture nor the prohibition on transfers referred to in such Section 6(a) has expired.

Restricted Share Unit means an award made pursuant to Section 6(b) of this Plan of the right to receive Common Stock or cash at the end of a specified period.

Restriction Period means the period of time during which Restricted Share Units are subject to deferral limitations, as provided in Section 6(b) of this Plan.

Return on Consolidated Equity means a fraction (expressed as a percentage), the numerator of which is the net income of the Company as set forth in the Company s audited consolidated financial statements and the denominator of which is the Company s average stockholders equity for the fiscal year, as determined by adding the average stockholders equity for each quarter of the fiscal year, divided by four.

Spread means the excess of the Market Value per Share on the date when an Appreciation Right is exercised over (i) the Option Price provided for in the related Option Right (for Options Rights or Tandem Appreciation Rights) or (ii) the Base Price (for Free-Standing Appreciation Rights).

Subsidiary means a corporation, partnership, joint venture, unincorporated association or other entity in which the Company has a direct or indirect ownership or other equity interest; provided, however, for purposes of determining whether any person may be an Eligible Participant for purposes of any grant of Incentive Stock Options, Subsidiary means any corporation in which

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the Company owns or controls, directly or indirectly, more than 50% of the total combined Voting Power represented by all classes of stock issued by such corporation.

Tandem Appreciation Right means an Appreciation Right granted pursuant to Section 5 of this Plan that is granted in tandem with an Option Right.

Voting Power means with respect to any Subsidiary, the total votes relating to the then-outstanding securities entitled to vote generally in the election of its board of directors (or other managing body).

3. **Shares Available Under this Plan.**

(a) Subject to adjustment as provided in Section 10 of this Plan, the number of shares of Common Stock that may be issued or transferred (i) upon the exercise of Option Rights or Appreciation Rights, (ii) as Restricted Shares and released from substantial risks of forfeiture thereof, (iii) as Restricted Share Units, (iv) in payment of Performance Units that have been earned, (v) as awards to Non-Officer Directors or (vi) in payment of dividend equivalents paid with respect to awards made under this Plan, shall not exceed in the aggregate ~~6,000,000~~ 6,760,000 shares of Common Stock. Such shares of Common Stock may be shares of original issuance or treasury shares or a combination of the foregoing.

(b) Shares of Common Stock ~~relating to awards that expire, are forfeited, surrendered or relinquished, whether upon exercise or otherwise, shall not be available for reissuance under this Plan.~~ covered by all awards granted at any time under this Plan shall not be counted as used unless and until they are actually issued and delivered to an Eligible Participant. Without limiting the generality of the foregoing, upon payment in cash of the benefit provided by any award granted under this Plan, any shares of Common Stock that were covered by that award will be available for issue or transfer hereunder. Notwithstanding anything to the contrary contained herein: (i) shares of Common Stock tendered in payment of the Option Price of a Option Right shall not be added to the aggregate Plan limit described above; (ii) shares of Common Stock withheld by the Company to satisfy tax withholding obligations shall not be added to the aggregate Plan limit described above; (iii) shares of Common Stock that are repurchased by the Company with Option Right proceeds shall not be added to the aggregate Plan limit described above; and (iv) all shares of Common Stock covered by an Appreciation Right, to the extent that it is exercised and settled in Common Stock, whether or not all shares of Common Stock covered by the award are actually issued to the Eligible Participant upon exercise of the right, shall be considered issued or transferred pursuant to this Plan.

(c) Notwithstanding anything in this Section 3, or elsewhere in this Plan, to the contrary and subject to adjustment as provided in Section 10 of this Plan, (i) the aggregate number of shares of Common Stock actually issued or transferred by the Company upon the exercise of Incentive Stock Options shall not exceed 6,000,000 shares of Common Stock; (ii) no Eligible Participant shall be granted Option Rights and Appreciation Rights, in the aggregate, for more than ~~600,000~~ 750,000 shares of Common Stock during any calendar year; (iii) non-option awards denominated in shares of Common Stock (including, without limitation, awards of Restricted Shares and Restricted Share Units) shall not exceed ~~600,000~~ 2,150,000 shares of Common Stock, in the aggregate; and (iv) no Eligible Participant shall be granted during any calendar year non-option awards denominated in shares of Common Stock (including, without limitation, awards of Restricted Shares and Restricted Share Units) representing more than ~~50,000~~ 750,000 shares of Common Stock, in the aggregate.

(d) Notwithstanding any other provision of this Plan to the contrary, in no event shall any Eligible Participant in any calendar year receive an award of Performance Units having an aggregate maximum value as of their respective Dates of Grant in excess of $2,000,000.

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4. **Option Rights.** The Committee may authorize the grant of options to purchase shares of Common Stock to Eligible Participants. Each such grant may utilize any or all of the authorizations, and shall be subject to all of the requirements contained in the following provisions:

(a) Each grant shall specify the number of shares of Common Stock to which it pertains subject to the limitations set forth in Section 3 of this Plan.

(b) Each grant shall specify an Option Price of not less than the Market Value per Share on the Date of Grant.

(c) Each grant shall specify whether the Option Price shall be payable (i) in cash or by check acceptable to the Company, (ii) by the actual or constructive transfer to the Company of shares of unrestricted Common Stock owned by the Optionee for a period of time acceptable to the Committee, having a value at the time of exercise equal to the total Option Price, (iii) any other legal consideration that the Committee may deem appropriate, including without limitation any form of consideration authorized under Section 4(d) of this Plan, on such basis as the Committee may determine in accordance with this Plan, and, unless otherwise determined by the Committee pursuant to Section 4(d) of this Plan, or (iv) by a combination of such methods of payment.

(d) The Committee may determine, at or after the Date of Grant, that payment of the Option Price of any Option Right (other than an Incentive Stock Option) may also be made in whole or in part in the form of Restricted Shares or other shares of Common Stock that are forfeitable or subject to restrictions on transfer (based on the Market Value per Share on the date of exercise), other Option Rights (based on the Spread on the date of exercise) or Performance Units. Unless otherwise determined by the Committee at or after the Date of Grant, whenever any Option Price is paid in whole or in part by means of any of the forms of consideration specified in this Section 4(d), the shares of Common Stock received upon the exercise of the Option Rights shall be subject to such risks of forfeiture or restrictions on transfer as may correspond to any that apply to the consideration surrendered, but only to the extent, determined with respect to the consideration surrendered, of (i) the same number of shares of Common Stock received by the Optionee as applied to the forfeitable or Restricted Shares surrendered by the Optionee, (ii) the Spread of any unexercisable portion of Option Rights, or (iii) the stated value of Performance Units.

(e) Unless otherwise determined by the Committee, each grant of Option Rights shall specify the period or periods of continuous service by the Optionee with the Company or any Subsidiary that is necessary before the Option Rights or installments thereof will become exercisable and may provide for the earlier exercise of such Option Rights upon the occurrence of a change of control of the Company or other similar transaction or event specified in an Evidence of Award.

(f) Subject to the limitations set forth in Section 3 of this Plan, successive grants of Option Rights may be made to the same Eligible Participant whether or not any Option Rights previously granted to such Eligible Participant remain unexercised.

(g) Any grant of Option Rights may specify Management Objectives that must be achieved as a condition to the exercise of such rights.

(h) Option Rights granted under this Plan may be (i) options, including, without limitation, Incentive Stock Options, that are intended to qualify under particular provisions of the Code, (ii) options that are not intended so to qualify, or (iii) combinations of the foregoing.

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(i) The Committee may

not
, at or after the Date of Grant of any Option Rights (other than Incentive Stock Options), provide for the payment of dividend equivalents to the Optionee on either a current or, deferred or contingent basis or may provide that such equivalents shall be credited against the Option Price.

(j) The exercise of an Option Right shall result in the cancellation on a share-for-share basis of any Tandem Appreciation Right authorized under Section 5 of this Plan.

(k) No Option Right shall be exercisable more than 10 years from the Date of Grant.

(l) Each grant of Option Rights shall be evidenced by an Evidence of Award, which shall contain such terms and provisions, not inconsistent with this Plan, as the Committee may approve.

5. **Appreciation Rights.**

(a) The Committee may authorize the granting (i) to any Optionee, of Tandem Appreciation Rights in respect of Option Rights granted hereunder, and (ii) to any Eligible Participant, of Free-Standing Appreciation Rights. A Tandem Appreciation Right shall be a right of the Optionee, exercisable by his or her surrender of the related Option Right, to receive from the Company an amount determined by the Committee, which shall be expressed as a percentage of the Spread (not exceeding 100%) at the time of exercise. Tandem Appreciation Rights may be granted at any time prior to the exercise or termination of the related Option Rights; provided, however, that a Tandem Appreciation Right awarded in relation to an Incentive Stock Option must be granted concurrently with such Incentive Stock Option. A Free-Standing Appreciation Right shall be a right of the Eligible Participant to receive from the Company an amount determined by the Committee, which shall be expressed as a percentage of the Spread (not exceeding 100%) at the time of exercise.

(b) Each grant of Appreciation Rights may utilize any or all of the authorizations, and shall be subject to all of the requirements, contained in the following provisions:

(i) Any grant of Appreciation Rights may specify that the amount payable on exercise of an Appreciation Right may be paid by the Company in cash, in shares of Common Stock or in any combination thereof and may either grant to the Eligible Participant or retain in the Committee the right to elect among those alternatives; provided, however, that if the right to elect among those alternatives is granted to the Optionee, the Committee shall have the sole discretion to approve or disapprove the Optionee s election to receive cash in full or partial settlement of an Appreciation Right, which consent or approval may be given at any time after the election to which it relates.

(ii) Any grant of Appreciation Rights may specify that the amount payable on exercise of an Appreciation Right (valuing shares of Common Stock for this purpose at their Market Value per Share on the date of exercise) may not exceed a maximum amount specified by the Committee on the Date of Grant.

(iii) Any grant of Appreciation Rights may specify waiting periods before exercise and permissible exercise dates or periods.

(iv) Any grant of Appreciation Rights may provide that an Appreciation Right may be exercised upon the occurrence of, or only exercised in the event of, a change of control of the Company or other similar transaction or event specified in an Evidence of Award.

(v) Any grant of Appreciation Rights may specify Management Objectives that must be achieved as a condition of the exercise of such Appreciation Rights.

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(vi) Any grant of Appreciation Rights may

not
provide for the payment to the Eligible Participant of dividend equivalents thereon in cash or shares of Common Stock on a current, deferred or contingent basis.

(vii) Each grant of Appreciation Rights shall be evidenced by an Evidence of Award that shall describe such Appreciation Rights, identify the related Option Rights (in the case of Tandem Appreciation Rights), and which shall contain such terms and provisions, not inconsistent with this Plan, as the Committee may approve.

(c) Any grant of Tandem Appreciation Rights shall provide that such Rights may be exercised only at a time when the related Option Right is also exercisable and at a time when the Spread is positive, and by surrender of the related Option Right for cancellation.

(d) Any grant of Free-Standing Appreciation Rights may utilize any or all of the following additional authorizations, and shall be subject to the following additional requirements:

(i) Each grant shall specify in respect of each Free-Standing Appreciation Right a Base Price, which shall be equal to or greater than the Market Value per Share on the Date of Grant.

(ii) Subject to the limitations set forth in Section 3 of this Plan, successive grants of Free-Standing Appreciation Rights may be made to the same Eligible Participant regardless of whether any Free-Standing Appreciation Rights previously granted to the Eligible Participant remain unexercised.

(iii) No Free-Standing Appreciation Right granted under this Plan may be exercised more than 10 years from the Date of Grant.

6. **Restricted Shares and Restricted Share Units.**

(a) Restricted Shares. The Committee may authorize the grant or sale of Restricted Shares to Eligible Participants. Each such grant or sale may utilize any or all of the authorizations, and shall be subject to all of the requirements, contained in the following provisions:

(i) Each such grant or sale of Restricted Shares shall constitute an immediate transfer of the ownership of shares of Common Stock to the Eligible Participant in consideration of the performance of services, entitling such Eligible Participant to voting, dividend and other ownership rights, but subject to the substantial risk of forfeiture and restrictions on transfer referred to hereinafter.

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Morgan Partners Global Investors A, L.P., J.P. Morgan Partners Global Investors (Cayman), L.P., J.P. Morgan Partners Global Investors (Cayman) II, L.P., J.P. Morgan Partners Global Investors (Cayman) III, L.P., and J.P. Morgan Partners Global Investors (Cayman) IV, L.P. (collectively, the "JPMP Global Fund Entities") may be deemed attributable to Mr. Walker because of his position with JPMP Capital Corp., which is the general partner of JPMP Global Investors, L.P. (the general partner of each of the JPMP Global Fund Entities). The actual pro rata portion of such beneficial ownership that may be deemed attributable to Mr. Walker is not readily determinable. Mr. Walker disclaims beneficial ownership of the common shares beneficially owned by J.P. Morgan Partners (BHCA), L.P. and the related JPMP Global Fund Entities, except to the extent of his pecuniary interest in them. Although Mr. Walker is also President of JPMP Capital, LLC, he does not have a pecuniary interest in, and disclaims beneficial ownership of, the common shares beneficially owned by J.P. Morgan Capital, L.P. and J.P. Morgan Corsair II Offshore Capital Partners, L.P. See footnote 20.

(14)

Includes 210,000 common shares and 66,667 common shares issuable upon exercise of vested options held by Mr. Cook.

(15)

Includes 140,000 common shares and 80,000 common shares issuable upon exercise of vested options held by Mr. Fischer.

(16)

Includes 216,000 common shares and 46,667 common shares issuable upon exercise of vested options held by Mr. Gressier.

(17)

Includes 6,560,466 common shares and 2,214,744 common shares issuable upon exercise of vested options.

(18)

Includes (i) 7,404,827 common shares held by Marsh & McLennan Risk Capital Holdings, Ltd.; (ii) 490,756 common shares and 473,264 common shares issuable upon exercise of warrants of the Company held by Marsh & McLennan Capital Professionals Fund, L.P.; (iii) 493,469 common shares and 476,528 common shares issuable upon exercise of warrants of the Company held by Marsh & McLennan Employees' Securities Company, L.P.; (iv) 17,529,331 common shares and 16,918,312 common shares issuable upon exercise of warrants held by Trident II, L.P.; (v) 11,792 shares held by MMC Capital, Inc.; (vi) 76,641 common shares held by Putnam Investments Employees' Securities Co. I LLC; (vii) 68,430 common shares held by Putnam Investments Employees' Securities Co. II LLC; and (viii) 89,159 common shares held by Putnam Investments Holdings, LLC. The principal address for Marsh & McLennan Companies, Inc. and Marsh & McLennan Risk Capital Holdings, Ltd. is 1166 Avenue of the Americas, New York, New York 10036. The principal address for MMC Capital, Inc. is 20 Horseneck Lane, Greenwich, Connecticut 06830. The principal address for Trident II, L.P., Trident Capital II, L.P., Marsh & McLennan Capital Professionals Fund, L.P. and Marsh & McLennan Employees' Securities Company, L.P. is Maples & Calder, Ugland House, Box 309, South Church Street, George Town, Grand Cayman, Cayman Islands.

(19)

The sole general partner of Trident II, L.P. is Trident Capital II, L.P. The manager of Trident II, L.P. is MMC Capital, Inc., a wholly owned subsidiary of Marsh & McLennan Risk Capital Holdings, Ltd. Marsh & McLennan Risk Capital Holdings, Ltd. is a wholly owned, indirect subsidiary of Marsh & McLennan Companies, Inc. The general partners of Trident Capital II, L.P. are Marsh & McLennan GP I, Inc., a wholly owned subsidiary of Marsh & McLennan Risk Capital Holdings, Ltd., and two single member limited liability companies that are owned by individuals who are senior executive officers of Marsh & McLennan Companies, Inc. Putnam Investments Holdings, LLC is a subsidiary of Marsh & McLennan Companies and is the managing member of Putnam Investments Employees' Securities Co. I LLC and Putnam Investments Employees' Securities Co. II LLC. As the ultimate parent corporation of its various subsidiaries, Marsh & McLennan Companies, Inc. shares voting and investment power with respect to all common shares of the Company that are, or may be deemed to be, beneficially owned by each of its subsidiaries. Marsh & McLennan Companies, Inc. disclaim any beneficial ownership of common shares and warrants to purchase common shares that are, or may be deemed to be, beneficially owned by Trident II, L.P. and Trident Capital II, L.P., except to the extent of its pecuniary interest therein.

(20)

Includes 7,878,880 common shares owned by J.P. Morgan Partners (BHCA), L.P. ("JPMP BHCA"), an indirect wholly owned subsidiary of J.P. Morgan Chase & Co., and 2,121,220 common shares held by the following related fund entities: J.P. Morgan Partners Global Investors, L.P. (37,817 common shares); J.P. Morgan Partners Global Investors A, L.P. (125,999 common shares); J.P. Morgan Partners Global Investors (Cayman), L.P. (632,393 common shares); J.P. Morgan Partners Global Investors (Cayman) II, L.P. (70,582 common shares); J.P. Morgan Partners Global Investors (Cayman) III, L.P. (720,111 common shares); and J.P. Morgan Partners Global Investors (Cayman) IV, L.P. (534,318 common shares) (collectively, the "JPMP Global Fund Entities"). The general partner of JPMP BHCA is JPMP Master Fund Manager, L.P., the general partner of which is JPMP Capital Corp. JPMP Capital Corp., a wholly owned subsidiary of J.P. Morgan Chase & Co., is the general partner of JPMP Global Investors, L.P., which is the general partner of each of the foregoing JPMP Global Fund Entities. Also includes common shares owned by two other companies in which J.P. Morgan Chase & Co. has an interest: J.P. Morgan Capital, L.P. (1,107,021 common shares) and J.P. Morgan Corsair II Offshore Capital Partners, L.P. (3,706,111 common shares) (collectively, the "Corsair Shares"). JPMP BHCA, JPMP Capital Corp. and the JPMP Global Fund Entities have no pecuniary interest in and disclaim beneficial ownership of the Corsair Shares. The principal address for J.P. Morgan Chase & Co. is 270 Park Avenue, New York, NY, 10017. The principal address for each of JPMP BHCA, J.P. Morgan Partners Global Investors, L.P., J.P. Morgan Partners Global Investors A, L.P., J.P. Morgan Partners Global Investors (Cayman), L.P., J.P. Morgan Partners Global Investors (Cayman) II, L.P., J.P. Morgan Partners Global Investors (Cayman) III, L.P., J.P. Morgan Partners Global Investors (Cayman) IV, L.P., JPMP Capital Corp. and J.P. Morgan Capital, L.P. is 1221 Avenue of the Americas, New York, NY, 10020. The address for J.P. Morgan Corsair II Offshore Capital Partners, L.P. is 277 Park Avenue, New York, NY, 10172.

(21)

Includes 11,961,353 common shares held by Blackstone FI Capital Partners (Cayman) L.P.; 2,329,957 common shares held by Blackstone FI Offshore Capital Partners L.P.; and 518,335 common shares held by Blackstone Family Investment Partnership (Cayman) III L.P. The sole general partner of Blackstone FI Capital Partners (Cayman) L.P. and Blackstone Family Investment Partnership (Cayman) III L.P and the sole investment general partner of Blackstone FI Offshore Capital Partners L.P. is Blackstone Management Associates (Cayman) III L.P. The principal address for each is Walkers, PO Box 265 GT, Walker House, George Town, Grand Cayman, Cayman Islands. As founding members of Blackstone Management Associates (Cayman) III L.P., Messrs. Peter G. Peterson and Stephen A. Schwarzman have the shared power to vote or to direct the vote of, and to dispose or to direct the disposition of, the shares of the identified class of securities that may be deemed to be beneficially owned by Blackstone Management Associates (Cayman) III L.P. As a result, Messrs. Peterson and Schwarzman may be deemed to beneficially own the common shares that Blackstone Management Associates (Cayman) III L.P., but they disclaim any such beneficial ownership except to the extent of their individual pecuniary interest in such shares.

(22)

Includes 11,195,014 common shares owned by DLJMB Overseas Partners III, C.V.; 783,258 common shares held by DLJ Offshore Partners III C.V.; 202,040 common shares held by DLJ Offshore Partners III-1, C.V.; 143,918 common shares held by DLJ Offshore Partners III-2, C.V.; 95,489 common shares held by DLJ MB Partners III GmbH & Co.KG; 18,960 common shares held by Millennium Partners II, L.P.; and 2,370,975 common shares held by MBP III Plan Investors, L.P., Credit Suisse First Boston, a Swiss bank, owns the majority of the voting stock of Credit Suisse First Boston, Inc., which in turn owns all of the voting stock of Credit Suisse First Boston (USA), Inc. ("CSFB-USA"). The entities named above are merchant banking funds advised by indirect subsidiaries of CSFB-USA. The principal address for each of these entities is 11 Madison Avenue, 16th Floor, New York, NY 10010.

(23)

Includes 11,412,564 common shares held by Thomas H. Lee (Alternative) Fund V, L.P.; 2,961,101 common shares held by Thomas H. Lee (Alternative) Parallel Fund V, L.P.; 157,260 common shares held by Thomas H. Lee (Alternative) Cayman Fund V, L.P.; 21,946 common shares held by U.S. Bank, N.A. (successor to State Street Bank and Trust Company), not personally, but solely as Trustee under the 1997 Thomas H. Lee Nominee Trust; 22,545 common shares held by Thomas H. Lee Investors Limited Partnership; 76,641 common shares held by Putnam Investments Employees' Securities Co. I LLC; 68,430 common shares held by Putnam Investments Employees' Securities Co. II LLC; and 89,159 common shares held by Putnam Investments Holdings, LLC. The address for the Thomas H. Lee (Alternative) Fund V, L.P., Thomas H. Lee (Alternative) Parallel Fund V, L.P. and Thomas H. Lee (Alternative) Cayman Fund V, L.P. is c/o Walkers, Walker House, Mary Street, George Town, Grand Cayman, Cayman Islands. The address for the 1997 Thomas H. Lee Nominee Trust and Thomas H. Lee Investors Limited Partnership is 75 State Street, Boston, Massachusetts 02109. The address for Putnam Investments Employees' Securities Company I, LLC, Putnam Investments Employees' Securities Company 11, LLC and Putnam Investments Holdings LLC is One Post Office Square, Boston, Massachusetts 02109. No individual at Thomas H. Lee has voting or investment control over the common shares owned of record by Thomas H. Lee (Alternative) Fund V, L.P., Thomas H. Lee (Alternative) Parallel Fund V, L.P., Thomas H. Lee (Alternative) Cayman Fund V, L.P. and Thomas H. Lee Investors Limited Partnership. Thomas H. Lee has voting and investment control over common shares owned of record by State Street Bank and Trust Company as Trustee under the 1997 Thomas H. Lee Nominee Trust. No individual at Putnam Investments has voting or investment control over common shares owned of record by Putnam Investments Employees' Securities Co. I LLC, Putnam Investments Employees' Securities Co. II LLC and Putnam Investments Holdings, LLC.

SELLING SHAREHOLDERS

The following table sets forth information as of March 31, 2004 regarding ownership of common shares by each selling shareholder participating in this offering. Please see "Principal Shareholders" for additional information regarding ownership of certain shareholders.

The information provided in the table below with respect to each selling shareholder has been obtained from that selling shareholder. When we refer to the "selling shareholders" in this prospectus, we mean those persons listed in the table below as offering shares, as well as the pledgees, donees, assignees, transferees, successors and others who hold any of the selling shareholders' interest.

Selling Shareholders	Ownership of Selling Shareholders Prior to the Offering	Shares Being Offered	Ownership of Selling Shareholders After the Offering[1]	
			Number	Percentage[2]
Trident II, L.P.	17,529,331	3,324,048	14,205,283	9.2%
Marsh & McLennan Capital Professionals Fund, L.P.	490,756	93,061	397,695	*
Marsh & McLennan Employees' Securities Company, L.P.	493,469	93,575	399,894	*
J.P. Morgan Partners (BHCA), L.P.	7,878,880	1,493,787	6,385,093	4.1%
J.P. Morgan Partners Global Investors (Cayman) III, L.P.	720,111	136,582	583,529	*
	534,318	101,319	432,999	*

			Ownership of Selling Shareholders After the Offering[1]	
J.P. Morgan Partners Global Investors (Cayman) IV, L.P.			512,251	
J.P. Morgan Partners Global Investors (Cayman), L.P.	632,393	120,142		*
J.P. Morgan Corsair II Offshore Capital Partners, L.P.	3,706,111	702,781		1.9%
J.P. Morgan Capital, L.P.	1,107,021	209,922	897,099	*
J.P. Morgan Partners Global Investors, L.P.	37,817	7,174	30,643	*
J.P. Morgan Partners Global Investors A, L.P.	125,999	23,902	102,097	*
J.P. Morgan Partners Global Investors (Cayman) II, L.P.	70,582	13,389	57,193	*
Blackstone FI Capital Partners (Cayman) L.P.	11,961,353	2,268,204	9,693,149	6.3%
Blackstone FI Offshore Capital Partners (Cayman) L.P.	2,329,957	441,824	1,888,133	1.2%
Blackstone Family Investment Partnership (Cayman) III L.P.	518,335	98,291	420,044	*
DLJMB Overseas Partners III, C.V.	11,195,014	2,122,885	9,072,129	5.9%
DLJ Offshore Partners III, C.V.	783,258	148,527	634,731	*
DLJ Offshore Partners III-1, C.V.	202,040	38,312	163,728	*
DLJ Offshore Partners III-2, C.V.	143,918	27,291	116,627	*
DLJ MB Partners III GmbH & CO.KG	95,489	18,107	77,382	*
MBP III Plan Investors, L.P.	2,370,975	449,603	1,921,372	1.2%
Millennium Partners II, L.P.	18,960	3,595	15,365	*
Thomas H. Lee (Alternative) Fund V, L.P.	11,412,564	2,164,138	9,248,426	6.0%
Thomas H. Lee (Alternative) Parallel Fund V, L.P.	2,961,101	561,507	2,399,594	1.5%
Thomas H. Lee (Alternative) Cayman Fund V, L.P.	157,260	29,821	127,439	*
	22,545	4,275	18,270	*

			Ownership of Selling Shareholders After the Offering[1]	
Thomas H. Lee Investors Limited Partnership				
U.S. Bank, N.A. (successor to State Street Bank and Trust Company), not personally, but solely as Trustee under the 1997 Thomas H. Lee Nominee Trust	21,946	4,162		*
Putnam Investments Holdings, LLC	89,159	16,907		*
Putnam Investments Employees' Securities Company I LLC	76,641	14,533	62,108	*
Putnam Investments Employees' Securities Company II LLC	68,430	12,976	55,454 72,252	*

General Electric Capital Corporation	3,702,413	702,080	3,000,333	1.9%
General Electric Pension Trust	3,702,413	702,080	3,000,333	1.9%
Princes Gate Investors III, L.P.	2,937,107	556,958	2,380,149	1.5%
BPEF 2 Prince Limited	296,192	56,166	240,026	*
Hasso Plattner	148,096	28,083	120,013	*
Vermogensverwaltung Erben Dr. Karl Goldschmidt GmbH	148,096	28,083	120,013	*
Acorn Partnership III, L.P.	149,593	28,367	121,226	*
Originators Investment Plan, L.P.	23,322	4,422	18,900	*
Brookside Capital Partners Fund, L.P.	2,365,100	448,488	1,916,612	1.2%
Sankaty High Yield Partners II, L.P.	111,071	21,062	90,009	*
Sankaty High Yield Partners III, L.P.	111,071	21,062	90,009	*
BCIP Associates III	324,789	61,589	263,200	*
BCIP Associates III-B	35,088	6,654	28,434	*
RGIP LLC	14,806	2,808	11,998	*
Merrill Lynch Ventures L.P. 2001	2,468,249	468,048	2,000,201	1.3%
Federal Insurance Company	2,221,446	421,248	1,800,198	1.2%
Wachovia Capital Partners 2001, LLC	1,851,207	351,040	1,500,167	*
Robco Partners III	1,748,800	331,621	1,417,179	*
Teachers Insurance and Annuity Association of America	1,480,967	280,832	1,200,135	*
Sompo Japan Insurance Inc.	1,480,967	208,695	1,272,272	*
Asset Management Private Equity, L.P.	1,234,164	234,032	1,000,132	*
Lockheed Martin Corporation Master Retirement Trust	1,110,727	210,625	900,102	*
Northaven Partners II, L.P.	208,818	39,598	169,220	*
John Markham Green	200,000	37,926	162,074	*
Christopher J. Cavallaro	20,000	3,793	16,207	*

Total	105,850,235	20,000,000	85,850,235

* Less than 1%

(1) Assumes that the underwriters do not exercise their over-allotment option. In the event that the over-allotment option is exercised, each of the selling shareholders will sell additional common shares in the same proportion as, and up to a maximum amount equal to 15% of, the shares shown as being offered in this offering.

(2) Calculated on the basis of 154,892,341 common shares to be outstanding after the offering.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In connection with our formation, we issued warrants to some of our founding shareholders to purchase common shares at an exercise price of $12.50 per share, subject to adjustment. Trident II, L.P. received warrants to purchase 16,918,312 shares; Marsh & McLennan Capital Professionals Fund, L.P. received warrants to purchase 473,264 shares; Marsh & McLennan Employees' Securities Company, L.P. received warrants to purchase 476,528 shares; two trusts affiliated with Mr. Charman, our Chief Executive Officer and President, received warrants to purchase 1,429,576 shares; and Mr. Newhouse, the Chairman of the Executive Committee, received warrants to purchase 71,808 shares. See "Description of Share Capital Warrants."

Mr. Davis, one of our directors, is Chairman and Chief Executive Officer of MMC Capital, Inc. and a director of Marsh & McLennan Companies, Inc. AXIS Specialty entered into an advisory agreement in November 2001 with MMC Capital, Inc. Under this agreement, MMC Capital from time to time provides advice and assistance to the Company in connection with transactions and other matters as may be agreed by MMC Capital and the Company for a period of five years. During the term of this agreement, AXIS Specialty pays an annual fee of $1.0 million. During the years ended December 31, 2003, 2002 and 2001, we incurred $1.0 million, $1.0 million and $115,000, respectively, of fees and expenses to MMC Capital pursuant to this agreement. Mr. Davis receives approximately 4.5% of the payments made to MMC Capital pursuant to the MMC Capital Long Term Incentive Plan.

AXIS Specialty entered into two agreements in November 2001 in connection with the formation of AXIS Specialty. MMC Capital received $25.8 million in fees pursuant to one agreement and Mr. Charman received $2.5 million. Mr. Davis received approximately $1.2 million of the $25.8 million received by MMC Capital pursuant to the MMC Capital Long Term Incentive Plan. Marsh and McLennan Companies, Inc. received $8.4 million pursuant to the second agreement.

AXIS Specialty entered into an agreement in November 2001 with The Putnam Advisory Company, L.L.C., an affiliate of Marsh and McLennan Companies, Inc., under which Putnam was appointed as an investment manager of part of our investment portfolio. This agreement was entered into on an arms length basis on terms generally available in the market. During the years ended December 31, 2003, 2002 and 2001, we incurred $704,000, $671,000 and $73,000, respectively, of fees pursuant to this agreement.

We use Marsh and its affiliates for accounting and human resource consulting services. During the years ended December 31, 2003 and 2002, we incurred $619,000 and $570,000, respectively, in fees in connection with these transactions. In addition, we pay brokerage fees and commissions to Marsh and its affiliates, which vary based on the amount of business produced. During the years ended December 31, 2003, 2002 and 2001, we incurred $86.1 million, $34.3 million and $44,000, respectively, in brokerage fees and commissions in connection with these transactions.

Mr. Rush, one of our directors, is a managing director of Credit Suisse First Boston in the Private Equity Group and a member of the Investment Committee of DLJ Merchant Banking Partners III, L.P., both of which are affiliates of Credit Suisse First Boston LLC. Mr. Walker, one of our directors, is the Managing Partner of J.P. Morgan Partners and a member of the Executive Committee and Vice Chairman of J.P. Morgan Chase & Co., both of which are affiliates of J.P. Morgan Securities Inc. During the year ended December 31, 2003, Credit Suisse First Boston LLC and J.P. Morgan Securities Inc. acted as representatives of the underwriters in our initial public offering and were paid $2.4 million and $1.9 million, respectively, in underwriting discounts and commissions.

JPMorgan Chase Bank acted as administrative agent and/or lender for our prior credit facilities and acts in the same capacity under our new credit facility. Some subsidiaries of the Company also hold several bank accounts with JPMorgan Chase Bank. During the years ended

December 31, 2003

and 2002, we incurred $678,000 and $658,000, respectively, of fees in connection with these transactions.

AXIS Specialty entered into agreements in November 2001 and December 2002 with J.P. Morgan Investment Management Inc. and its affiliates under which JPMorgan was appointed as an investment manager of part of our investment portfolio. These agreements were entered into on an arms length basis on terms generally available in the market. During the years ended December 31, 2003, 2002 and 2001, we incurred $530,000, $441,000 and $57,000, respectively, of fees pursuant to these agreements.

From time to time, in the ordinary course of our business, we provide insurance and reinsurance coverage to our affiliates and their related entities. These transactions are conducted on an arms-length basis.

Certain relationships and related transactions with respect to the underwriters are set forth in "Underwriting."

MATERIAL TAX CONSIDERATIONS

The following summary of our taxation, and the taxation of our shareholders is based upon current law and does not purport to be a comprehensive discussion of all the tax considerations that may be relevant to a decision to purchase common shares. Legislative, judicial or administrative changes may be forthcoming that could affect this summary.

The following legal discussion (including and subject to the matters and qualifications set forth in such summary) of the material tax considerations under (i) "Taxation of AXIS Capital and Subsidiaries Bermuda" and "Taxation of Shareholders Bermuda Taxation" is based upon the advice of Conyers Dill & Pearman, special Bermuda legal counsel, (ii) "Taxation of AXIS Capital and Subsidiaries United Kingdom" is based upon the advice of Clyde & Co., special United Kingdom legal counsel, (iii) "Taxation of AXIS Capital and Subsidiaries Ireland" is based upon the advice of William Fry Tax Advisers Limited, special Irish tax advisers, (iv) "Taxation of AXIS Capital and Subsidiaries Switzerland" is based upon the advice of Bär & Karrer, special Switzerland legal counsel, (v) "Taxation of AXIS Capital and Subsidiaries Barbados" is based upon the advice of David King & Co., special Barbados legal counsel, and (vi) "Taxation of AXIS Capital and Subsidiaries United States" and "Taxation of Shareholders United States Taxation" is based upon the advice of LeBoeuf, Lamb, Greene & MacRae, L.L.P. Each of these firms has reviewed the relevant portion of this discussion (as set forth above) and believes that such portion of the discussion constitutes, in all material respects, a fair and accurate summary of the relevant income tax considerations relating to AXIS Capital and its subsidiaries and the ownership of AXIS Capital common shares by investors that are U.S. Persons (as defined below) who acquire such shares in the offering. The advice of such firms does not include any factual or accounting matters, determinations or conclusions such as insurance accounting determinations or RPII, amounts and computations and amounts or components thereof (for example, amounts or computations of income or expense items or reserves entering into RPII computations) or facts relating to the business, income, reserves or activities of AXIS Capital and its subsidiaries. The advice of these firms relies upon and is premised on the accuracy of factual statements and representations made by AXIS Capital concerning the business and properties, ownership, organization, source of income and manner of operation of AXIS Capital and its subsidiaries. The discussion is based upon current law. Legislative, judicial or administrative changes or interpretations may be forthcoming that could be retroactive and could affect the tax consequence to holders of common shares. The tax treatment of a holder of common shares, or of a person treated as a holder of common shares for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the holder's particular tax situation. Statements contained herein as to the beliefs, expectations and conditions of AXIS Capital and its subsidiaries as to the application of such tax laws or facts represent the view of management as to the application of such laws and do not represent the opinions of counsel. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF OWNING COMMON SHARES UNDER THE LAWS OF THEIR COUNTRIES OF CITIZENSHIP, RESIDENCE, ORDINARY RESIDENCE OR DOMICILE.

Taxation of AXIS Capital and Subsidiaries

Bermuda

Under current Bermuda law, there is no income, corporate or profits tax or withholding tax, capital gains tax or capital transfer tax payable by us. AXIS Capital and AXIS Specialty have each obtained from the Minister of Finance under the Exempted Undertaking Tax Protection Act 1966 of Bermuda, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to AXIS Capital or AXIS Specialty or to any of their respective operations, shares, debentures or other obligations, until

March 28, 2016. AXIS Capital and AXIS Specialty could be subject to taxes in Bermuda after that date. This assurance is subject to the proviso that it is not to be construed so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 of Bermuda or otherwise payable in relation to any property leased to AXIS Capital or AXIS Specialty. AXIS Capital and AXIS Specialty each pay annual Bermuda government fees, and AXIS Specialty pays annual insurance license fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

United Kingdom

AXIS UK and AXIS UK Holdings are companies incorporated and managed in the United Kingdom and are, by virtue of their place of incorporation, resident in the United Kingdom and will be subject to U.K. corporation tax on their worldwide profits (including revenue profits and capital gains). It is not expected that, in the context of the group's profitability as a whole, any such tax charges will be seen to be significant. The maximum rate of United Kingdom corporation tax is currently 30% on profits of whatever description. Currently, no United Kingdom withholding tax applies to dividends paid by AXIS UK and AXIS UK Holdings.

All of us, except for AXIS UK and AXIS UK Holdings, are not incorporated in the United Kingdom. Accordingly, except for AXIS UK and AXIS UK Holdings, we should not be treated as being resident in the United Kingdom unless our central management and control is exercised in the United Kingdom. The concept of central management and control is indicative of the highest level of control of a company, which is wholly a question of fact. The directors of each of us, other than AXIS UK and AXIS UK Holdings, intend to manage our affairs so that none of us, other than AXIS UK and AXIS UK Holdings, are resident in the United Kingdom for tax purposes.

A company not resident in the United Kingdom for corporation tax purposes can nevertheless be subject to U.K. corporation tax if it carries on a trade through a permanent establishment in the United Kingdom but the charge to U.K. corporation tax is limited to profits (including revenue profits and chargeable (i.e., capital) gains) connected with such permanent establishment.

The directors of each of us, other than AXIS UK and AXIS UK Holdings (which are resident in the United Kingdom), AXIS Ireland Holdings (which has a permanent establishment in the United Kingdom) and AXIS Specialty Europe (which has a permanent establishment in the United Kingdom), intend that we will operate in such a manner so that none of us, other than AXIS UK, AXIS UK Holdings, AXIS Ireland Holdings and AXIS Specialty Europe, carry on a trade through a permanent establishment in the United Kingdom. Nevertheless, because neither case law nor U.K. statute definitively defines the activities that constitute trading in the United Kingdom through a permanent establishment, the U.K. Inland Revenue might contend successfully that any of us, other than AXIS UK, AXIS UK Holdings, AXIS Ireland Holdings and AXIS Specialty Europe, is/are trading in the United Kingdom through a permanent establishment in the United Kingdom.

The definition of "permanent establishment" under UK law is consistent with various internationally recognized characteristics commonly used to define a "permanent establishment" for the purposes of the United Kingdom's double tax treaties. If any of the U.S. Subsidiaries qualifying for benefits under the tax treaty between the United Kingdom and the United States were trading in the United Kingdom through a permanent establishment, they would only be subject to U.K. corporation tax to the extent that any profits were attributable to that permanent establishment in the United Kingdom.

AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe should be entitled to the benefits of the tax treaty between Ireland and the United Kingdom if they are resident in Ireland. If AXIS Ireland

Holdings, AXIS Re and AXIS Specialty Europe were trading in the U.K. through a permanent establishment and they were entitled to the benefits of the tax treaty between Ireland and the United Kingdom they would only be subject to U.K. corporation tax to the extent that any profits were attributable to that permanent establishment in the United Kingdom.

AXIS Ireland Holdings has a permanent establishment in the United Kingdom and the profits attributable to that permanent establishment (which have been calculated by the company on the basis of cost plus 10%) are subject to United Kingdom corporation tax. AXIS Specialty Europe also has a permanent establishment in the United Kingdom and that the profits attributable to that permanent establishment will also be subject to United Kingdom corporation tax.

The United Kingdom has no income tax treaty with Bermuda.

There are circumstances in which companies that are neither resident in the United Kingdom nor entitled to the protection afforded by a double tax treaty between the United Kingdom and the jurisdiction in which they are resident may be exposed to income tax in the United Kingdom (other than by deduction or withholding) on the profits of a trade carried on there even if that trade is not carried on through a branch or agency but the directors of each of us intend that we will operate in such a manner that none of us will fall within the charge to income tax in the United Kingdom (other than by deduction or withholding) in this respect.

If any of us, other than AXIS UK and AXIS UK Holdings, were treated as being resident in the United Kingdom for U.K. corporation tax purposes, or if any of us, other than AXIS Specialty Europe and AXIS Ireland Holdings, were to be treated as carrying on a trade in the United Kingdom through a permanent establishment in the United Kingdom, our results of operations and your investment could be materially adversely affected.

Ireland

The directors of each of AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe intend to manage their affairs so that each of them is, and will continue to be, resident in Ireland for Irish tax purposes. Assuming that AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe are and will continue to be resident in Ireland for Irish tax purposes, such companies will be subject to Irish corporation tax on their worldwide income and capital gains.

Income derived by AXIS Ireland Holdings, AXIS Re or AXIS Specialty Europe from any non-life insurance trade, any reinsurance trade or any Irish trade (i.e., a trade that is not carried on wholly outside of Ireland) will be subject to Irish corporation tax at the current rate of 12.5%. Other income (e.g., income from passive investments, income from certain non-Irish trades and income from certain dealings in land) will generally be subject to Irish corporation tax at the current rate of 25%. Published administrative statements of the Irish Revenue Commissioners suggest that investment income earned by AXIS Specialty Europe and Axis Re will be taxed in Ireland at a rate of 12.5% provided that such investments either form part of the permanent capital required by regulatory authorities, or are otherwise integral to the insurance and reinsurance businesses carried on by those companies. Other investment income earned by AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe will generally be taxed in Ireland at a rate of 25%.

Capital gains realized by AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe will generally be subject to Irish corporation tax at a rate of 20%.

AXIS Ireland Holdings and AXIS Specialty Europe each carry on a trade in the United Kingdom through a branch. Profits realized by such companies from branch activities in the United Kingdom will be subject to Irish corporation tax at the rates specified above notwithstanding that such profits may also be subject to taxation in the United Kingdom. A credit against the Irish corporation tax liability is

available for U.K. tax paid on such profits, subject to the maximum credit being equal to the Irish corporation tax payable on such profits.

AXIS Re carries on a trade in Switzerland through a branch. Profits realized by AXIS Re from branch activities in Switzerland will be subject to Irish corporation tax at the rates specified above notwithstanding that such profits may also be subject to taxation in Switzerland. A credit against the Irish corporation tax liability is available for tax paid in Switzerland on such profits, subject to the maximum credit being equal to the Irish corporation tax payable on such profits.

AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe are, as limited liability companies, also within the charge to Irish capital duty. Irish capital duty applies at the rate of 1% on the value received for share capital issued by such companies.

As each of AXIS Re and AXIS Specialty Europe are Irish tax resident companies, distributions made by such companies to AXIS Ireland Holdings will not be taken into account in computing the taxable income of AXIS Ireland Holdings. Irish withholding tax will also not apply to distributions made by any of AXIS Re and AXIS Specialty Europe to AXIS Ireland Holdings. Following the listing of the common shares of AXIS Capital on the New York Stock Exchange, and provided that such shares are substantially and regularly traded on that exchange, Irish

withholding tax will not apply to distributions paid by AXIS Ireland Holdings to AXIS Capital provided AXIS Capital has made an appropriate declaration, in prescribed form, to AXIS Ireland Holdings.

None of us, other than AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, will be resident in Ireland for Irish tax purposes unless the central management and control of such companies is, as a matter of fact, located in Ireland. See "Risk Factors Risks Related to Taxation We may be subject to Irish tax, which may have a material adverse effect on our results of operations."

A company not resident in Ireland for Irish tax purposes can nevertheless be subject to Irish corporation tax if it carries on a trade through a branch or agency in Ireland or disposes of certain specified assets (e.g. Irish land, minerals, or mineral rights, or shares deriving the greater part of their value from such assets). In such cases, the charge to Irish corporation tax is limited to trading income connected with the branch or agency, capital gains on the disposal of assets used in the branch or agency which are situated in Ireland at or before the time of disposal, and capital gains arising on the disposal of specified assets, with tax imposed at the rates discussed above.

Switzerland

AXIS Re Europe constitutes a permanent establishment for the purposes of the Irish/Swiss Income Tax Convention. AXIS Re is liable for Swiss corporate income taxes at the federal and cantonal/communal level and for annual capital taxes at the cantonal/communal level in respect of the net profit attributed to AXIS Re Europe and its "dotation capital." The method of computation of Swiss income and capital taxes in respect of AXIS Re Europe was agreed with the Swiss tax authorities in a binding advance ruling. For capital tax purposes, AXIS Re Europe's taxable capital corresponds to 20% of its net premium revenue for its account over the respective tax year, subject to a minimum of CHF 100,000. The capital tax rate amounts to approximately 0.07%. Corporate income taxes are computed on a deemed minimum net profit, which corresponds to a notional yield on the taxable capital of 200 basis points over the average Swiss government bond yield as published from time to time by the Swiss Federal Tax Administration. Such minimum taxable profit will only apply for tax years starting on January 1, 2006; prior to such date the tax accounts of AXIS Re Europe may reflect net losses emanating from the build-up of technical reserves. Any such losses may be carried forward for income tax purposes for a maximum of seven years. The effective combined Swiss income tax rate on AXIS Re Europe's net profits before taxes presently amounts to approximately 24.1% on profits from Swiss sources (if any) and approximately 10.7% on profits from non-Swiss sources.

Barbados

AXIS Barbados was incorporated in Barbados to act as a holding company for various companies in the United States. As such, AXIS Barbados was granted a license to conduct international business in accordance with the provisions of the International Business Companies Act, Cap. 77 as amended (the "Act"), and related regulations. The Minister of Industry and International Business (the "MIIB") has granted AXIS Barbados a guarantee that the benefits and exemptions contained in the Act will apply to AXIS Barbados until January 11, 2017.

Under the Act, AXIS Barbados is required to pay a maximum corporate tax rate of $2^1/_2$% on its worldwide profits, which reduces to 1% on taxable profits over U.S. $15 million. Under the Act there is currently no withholding tax imposed on amounts paid by AXIS Barbados to persons not resident in Barbados. Additionally, under current Barbados law there is no capital gains tax and no tax is payable on the transfer of shares in AXIS Barbados if transferred to a person who is not resident in Barbados or to another international business company.

The Act governs the licensing and operations of international business companies. Licenses are issued by the MIIB, who has broad discretion over whether licenses are granted or refused. The MIIB has the authority to suspend or revoke a license if at any time a licensee fails to satisfy the conditions of the license, or is in violation of any provisions of the Act.

The Act imposes on Barbados international business companies certain reporting requirements. For example, a licensee that has gross revenues and assets that exceed Barbados $1.0 million, which is approximately U.S. $500,000, is required to forward to the MIIB annual audited financial statements prepared in accordance with generally accepted accounting principles.

United States

The following discussion is a summary of all material U.S. federal income tax considerations relating to our operations. A foreign corporation that is engaged in the conduct of a U.S. trade or business will be subject to U.S. tax as described below, unless entitled to the benefits of an applicable tax treaty. Whether business is being conducted in the United States is an inherently factual determination. Because the Internal Revenue Code of 1986, as amended (the "Code"), regulations and court decisions fail to identify definitively activities that constitute being engaged in a trade or business in the United States, we cannot be certain that the IRS will not contend successfully that AXIS Capital and/or its non-U.S. subsidiaries are or will be engaged in a trade or business in the United States. A foreign corporation deemed to be so engaged

would be subject to U.S. income tax at regular corporate rates, as well as the branch profits tax, on its income which is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of an applicable tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a U.S. corporation, except that a foreign corporation is generally entitled to deductions and credits only if it timely files a U.S. federal income tax return. AXIS Specialty, AXIS Re and AXIS Specialty Europe intend to file protective U.S. federal income tax returns on a timely basis in order to preserve the right to claim income tax deductions and credits if it is ever determined that they are subject to U.S. federal income tax. The highest marginal federal income tax rates currently are 35% for a corporation's effectively connected income and 30% for the additional "branch profits" tax.

If AXIS Specialty is entitled to the benefits under the income tax treaty between Bermuda and the United States (the "Bermuda Treaty"), AXIS Specialty would not be subject to U.S. income tax on any income found to be effectively is connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. No regulations interpreting the Bermuda Treaty have been issued. AXIS Specialty currently intends to conduct its activities so that it

does not have a permanent establishment in the United States, although we cannot be certain that we will achieve this result.

An insurance enterprise resident in Bermuda generally will be entitled to the benefits of the Bermuda Treaty if (i) more than 50% of its shares are owned beneficially, directly or indirectly, by individual residents of the United States or Bermuda or U.S. citizens and (ii) its income is not used in substantial part, directly or indirectly, to make disproportionate distributions to, or to meet certain liabilities of, persons who are neither residents of either the United States or Bermuda nor U.S. citizens. We cannot be certain whether AXIS Specialty is eligible for Bermuda Treaty benefits immediately following the offering or will be eligible in the future because of factual and legal uncertainties regarding the residency and citizenship of AXIS Capital's shareholders. AXIS Capital would not be eligible for treaty benefits because it is not an insurance company. Accordingly, we have conducted and intend to conduct substantially all of our non-U.S. operations outside the United States and to limit the U.S. contacts of AXIS Capital and its non-U.S. subsidiaries so that they should not be engaged in a trade or business in the United States.

Foreign insurance companies carrying on an insurance business within the United States have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risk insured or reinsured by such companies. If AXIS Specialty is considered to be engaged in the conduct of an insurance business in the United States and it is not entitled to the benefits of the Bermuda Treaty in general (because it fails to satisfy one of the limitations on treaty benefits discussed above), the Code could subject a significant portion of AXIS Specialty's investment income to U.S. income tax. In addition, while the Bermuda Treaty clearly applies to premium income, it is uncertain whether the Bermuda Treaty applies to other income such as investment income. If AXIS Specialty is considered engaged in the conduct of an insurance business in the United States and is entitled to the benefits of the Bermuda Treaty in general, but the Bermuda Treaty is interpreted to not apply to investment income, a significant portion of AXIS Specialty's investment income could be subject to U.S. income tax.

Under the income tax treaty between the United Kingdom and the United States (the "U.K. Treaty"), AXIS UK and AXIS UK Holdings, if entitled to the benefits of the U.K. Treaty, will not be subject to U.S. federal income tax on any income found to be effectively connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. AXIS UK and AXIS UK Holdings will generally be entitled to the benefits of the U.K. Treaty if, among other reasons, (i) during at least half of the days during the relevant taxable period, at least 50% of AXIS UK's and AXIS UK Holding's stock is beneficially owned, directly or indirectly, by citizens or residents of the United States and the United Kingdom, and less than 50% of each of AXIS UK's and AXIS UK Holding's gross income for the relevant taxable period is paid or accrued, directly or indirectly, to persons who are not U.S. or U.K. residents in the form of payments that are deductible for purposes of U.K. taxation or (ii) with respect to specific items of income, profit or gain derived from the United States, if such income, profit or gain is considered to be derived in connection with, or incidental to, AXIS UK's and AXIS UK Holding's business conducted in the United Kingdom. Although, we cannot be certain that AXIS UK and AXIS UK Holdings will be eligible for treaty benefits under the U.K. Treaty because of factual and legal uncertainties regarding (i) the residency and citizenship of AXIS Capital shareholders and (ii) the interpretation of what constitutes income incidental to or connected with a trade or business in the United Kingdom, we will endeavor to so qualify. AXIS UK and AXIS UK Holdings have conducted and intend to conduct their activities in a manner so that each of them should not have permanent establishments in the United States, although we cannot be certain that we will achieve this result.

Under the income tax treaty between Ireland and the United States (the "Irish Treaty"), each of AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, if entitled to the benefits of the Irish Treaty, will not be subject to U.S. federal income tax on any income determined to be effectively

connected with a U.S. trade or business unless that trade or business is conducted through a permanent establishment in the United States. Each of AXIS Ireland Holdings, AXIS Re, and AXIS Specialty Europe will generally be entitled to the benefits of the Irish Treaty if among other reasons, (i) at least 50% of the shares of AXIS Capital, measured by both vote and value, are owned by Irish citizens or U.S. citizens or residents and less than 50% of each such company's gross income for the relevant taxable period is paid or accrued directly or indirectly to persons who are not U.S. or Irish residents in the form of payments that are deductible for Irish income tax purposes or (ii) each of AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe, respectively, are considered as engaged in the active conduct of a trade or business in Ireland and their effectively connected income is connected with or incidental to that trade or business. Although we cannot be certain that AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe will be eligible for Irish Treaty benefits because of factual and legal uncertainties regarding (i) the residency and citizenship of AXIS Capital shareholders and (ii) the interpretation of what constitutes (x) an active trade or business in Ireland and (y) income incidental or connected thereto, we will endeavor to so qualify. AXIS Ireland Holdings, AXIS Re and AXIS Specialty Europe have conducted and intend to conduct their activities in a manner so that each of them should not have permanent establishments in the United States, although we cannot be certain that we will achieve this result.

Foreign corporations not engaged in a trade or business in the United States are nonetheless subject to U.S. income tax imposed by withholding on the gross amount of certain "fixed or determinable annual or periodic gains, profits and income" derived from sources within the United States (such as dividends and certain interest on investments), subject to exemption under the Code or reduction by applicable treaties. Generally under the U.K. Treaty, the withholding rate on dividends from less than 10% owned corporations is reduced to 15% and on interest is reduced to 0% and under the Irish Treaty the withholding rate on dividends from less than 10% owned corporations is reduced to 15% and on interest is reduced to 0%. The Bermuda Treaty does not reduce the U.S. withholding rate on U.S. sourced investment income.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rates of tax applicable to premiums paid to AXIS Specialty are 4% for casualty insurance premiums and 1% for reinsurance premiums. The excise tax does not currently apply to premiums paid to AXIS Re and AXIS Specialty Europe provided that they are entitled to the benefits of the Irish Treaty and the business for which the premiums are paid is not ceded to a reinsurer not entitled to a similar treaty based excise tax exemption.

AXIS Services and AXIS U.S. Holdings are Delaware corporations, AXIS Reinsurance is a New York corporation, AXIS Insurance is a Connecticut corporation and AXIS Surplus is an Illinois corporation, and as such each will be subject to taxation in the United States at regular corporate rates. Additionally, dividends paid by these companies to AXIS Barbados would be subject to a 30% U.S. withholding tax, subject to reduction under the income tax treaty between Barbados and the United States to 5%.

Personal Holding Companies. AXIS Capital and/or any of its subsidiaries could be subject to U.S. tax on a portion of its income if any of them are considered to be a personal holding company ("PHC") for U.S. federal income tax purposes. A corporation generally will be classified as a PHC for U.S. federal income tax purposes in a given taxable year if (i) at any time during the last half of such taxable year, five or fewer individuals (without regard to their citizenship or residency) own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of the stock of the corporation by value and (ii) at least 60% of the corporation's gross income, as determined for U.S. federal income tax purposes for such taxable year consists of "PHC income." PHC income includes, among other things, dividends, interest, royalties, annuities and, under certain circumstances, rents. Under these constructive ownership rules, among other things, a partner will be treated as owning a

proportionate amount of the stock owned by the partnership and a partner who is an individual will be treated as owning the stock owned by his or her partners. For example, all of the ordinary shares owned by a partnership will be attributed to each of its partners, if any, who are individuals. Also, stock treated as owned by such partner proportionately through such partnership will be treated as owned by the partner for purposes of reapplying the constructive ownership rules. Additionally, certain entities (such as certain tax-exempt organizations and pension funds) will be treated as individuals. The PHC rules contain an exception for foreign corporations that are classified as foreign personal holding companies (as discussed below).

If AXIS Capital or any subsidiary were a PHC in a given taxable year, such corporation would be subject to a 15% PHC tax on its "undistributed PHC income" (which, in the case of AXIS Capital and its non-U.S. subsidiaries, would exclude PHC income that is from non-U.S. sources, except to the extent that such income is effectively connected with a trade or business in the U.S.). For taxable years beginning after December 31, 2008, the PHC tax rate would be the highest marginal rate on ordinary income applicable to individuals. Thus, the PHC income of AXIS Capital and its non-U.S. subsidiaries would not include underwriting income or investment income derived from non-U.S. sources that is not effectively connected income and should not include dividends received by AXIS Capital from its non-U.S. subsidiaries (as long as such non-U.S. subsidiaries are not engaged in the trade or business in the U.S.).

We believe based upon information made available to us regarding our existing shareholder base that neither AXIS Capital nor any of its subsidiaries should be considered a PHC for U.S. federal income tax purposes immediately following the offering. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold so that neither AXIS Capital nor any of its subsidiaries should be considered a PHC for U.S. federal income tax purposes.

We cannot be certain, however, that AXIS Capital and its subsidiaries will not become PHCs following the offering or in the future because of factors including legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of AXIS Capital's shareholder base, the gross income of AXIS Capital or any of its subsidiaries and other circumstances that could change the application of the PHC rules to AXIS Capital and its subsidiaries. In addition, if AXIS Capital or any of its subsidiaries were to become PHCs, we cannot be certain that the amount of PHC income will be immaterial.

Taxation of Shareholders

Bermuda Taxation

Currently, there is no Bermuda withholding or other tax payable on principal, interest or dividends paid to the holders of the common shares.

United States Taxation

The following summary sets forth the material United States federal income tax considerations related to the purchase, ownership and disposition of common shares. Unless otherwise stated, this summary deals only with shareholders that are U.S. Persons (as defined below) who purchase their common shares in this offering, who did not own (directly or indirectly through foreign entities or constructively) shares of AXIS Capital prior to this offering and who hold their common shares as capital assets within the meaning of section 1221 of the Code and as beneficial owners. The following discussion is only a discussion of the material U.S. federal income tax matters as described herein and does not purport to address all of the U.S. federal income tax consequences that may be relevant to a particular shareholder in light of such shareholder's specific circumstances. For example, if a partnership holds our common shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partner of a partnership holding

the common shares, you should consult your tax advisors. In addition, the following summary does not address the U.S. federal income tax consequences that may be relevant to special classes of shareholders, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers or traders in securities, tax exempt organizations, expatriates, persons who are considered with respect to any of us as "United States shareholders" for purposes of the CFC rules of the Code (generally, a U.S. Person, as defined below, who owns or is deemed to own 10% or more of the total combined voting power of all classes of AXIS Capital or the stock of any of our non-U.S. subsidiaries entitled to vote (i.e., 10% U.S. Shareholders)), or persons who hold the common shares as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under the Code. This discussion is based upon the Code, the regulations promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the United States and does not address any aspect of U.S. federal taxation other than income taxation.

For purposes of this discussion, the term "U.S. Person" means: (i) a citizen or resident of the United States, (ii) a partnership or corporation, or entity treated as a corporation, created or organized in or under the laws of the United States, or any political subdivision thereof, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, (iv) a trust if either (x) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more U.S. Persons have the authority to control all substantial decisions of such trust or (y) the trust has a valid election in effect to be treated as a U.S. Person for U.S. federal income tax purposes or (v) any other person or entity that is treated for U.S. federal income tax purposes as if it were one of the foregoing. Additionally, references to a "foreign" person refer to a non-U.S. person.

Taxation of Dividends. Subject to the discussions below relating to the potential application of the controlled foreign corporation ("CFC"), related person insurance income ("RPII"), foreign personal holding company ("FPHC") and passive foreign investment company ("PFIC") rules, cash distributions, if any, made with respect to the common shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits of AXIS Capital (as computed using U.S. tax principles). Under recently enacted legislation, we believe dividends paid by us before 2009 should be eligible for reduced rates of tax because we believe our common shares should be treated as readily tradable on an established securities market in the United States. Such dividends will not be eligible for the

dividends received deduction. To the extent such distributions exceed AXIS Capital's earnings and profits, they will be treated first as a return of the shareholder's basis in the common shares to the extent thereof, and then as gain from the sale of a capital asset.

Classification of AXIS Capital or its Non-U.S. Subsidiaries as Controlled Foreign Corporations. Each 10% U.S. Shareholder (as defined below) of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during a taxable year who owns shares in the CFC, directly or indirectly through foreign entities, on the last day of the CFC's taxable year, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC's "subpart F income," even if the subpart F income is not distributed. "Subpart F income" of a foreign insurance corporation typically includes foreign base company sales and services income and foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income) attributable to the insurance of risks situated outside the CFC's country of incorporation. A foreign corporation is considered a CFC if 10% U.S. Shareholders own (directly, indirectly through foreign entities or by attribution by application of the constructive ownership rules of section 958(b) of the Code (i.e., "constructively")) more than 50% of the total combined voting power of all classes of voting stock of such foreign corporation, or more than

50% of the total value of all stock of such corporation. For purposes of taking into account insurance income, which is a category of subpart F income, the term CFC also includes a foreign insurance company in which more than 25% of the total combined voting power of all classes of stock (or more than 25% of the total value of all the stock) is owned by 10% U.S. Shareholders, on any day of the taxable year of such corporation, if the gross amount of premiums or other consideration for the reinsurance or the issuing of insurance or annuity contracts exceeds 75% of the gross amount of all premiums or other consideration in respect of all risks. A "10% U.S. Shareholder" is a U.S. Person who owns (directly, indirectly through foreign entities or constructively) at least 10% of the total combined voting power of all classes of stock entitled to vote of the foreign corporation.

We believe that because of the anticipated dispersion of our share ownership, provisions in our organizational documents that limit voting power (these provisions are described in "Description of Share Capital") and other factors no U.S. Person who acquires shares of AXIS Capital in this offering directly or indirectly through one or more foreign entities should be treated as owning (directly, indirectly through foreign entities, or constructively), 10% or more of the total voting power of all classes of shares of AXIS Capital or any of its non-U.S. subsidiaries. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge.

The RPII CFC Provisions. The following discussion generally is applicable only if the RPII of a Non-U.S. Insurance Subsidiary (i.e., AXIS Specialty, AXIS Re and AXIS Specialty Europe), determined on a gross basis, is 20% or more of such company's gross insurance income for the taxable year and the 20% Ownership Exception (as defined below) is not met. The following discussion generally would not apply for any fiscal year in which such company's RPII falls below the 20% threshold or the 20% Ownership Exception is met. Although we cannot be certain, AXIS Capital believes that each of the Non-U.S. Insurance Subsidiaries meets the 20% Ownership Exception and the gross RPII of each Non-U.S. Insurance Subsidiary as a percentage of its gross insurance income was in prior years of operations and will be for the foreseeable future below the 20% threshold for each tax year. Additionally, as AXIS Capital is not licensed as an insurance company we do not anticipate that AXIS Capital will have insurance income, including RPII.

RPII is any "insurance income" (as defined below) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a "RPII shareholder" (as defined below) or a "related person" (as defined below) to such RPII shareholder. In general, and subject to certain limitations, "insurance income" is income (including premium and investment income) attributable to the issuing of any insurance or reinsurance contract which would be taxed under the portions of the Code relating to insurance companies if the income were the income of a domestic insurance company. For purposes of inclusion of the RPII of a Non-U.S. Insurance Subsidiary in the income of RPII shareholders, unless an exception applies, the term "RPII shareholder" means any U.S. Person who owns (directly or indirectly through foreign entities) any amount of AXIS Capital's common shares. Generally, the term "related person" for this purpose means someone who controls or is controlled by the RPII shareholder or someone who is controlled by the same person or persons which control the RPII shareholder. Control is measured by either more than 50% in value or more than 50% in voting power of stock applying certain constructive ownership principles. A corporation's pension plan is ordinarily not a "related person" with respect to the corporation unless the pension plan owns, directly or indirectly through the application of certain constructive ownership rules, more than 50% measured by vote or value, of the stock of the corporation. Each Non-U.S. Insurance Subsidiary will be treated as a CFC under the RPII provisions if RPII shareholders are treated as owning (directly, indirectly through foreign entities or constructively) 25% or more of the shares of AXIS Capital by vote or value.

RPII Exceptions. The special RPII rules do not apply to a Non-U.S. Insurance Subsidiary if (i) direct and indirect insureds and persons related to such insureds, whether or not U.S. Persons, are

treated as owning (directly or indirectly through entities) less than 20% of the voting power and less than 20% of the value of the shares of AXIS Capital (the "20% Ownership Exception"), (ii) RPII, determined on a gross basis, is less than 20% of gross insurance income of the Non-U.S. Insurance Subsidiary for the taxable year (the "20% Gross Income Exception), (iii) the Non-U.S. Insurance Subsidiary elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a U.S. trade or business, and to waive all treaty benefits with respect to RPII and meet certain other requirements or (iv) the Non-U.S. Insurance Subsidiary elect to be treated as a U.S. corporation and waives all treaty benefits and meets certain other requirements. Where none of these exceptions applies to a Non-U.S. Insurance Subsidiary, each U.S. Person directly or indirectly through foreign entities owning any shares in AXIS Capital (and therefore, indirectly, in each Non-U.S. Insurance Subsidiary) on the last day of AXIS Capital's taxable year will be required to include in its gross income for U.S. federal income tax purposes its share of the RPII of the company or companies, as the case may be, that failed to qualify for the exception for the portion of the taxable year during which the Non-U.S. Insurance Subsidiary was a CFC under the RPII provisions, determined as if all such RPII were distributed proportionately only to such U.S. Persons at that date, but limited by each such U.S. Person's share of such Non-U.S. Insurance Subsidiary's current-year earnings and profits as reduced by the U.S. Person's share, if any, of certain prior-year deficits in earnings and profits. The Non-U.S. Insurance Subsidiaries intend to operate in a manner that is intended to ensure that each qualifies for the 20% Gross Income Exception. Although we do not expect the gross RPII of any of the Non-U.S. Insurance Subsidiaries will equal or exceed 20% of such company's gross insurance income in the foreseeable future, it is possible that we will not be successful in qualifying under this exception.

Computation of RPII. In order to determine how much RPII a Non-U.S. Insurance Subsidiary has earned in each taxable year, the Non-U.S. Insurance Subsidiaries may obtain and rely upon information from their insureds and reinsureds to determine whether any of the insureds, reinsureds or persons related thereto own (directly or indirectly through foreign entities) shares of AXIS Capital and are U.S. Persons. AXIS Capital may not be able to determine whether any of the underlying direct or indirect insureds to which the Non-U.S. Insurance Subsidiaries provide insurance or reinsurance are shareholders or related persons to such shareholders. Consequently, AXIS Capital may not be able to determine accurately the gross amount of RPII earned by each Non-U.S. Insurance Subsidiary in a given taxable year. For any year in which gross RPII of a Non-U.S. Insurance Subsidiary is 20% or more of its gross insurance income for the year and the 20% Ownership Exception does not apply, AXIS Capital may also seek information from its shareholders as to whether beneficial owners of common shares at the end of the year are U.S. Persons so that the RPII may be determined and apportioned among such persons. To the extent AXIS Capital is unable to determine whether a beneficial owner of common shares is a U.S. Person, AXIS Capital may assume that such owner is not a U.S. Person, thereby increasing the per share RPII amount for all known RPII shareholders.

If, as expected, the RPII of each Non-U.S. Insurance Subsidiary is less than 20% of its gross insurance income, RPII shareholders will not be required to include RPII in their taxable income. The amount of RPII includible in the income of a RPII shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses.

Apportionment of RPII to U.S. Holders. Every RPII shareholder who owns common shares on the last day of any fiscal year of AXIS Capital in which the 20% Ownership Exception does not apply and a Non-U.S. Insurance Subsidiary's gross insurance income constituting RPII for that year equals or exceeds 20% of such company's gross insurance income should expect that for such year the RPII shareholder will be required to include in gross income its share of such company's RPII for the portion of the taxable year during which such company was a CFC under the RPII provisions, whether or not distributed, even though it may not have owned the shares throughout such period. A RPII shareholder who owns common shares during such taxable year but not on the last day of the taxable year is not required to include in gross income any part of a Non-U.S. Insurance Subsidiary's RPII.

Basis Adjustments. A RPII shareholder's tax basis in its common shares will be increased by the amount of any RPII that the shareholder includes in income. The RPII shareholder may exclude from income the amount of any distributions by AXIS Capital out of previously taxed RPII income. The RPII shareholder's tax basis in its common shares will be reduced by the amount of such distributions that are excluded from income.

Uncertainty as to Application of RPII. The RPII provisions have never been interpreted by the courts or the Treasury Department in final regulations, and regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. These provisions include the grant of authority to the Treasury Department to prescribe "such regulations as may be necessary to carry out the purpose of this subsection including... regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise." Accordingly, the meaning of the RPII provisions and the application thereof to the Non-U.S. Insurance Subsidiaries is uncertain. In addition, we cannot be certain

that the amount of RPII or the amounts of the RPII inclusions for any particular RPII shareholder, if any, will not be subject to adjustment based upon subsequent IRS examination. Any prospective investor considering an investment in common shares should consult his tax advisor as to the effects of these uncertainties.

Information Reporting. Under certain circumstances, U.S. Persons owning stock in a foreign corporation are required to file IRS Form 5471 with their U.S. federal income tax returns. Generally, information reporting on IRS Form 5471 is required by (i) a person who is treated as a RPII shareholder, (ii) a 10% U.S. Shareholder of a foreign corporation that is a CFC for an uninterrupted period of 30 days or more during any tax year of the foreign corporation, and who owned the stock on the last day of that year and (iii) under certain circumstances, a U.S. Person who acquires stock in a foreign corporation and as a result thereof owns 10% or more of the voting power or value of such foreign corporation, whether or not such foreign corporation is a CFC. For any taxable year in which AXIS Capital determines that gross RPII constitutes 20% or more of any of the Non-U.S. Insurance Subsidiary's gross insurance income and the 20% Ownership Exception does not apply, AXIS Capital will provide to all U.S. Persons registered as shareholders of its common shares a completed IRS Form 5471 or the relevant information necessary to complete the form. Failure to file IRS Form 5471 may result in penalties.

Tax-Exempt Shareholders. Tax-exempt entities will be required to treat certain subpart F insurance income, including RPII, that is includible in income by the tax-exempt entity as unrelated business taxable income. Prospective investors that are tax exempt entities are urged to consult their tax advisors as to the potential impact of the unrelated business taxable income provisions of the Code. A tax-exempt organization that is treated as a 10% U.S. Shareholder or a RPII Shareholder also must file IRS Form 5471 in the circumstances described above.

Dispositions of Common Shares. Subject to the discussions below relating to the potential application of the Code section 1248, PFIC and FPHC rules, U.S. holders of common shares generally should recognize capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of common shares in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. If the holding period for these common shares exceeds one year, any gain will be subject to tax at a current maximum marginal tax rate of 15% for individuals and certain other non-corporate shareholders and 35% for corporations. Moreover, gain, if any, generally will be a U.S. source gain and generally will constitute "passive income" for foreign tax credit limitation purposes.

Code section 1248 provides that if a U.S. Person sells or exchanges stock in a foreign corporation and such person owned, directly, indirectly through certain foreign entities or constructively, 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares will be treated as a dividend to the extent of the CFC's earnings and profits (determined under U.S. federal income tax principles) during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). We believe that because of the anticipated dispersion of our share ownership, provisions in our organizational documents that limit voting power and other factors, no U.S. shareholder of AXIS Capital should be treated as owning (directly, indirectly through foreign entities or constructively) 10% or more of the total voting power of AXIS Capital. To the extent this is the case the application of Code Section 1248 under the regular CFC rules should not apply to dispositions of our common shares. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge. A 10% U.S. Shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. federal income tax or information return that it would normally file for the taxable year in which the disposition occurs. In the event this is determined necessary, AXIS Capital will provide a completed IRS Form 5471 or the relevant information necessary to complete the Form. Code section 1248 also applies to the sale or exchange of shares in a foreign corporation if the foreign corporation would be treated as a CFC for RPII purposes regardless of whether the shareholder is a 10% U.S. Shareholder or whether the 20% Gross Income Exception or the 20% Ownership Exception applies. Existing proposed regulations do not address whether Code section 1248 would apply if a foreign corporation is not a CFC but the foreign corporation has a subsidiary that is a CFC and that would be taxed as an insurance company if it were a domestic corporation. We believe, however, that this application. of Code section 1248 under the RPII rules should not apply to dispositions of common shares because AXIS Capital will not be directly engaged in the insurance business. We cannot be certain, however, that the IRS will not interpret the proposed regulations in a contrary manner or that the Treasury Department will not amend the proposed regulations to provide that these rules will apply to dispositions of common shares. Prospective investors should consult their tax advisors regarding the effects of these rules on a disposition of common shares.

Passive Foreign Investment Companies. In general, a foreign corporation will be a PFIC during a given year if (i) 75% or more of its gross income constitutes "passive income" (the "75% test") or (ii) 50% or more of its assets produce (or are held for the production of) passive income (the "50% test").

If AXIS Capital were characterized as a PFIC during a given year, U.S. Persons holding common shares would be subject to a penalty tax at the time of the sale at a gain of, or receipt of an "excess distribution" with respect to, their shares, unless such persons made a "qualified electing fund election" or "mark-to-market" election. It is uncertain that AXIS Capital would be able to provide its shareholders with the information necessary for a U.S. Person to make these elections. In general, a shareholder receives an "excess distribution" if the amount of the

distribution is more than 125% of the average distribution with respect to the shares during the three preceding taxable years (or shorter period during which the taxpayer held the shares). In general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the shareholder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares was taken in equal portion at the highest applicable tax rate on ordinary income throughout the shareholder's period of ownership. The interest charge is equal to the applicable rate imposed on underpayments of U.S. federal income tax for such period. In addition, a distribution paid by AXIS Capital to U.S. shareholders that is characterized as a dividend and is not characterized as an excess distribution would not be eligible for a reduced rate of tax under recently enacted legislation with respect to dividends paid before 2009 if AXIS Capital were considered a PFIC. Further, if AXIS Capital were considered a PFIC, upon the death of any U.S. individual owning common shares, such

individual's heirs or estate may not be entitled to a "step-up" in the tax basis of the common shares which might otherwise be available under U.S. federal income tax laws.

For the above purposes, passive income generally includes interest, dividends, annuities and other investment income. The PFIC rules provide that income "derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business... is not treated as passive income." The PFIC provisions also contain a look-through rule under which a foreign corporation shall be treated as if it "received directly its proportionate share of the income" and as if it "held its proportionate share of the assets" of any other corporation in which it owns at least 25% of the value of the stock.

The insurance income exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. We expect for purposes of the PFIC rules, that each of the Insurance Subsidiaries will be predominantly engaged in an insurance business and is unlikely to have financial reserves in excess of the reasonable needs of its insurance business in each year of operations. Accordingly, none of the income or assets of the Insurance Subsidiaries should be treated as passive. Further, we expect that the passive income and assets (other than the stock of any indirect AXIS Capital subsidiary) of any other AXIS Capital subsidiary will be de minimis in each year of operations with respect to the overall income and assets of AXIS Capital. Accordingly, we expect that in each year of operations AXIS Ireland Holdings, AXIS UK, AXIS UK Holdings and AXIS Barbados should not meet the 75% test or the 50% test because they should have sufficient non-passive income and assets either directly or through the operation of the look-through rule and, thus, should not be treated as PFICs. Finally, under the look-through rule AXIS Capital should be deemed to own its proportionate share of the assets and to have received its proportionate share of the income of its direct and indirect subsidiaries for purposes of the 75% test and the 50% test. As a result, we believe that AXIS Capital has not been and should not be treated as a PFIC. We cannot be certain, however, as there are currently no regulations regarding the application of the PFIC provisions to an insurance company and new regulations or pronouncements interpreting or clarifying these rules may be forthcoming, that the IRS will not challenge this position and that a court will not sustain such challenge. Prospective investors should consult their tax advisor as to the effects of the PFIC rules.

Foreign Personal Holding Companies. A foreign corporation will be classified as an FPHC for U.S. federal income tax purposes if (i) at any time during the taxable year at issue, five or fewer individuals who are U.S. citizens or residents own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of all classes of the corporation's stock measured by voting power or value and (ii) at least 60% (or 50% in taxable years subsequent to the characterization of the foreign company as an FPHC) of its gross income for the year is "FPHC income." Under these constructive ownership rules, among other things, a partner will be treated as owning a proportionate amount of the stock owned by the partnership and a partner who is an individual will be treated as owning the stock owned by his partners. For example, all of the common shares owned by a partnership will be attributed to each of its partners, if any, who are individuals. Also, stock treated as owned by such partner proportionately through such partnership will be treated as owned by the partner for purposes of reapplying the constructive ownership rules. If AXIS Capital or any of its non-U.S. subsidiaries were or were to become FPHCs, a portion of the "undistributed foreign personal holding company income" (as defined for U.S. federal income tax purposes) of each such FPHC would be imputed to all of AXIS Capital shareholders who are U.S. Persons. Such income would be taxable as a dividend and should not be eligible for a reduced rate of tax under recently enacted legislation, even if no cash dividend were actually paid. In such event, subsequent cash distributions will first be treated as a tax-free return of any previously taxed and undistributed amounts. In addition, a distribution paid by AXIS Capital to a U.S. shareholder that is not treated as a tax-free return of any previously taxed and undistributed

amount and is characterized as a dividend would not be eligible for a reduced rate of tax under recently enacted legislation with respect to dividends paid before 2009. Further, in such case, upon the death of any U.S. individual owning common shares, such individual's heirs or estate

would not be entitled to a "step-up" in the basis of the common shares which might otherwise be available under U.S. federal income tax laws. Moreover, each shareholder who owns, directly or indirectly, 10% or more of the value of an FPHC is required to file IRS Form 5471. We believe, based upon information made available to us regarding our existing shareholder base that neither AXIS Capital nor any of its non-U.S. subsidiaries should be considered an FPHC for any prior year of operations or immediately following the offering. Additionally, we intend to manage our business to minimize the possibility that we will meet the 60% income threshold so that neither AXIS Capital nor any of its non-U.S. subsidiaries should be considered an FPHC. We cannot be certain, however, that AXIS Capital and/or any of its non-U.S. subsidiaries will not be considered an FPHC, because of factors including legal and factual uncertainties regarding the application of the constructive ownership rules, the makeup of AXIS Capital shareholder base and the gross income of AXIS Capital and/or any of its non-U.S. subsidiaries and other circumstances that could change the application of the FPHC rules to AXIS Capital and its non-U.S. subsidiaries. In addition, if AXIS Capital or any of its non-U.S. subsidiaries were to become an FPHC we cannot be certain that the amount of FPHC income will be immaterial.

Foreign Tax Credit. Because it is anticipated that U.S. Persons will own a majority of our shares, only a portion of the current income inclusions, if any, under the CFC, RPII and PFIC rules and of dividends paid by us (including any gain from the sale of common shares that is treated as a dividend under section 1248 of the Code) will be treated as foreign source income for purposes of computing a shareholder's U.S. foreign tax credit limitations. We will consider providing shareholders with information regarding the portion of such amounts constituting foreign source income to the extent such information is reasonably available. It is also likely that substantially all of the "subpart F income," RPII and dividends that are foreign source income will constitute either "passive" or "financial services" income for foreign tax credit limitation purposes. Thus, it may not be possible for most shareholders to utilize excess foreign tax credits to reduce U.S. tax on such income.

Backup Withholding on Distributions and Disposition Proceeds. Information returns may be filed with the IRS in connection with distributions on the common shares and the proceeds from a sale or other disposition of the common shares unless the holder of the common shares establishes an exemption from the information reporting rules. A holder of common shares that does not establish such an exemption may be subject to U.S. backup withholding tax on these payments if the holder is not a corporation or other exempt recipient and or fails to provide its taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Person will be allowed as a credit against the U.S. Person's U.S. federal income tax liability and may entitle the U.S. Person to a refund, provided that the required information is furnished to the IRS.

Proposed U.S. Tax Legislation. Legislation has been introduced in the U.S. Congress intended to eliminate certain perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. connections. In this regard, legislation has been introduced that includes a provision that permits the IRS to reallocate or recharacterize items of income, deduction or certain other items related to a reinsurance agreement between related parties to reflect the proper source, character and amount for each item (in contrast to current law, which only refers to source and character). While there are no currently pending legislative proposals which, if enacted, would have a material adverse effect on us or our shareholders, it is possible that broader-based legislative proposals could emerge in the future that could have an adverse impact on us or our shareholders.

Additionally, the U.S. federal income tax laws and interpretations regarding whether a company is engaged in a trade or business within the United States or is a PFIC, or whether U.S. Persons would be required to include in their gross income the "subpart F income" or the RPII of a CFC, are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to insurance companies and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

Legislation has been introduced in the U.S. Congress that would override the Barbados Treaty. We cannot predict whether this proposed legislation or other similar legislation will be enacted. In addition, the U.S. Treasury Department and Barbados are currently discussing revisions to the Barbados Treaty. Under the current treaty, dividends paid to AXIS Barbados by AXIS U.S. Holdings are subject to a reduced withholding tax rate of 5%. However, possible changes to the treaty may result in the inability of AXIS Barbados to continue to enjoy the reduced rate, in which case dividends paid to AXIS Barbados by AXIS U.S. Holdings would be subject to withholding tax at a rate of 30%. Accordingly, no assurances can be given as to the availability of benefits under the Barbados Treaty in the future.

DESCRIPTION OF SHARE CAPITAL

The following is a summary of material provisions of our memorandum of association and bye-laws, the shareholders agreement among substantially all of our founding shareholders and the warrants outstanding on our common shares. In this section, "we," "us" and "our" refer to AXIS Capital and not any of its subsidiaries.

General

We are authorized to issue up to an aggregate of 800,000,000 common shares, par value U.S. $0.0125 per share. Immediately after the completion of this offering, 154,892,341 common shares will be outstanding. Except as described below, our common shares will have no preemptive rights or other rights to subscribe for additional common shares, no rights of redemption, conversion or exchange and no sinking fund rights. In the event of liquidation, dissolution or winding-up, the holders of our common shares are entitled to share equally in our assets, if any remain after the payment of all our debts and liabilities and the liquidation preference of any outstanding preferred shares. Holders of our common shares are entitled to receive dividends as may be lawfully declared from time to time by our board of directors.

Voting Rights

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, pursuant to a mechanism specified in our bye-laws the voting rights exercisable by a shareholder may be limited. In any situation in which the "controlled shares" (as defined below) of a U.S. Person or the common shares held by a Direct Foreign Shareholder Group (as defined below) would constitute 9.5% or more of the votes conferred by the issued common shares, the voting rights exercisable by a shareholder with respect to such shares shall be limited so that no U.S. Person or Direct Foreign Shareholder Group is deemed to hold 9.5% or more of the voting power conferred by our common shares. The votes that could be cast by a shareholder but for these restrictions will be allocated to the other shareholders pro rata based on the voting power held by such shareholders, provided that no allocation of any such voting rights may cause a U.S. Person or Direct Foreign Shareholder Group to exceed the 9.5% limitation as a result of such allocation. In addition, our board of directors may limit a shareholder's voting rights where it deems it necessary to do so to avoid adverse tax, legal or regulatory consequences. "Controlled shares" includes, among other things, all common shares that a U.S. Person owns directly, indirectly or constructively (within the meaning of Section 958 of the Code). A "Direct Foreign Shareholder Group" includes a shareholder or group of commonly controlled shareholders that are not U.S Persons.

We also have the authority under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder's voting rights are to be reallocated pursuant to the bye-laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we may, in our sole discretion, eliminate the shareholder's voting rights.

Restrictions on Transfer of Common Shares

Our board of directors may decline to register a transfer of any common shares under some circumstances, including if they have reason to believe that any non-de minimis adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders may occur as a result of such transfer.

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

Acquisition of Common Shares by Us

Under our bye-laws and subject to Bermuda law, if our board of directors determines that any shareholder's ownership of common shares may result in non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders, we have the option, but not the obligation, to require such shareholder to sell to us or to a third party to whom we assign the repurchase right the minimum number of common shares that is necessary to avoid or cure any such adverse consequences at a price determined in the good faith discretion of the board of directors to represent the shares' fair market value.

Issuance of Shares

Subject to our bye-laws and Bermuda law, our board of directors has the power to issue any of our unissued shares as it determines, including the issuance of any shares or class of shares with preferred, deferred or other special rights.

Shareholders Agreement

General. We have entered into a shareholders agreement with substantially all of our founding shareholders. The shareholders agreement may be amended only with our consent and the consent of the holders of 75% of the aggregate number of shares outstanding held by the parties to the shareholders agreement at the time. Amendments and modifications that adversely affect a shareholder party to the agreement in a manner different than any other shareholder party to the agreement may only be effected with the consent of such shareholder.

Tag-Along Rights. Pursuant to the terms of the shareholders agreement, generally if any shareholder party to such agreement (or a group of such shareholders) proposes to transfer 20% or more of our outstanding shares (in value or in voting power), then the other shareholders party to the shareholders agreement have a right (1) to notice of the terms and conditions of the transfer, and (2) to participate proportionally in the transfer.

Registration Rights. Any shareholder party to the agreement who beneficially owned more than 8,000,000 shares on December 31, 2002 has the right to request registration for a public offering of all or a portion of its shares at any time. We will use commercially reasonable efforts to effect the registration of such shares, but will not be required to file a registration statement if (1) the aggregate proceeds expected to be received from such offering are less than $25,000,000 or (2) we have already effected one such requested registration in the previous four-month period. If the shares are to be sold in an underwritten offering and the managing underwriters notify us that, in their view, the number of shares proposed to be included in the offering exceeds the largest number of shares that can be sold without an adverse effect on the offering, then the number of shares requested to be registered will be allocated pro rata among the requesting shareholders. The holders of registration rights are limited in the total number of registration requests they can make, other than registrations made pursuant to a Form S-3.

Moreover, if we propose to register any common shares or any options, warrants or other rights to acquire, or securities convertible into or exchangeable for, our common shares under the Securities Act (other than shares to be issued pursuant to an employee benefits plan or similar plan or in connection with a merger, acquisition or similar transaction) for our own account or for the account of a selling shareholder, we will offer those shareholders who are party to the shareholders agreement the opportunity, subject to certain conditions, to include their common shares in such registration statement. We must use all reasonable efforts to effect the sale of any such shares. If the shares are to be sold in an underwritten offering and the managing underwriters notify us that, in their view, the number of shares proposed to be included in the offering exceeds the largest number of shares that can be sold without an adverse effect on such offering, then the number of shares requested to be

registered will be allocated pro rata among the requesting shareholders, provided that if we initiate a registration to sell our own shares, these shares will have priority in registration.

The shareholders agreement provides that in the case of the offering pursuant to this prospectus, neither we nor those shareholders party to the agreement will effect any public sale or distribution of any of our shares, or other securities convertible into or exchangeable for shares, during the period beginning 14 days prior to the effective date of the registration statement of which this prospectus forms a part and ending 90 days after such date. This provision applies with respect to any other offering that occurs before July 1, 2005. However, we may agree with the lead managing underwriters to permit public distribution before the end of the specified time period.

Indemnification. Pursuant to the shareholders agreement, we agreed to hold harmless each shareholder selling shares in a registered offering from damages relating to a material omission or misstatement in the registration statement or prospectus for such offering, provided such omission or misstatement was not made based on information furnished to us by the shareholder. We also agreed to hold the underwriters for any such offering harmless on substantially the same basis. Each participating shareholder in a registered offering agrees to hold harmless us, our officers, directors, agents and the underwriters for such offering with respect to omissions or misstatements made based on information furnished by such shareholder.

Bye-laws

In addition to the provisions of the bye-laws described above under " Voting Rights," the following provisions are a summary of some of the other important provisions of our bye-laws.

Our Board of Directors and Corporate Action. Our bye-laws provide that our board of directors shall consist of between 9 and 15 members, or such number as determined by the shareholders. The current board of directors consists of 13 persons and is divided into three classes. In addition, each director will serve a three year term, with termination staggered according to class. The classification and current term of office for each of our directors is noted in the table listing our board of directors under "Management Directors and Executive Officers." Shareholders may only remove a director for cause at an annual general meeting, provided that the notice of any such meeting convened for the

purpose of removing a director shall contain a statement of the intention to do so and shall be provided to that director at least two weeks before that meeting. Vacancies on the board of directors can be filled by the board of directors if the vacancy occurs as a result of death, disability, disqualification or resignation of a director, or from an increase in the size of the board of directors.

Generally, the affirmative votes of a majority of the votes cast at any meeting at which quorum is present is required to authorize a resolution put to vote at a meeting of the board of directors. Corporate action may also be taken by a unanimous written resolution of the board of directors without a meeting. A quorum shall be a majority of directors then in office present in person or represented by a duly authorized representative, provided that at least two directors are present in person.

Shareholder Action. At the commencement of any general meeting, two or more persons present in person and representing, in person or by proxy, more than 50% of the aggregate voting power of our shares shall constitute a quorum for the transaction of business. In general, anything that may be done by resolution of our shareholders in a general meeting may, without a meeting, be taken by a resolution in writing signed by all of the shareholders entitled to attend such meeting and vote on the resolution. In general, any questions proposed for the consideration of the shareholders at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the bye-laws.

Voting of Subsidiary Shares. If we are required or entitled to vote at a general meeting of any of our direct subsidiaries, our directors must refer the subject matter of the vote to our shareholders and seek authority from such shareholders as to how they should vote on the resolution proposed by the subsidiary. Substantially similar provisions are contained in the bye-laws (or equivalent governing documents) of most of our non-U.S. subisidiaries.

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

Warrants

In connection with our formation, we issued warrants to purchase common shares to some of our founding shareholders. The terms of the warrants provide that they are exercisable at any time prior to November 20, 2011. The exercise price and number of common shares issuable upon exercise of each warrant are subject to adjustment in respect of events that may have a dilutive effect on its underlying share ownership interest.

The following table shows the number of warrants to purchase common shares outstanding as of March 31, 2004:

Holder	Warrants to Acquire Common Shares	Exercise Price
Trident II, L.P.	16,918,312	$ 12.50
Marsh & McLennan Capital Professionals Fund, L.P.	473,264	12.50
Marsh & McLennan Employees' Securities Company, L.P.	476,528	12.50
Dragon Holdings Trust	1,072,184	12.50
JR Charman Children's Settlement	357,392	12.50
Robert J. Newhouse, Jr.	71,808	12.50
Robert J. Newhouse, III	53,856	12.50
Stephan F. Newhouse	125,656	12.50
Paul B. Newhouse	35,904	12.50
Total	19,584,904	

Anti-Takeover Provisions and Insurance Regulations Concerning Change of Control

Some of the provisions of our bye-laws as well as some insurance regulations concerning change of control could delay or prevent a change of control of the Company that a shareholder might consider favorable. See "Risk Factors Risks Related to Our Common Shares."

Differences in Corporate Law

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

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

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

a duty not to make a personal profit from opportunities that arise from the office of director;

a duty to avoid conflicts of interest; and

a duty to exercise powers for the purpose for which such powers were intended.

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

to act honestly and in good faith with a view to the best interests of the company; and

to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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

The Companies Act provides that in any proceedings for negligence, default, breach of duty or breach of trust against any director or officer, if it appears to a court that such director or officer is or may be liable in respect of the negligence, default, breach of duty or breach of trust, but that he has acted honestly and reasonably, and that, having regard to all the circumstances of the case, including those connected with his appointment, he ought fairly to be excused for the negligence, default, breach of duty or breach of trust, that court may relieve him, either wholly or partly, from any liability on such terms as the court may think fit. This provision has been interpreted to apply only to actions brought by or on behalf of the company against such directors and officers. Our bye-laws, however, provide that shareholders waive all claims or rights of action that they might have, individually or in the right of AXIS Capital, against any director or officer of us for any act or failure to act in the performance of such director's or officer's duties, except this waiver does not extend to any claims or rights of action that arise out of fraud or dishonesty on the part of such director or officer.

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

The duty of care requires that directors act in an informed and deliberative manner and inform themselves, prior to making a business decision, of all material information reasonably available to them. The duty of care also requires that directors exercise care in overseeing and investigating the conduct of corporate employees. The duty of loyalty may be summarized as the duty to act in good faith, not out of self-interest, and in a manner which the director reasonably believes to be in the best interests of the stockholders.

A party challenging the propriety of a decision of a board of directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the "business judgment rule." If the presumption is not rebutted, the business judgment rule attaches to protect the directors and their decisions, and their business judgments will not be second guessed. Where, however, the presumption is rebutted, the

directors bear the burden of demonstrating the entire fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors' conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

Interested Directors. Under Bermuda law and our bye-laws, a transaction entered into by us, in which a director has an interest, will not be voidable by us, and such director will not be liable to us for any profit realized pursuant to such transaction, provided the nature of the interest is disclosed at the first opportunity at a meeting of directors, or in writing to the directors. In addition, our bye-laws allow a director to be taken into account in determining whether a quorum is present and to vote on a

transaction in which the director has an interest following a declaration of the interest pursuant to the Companies Act, provided that the director is not disqualified from doing so by the chairman of the meeting. Under Delaware law, such transaction would not be voidable if (1) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board of directors in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (2) such material facts are disclosed or are known to the shareholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the majority of shares entitled to vote thereon or (3) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, such interested director could be held liable for a transaction in which such director derived an improper personal benefit.

Dividends and Distributions. Bermuda law permits the declaration and payment of dividends and the making of distributions from contributed surplus by a company only if there are reasonable grounds for believing that the company is, or would after the payment be, unable to pay its liabilities as they become due, or the realizable value of the company's assets would be less, as a result of the payment, than the aggregate of its liabilities and its issued share capital and share premium accounts. The excess of the consideration paid on issue of shares over the aggregate par value of such shares must (except in limited circumstances) be credited to a share premium account. Share premium may be distributed in limited circumstances, for example to pay up unissued shares which may be distributed to shareholders in proportion to their holdings, but is otherwise subject to limitation. In addition, our ability to pay dividends is subject to Bermuda insurance laws and regulatory constraints. See "Dividend Policy" and "Regulation."

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

Amalgamations, Mergers and Similar Arrangements. We may acquire the business of another Bermuda exempted company or a company incorporated outside Bermuda when conducting such business would benefit the Company and would be conducive to attaining the objectives contained within our memorandum of association. We may, with the approval of at least 75% of the votes cast at a general meeting of our shareholders at which a quorum is present, amalgamate with another Bermuda company or with a body incorporated outside Bermuda. In the case of an amalgamation, a shareholder may apply to a Bermuda court for a proper valuation of such shareholder's shares if such shareholder is not satisfied that fair market value has been paid for such shares. The court ordinarily would not disapprove the transaction on that ground absent evidence of fraud or bad faith.

Under Delaware law, with certain exceptions, a merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the outstanding shares entitled to vote thereon. Under Delaware law, a shareholder of a corporation participating in certain major corporate transactions may, under certain circumstances, be entitled to appraisal rights pursuant to which such shareholder may receive payment in the amount of the fair market value of the shares held by such shareholder (as determined by a court) in lieu of the consideration such shareholder would otherwise receive in the transaction.

Takeovers. Bermuda law provides that where an offer is made for shares of a company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer (other than shares held by or for the offeror or its subsidiaries) accept, the offeror may by notice require the non-tendering shareholders to transfer their shares on the terms of the offer. Dissenting shareholders may apply to the court within one month of the notice objecting to the

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

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

Shareholders' Suits. The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders under legislation or judicial precedent in many U.S. jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in our name to remedy a wrong done to us where the act complained of is alleged to be beyond our corporate power or is illegal or would result in the violation of our memorandum of association or bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of our shareholders than actually approved it. The winning party in such an action generally would be able to recover a portion of attorneys' fees incurred in connection with such action. Our bye-laws provide that shareholders waive all claims or rights of action that they might have, individually or in the right of AXIS Capital, against any director or officer for any action or failure to act in the performance of such director's or officer's duties, except such waiver shall not extend to claims or rights of action that arise out of any fraud or dishonesty of such director or officer. Class actions and derivative actions generally are available to shareholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court generally has discretion to permit the winning party to recover attorneys' fees incurred in connection with such action.

Indemnification of Directors and Officers. Under Bermuda law and our bye-laws, we may indemnify our directors, officers or any other person appointed to a committee of the board of directors (and their respective heirs, executors or administrators) to the full extent permitted by law against all actions, costs, charges, liabilities, loss, damage or expense incurred or suffered by such person by reason of any act done, concurred in or omitted in the conduct of our business or in the discharge of his/her duties; provided that such indemnification shall not extend to any matter involving any fraud or dishonesty (as determined in a final judgment or decree not subject to appeal) on the part of such director, officer or other person. Under Delaware law, a corporation may indemnify a director or officer of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in defense of an action, suit or proceeding by reason of such position if (1) such director or officer acted in good faith and in a manner he

reasonably believed to be in or not opposed to the best interests of the corporation and (2) with respect to any criminal action or proceeding, such director or officer had no reasonable cause to believe his conduct was unlawful.

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

Shareholder Proposals. Under Bermuda law, the Companies Act provides that shareholders may, as set forth below and at their own expense (unless a company otherwise resolves), require a company to give notice of any resolution that the shareholders can properly propose at the next annual general meeting and/or to circulate a statement prepared by the requesting shareholders in respect of any matter referred to in a

proposed resolution or any business to be conducted at a general meeting. The number of shareholders necessary for such a requisition is either that number of shareholders representing at least 5% of the total voting rights of all shareholders having a right to vote at the meeting to which the requisition relates or not less than 100 shareholders. Delaware law does not include a provision restricting the manner in which nominations for directors may be made by shareholders or the manner in which business may be brought before a meeting.

Calling of Special Shareholders Meetings. Under our bye-laws, a special general meeting may be called by our President or by our Chairman or by the board of directors. Under Bermuda law, a special meeting may also be called by the shareholders when requisitioned by the holders of at least 10% of the paid up voting share capital of AXIS Capital as provided by the Companies Act. Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or bye-laws to call a special meeting of shareholders.

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

Amendment of Memorandum of Association. Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders of which due notice has been given.

Under Bermuda law, the holders of an aggregate of not less than 20% in par value of a company's issued share capital have the right to apply to the Bermuda courts for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act. Where such an application is made, the amendment becomes effective only to the extent that it is

confirmed by the Bermuda court. An application for an annulment of an amendment of the memorandum of association must be made within 21 days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their designees as such holders may appoint in writing for such purpose. No application may be made by the shareholders voting in favor of the amendment.

Under Delaware law, amendment of the certificate of incorporation, which is the equivalent of a memorandum of association, of a company must be made by a resolution of the board of directors setting forth the amendment, declaring its advisability, and either calling a special meeting of the shareholders entitled to vote or directing that the amendment proposed be considered at the next annual meeting of the shareholders. Delaware law requires that, unless a different percentage is provided for in the certificate of incorporation, a majority of the outstanding shares entitled to vote thereon is required to approve the amendment of the certificate of incorporation at the shareholders meeting. If the amendment would alter the number of authorized shares or otherwise adversely affect the rights or preference of any class of a company's stock, Delaware law provides that the holders of the outstanding shares of such affected class should be entitled to vote as a class upon the proposed amendment, regardless of whether such holders are entitled to vote by the certificate of incorporation. However, the number of authorized shares of any class may be increased or decreased, to the extent not falling below the number of shares then outstanding, by the affirmative vote of the holders of a majority of the stock entitled to vote, if so provided in the company's certificate of incorporation or any amendment that created such class or was adopted prior to the issuance of such class or that was authorized by the affirmative vote of the holders of a majority of such class of stock.

Amendment of Bye-laws. Consistent with the Companies Act, AXIS Capital's bye-laws provide that the bye-laws may only be rescinded, altered or amended, upon approval by a resolution of our board of directors and by a resolution of our shareholders.

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

Listing

Our common shares are listed on the NYSE under the trading symbol "AXS."

Transfer Agent and Registrar

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

SHARES ELIGIBLE FOR FUTURE SALE

We cannot predict the effect, if any, that sales of shares or the availability of shares for sale will have on the market price of our common shares prevailing from time to time. Sales of substantial amounts of our common shares in the public market, including by the selling shareholders named in this prospectus, could adversely affect prevailing market prices of our common shares.

Sale of Restricted Shares

As of March 31, 2004, we had a total of 154,892,341 common shares outstanding. All of the common shares to be sold in this offering will be freely tradeable without restriction or further registration under the Securities Act, except that any shares purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act, may generally only be sold in compliance with the volume and manner of sale limitations of Rule 144. As defined in Rule 144, an affiliate of an issuer is a person that directly or indirectly through one of more intermediaries, controls, is controlled by or is under common control with the issuer.

Lock-Up Agreements

We and those shareholders who are party to our shareholders agreement have agreed, subject to certain exceptions, not to, directly or indirectly, offer to sell, sell or otherwise dispose of any of our common shares or securities convertible into or exchangeable for common shares, during the period beginning 14 days prior to the effective date of the registration statement of which this prospectus forms a part and ending 90 days after such effective date, without the prior written consent of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. on behalf of the underwriters.

In addition, we, our directors, executive officers and the selling shareholders in this offering have agreed, subject to certain exceptions, to restrictions similar to those included in the shareholders agreement, including restrictions on the exercise of registration rights, through the date that is 90 days after the date of the final prospectus, without the prior written consent of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., on behalf of the underwriters, and the Company.

We may, however, grant common shares and options to purchase common shares under our existing benefit plans and issue common shares upon the exercise of warrants for common shares or the exercise of outstanding options, as long as, in the case of common shares issued upon the exercise of warrants, the holder of such common shares agrees in writing to be bound by the obligations and restrictions of the lock-up agreement. In addition, we may issue common shares or securities convertible into or exercisable or exchangeable for common shares in connection with one or more mergers, acquisitions or other strategic transactions in which AXIS Capital is the surviving entity or acquirer, so long as the aggregate value of securities so issued does not exceed $500 million (with the value of a given security measured on the date of issuance of such security) and as long as the holder of such common shares agrees in writing to be bound by the obligations and restrictions of the lock-up agreement.

Rule 144

In general, under Rule 144 as currently in effect, a person who has beneficially owned any restricted common shares for at least one year, including a person who is an affiliate, would be entitled to sell within any three-month period a number of restricted shares that does not exceed the greater of:

- 1% of the number of common shares then outstanding; or
- the average weekly trading volume of the common shares on the NYSE during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Sales under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale and who has beneficially owned any restricted common shares proposed to be sold for at least two years, including the holding period of any prior owner, other than an affiliate, is entitled to sell all of such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, shares eligible for sale under Rule 144(k) may be sold immediately upon the completion of this offering.

Stock Options

As of March 31, 2004, we have outstanding warrants currently exercisable for 19,584,904 common shares and have outstanding vested options to purchase a total of 2,592,875 common shares.

We have filed a registration statement on Form S-8 under the Securities Act to register common shares issued or reserved for issuance under the Employees Plan, the Directors Plan and a Nonqualified Stock Option Agreement between AXIS Capital and Robert J. Newhouse, Jr. Accordingly, shares registered under such registration statement will be available for sale in the open market upon issuance, unless such shares are subject to vesting restrictions or the lock-up restrictions described above.

Shareholders Agreement

We have entered into a shareholders agreement with substantially all of our founding shareholders. Any shareholder party to the agreement who beneficially owned more than 8,000,000 shares on December 31, 2002 has the right to request registration for a public offering of all or a portion of its shares at any time. We will use commercially reasonable efforts to effect the registration of such shares, but will not be required to file a registration statement if (1) the aggregate proceeds expected to be received from such offering are less than $25,000,000 or (2) we have already effected one such requested registration in the previous four-month period. If the shares are to be sold in an underwritten offering and the managing underwriters notify us that, in their view, the number of shares proposed to be included in the offering exceeds the largest number of shares that can be sold without an adverse effect on the offering, then the number of shares requested to be registered will be allocated pro rata among the requesting shareholders. The holders of registration rights are limited in the total number of registration requests they can make, other than registrations made pursuant to a Form S-3.

Moreover, if we propose to register any common shares or any options, warrants or other rights to acquire, or securities convertible into or exchangeable for, our common shares under the Securities Act (other than shares to be issued pursuant to an employee benefits plan or similar plan or in connection with a merger, acquisition or similar transaction) for our own account or for the account of a selling shareholder, we will offer those shareholders who are party to the shareholders agreement the opportunity, subject to certain conditions, to include their common shares in such registration statement. We must use all reasonable efforts to effect the sale of any such shares. If the shares are to be sold in an underwritten offering and the managing underwriters notify us that, in their view, the number of shares proposed to be included in the offering exceeds the largest number of shares that can be sold without an adverse effect on such offering, then the number of shares requested to be registered will be allocated pro rata among the requesting shareholders, provided that if we initiate a registration to sell our own shares, these shares will have priority in registration.

Our board of directors has determined it advisable and in the best interests of the Company and our shareholders to increase the public float and improve the liquidity for our common shares. As a result, we have filed the registration statement of which this prospectus forms a part. Pursuant to the shareholders agreement, we were required to give notice to our founding shareholders of our intention to file the registration statement, whether or not we are registering shares for our own account, and give such shareholders the opportunity to include their common shares in the registration statement and this prospectus. The selling shareholders and the number of common shares being sold by each of the selling shareholders pursuant to this offering are set forth in this prospectus under the heading "Selling Shareholders." Upon the sale of shares pursuant to the registration statement, all such shares will be freely transferable.

UNDERWRITING

Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. are acting as joint book-running managers of this offering and, together with J.P. Morgan Securities Inc., Credit Suisse First Boston LLC, Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Cochran, Caronia Securities LLC, Fox-Pitt, Kelton Inc. and Wachovia Capital Markets, LLC, are acting as the representatives of the underwriters named below. Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters have severally agreed to purchase, and the selling shareholders have agreed to sell to them, the number of common shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. Incorporated	6,534,000
Citigroup Global Markets Inc.	3,960,000
J.P. Morgan Securities Inc.	2,970,000
Credit Suisse First Boston LLC	1,980,000
Deutsche Bank Securities Inc.	792,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	2,376,000
Cochran, Caronia Securities LLC	248,000
Fox-Pitt, Kelton Inc.	396,000
Wachovia Capital Markets, LLC	544,000
Dowling & Partners Securities, LLC	200,000
Total	20,000,000

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

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officers' certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The selling shareholders have granted an option to the underwriters to purchase up to an additional 3,000,000 shares at the public offering price set forth on the cover page of this prospectus if the underwriters sell more shares in this offering than the total number set forth in the table above. The underwriters may exercise that option for 30 days. If any common shares are purchased pursuant to this option, the underwriters will severally purchase shares of such common shares in approximately the same proportion as set forth in the table above.

The representatives have advised the selling shareholders that the underwriters propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of $0.59 per share. The public offering price and concession may be changed after this offering.

The table below shows the public offering price, underwriting discounts and commissions to be paid to the underwriters by the selling shareholders and proceeds before expenses to the selling

shareholders. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option.

	Per Share	Without Option	With Option
Public offering price	$ 27.91	$ 558,200,000	$ 641,930,000
Underwriting discount	$ 0.91	$ 18,200,000	$ 20,930,000

	Per Share	Without Option	With Option
Proceeds, before expenses, to the selling shareholders	$ 27.00	$ 540,000,000	$ 621,000,000

Our estimated total offering expenses, exclusive of the underwriting discount, but including legal, accounting and printing costs, various other fees associated with the registration of the common shares and expenses we have agreed to pay on behalf of the selling shareholders, will be approximately $1.2 million. The underwriters have agreed to pay certain expenses of the Company in connection with the offering.

We and those shareholders who are a party to our shareholders agreement have agreed, with limited exceptions, for a period beginning 14 days prior to the effective date of the registration statement of which this prospectus forms a part and ending 90 days after such date, that we and they will not, without the prior written consent of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., on behalf of the underwriters, directly or indirectly, offer to sell, sell or otherwise dispose of any of our common shares.

In addition, we, our directors and executive officers and the selling shareholders in this offering have agreed that, without the prior written consent of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc., on behalf of the underwriters, and the Company, we and they will not, until 90 days after the date of the final prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any common shares or any securities convertible into or exercisable or exchangeable for common shares; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common shares;

whether any such transaction is to be settled by delivery of common shares or such other securities, in cash or otherwise. The restrictions described in this paragraph do not apply to:

- the sale of common shares in this offering to the underwriters;

- the grant by us of common shares and of options to purchase common shares under our existing benefit plans and the issuance by us of common shares upon the exercise of warrants for common shares outstanding on the date hereof, the exercise of options outstanding on the date hereof or granted pursuant to such plans or the conversion of any securities outstanding on the date hereof, as long as, in the case of shares issued upon exercise of warrants, the holder of such common shares agrees in writing to be bound by the obligations and restrictions of the lock-up agreement;

- the issuance by AXIS Capital of common shares or securities convertible into or exercisable or exchangeable for common shares in connection with one or more mergers, acquisitions or other strategic transactions in which AXIS Capital is the surviving entity or acquirer, so long as the aggregate value of securities so issued does not exceed $500 million (with the value of a given security measured on the date of issuance of such security) and as long as the holder of such common shares agrees in writing to be bound by the obligations and restrictions of the lock-up agreement for the balance of the lock-up period;

- transfers by any person other than us relating to common shares or securities convertible into or exchangeable or exchangeable for common shares as a bona fide gift or gifts, provided that any transferee agrees to be bound by the transfer restrictions of the lock-up agreement and subject to certain other conditions;

- transactions by any person other than us relating to common shares or other securities acquired in open market transactions after the completion of the offering of the common shares; and

transfers by any person other than us to an affiliate of such person, a family member of such person or a trust created for the benefit of such person or family member, provided that any transferee agrees to be bound by the transfer restrictions of the lock-up agreement and subject to certain other conditions.

In the event that a release from the lock-up agreement is granted to certain shareholders, pro rata releases must be granted to all of our other shareholders subject to the lock-up agreement.

We and the selling shareholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

A prospectus in electronic format may be made available on the web sites maintained by one or more of the lead managers of this offering and may also be made available on websites maintained by other underwriters. The underwriters may agree to allocate a number of common shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the lead managers to underwriters that may make Internet distributions on the same basis as other allocations.

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common shares. However, the representatives may engage in transactions that stabilize the price of the common shares, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common shares in connection with this offering, i.e., if they sell more shares than are listed on the cover of this prospectus, the representatives may reduce that short position by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the option to purchase additional shares described above. Purchases of the common shares to stabilize its price or to reduce a short position may cause the price of the common shares to be higher than it might be in the absence of such purchases.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common shares. In addition, neither we nor any of the underwriters make any representation that the representatives or the lead manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. On the date hereof, before the registration statement became effective, the underwriters purchased in such transactions an aggregate of 51,500 of our common shares at per share prices ranging from $27.87 to $27.91.

Relationship with Underwriters

From time to time certain of the underwriters and their affiliates have provided us, and continue to provide us, with commercial, investment banking and other financial services for which they have received and continue to receive customary fees and commissions. See "Certain Relationships and Related Transactions." Affiliates of Morgan Stanley & Co. Incorporated (including certain accounts over which such affiliates exercise discretion), Credit Suisse First Boston LLC, J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wachovia Capital Markets,

LLC beneficially owned a portion of our outstanding shares as of March 31, 2004, and are selling shareholders in the offering. An executive officer of Morgan Stanley & Co. Incorporated is a relative of one of our executive officers and directors. In addition, Mr. Andrew H. Rush, one of our directors, is a managing director of Credit Suisse First Boston in the Private Equity Group and a member of the Investment Committee of DLJ Merchant Banking Partners III, L.P., both of which are affiliates of Credit Suisse First Boston LLC, and Mr. Jeffrey C. Walker, one of our directors, is the Managing Partner of J.P. Morgan Partners and a member of the Executive Committee and Vice Chairman of J.P. Morgan Chase & Co., both of which are affiliates of J.P. Morgan Securities Inc. JPMorgan Chase Bank, an affiliate of J.P. Morgan Securities Inc., acted as administrative agent and a lender for our former $550 million credit facility and acts in the same capacity for our new $750 million credit facility. In addition, affiliates of Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and Wachovia Capital Markets, LLC act as lenders under our credit facility. We have also entered into investment advisory agreements with affiliates of Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and Wachovia Capital Markets, LLC.

Because more than ten percent of the proceeds of this offering, not including underwriting compensation, will be received by affiliates of the underwriters, this offering is being conducted pursuant to Conduct Rule 2710(h) of the NASD. Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering, as a bona fide independent market (as defined in the NASD Conduct Rules) exists in the common shares.

LEGAL MATTERS

Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York is representing us in connection with this offering. Debevoise & Plimpton LLP will act as counsel to the selling shareholders. Certain legal matters in connection with this offering will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP, New York, New York. LeBoeuf, Lamb, Greene & MacRae, L.L.P. has acted as special counsel to us in connection with United States tax and regulatory matters. The validity of the issuance of common shares under Bermuda law will be passed upon for us by Conyers Dill & Pearman, Hamilton, Bermuda. Clyde & Co., special United Kingdom counsel, has advised us on all matters of United Kingdom law in connection with this offering. William Fry, special Irish counsel, has advised us on all matters of Ireland law in connection with this offering. Bär & Karrer, special Switzerland counsel, has advised us on all matters of Switzerland law in connection with this offering. David King & Co., special Barbados legal counsel, has advised us on all matters of Barbados law in connection with this offering.

EXPERTS

The consolidated financial statements of AXIS Capital and its subsidiaries included in this prospectus and the related financial statement schedules included elsewhere in the registration statement have been audited by Deloitte & Touche, independent auditors, as stated in their reports appearing herein and elsewhere in the registration statement, and are included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We are required to file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any documents filed by us at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC's website at http://www.sec.gov.

Our common shares are listed on the NYSE under the symbol "AXS." You can inspect and copy reports, proxy statements and other information about us at the NYSE's offices at 20 Broad Street, New York, New York 10005.

We have filed a registration statement on Form S-1 with the SEC. This prospectus is part of the registration statement and does not contain all of the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document of ours, please be aware that such reference is not necessarily complete and that you should refer to the exhibits that are part of the registration statement for a copy of the contract or other document. You may review a copy of the registration statement at the SEC's public reference room in Washington D.C., as well as through the SEC's website.

ENFORCEABILITY OF CIVIL LIABILITIES UNDER UNITED STATES FEDERAL SECURITIES LAWS AND OTHER MATTERS

AXIS Capital is organized under the laws of Bermuda. In addition, some of our directors and officers reside outside the United States, and all or a substantial portion of its assets and their assets are or may be located in jurisdictions outside the United States. Therefore, it may be difficult or impossible for investors to effect service of process within the United States upon its non-U.S. directors and officers or to recover against AXIS Capital, or its non-U.S. directors and officers on judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal

securities laws. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial application under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law. However, AXIS Capital may be served with process in the United States with respect to actions against it arising out of or in connection with violations of U.S. federal securities laws relating to offers and sales of common shares made hereby by serving CT Corporation System, its U.S. agent, irrevocably appointed for that purpose.

We have been advised by Conyers Dill & Pearman, our Bermuda counsel, that there is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as the experts named herein, predicated upon the civil liability provisions of the U.S. federal securities laws or original actions brought in Bermuda against us or such persons predicated solely upon U.S. federal securities laws. Further, we have been advised by Conyers Dill & Pearman that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts, and there are grounds upon which Bermuda courts may not enforce judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to that jurisdiction's public policy. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be difficult for you to recover against us based upon such judgments.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AXIS CAPITAL HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
of AXIS Capital Holdings Limited

We have audited the accompanying consolidated balance sheets of AXIS Capital Holdings Limited and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2003 and 2002 and the period from November 8, 2001 (date of incorporation) to December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement

presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AXIS Capital Holdings Limited and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002 and the period from November 8, 2001 to December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE
Hamilton, Bermuda

February 19, 2004

AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEETS

As at December 31, 2003 and 2002

(Expressed in thousands of U.S. dollars, except share amounts)

	December 31, 2003	December 31, 2002
Assets		
Cash and cash equivalents	$ 605,175	$ 729,296
Investments at fair market value *(Amortized cost 2003: $3,359,102; 2002: $1,677,506)*	3,385,576	1,702,990
Accrued interest receivable	29,530	16,502
Net receivable for investments sold	3,371	
Insurance and reinsurance premium balances receivable	660,530	337,708
Deferred acquisition costs	136,281	77,166
Prepaid reinsurance premiums	164,999	49,673
Reinsurance recoverable	124,899	1,703
Intangible assets	24,579	14,079
Other assets	37,333	19,204
Total Assets	$ 5,172,273	$ 2,948,321
Liabilities		
Reserve for losses and loss expenses	$ 992,846	$ 215,934
Unearned premiums	1,143,447	555,962
Insurance and reinsurance balances payable	151,381	104,896
Accounts payable and accrued expenses	67,451	24,119
Net payable for investments purchased		86,377
Total Liabilities	2,355,125	987,288
Shareholders' Equity		
Share capital *(Authorized 800,000,000 common shares, par value $0.0125; issued and outstanding 2003: 152,474,011; 2002: 138,168,520)*	1,906	1,727

	December 31, 2003	December 31, 2002
Additional paid-in capital	2,000,731	1,686,599
Deferred compensation		(20,576)
Accumulated other comprehensive gain	25,164	25,484
Retained earnings	789,347	267,799
Total Shareholders' Equity	2,817,148	1,961,033
Total Liabilities & Shareholders' Equity	$ 5,172,273	$ 2,948,321

See accompanying notes to consolidated financial statements

AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

For the years ended December 31, 2003 and 2002 and the period from November 8, 2001 to December 31, 2001

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

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Revenues			
Gross premiums written	$ 2,273,645	$ 1,108,003	$ 26,746
Premiums ceded	(365,258)	(89,726)	
Change in unearned premiums	(472,157)	(481,427)	(24,862)
Net premiums earned	1,436,230	536,850	1,884
Net investment income	73,961	71,287	4,763
Net realized gains	22,567	26,070	394
Other insurance related income (loss)	25,019	(639)	
Total revenues	1,557,777	633,568	7,041
Expenses			
Net losses and loss expenses	734,019	229,265	963
Acquisition costs (related party 2003: $86,118; 2002: $34,267; 2001: $44)	229,712	103,703	832
General and administrative expenses	94,589	46,521	2,566
Foreign exchange gains	(32,215)	(9,610)	
Total expenses	1,026,105	369,879	4,361
Income before income taxes	531,672	263,689	2,680

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Income tax recovery	678	1,430	
Net Income	532,350	265,119	2,680
Other comprehensive income, net of tax			
Unrealized gains (losses) arising during the period	14,372	25,805	(456)
Adjustment for re-classification of losses (gains) realized in income	(14,692)	135	
Comprehensive income	$ 532,030	$ 291,059	$ 2,224
Weighted average common shares and common share equivalents basic	144,262,881	135,442,240	105,103,400
Weighted average common shares and common share equivalents diluted	155,690,763	138,480,623	105,103,400
Earnings per share basic	$ 3.69	$ 1.96	$ 0.03
Earnings per share diluted	$ 3.42	$ 1.91	$ 0.03

See accompanying notes to consolidated financial statements

AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2003 and 2002 and the period from November 8, 2001 to December 31, 2001

(Expressed in thousands of U.S. dollars)

	December 31, 2003	December 31, 2002	December 31, 2001
Share Capital			
Balance at beginning of period	$ 1,727	$ 1,689	$
Cumulative effect of change in accounting for unearned stock grant compensation	(23)		
Issued during period	202	38	1,689
Balance at end of period	1,906	1,727	1,689
Additional paid-in capital			
Balance at beginning of period	1,686,599	1,646,950	
Cumulative effect of change in accounting for unearned stock grant compensation	(20,553)		
Shares issued during period, net of costs	334,192	39,649	1,581,807

	December 31, 2003	December 31, 2002	December 31, 2001
Option exercise	68		
Option expense	425		
Fair value of issued warrants			65,143
Balance at end of period	2,000,731	1,686,599	1,646,950
Deferred Compensation			
Balance at beginning of period	(20,576)	(1,311)	
Cumulative effect of change in accounting for unearned stock grant compensation	20,576	(25,480)	(1,400)
Deferred compensation issued during period			
Amortization of deferred compensation		6,215	89
Balance at end of period		(20,576)	(1,311)
Accumulated other comprehensive gain (loss)			
Balance at beginning of period	25,484	(456)	
Change in unrealized gains	989	25,940	(456)
Change in deferred tax liability	(1,309)		
Balance at end of period	25,164	25,484	(456)
Retained earnings			
Balance at beginning of period	267,799	2,680	
Dividends paid	(10,802)		
Net income for period	532,350	265,119	2,680
Balance at end of period	789,347	267,799	2,680
Total Shareholders' Equity	$ 2,817,148	$ 1,961,033	$ 1,649,552

See accompanying notes to consolidated financial statements

AXIS CAPITAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and 2002 and the period from November 8, 2001 to December 31, 2001

(Expressed in thousands of U.S. dollars)

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Cash flows provided by operating activities:			
Net income	$ 532,350	$ 265,119	$ 2,680
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Net realized gains on sales of investments	(22,567)	(26,070)	(394)
Amortization of discounts on fixed maturities	36,200	5,665	
Amortization of deferred compensation	8,212	6,215	89
Amortization of intangible assets	3,375		
Accrued interest receivable	(13,028)	(8,036)	(8,466)
Insurance and reinsurance premium balances receivable	(322,822)	(314,012)	(23,696)
Reinsurance recoverable	(123,196)	(1,703)	
Deferred acquisition costs	(59,115)	(74,951)	(2,215)
Prepaid reinsurance premiums	(115,326)	(49,673)	
Other assets	(22,368)	(12,926)	(2,040)
Reserve for loss and loss expenses	776,912	214,971	963
Unearned premiums	587,485	531,100	24,862
Insurance and reinsurance balances payable	46,485	104,896	
Accounts payable and accrued expenses	31,023	19,987	4,132
Total adjustments	811,270	395,463	(6,765)
Net cash provided by (used in) operating activities	1,343,620	660,582	(4,085)
Cash flows provided by (used in) investing activities:			
Net cash paid in acquisition of subsidiaries	(34,664)	(40,399)	
Purchases of available-for-sale securities	(13,338,244)	(7,326,772)	(1,168,438)
Sales and maturities of available-for-sale securities	11,585,056	6,664,246	285,554
Net cash used in investing activities	(1,787,852)	(702,925)	(882,884)
Cash flows provided by (used in) financing activities:			
Dividend	(10,802)		
Issue of shares, net	330,913	9,969	1,648,639
Net cash provided by financing activities	320,111	9,969	1,648,639
(Decrease)/increase in cash and cash equivalents	(124,121)	(32,374)	761,670
Cash and cash equivalents beginning of period	729,296	761,670	
Cash and cash equivalents end of period	$ 605,175	$ 729,296	$ 761,670

See accompanying notes to consolidated financial statements

AXIS CAPITAL HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. History

AXIS Capital Holdings Limited (the "Company") is a holding company organized under the laws of Bermuda. The Company was incorporated on December 9, 2002. AXIS Specialty Limited ("AXIS Specialty") commenced operations on November 20, 2001. AXIS Specialty and its subsidiaries became wholly owned subsidiaries of the Company pursuant to an exchange offer consummated on December 31, 2002 (the "Exchange Offer"). In the Exchange Offer, the shareholders of AXIS Specialty exchanged their shares for identical shareholdings in the Company. Following the Exchange Offer, AXIS Specialty distributed its wholly owned subsidiaries to the Company. The Exchange Offer represents a business combination of companies under common control and has been accounted for at historical cost. As a result, the consolidated financial information presented gives effect to the exchange of equity interests as though it occurred as of the inception date of AXIS Specialty on November 8, 2001. The Company through its subsidiaries provides a broad range of insurance and reinsurance products on a worldwide basis.

AXIS Specialty Holdings Ireland Limited, a wholly owned subsidiary of the Company, was incorporated in Ireland on January 28, 2002 and acts as a holding company for AXIS Specialty Europe Limited and AXIS Re Limited. AXIS Specialty Europe Limited became licensed as an Irish insurer in May 2002. AXIS Re Limited also became entitled to carry on reinsurance business from Ireland in May 2002. AXIS Specialty London was established in June 2003 as a U.K. branch of AXIS Specialty Europe Limited. The branch commenced underwriting facultative business in London during September 2003. AXIS Re Europe was established in August 2003 as a Swiss branch of AXIS Re Limited. The branch commenced underwriting reinsurance business in Zurich during November 2003.

AXIS Specialty U.S. Holdings Inc. ("AXIS U.S. Holdings"), a wholly owned subsidiary of the Company, was incorporated in Delaware on March 11, 2002. It acts as a holding company for the Company's United States operations. AXIS Reinsurance Company is domiciled in New York and is licensed to write insurance and reinsurance in all 50 states in the United States, the District of Columbia and Puerto Rico. AXIS Specialty Insurance Company is domiciled in Connecticut and is a surplus lines-eligible insurer in 37 of the states and the District of Columbia. AXIS Surplus Insurance Company is licensed in Illinois and Alabama, and is a surplus lines-eligible insurer in 45 states and the District of Columbia.

2. Summary of Significant Accounting Policies

a) Basis of Presentation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). All significant inter-company accounts and transactions have been eliminated. The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Actual results could differ significantly from those estimates. The major estimates reflected in the Company's consolidated financial statements include, but are not limited to, the reserves for losses and loss expenses and premium estimates for business written on a line slip or proportional basis. The

terms "FAS" and "FASB" used in these notes refer to Statements of Financial Accounting Standards issued by the United States Financial Accounting Standards Board.

b) Investments

The Company's investments are considered to be "available for sale" under the definition included in FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" and are reported at fair market value. The fair market value of investments is based upon quoted market values. The net unrealized gain or loss on investments is included as accumulated other comprehensive gain (loss) in shareholders' equity.

The Company routinely assesses whether declines in fair value of its investments represent impairments that are other than temporary. There are several factors that are considered in the assessment of a security, which include (i) the time period during which there has been a significant decline below cost, (ii) the extent of the decline below cost, (iii) the Company's intent to hold the security, (iv) the potential for the security to recover in value, (v) an analysis of the financial condition of the issuer and (vi) an analysis of the collateral structure and credit support of the security, if applicable. Where the Company has determined that there is impairment in the fair value of the security, the cost of the security is written down to the fair value and the unrealized loss at the time of the determination is realized and charged to income.

Purchases and sales of investments are recorded on a trade date basis. Realized gains or losses on sales of investments are determined based on the specific identification method. Net investment income includes interest and dividend income together with amortization of market premiums and discounts and is net of investment management, custody and investment accounting fees. For mortgage-backed securities and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized on a prospective basis through yield adjustments.

Cash and cash equivalents include fixed interest deposits placed with a maturity of under 90 days when purchased.

c) Premiums and Acquisition Costs

Premiums written are recorded in accordance with the terms of the underlying policies. Reinsurance premiums assumed are estimated based upon information received from ceding companies and any subsequent differences arising on such estimates are recorded in the period they are determined. Premiums are generally contractually stated except for business written on a line slip or proportional basis. Under FAS 60 "Accounting and Reporting by Insurance Enterprises" a company is permitted to book premium as long as it is reasonably estimable. For line slip premiums, the Company will receive an initial estimate of expected premium from the client via the broker. In the case of proportional contracts, the Company will receive an estimate of the expected premium to be ceded from its client. The Company actively monitors the emergence of actual premium data on line slip policies and proportional reinsurance contracts and adjusts its estimates of written premiums to reflect reported premiums on a periodic basis as reliable information becomes available.

Premiums are earned over the terms of the policies in proportion to the risks to which they relate. Unearned premiums represent the portion of premiums written that is applicable to the unexpired portion of the policies in force.

Acquisition costs, primarily fees paid to brokers, commissions and taxes, vary with and are directly related to the acquisition of policies and are deferred and amortized over the period in which the related premiums are earned. Deferred acquisition costs are reviewed to determine if they are recoverable from future income, including investment income. If such costs are estimated to be unrecoverable, they are expensed.

d) Reinsurance

In the normal course of business, the Company seeks to reduce the loss that may arise from events that could cause unfavorable underwriting results by reinsuring certain levels of risk in various lines of business with other reinsurers. Reinsurance premiums ceded are expensed over the period the reinsurance coverage is provided. Prepaid reinsurance premiums represent the portion of premiums ceded on the unexpired term of the policies in force. Amounts recoverable from reinsurers are estimated in a manner consistent with the loss reserve associated with the underlying policy.

e) Losses and Loss Expenses

Reserves for losses and loss expenses include reserves for unpaid reported losses and loss expenses and for losses incurred but not reported ("IBNR"). The reserves for unpaid reported losses and loss expenses are established by management based on amounts reported from insureds or ceding companies and on additional case reserves established on known events where official notification has not been reported or is not considered adequate. The reserves represent the estimated ultimate costs of events or conditions that have been reported to or specifically identified by the Company.

The reserve for losses incurred but not reported has been estimated by management in consultation with independent actuaries. Estimated IBNR is derived using the Bornhuetter-Ferguson method. This method takes as a starting point an assumed ultimate loss and loss expense ratio and blends in the loss and loss expense ratio implied by the experience to date. For the Company's assumed ultimate loss and loss expense ratio for the insurance book of business, the initial expected loss and loss expense ratios selected are based on benchmarks provided by independent actuaries, derived from comparable client data, as well as market information. These benchmarks are then adjusted for any rating increases that had been observed in the market. For the Company's assumed ultimate loss and loss expense ratio for the reinsurance book of business, contract by contract initial expected loss and loss expense ratios are derived during pricing. Applying these loss and loss expense ratios to our earned premium derives the estimated ultimate costs of the losses from which paid losses and reported case reserves are deducted to generate the Company's IBNR.

While management believes that the reserves for unpaid losses and loss expenses are sufficient to pay losses that fall within coverages assumed by the Company, the actual losses and loss expenses incurred by the Company may be greater or less than the reserve provided. Due to the start up nature of the Company's operations, actual loss experience is limited; this increases the potential for significant deviation from

currently estimated amounts. The methods of determining such estimates and

establishing the resulting reserve are reviewed quarterly and any adjustments are reflected in operations in the period in which they become known.

f) Foreign Currency Translation

The functional currency of the Company and its subsidiaries is the U.S. dollar. Monetary assets and liabilities denominated in foreign currencies are translated at year end exchange rates, with the resulting foreign exchange gains and losses recognized in the consolidated statements of operations and comprehensive income. Revenues and operating expenses are translated at average exchange rates during the year.

g) Stock Compensation

The Company accounts for stock compensation in accordance with FAS No. 123, "Accounting for Stock-Based Compensation." Compensation expense for stock options and for restricted stock awards granted to employees is recorded over the vesting period using the fair value method.

The Company adopted FAS No. 123 effective January 1, 2003 by applying the prospective method permitted under FAS No. 148 "Accounting for Stock-Based Compensation Transition and Disclosure." Prior to 2003, the Company followed Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretations in accounting for its employee stock compensation. With respect to unvested restricted stock awards, the amount of deferred compensation is eliminated from share capital and additional paid-in-capital. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FAS 123 to all of its stock-based compensation.

		Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Net income, as reported		$ 532,350	$ 265,119	$ 2,680
Add:	Stock-based employee compensation expense included in net income, net of related tax effects	7,526	6,233	89
Deduct:	Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(12,968)	(11,387)	(1,183)
Pro-forma net income		$ 526,908	$ 259,965	$ 1,586
Earnings per share:				
	Basic as reported	$ 3.69	$ 1.96	$ 0.03
	Basic pro forma	$ 3.65	$ 1.91	$ 0.02
	Diluted as reported	$ 3.42	$ 1.91	$ 0.03
	Diluted pro forma	$ 3.38	$ 1.87	$ 0.02

h) Segment Reporting

The Company reports segment results in accordance with FAS No. 131 "Segment Reporting." Under FAS 131, reportable segments represent an aggregation of operating segments that meet certain criteria for aggregation.

i) Derivative Instruments

The Company accounts for its derivative instruments using FAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." FAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value with movements in fair value reflected in earnings.

Derivative Contracts

Certain contracts underwritten by the Company have been determined to meet the definition of a derivative under FAS 133, and are therefore recorded at their fair value. The fair values of these contracts are modeled on prevailing market conditions and on the terms and the structure of the contract. When data is not readily available from the market, the Company seeks to use data from independent counterparties. The change resulting from a movement in fair value of such contracts is included in the statement of operations and comprehensive income in other insurance related income.

Investment Related Derivative Instruments

The Company uses investment derivatives to manage duration and currency exposure, for yield enhancement or to obtain exposure to a particular financial market. None of these derivatives are designated as hedges, and accordingly, financial futures, options, swaps and foreign currency forward contracts are carried at fair value in investments, with the corresponding realized and unrealized gains and losses included in realized gains and losses in the consolidated statements of operations.

j) Intangible Assets

The Company accounts for intangible assets in accordance with FAS No. 142 "Goodwill and Other Intangible Assets." The Company does not amortize goodwill or identifiable intangible assets with indefinite lives, but rather re-evaluates on a yearly basis, or whenever changes in circumstances warrant, the recoverability of the assets. If it is determined that an impairment exists, the Company adjusts the carrying value of the assets to the fair value.

The Company has recorded the purchase of numerous U.S. state licenses as intangible assets with indefinite lives, as they provide a legal right to transact business indefinitely and could be resold.

k) Taxation

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The deferral of tax losses is evaluated based upon managements' estimates of the future

profitability of the Company's taxable entities based upon current forecasts and the period for which losses may be carried forward. A valuation allowance against the deferred tax asset is provided for if and when the Company believes that a portion of the deferred tax asset may not be realized in the foreseeable future.

l) New Accounting Pronouncements

On April 30, 2003, the FASB issued FAS No.149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The statement is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to FAS 133 in its entirety or as hybrid instruments with debt host contracts and embedded derivative features. FAS 149 is effective for contracts entered into or modified after June 30, 2003, and hedging relationships designated after June 30, 2003. The provisions that relate to the forward purchases or sales of "when issued" securities or other securities that do not yet exist should be applied to both existing contracts and new contracts entered into after June 30, 2003.

With effect from July 1, 2003, the Company adopted FAS 149. As a result, some of our mortgage-backed securities are required to be classified as derivatives and the unrealized gains (losses) associated with these securities that were previously recorded in accumulated other comprehensive income are now recorded in net realized gains (losses).

3. Segment Information

The Company consists of four underwriting segments global insurance (formerly specialty lines), global reinsurance (formerly treaty reinsurance), U.S. insurance and U.S. reinsurance. In addition, there is a corporate segment that includes the investment and financing operations of the Company. The Company evaluates the performance of each underwriting segment based on underwriting results. Other items of revenue and expenditure are not evaluated at the segment level. In addition, management does not allocate its assets by segment as it considers the underwriting results of each segment separately from the results of its investment portfolio.

Certain business written by the Company has loss experience generally characterized as low frequency and high severity. This may result in volatility in both the Company's and an individual segment's results and operational cash flows.

Global Insurance

The Company's global insurance segment principally consists of specialty lines business sourced outside of the U.S. In this segment, we offer clients tailored solutions in order to respond to their distinctive risk characteristics. Since most of the lines in this segment are for property and not for casualty coverage, the segment is principally short to medium tail business. This means that claims are generally made and settled earlier than in long tail business, which facilitates our reserving process for this segment.

Global Reinsurance

The Company's global reinsurance segment principally consists of treaty reinsurance business sourced outside of the U.S. and provides severity-driven products, primarily for catastrophic risks. This business is short tail in nature, which typically allows us to determine the ultimate loss experience within a relatively short time after a contract has expired. Global reinsurance contracts can be written on either an excess of loss basis or a proportional basis.

U.S. Insurance

The Company's U.S. insurance segment principally consists of specialty lines business sourced in the U.S. and primarily includes the following risk classifications: commercial property, commercial liability and professional lines.

U.S. Reinsurance

The Company's U.S. reinsurance segment principally consists of reinsurance business sourced in the U.S. and focuses almost exclusively on exposures in the U.S. The underlying property and casualty business classes covered by the treaties we write in our U.S. reinsurance segment include: professional lines, property, marine and aviation. U.S. reinsurance contracts can be written on either an excess of loss basis or a proportional basis.

The following is an analysis of the underwriting results (before general and administrative expenses) by segment together with a reconciliation of underwriting profit (loss) to income before income taxes:

Year ended December 31, 2003

	Global Insurance	Global Reinsurance	U.S. Insurance	U.S. Reinsurance	Total

	Global Insurance	Global Reinsurance	U.S. Insurance	U.S. Reinsurance	Total
Gross premiums written	$ 980,661	$ 462,938	$ 625,898	$ 204,148	$ 2,273,645
Net premiums written	939,908	453,568	314,100	200,811	1,908,387
Gross premiums earned	832,023	426,252	354,649	88,091	1,701,015
Net premiums earned	763,339	418,235	168,252	86,404	1,436,230
Other insurance related income (loss)	24,467	552			25,019
Net losses and loss expenses	(387,953)	(174,391)	(108,497)	(63,178)	(734,019)
Acquisition costs	(115,359)	(71,090)	(21,130)	(22,133)	(229,712)
Underwriting results (before general and administrative expenses)	284,494	173,306	38,625	1,093	497,518
General and administrative expenses					(94,589)
Underwriting profit					402,929
Net investment income					73,961
Realized gains on investments					22,567
Foreign exchange gains					32,215
Income before income taxes					$ 531,672
Net loss and loss expense ratio	50.8%	41.7%	64.5%	73.1%	51.1%
Acquisition cost ratio	15.1%	17.0%	12.6%	25.6%	16.0%
General and administrative expense ratio					6.6%
Combined ratio					73.7%
Reserve for losses and loss expenses	$ 481,729	$ 227,351	$ 223,765	$ 60,001	$ 992,846

Year ended December 31, 2002

	Global Insurance	Global Reinsurance	Total
Gross premiums written	$ 793,759	$ 314,244	$ 1,108,003
Net premiums written	704,033	314,244	1,018,277
Gross premiums earned	354,667	222,237	576,904
Net premiums earned	314,613	222,237	536,850
Other insurance related income (loss)	(639)		(639)
Net losses and loss expenses	(137,848)	(91,417)	(229,265)
Acquisition costs	(56,683)	(47,020)	(103,703)
Underwriting results (before general and administrative expenses)	119,443	83,800	203,243
General and administrative expenses			(46,521)
Underwriting profit			156,722

	Global Insurance	Global Reinsurance	Total
Net investment income			71,287
Realized gains on investments			26,070
Foreign exchange gains			9,610
Income before income taxes			$ 263,689
Net loss and loss expense ratio	43.8%	41.1%	42.7%
Acquisition cost ratio	18.0%	21.2%	19.3%
General and administrative expense ratio			8.7%
Combined ratio			70.7%
Reserve for losses and loss expenses	$ 132,628	$ 83,306	$ 215,934

Period ended December 31, 2001

	Global Insurance	Global Reinsurance	Total
Gross premiums written	$ 24,465	$ 2,281	$ 26,746
Net premiums written	24,465	2,281	26,746
Gross premiums earned	1,713	171	1,884
Net premiums earned	1,713	171	1,884
Other insurance related income			
Net losses and loss expenses	(886)	(77)	(963)
Acquisition costs	(320)	(512)	(832)
Underwriting results (before general and administrative expenses)	507	(418)	89
General and administrative expenses			(2,566)
Underwriting loss			(2,477)
Net investment income			4,763
Realized gains on investments			394
Income before income taxes			$ 2,680
Net loss and loss expense ratio	51.7%	45.0%	51.1%
Acquisition cost ratio	18.7%	299.4%	44.2%
General and administrative expense ratio			136.2%
Combined ratio			231.5%
Reserve for losses and loss expenses	$ 886	$ 77	$ 963

The following table shows an analysis of the Company's gross premiums written by domicile of subsidiary for the years ended December 31, 2003 and 2002 and the period ended December 31, 2001:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Period Ended December 31, 2001
Bermuda	$ 995,454	$ 1,015,057	$ 26,746
Ireland	415,356	90,192	
United States	862,835	2,784	
Total	$ 2,273,645	$ 1,108,033	$ 26,746

4. Business Combinations

On February 28, 2003, the Company completed the acquisition of all of the issued and outstanding shares of capital stock of Sheffield Insurance Corporation, an Illinois domiciled surplus lines company, and subsequently renamed it AXIS Surplus Insurance Company ("AXIS Surplus"). The Company paid a purchase price of $34.7 million. The results of AXIS Surplus' operations have been included in the

consolidated financial statements from the effective purchase date of January 1, 2003. The purchase of AXIS Surplus was made to expand the Company's ability to write insurance on a non-admitted basis within the U.S.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at the date of the acquisition of AXIS Surplus.

Cash and investments		$ 54,638
Premium balances receivable		11,083
Reinsurance recoverable		15,034
Prepaid reinsurance		14,854
Deferred acquisition costs		1,384
Intangible assets		
With a definite life:		
Value of business acquired	$ 2,250	
With an indefinite life:		
Insurance licenses	3,000	
		5,250
Goodwill		2,750
Total assets acquired		104,993
Reserve for losses and loss expenses		20,901
Unearned premiums		39,707
Insurance and reinsurance balances payable		8,402
Other liabilities		1,319
Total liabilities acquired		70,329
Net assets acquired		$ 34,664

On February 17, 2003, the Company acquired the renewal rights to the directors and officers insurance and related product lines written by the Financial Insurance Solutions Group ("FIS") of Kemper Insurance Companies ("Kemper") in exchange for an agreement to make an override payment. The override payment is based on a percentage of gross written premiums of all FIS accounts that are renewed by the Company. The Company has recorded the fair value of the renewal rights as an intangible asset and will amortize the cost over an estimated useful life of four years. The Company acquired these rights to broaden its U.S. product range within its U.S. insurance segment.

On November 27, 2002, the Company completed the purchase of Royal & SunAlliance Personal Insurance Company, which is licensed in all 50 states of the United States, the District of Columbia and Puerto Rico, and was subsequently renamed AXIS Reinsurance Company. The Company paid a purchase price of $23.1 million. On October 1, 2002, the Company completed the purchase of the Connecticut Specialty Insurance Company, a surplus lines-eligible carrier in 38 states, which was subsequently renamed AXIS Specialty Insurance Company. The Company paid a purchase price of $17.4 million. The Company purchased these companies as the foundation for commencing its U.S. operations.

These purchases have been accounted for under the purchase method of accounting. The assets of the two companies (fixed income securities $23.0 million, cash $3.4 million and licenses $14.1 million) were recorded at their fair values on the date of completion of the acquisitions. The process of determining the fair value of the acquired assets, as required under purchase accounting, included independent valuations. The purchase prices have been fully allocated against the fair values of the assets; consequently, no goodwill was recorded. At the dates that AXIS Specialty Insurance and AXIS Reinsurance were acquired, the pre-acquisition liabilities had been assumed by the sellers or their affiliates. The respective sellers further agreed to indemnify the acquired companies and our U.S. holding company from and against any and all such liabilities. Some of the underlying liabilities have been reinsured with third parties. Other liabilities are being novated or collateralized by an irrevocable letter of credit and/or securities. In the event that the reinsurance and, if applicable, the letter of credit are insufficient to pay all covered insurance claims, and the sellers do not fulfill their obligations under the indemnification, the Company would have liability for such claims. Given the remote possibility of this event, the Company did not record any of the claim liabilities.

5. Investments

Net investment income is derived from the following sources:

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Fixed maturities and cash equivalents	$ 79,728	$ 74,996	$ 5,089
Investment expenses	(5,767)	(3,709)	(326)
Net investment income	$ 73,961	$ 71,287	$ 4,763

The following represents an analysis of gross realized gains (losses) and the change in unrealized gains on investments included within Accumulated other comprehensive gain (loss):

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Gross realized gains	$ 51,088	$ 47,003	$ 1,469
Gross realized losses	(23,533)	(24,488)	(1,075)
Net realized gains on fixed maturities	27,555	22,515	394
Net realized and unrealized (losses) gains on derivative instruments	(4,988)	3,555	
Net realized gains on investments	$ 22,567	$ 26,070	$ 394
Change in unrealized gains (losses) on fixed maturities	$ 989	$ 25,940	$ (456)

All investments are held as available for sale. The amortized cost and fair market values are as follows:

Type of Investment	Year ended December 31, 2003 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. government and agency securities	$ 1,248,941	$ 5,828	$ (2,120)	$ 1,252,649
Non-U.S. government securities	16,777	555	(5)	17,327
Corporate debt securities	706,383	13,516	(2,023)	717,876
Mortgage-backed securities	1,005,164	10,429	(2,661)	1,012,932
Asset-backed securities	187,775	2,244	(284)	189,735
States, municipalities and political subdivisions	194,062	1,608	(613)	195,057
Total fixed income maturities	$ 3,359,102	$ 34,180	$ (7,706)	$ 3,385,576

Type of Investment	Year ended December 31, 2002 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
U.S. government and agency securities	$ 426,939	$ 7,365	$ (101)	$ 434,203
Non-U.S. government securities	97,949	1,191	(652)	98,488
Corporate debt securities	295,050	11,184	(482)	305,752
Mortgage-backed securities	725,161	12,203	(2,753)	734,611
Asset-backed securities	119,259	2,014	(4,740)	116,533
States, municipalities and political subdivisions	13,148	255		13,403
Total fixed income maturities	$ 1,677,506	$ 34,212	$ (8,728)	$ 1,702,990

The unrealized losses on fixed income securities were split as follows:

	Year ended December 31, 2003	Year ended December 31, 2002
Six months or less	$ 4,966	$ 2,520
Greater than six months but less than 12 months	2,571	5,369
Greater than or equal to 12 months	169	839
	$ 7,706	$ 8,728

As of December 31, 2003, there were approximately 640 securities (2002: 145) in an unrealized loss position with a fair market value of $1,027.9 million (2002: $342.8 million). Of these securities, there are six securities (2002: nine) that have been in an unrealized loss position for 12 months or greater,

with a fair market value of $5.9 million (2002: $33.8 million). Each of these securities is current on all principal and interest payments and as of December 31, 2003, none of these securities were considered to be impaired.

The following table sets forth certain information regarding the credit ratings of the Company's bond portfolio:

	December 31, 2003		December 31, 2002	
Ratings*	**Amortized Cost**	**Percentage**	**Amortized Cost**	**Percentage**
AAA	$ 2,617,526	77.9%	$ 1,382,702	82.4%
AA	130,573	3.9%	31,458	1.9%
A	384,773	11.5%	146,354	8.7%
BBB	226,230	6.7%	116,992	7.0%
Total	$ 3,359,102	100.0%	$ 1,677,506	100.0%

* Ratings as assigned by Standard & Poor's Corporation

The contractual maturities of fixed maturity securities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2003		December 31, 2002	
	Amortized Cost	**Fair Market Value**	**Amortized Cost**	**Fair Market Value**
Due in one year or less	$ 117,353	$ 117,684	$ 76,350	$ 76,475
Due after one year through five years	1,282,267	1,288,981	479,517	487,549
Due after five years through ten years	614,990	623,757	223,676	232,088
Due after ten years	151,553	152,486	53,543	55,734
	2,166,163	2,182,908	833,086	851,846
Mortgage- and asset-backed securities	1,192,939	1,202,668	844,420	851,144
Total fixed maturities	$ 3,359,102	$ 3,385,576	$ 1,677,506	$ 1,702,990

At December 31, 2003, $24.4 million (2002: $17.5 million) of securities were on deposit with various state or government insurance departments in order to comply with relevant insurance regulations.

6. Losses and Loss Expenses

Unpaid losses and loss expenses consist of:

	December 31, 2003	December 31, 2002
Reserve for reported losses and loss expenses	$ 179,881	$ 60,956
Reserve for losses incurred but not reported	812,965	154,978
Unpaid losses and loss expenses	$ 992,846	$ 215,934

	December 31, 2003	December 31, 2002

Net losses and loss expenses incurred consist of:

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Losses and loss expense payments	$ 100,457	$ 16,958	$
Change in unpaid losses and loss expenses	752,771	214,010	963
Reinsurance recoveries	(119,209)	(1,703)	
Net losses and loss expenses incurred	$ 734,019	$ 229,265	$ 963

The following table represents an analysis of paid and unpaid losses and loss expenses and a reconciliation of the beginning and ending unpaid losses and loss expenses for the periods indicated:

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Unpaid losses and loss expenses at beginning of period	$ 215,934	$ 963	$
Reinsurance recoverable at beginning of period	(1,703)		
Net unpaid losses and loss expenses at beginning of period	214,231	963	
Increase in net losses and loss expenses incurred in respect of losses occurring in:			
Current year	789,807	230,063	963
Prior year	(55,788)	(798)	
Total incurred losses and loss expenses	734,019	229,265	963
Less net losses and loss expenses paid in respect of losses occurring in:			
Current year	43,314	16,943	
Prior year	46,096	15	
Total net paid losses	89,410	16,958	
Net losses acquired	5,867		
Foreign exchange loss	3,240	961	
Net unpaid losses and loss expenses at end of period	867,947	214,231	963
Reinsurance recoverable	124,899	1,703	

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Gross unpaid losses and loss expenses at end of period	$ 992,846	$ 215,934	$ 963

Certain business written by the Company has loss experience generally characterized as low frequency and high severity in nature. This may result in volatility in the Company's financial results. Actuarial assumptions used to establish the liability for losses and loss expenses are periodically adjusted to reflect comparisons to actual losses and loss expense development, inflation and other considerations. The favorable loss experience on prior year loss reserves relates to our global insurance and global reinsurance segments. We use the Bornhuetter-Ferguson method to estimate the ultimate cost of losses, which takes as a starting point an assumed loss and loss expense ratio and blends in the loss and loss experience to date. During the year ended December 31, 2003, the lack of reported claims

produced a favorable impact on our experience to date, which caused a reduction in prior years' ultimate losses.

7. Reinsurance

Some of the Company's underwriting segments purchase reinsurance to reduce the risk of exposure to loss. Our global insurance and reinsurance segments purchase reinsurance to reduce exposure to large losses. The Company's U.S. insurance segment purchases significant reinsurance to reduce the volatility in severity-driven classes of business. The segments purchase three types of reinsurance cover: facultative; excess of loss; and quota share. Facultative covers are typically assumed with the original business. Excess of loss covers provide a contractually set amount of cover after an excess point has been reached. Generally these covers are purchased on a package policy basis, as they provide cover for a number of lines of business within one contract. Quota share covers provide a proportional amount of coverage from the first dollar of loss. All of these reinsurance covers provide for recovery of a portion of losses and loss reserves from reinsurers. The Company remains liable to the extent that reinsurers do not meet their obligations under these agreements and, therefore, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk. Provisions are made for amounts considered potentially uncollectible. The allowance for uncollectible reinsurance recoverable was $794 as at December 31, 2003 (2002 and 2001: $nil). The breakdown of reinsurance by type of cover for the years ended December 31, 2003 and 2002 and the period ended December 31, 2001 is as follows:

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Quota Share	$ 209,638	$	$
Excess of Loss	129,164	79,259	
Facultative	26,456	10,467	
	$ 365,258	$ 89,726	

Gross premiums written, ceded and net amounts of premiums written and premiums earned for the years ended December 31, 2003 and 2002 and the period ended December 31, 2001 are as follows:

	Year ended December 31, 2003		Year ended December 31, 2002		Period ended December 31, 2001	
	Premiums written	Premiums earned	Premiums written	Premiums earned	Premiums written	Premiums earned
Gross	$ 2,273,645	$ 1,701,016	$ 1,108,003	$ 576,904	$ 26,746	$ 1,884
Ceded	(365,258)	(264,786)	(89,726)	(40,054)		

	Year ended December 31, 2003		Year ended December 31, 2002		Period ended December 31, 2001	
Net	$ 1,908,387	$ 1,436,230	$ 1,018,277	$ 536,850	$ 26,746	$ 1,884

8. Acquisition Costs

The following analysis details the composition of the Company's acquisition costs for the years ended December 31, 2003 and 2002 and the period ended December 31, 2001 are as follows:

	Year ended December 31, 2003	Year ended December 31, 2002	Period ended December 31, 2001
Amortized deferred policy acquisition costs	$ 186,296	$ 91,200	$ 195
Allocated underwriting personnel expenses	43,416	12,503	637
	$ 229,712	$ 103,703	$ 832

9. Derivative Instruments

The Company writes certain contracts that are classified as derivatives under FAS 133. In addition, the Company may enter into derivative instruments such as futures, options, interest rate swaps and foreign currency forward contracts in order to manage duration and foreign currency exposure, obtain exposure to a particular financial market or for yield enhancement. The Company manages the exposure to these instruments based on guidelines established by management. These derivative instruments are carried at fair value with the corresponding changes in fair value recognized in income in the period that they occur.

a) Derivative Contracts

From time to time the Company will enter into contracts that meet the definition of a derivative contract under FAS 133. The Company has recorded these contracts at fair value with any changes in the value reflected in other insurance related income in the consolidated statement of operations and comprehensive income. Generally, the contracts are modeled on prevailing market conditions and certain other factors relating to the structure of the contracts. When data is not readily available from the market, the Company uses data from independent counterparties. The Company's model takes into account movements on credit spreads and credit qualities. The change in fair value recorded for the year ended December 31, 2003 was $25.0 million (2002: $(0.6) million). As at December 31, 2003, a net asset of $5.5 million (2002: ($10.1) million) was included in insurance and reinsurance premiums receivable. The notional value of such contracts at December 31, 2003 was $343.4 million (2002: $315 million).

b) Investment Derivatives

The Company currently uses foreign currency forward contracts to minimize the effect of fluctuating foreign currencies and to gain exposure to interest rate differentials between differing market rates. Forward currency contracts purchased are not specifically identifiable against cash, any single security or any groups of securities and, therefore, do not qualify and are not designated as a hedge for financial reporting purposes. All realized gains and unrealized gains and losses on foreign currency forward contracts are recognized in the statements of operations and comprehensive income. During the year ended December 31, 2003, the Company recorded $0.5 million (2002: $1.3 million; 2001: $nil) realized and unrealized gains on foreign currency forward contracts. As at December 31,

2003 the net contractual amount of foreign currency forward contracts was $3.8 million (2002: $0.4 million; 2001: $nil), with a negligible fair market value (2002 $negligible; 2001: $nil).

With effect from July 1, 2003, the Company adopted FAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". As a result, some of the Company's mortgage-backed securities are required to be classified as derivatives and the unrealized gains (losses) associated with these securities that were previously recorded in accumulated other comprehensive income are now recorded in net realized gains (losses). During the year ended December 31, 2003, the Company recorded $5.5 million of realized and unrealized losses on mortgage-backed investment derivatives. As at December 31, 2003, the Company did not hold any mortgage-backed investment derivatives in its investment portfolio.

During the first half of 2002, the Company utilized other investment derivatives as was permitted by our guidelines in effect at that time. During the year ended December 31, 2002, the Company recorded $2.3 million of realized and unrealized gains on other investment derivatives.

10. Commitments and Contingencies

a) Concentrations of Credit Risk

The investment portfolio is managed by external advisors in accordance with prudent standards of diversification. Specific provisions limit the allowable holdings of a single issue and issuers. The Company did not have an aggregate exposure in a single entity, other than in U.S. Government and U.S. Government agency securities, of more than 2% of shareholders' equity at December 31, 2003.

b) Brokers

The Company produces its business through brokers and direct relationships with insurance companies. During the year ended December 31, 2003, three brokers accounted for approximately 64.5% (2002: 69.2%; 2001: 81.8%) of the total gross premiums written by the Company. One broker accounted for approximately 33.7% (2002: 37.9%; 2001: 22.7%), the second for approximately 19.3% (2002: 20.7%; 2001: 39.5%) and the third for approximately 11.5% (2002: 10.6%; 2001: 19.6%). Each of these brokers is a large, well established company. No other broker and no one insured or reinsured accounted for more than 10% of gross premiums written in the years ended December 31, 2003 and 2002 and the period e