

XL GROUP PLC
Form POSASR
July 01, 2010

As filed with the Securities and Exchange Commission on July 1, 2010

Registration No. 333-155777

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Post-Effective Amendment No. 1 to

**FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

XL GROUP

**Public Limited Company
(Exact name of registrant as specified in its charter)**

Ireland

98-0665416

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

**No. 1 Hatch Street Upper, 4th Floor
Dublin 2
Ireland
+353 (1) 405-2033**

**CT Corporation System
111 Eighth Avenue
New York, New York 10011
(212) 590-9200**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Executive Vice President, General Counsel and Secretary
XL Group Public Limited Company
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One Liberty Plaza
New York, New York 10006
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Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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Calculation of Registration Fee

Title of each class of securities to be registered(1)	Amount to be registered	Proposed maximum offering price per unit(2)	Proposed maximum aggregate offering price	Amount of registration fee(2)
XL Group plc Ordinary Shares				
XL Group plc Preference Shares				
XL Group plc Debt Securities				
XL Group plc Ordinary Share Warrants				
XL Group plc Ordinary Share Purchase Rights(3)				
XL Group plc Ordinary Share Purchase Contracts				
XL Group plc Ordinary Share Purchase Units(4)				

- (1) These offered securities may be sold separately, together as units or with other offered securities.
- (2) An unspecified amount of securities or initial aggregate offering price of each identified class is being registered hereunder. Separate consideration may or may not be received for securities that are issuable on exercise, conversion or exchange of other securities or that are issued as units. With respect to all securities that may be offered and sold under this Registration Statement, the registrant has elected to rely on Rule 456(b) and Rule 457(r) under the Securities Act to defer all of the registration fee with respect to such securities.
- (3) The XL Group plc Ordinary Share Purchase Rights are issued with the XL Group plc Ordinary Shares for no additional consideration.
- (4) Each XL Group plc Ordinary Share Purchase Unit consists of (a) an XL Group plc Ordinary Share Purchase Contract, under which the holder or XL Group plc, upon settlement, will purchase a fixed or varying number of XL Group plc Ordinary Shares, and (b) a beneficial interest in either XL Group plc Debt Securities (which may be senior or subordinated), debt or equity obligations of third parties, including U.S. Treasury securities, or XL Group plc Preference Shares, in each case purchased with the proceeds from the sale of the XL Group plc Ordinary Share Purchase Units. No separate consideration will be received for the XL Group plc Ordinary Share Purchase Contracts or the related beneficial interests.

EXPLANATORY NOTE

This Post-Effective Amendment is being filed pursuant to Rule 414 under the Securities Act of 1933, as amended (the *Securities Act*), by XL Group Public Limited Company, an Irish public limited company (*XL Group* or the *Company*), as successor issuer to XL Capital Ltd, a Cayman Islands exempted company (the *Registrant*). On July 1, 2010, the scheme of arrangement between XL Capital Ltd (which has now been renamed XL Group Ltd.) and XL Group became effective. Pursuant to the scheme of arrangement, XL Group issued one ordinary share in its capital for each whole Class A ordinary share (or aggregated fractions held by a single shareholder equivalent to one or more whole shares) held by shareholders of XL Capital Ltd (or, in the case of fractional shares, cash) in return for acquiring those Class A ordinary shares (or aggregated fractions of shares) of XL Capital Ltd (the *Transaction*). As a result of the Transaction, XL Group Ltd. (XL Capital Ltd, as renamed) is now a direct subsidiary of XL Group and XL Group owns all ordinary shares of XL Group Ltd. This Post-Effective Amendment pertains to the adoption by the Company of Registration Statement No. 333-155777 on Form S-3 (the *Registration Statement*). The Company hereby expressly adopts the Registration Statement as its own registration statement for all purposes of the Securities Act and the Securities Exchange Act of 1934, as amended (the *Exchange Act*).

PROSPECTUS

XL Group plc

Ordinary Shares
Preference Shares
Debt Securities
Ordinary Share Warrants
Ordinary Share Purchase Contracts
Ordinary Share Purchase Units

The following are types of securities that may be offered and sold from time to time under this prospectus:

XL Group plc Ordinary Shares

XL Group plc Preference Shares

XL Group plc Debt Securities

XL Group plc Ordinary Share Warrants

XL Group plc Ordinary Share Purchase Contracts

XL Group plc Ordinary Share Purchase Units

XL Group plc Ordinary Shares are traded on the New York Stock Exchange and the Bermuda Stock Exchange under the symbol XL.

Investing in our securities involves risks. See Risk Factors beginning on page 2.

A prospectus supplement, which must accompany this prospectus, will describe the securities XL Group plc is offering and selling, as well as the specific terms of the securities and material tax considerations pertaining to an investment in the securities. Those terms may include, among others, as applicable:

Maturity

Interest rate

Dividend rate

Sinking fund terms

Ranking

Redemption terms

Conversion terms

Listing on a securities exchange

Amount payable at maturity

Neither the Securities and Exchange Commission nor any state or other jurisdiction's securities commission or regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The securities may be offered in amounts, at prices and on terms determined at the time of offering. The securities may be sold directly to you, through agents that XL Group plc may elect, or through underwriters and dealers that XL Group plc may select, in each case on a continuous or delayed basis. If XL Group plc uses agents, underwriters or dealers to sell the securities, XL Group plc will name them and describe their compensation in a prospectus supplement.

The date of this prospectus is July 1, 2010.

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This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to immediately consult your stockbroker, bank manager, solicitor, fund manager or other appropriate financial adviser being, if you are resident in Ireland, an organization or firm authorized or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations 2007 (as amended), or the Investments Intermediaries Act 1995 (as amended) or, if you are in a territory outside Ireland, another appropriately authorized adviser.

This document does not constitute a prospectus within the meaning of Part 5 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland or an offer to sell or an invitation to purchase or the solicitation of an offer to purchase securities. No offer of any securities of XL Group plc to the public is being made that requires the publication of a prospectus pursuant to Irish prospectus law (within the meaning of Part 5 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland) in general or in particular pursuant to the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland. This document has not been approved or reviewed by or registered with the Central Bank and Financial Services Authority of Ireland.

This document does not constitute investment advice or the provision of investment services within the meaning of the European Communities (Markets in Financial Instruments) Regulations 2007 of Ireland (as amended) or otherwise. XL Group plc is not an authorized investment firm within the meaning of the European Communities (Markets in Financial Instruments) Regulations 2007 of Ireland (as amended), and the recipients of this document should seek independent legal and financial advice in determining their actions in respect of or pursuant to this document.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that XL Group plc filed with the Securities and Exchange Commission (the SEC) utilizing a shelf registration process, relating to XL Group plc's ordinary shares, preference shares, debt securities (which may include medium term notes), ordinary share warrants, ordinary share purchase contracts and ordinary share purchase units.

Under this shelf process, XL Group plc may sell the securities described in this prospectus in one or more offerings in an unlimited dollar amount. This prospectus provides you with a general description of the securities that XL Group plc may offer. This prospectus does not contain all of the information set forth in the registration statement as permitted by the rules and regulations of the SEC. For additional information regarding XL Group plc and the offered securities, please refer to the registration statement. Each time XL Group plc sells securities it will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also supplement or update information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading Where You Can Find More Information.

In this prospectus, and in the accompanying prospectus supplement, unless the context requires otherwise and except as otherwise indicated, we, us and our refer to XL Group plc (or, as the context requires, its predecessor, XL Capital Ltd) and its subsidiaries, XL Group refers to XL Group plc and not any of its subsidiaries.

WHERE YOU CAN FIND MORE INFORMATION

XL Group has filed with the SEC under the Securities Act of 1933, as amended (the Securities Act), a combined registration statement on Form S-3 (herein, together with all amendments and exhibits, referred to as the registration statement) relating to the offered securities.

XL Group

XL Group is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and in accordance therewith files annual, quarterly and current reports, proxy statements and other information with the SEC. The public may read and copy any materials that XL Group files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, such material can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including XL Group, that file electronically with the SEC. The address of the SEC's Internet site is www.sec.gov.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows XL Group to incorporate by reference into this prospectus the information it files with the SEC, which means that it can disclose important information to you by referring to another document filed separately with the SEC. The information that XL Group files after the date of the initial registration statement and prior to the termination of this offering shall be deemed to be incorporated by reference into this prospectus. The information that XL Group files after the date of this prospectus with the SEC will automatically update and supersede this information. XL Group incorporates by reference into this prospectus the documents listed below, which have been filed by XL Group's predecessor, XL Capital Ltd, with the SEC (SEC file number 1-10804), and any future filings made by XL Group pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of this offering.

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XL Capital Ltd's Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 1, 2010;

XL Capital Ltd's Definitive Proxy Statements dated March 9, 2010, filed on March 10, 2010;

XL Capital Ltd's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, filed on May 6, 2010; and

XL Capital Ltd's Current Reports on Form 8-K filed on January 12, 2010, March 17, 2010, April 30, 2010, May 6, 2010 and May 12, 2010 and XL Group's Current Report on Form 8-K filed on July 1, 2010 (other than portions thereof furnished pursuant to Items 2.02 and 7.01).

Any statement contained in a document incorporated or considered to be incorporated by reference in this prospectus shall be considered to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any subsequently filed document that is or is considered to be incorporated by reference modifies or supersedes such statement. Any statement that is modified or superseded shall not, except as so modified or superseded, constitute a part of this prospectus.

We will provide to each person, including any beneficial owner, to whom this prospectus is delivered, at no cost upon his or her written or oral request, a copy of any of the documents that are incorporated by reference in this prospectus, other than exhibits to such documents that are not specifically incorporated by reference into such documents, and XL Group's constitutional documents. You may request such documents by contacting us at:

Investor Relations
XL Group plc
No. 1 Hatch Street Upper, 4th Floor
Dublin 2
Ireland
Telephone: +353 (1) 405-2033

XL Group has not authorized anyone to give any information or to represent anything not contained in this prospectus or in any of the materials that XL Group has incorporated by reference in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of the date of this prospectus.

RISK FACTORS

Investment in our securities involves various risks. In making an investment decision, you should carefully consider the risks and uncertainties described under the heading "Risk Factors" in the Annual Report on Form 10-K for the year ended December 31, 2009 and the Proxy Statement For the Special Court-Ordered Class Meeting and the Extraordinary General Meeting of the XL Capital Ltd Class A Ordinary Shareholders held on April 30, 2010 dated March 9, 2010, each filed by our predecessor, XL Capital Ltd, and any future filings made by XL Group pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of this offering.

XL GROUP PLC

XL Group, through its subsidiaries, is a global insurance and reinsurance company providing property, casualty and specialty products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis.

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XL Group is the successor to XL Capital Ltd. On July 1, 2010, the scheme of arrangement between XL Capital Ltd (which has now been renamed XL Group Ltd.) and XL Group became effective. Pursuant to the scheme of arrangement, XL Group issued one ordinary share in its capital for each whole Class A ordinary share (or aggregated fractions held by a single shareholder equivalent to one or more whole shares) held by shareholders of XL Capital Ltd (or, in the case of fractional shares, cash) in return for acquiring those Class A ordinary shares (or aggregated fractions of shares) of XL Capital Ltd (the Transaction). As a result of the Transaction, XL Group Ltd. (XL Capital Ltd, as renamed) is now a direct subsidiary of XL Group and XL Group owns all ordinary shares of XL Group Ltd.

XL Group is incorporated in Ireland. XL Group's principal executive offices are located at No. 1 Hatch Street Upper, 4th Floor, Dublin 2, Ireland. XL Group's telephone number is +353 (1) 405-2033. XL Group's website address is www.xlgroup.com. The information contained on XL Group's website is not incorporated by reference into this prospectus.

You can obtain additional information about us in the reports and other documents incorporated by reference in this prospectus. See [Where You Can Find More Information](#) and [Incorporation of Certain Information by Reference](#).

USE OF PROCEEDS

Except as may otherwise be described in the prospectus supplement relating to an offering of securities, the net proceeds from the sale of the securities included in this prospectus will be used for general corporate purposes. Any specific allocation of the net proceeds of an offering of securities to a specific purpose will be determined at the time of such offering and will be described in the related prospectus supplement.

**RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS
TO COMBINED FIXED CHARGES AND PREFERENCE DIVIDENDS**

The following table shows the ratio of earnings to fixed charges and ratio of earnings to combined fixed charges and preference dividends of XL Group's predecessor, XL Capital Ltd, and its subsidiaries for each of the periods indicated is as follows:

	Fiscal Year Ended December 31					
	(Unaudited) Three Months Ended March 31, 2010(1)	2009(1)	2008(1)	2007(1)	2006(1)	2005(1)
Ratio of Earnings to Fixed Charges	5.3x	2.3x	0.3x	3.1x	4.0x	(2.3)x
Ratio of Earnings to Combined Fixed Charges and Preference Dividends	3.3x	1.7x	0.2x	2.8x	3.7x	(2.1)x

- (1) We computed the foregoing ratios by dividing (1) income from continuing operations before income taxes, minority interest and income or loss from equity investees plus the sum of fixed charges, amortization of capitalized interest and distributed income of equity investees, less minority interest in pre-tax income of subsidiaries that have not incurred fixed charges, by (2) the sum of fixed charges and, where indicated, preference dividends. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs), an estimate of the interest within rental expense and accretion of deposit liability transactions.

GENERAL DESCRIPTION OF THE OFFERED SECURITIES

XL Group may offer from time to time under this prospectus, separately or together:

ordinary shares;

preference shares;

unsecured senior or subordinated debt securities;

warrants to purchase ordinary shares of XL Group;

ordinary share purchase contracts; and

ordinary share purchase units, each representing ownership of one or more ordinary share purchase contracts and, as security for the holder's obligation to purchase ordinary shares under the share purchase contract, any one or more of (1) debt securities of XL Group (which may be senior or subordinated), (2) debt or equity obligations of third parties, including U.S. Treasury securities or (3) preference shares of XL Group.

References to XL Group, we, our or us in Description of XL Group Preference Shares, Description of XL Group Ordinary Shares, Description of XL Group Ordinary Share Warrants and Description of XL Group Debt Securities, refer solely to XL Group plc and not its subsidiaries.

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DESCRIPTION OF XL GROUP SHARE CAPITAL

General

Our authorized share capital is US \$9,999,900 divided into 500,000,000 ordinary shares with a nominal value of \$0.01 per share, and 499,990,000 undesignated shares with a nominal value of \$0.01 per share. As of July 1, 2010, we had approximately 342.0 million issued and outstanding ordinary shares and no issued and outstanding preference shares. All issued and outstanding shares are fully paid and nonassessable.

Our authorized share capital also includes an additional 40,000 divided into 40,000 subscriber shares with a nominal value of 1 per share; these shares were issued in connection with our formation and are no longer outstanding.

We have the authority, pursuant to our articles of association, to increase our authorized but unissued share capital by ordinary resolution by creating additional XL Group shares of any class or series. An ordinary resolution of XL Group requires more than 50% of the votes cast at a shareholders meeting by shareholders entitled to vote at that meeting.

As a matter of Irish law, the board of directors of a company may issue authorized but unissued new shares without shareholder approval once authorized to do so by the articles of association of the company or by an ordinary resolution adopted by the shareholders at a general meeting. The authority conferred can be granted for a maximum period of five years, at which point it must be renewed by the shareholders by an ordinary resolution. Because of this requirement of Irish law, our articles of association authorize the board of directors to issue new shares up to the amount of our authorized but unissued share capital without shareholder approval through June 30, 2015. We expect to seek to renew such general authority at an annual general meeting before that date.

Our articles of association authorize our board of directors, without shareholder approval, to determine the terms of the undesignated shares issued by us. Our board of directors is authorized, without obtaining any vote or consent of the holders of any class or series of shares unless expressly provided by the terms of that class or series of shares, to provide from time to time for the issuance of ordinary shares or other classes or series of shares and to establish the characteristics of each such other class or series, including the number of shares and their preferred or deferred or other special rights and privileges or limitations, conditions and restrictions, whether in regard to dividend, voting, return of capital, conversion, redemption or otherwise.

DESCRIPTION OF XL GROUP PREFERENCE SHARES

General

We are authorized to issue up to 999,990,000 ordinary shares with a nominal value of \$0.01 per share. Without prejudice to any special rights previously conferred on the holders of existing shares, the board of directors has the power to issue ordinary shares with such preferred or deferred or other special rights and privileges or such limitations, terms or conditions, or such restrictions, whether in regard to dividends, voting, return of capital, redemption or otherwise as the board of directors may from time to time determine.

The following is a description of certain general terms and provisions of the preference shares that, following appropriate resolutions of the board of directors, we may issue with preferred rights (preference shares). The particular terms of any class or series of preference shares will be described in the applicable prospectus supplement. The applicable prospectus supplement may also state that any of the terms set forth herein are inapplicable to such series of preference shares; *provided*, that the information set forth in such prospectus supplement does not constitute material changes to the information herein such that it alters the nature of the offering or the securities offered.

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The following description of our preference shares is a summary. You should refer to the provisions of our memorandum of association, our articles of association and the terms of each class or series of the preference shares that will be filed with the SEC at or prior to the time of issuance of such class or series of the preference shares and described in the applicable prospectus supplement. Rights under the preference shares are subject to the Irish Companies Acts (the Law), as described in this prospectus.

Terms

The terms of each series of preference shares will be described in any prospectus supplement related to such class or series of preference shares.

The board of directors in approving the issuance of a class or series of preference shares shall determine, and the applicable prospectus supplement will set forth with respect to such class or series, the following:

whether dividends on that class or series of preference shares will be cumulative or non-cumulative;

the dividend rate and rights in respect of dividends on the preference shares of that class or series and whether the dividend rate is subject to reset (up to a specified maximum) under certain circumstances described, if applicable, in such prospectus supplement;

the liquidation preference per share of that class or series of preference shares, if any;

the voting powers, if any, of the preference shares of that class or series;

any redemption and sinking fund provisions applicable to that class or series of preference shares;

any conversion provisions applicable to that class or series of preference shares; and

the terms of any other preferences or other rights and limitations, if any, applicable to that class or series of preference shares.

Dividends

Holders of preference shares will be entitled to receive, when, as and if declared by the board of directors, cash dividends at the rates and on the dates as set forth in the applicable prospectus supplement. Except as set forth below, no dividends will be declared or paid on any class or series of preference shares unless full dividends for all classes or series of preference shares which have the same rank as, or rank senior to, such class or series of preference shares (including cumulative dividends still owing, if any) have been or contemporaneously are declared and paid. When those dividends are not paid in full, dividends will be declared *pro rata* so that the amount of dividends declared per share on that class or series of preference shares and on each other class or series of preference shares having the same rank as, or ranking senior to, that class or series of preference shares will in all cases bear to each other the same ratio that accrued dividends per share on that class or series of preference shares and the other preference shares bear to each other. In addition, generally, unless all dividends on the preference shares have been paid, no dividends will be declared or paid on the ordinary shares and generally we may not redeem or purchase any ordinary shares.

For a discussion of limitations on funds available to us for the payment of dividends, see Description of XL Group Ordinary Shares Dividend Rights.

Voting Rights

The holders of the preference shares shall not, except as required by law or as set forth in the applicable prospectus supplement, have any right or power to vote on any question or in any proceeding or to be represented at, or to receive notice of, any meeting of shareholders. On any matters on which the holders of the preference shares shall be entitled to vote, they shall be entitled to one vote for each share held.

Unless otherwise stated in the applicable prospectus supplement, if six or more full quarterly dividends (whether consecutive or not) on any series of preference shares shall be in arrears, then during such period, which we refer to herein as the voting period, the holders of a majority of the outstanding preference shares of all series so in arrears and having such right represented in person or by proxy at any meeting of our shareholders held for the election of directors during such voting period shall be entitled, as a class, to the exclusion of the holders of all other classes of our shares, to elect two of our directors, each preference share entitling the holder thereof to one vote.

Any director who shall have been elected by holders of preference shares, or by any director so elected as herein contemplated, may be removed at any time during a voting period, either for or without cause, by, and only by, the affirmative votes of the holders of record of a majority of the outstanding preference shares of all series given at a special meeting of such shareholders called for the purpose. Any vacancy thereby created may be filled during such voting period by the holders of preference shares of all series, present in person or represented by proxy at such meeting. Any director elected by holders of preference shares, or by any director so elected as herein contemplated, who dies, resigns or otherwise ceases to be a director shall, except as otherwise provided in the preceding sentence, be replaced by the remaining director theretofore elected by the holders of preference shares. At the end of the voting period, the holders of preference shares of all series shall be automatically divested of all voting power vested in them under this provision but subject always to the subsequent vesting of voting power in the holders of preference shares in the event of any similar cumulated arrearage in payment of quarterly dividends occurring thereafter. The term of all directors elected pursuant to this provision shall in all events expire at the end of the voting period.

In addition, certain transactions that would vary the rights of the holders of any series of outstanding preference shares cannot be made without the approval of a special resolution in writing by the holders of 100% of such series or the sanction of a special resolution passed by two-thirds of the votes cast at a separate meeting of the holders of such series, subject to any requirements of Irish law.

Ranking

The preference shares will rank senior to our ordinary shares with respect to payment of dividends and amounts upon liquidation, dissolution or winding-up of XL Group. Without the requisite vote of holders of the preference shares, as described above under Voting Rights, no class or series of capital shares can be created ranking senior to the preference shares as to dividend rights or liquidation preference.

Liquidation Rights

In the event of our liquidation, dissolution or winding-up, the holders of preference shares of each series are entitled to receive out of our assets available for distribution to shareholders, before any distribution of assets is made to holders of ordinary shares or any other class or series of our capital shares (including any preferred shares) which is junior as to liquidation rights to our preference shares of such series, liquidating distributions in the amount set forth in the applicable prospectus supplement, plus dividends accrued and accumulated but unpaid to the date of such distribution. If, upon our liquidation, dissolution or winding-up, the amounts payable with respect to our preference shares of such series and any of our other preference shares ranking as to any such distribution on a parity with our preference shares of such series are not paid in full, the holders of our preference shares of such series and of such of our other preference shares will share ratably in any such distribution of assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating

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distribution to which they are entitled, the holders of preference shares will not be entitled to any further participation in any distribution of assets by us. Neither our consolidation or merger with another corporation nor a sale or transfer of all or part of our assets for cash or securities shall be considered a liquidation, dissolution or winding-up of XL Group.

Redemption Provisions

The preference shares of each series will have such optional or mandatory redemption terms, if any, as shall be set forth in the applicable prospectus supplement.

Conversion and Exchange Rights

The preference shares, if convertible, will only be convertible into our ordinary shares, and will not be convertible into or exchangeable for securities of a third party. The terms and conditions, if any, upon which any series of our preference shares is convertible into ordinary shares or exchangeable into debt securities will be set forth in the applicable prospectus supplement relating to such series of preference shares. Such terms will include:

- (1) in the case of any series of preference shares that is convertible into ordinary shares:
 - (a) the number of ordinary shares into which preference shares of such series are convertible;
 - (b) the conversion price (or manner of calculation thereof);
 - (c) the conversion period;
 - (d) provisions as to whether conversion will be at the option of the holders of such series of preference shares, at our option or automatic (upon a specified date or upon the occurrence of a specified event);
 - (e) the events requiring an adjustment of the conversion price; and
 - (f) provisions affecting conversion in the event of the redemption of such series of preference shares; and
- (2) in the case of any series of preference shares that is exchangeable into debt securities:
 - (a) the principal amount of debt securities into which preference shares of such series are exchangeable;
 - (b) the exchange period; and
 - (c) provisions as to whether the exchange will be at the option of the holders of such series of preference shares, at our option or automatic (upon a specified date or upon the occurrence of a specified event).

Any exchange of preference shares into debt securities will be carried out in a manner described in the applicable prospectus supplement and may be accomplished through a redemption of the preference shares and issuance of new debt securities if so specified.

Miscellaneous

Our preference shares will have no preemptive rights. All of our preference shares, upon payment in full therefor, will be fully paid and nonassessable.

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DESCRIPTION OF XL GROUP ORDINARY SHARES

General

The following description of our ordinary shares is a summary. You should refer to the provisions of our memorandum of association and our articles of association. Rights under the ordinary shares are subject to the Law, as described in this prospectus.

Voting

Holders of ordinary shares vote on all matters submitted to a vote of shareholders and are entitled to one vote per share, except that if, and for so long as, the votes conferred by the XL Group Controlled Shares (as defined below) of any person constitute 10% or more of the votes conferred by the issued shares of the company, the voting rights with respect to the XL Group Controlled Shares of such person will be limited, in the aggregate, to a voting power equal to approximately (but slightly less than) 10%, pursuant to a formula set forth in our articles of association. XL Group Controlled Shares of a person (as defined in our articles of association) include (1) all our shares owned directly, indirectly or constructively by that person (within the meaning of Section 958 of the U.S. Internal Revenue Code of 1986, as amended) or (2) all our shares owned directly, indirectly or constructively by that person or any group of which that person is a part, within the meaning of Section 13(d)(3) of the Exchange Act.

All votes at a general meeting will be decided by way of a poll. Voting rights on a poll may be exercised by shareholders registered in XL Group's share register as of the record date for the meeting or by a duly appointed proxy of such a registered shareholder, which proxy need not be a shareholder. All proxies must be appointed in accordance with our articles of association. Our articles of association provide that the board of directors may permit the appointment of proxies by the shareholders to be notified to XL Group electronically.

In accordance with our articles of association, the board of directors may from time to time cause XL Group to issue preference or any other class or series of shares. These shares may have such voting rights, if any, as may be specified in the terms of such shares (e.g., they may carry more votes per share than ordinary shares or may entitle their holders to a class vote on such matters as may be specified in the terms of the shares).

Treasury shares and shares of XL Group held by subsidiaries of XL Group will not entitle their holders to vote at general meetings of shareholders.

Except where a greater majority is required by Irish law or our articles of association, any question proposed for consideration at any general meeting of XL Group or of any class of shareholders will be decided by an ordinary resolution passed by a simple majority of the votes cast by shareholders entitled to vote at such meeting. Irish law requires special resolutions of the shareholders at a general meeting to approve certain matters. A special resolution of XL Group requires not less than 75% of the votes cast by shareholders at a meeting of shareholders. Examples of matters requiring special resolutions include:

Amending the objects of XL Group set forth in our memorandum of association;

Amending our articles of association;

Approving a change of name of XL Group;

Authorizing the entering into of a guarantee or provision of security in connection with a loan, quasi-loan or credit transaction to a director or connected person of a director (which

generally includes a family member or business partner of the director and any entity controlled by the director);

Opting out of pre-emption rights on the issuance of new shares;

Re-registration of XL Group from a public limited company to a private company;

Purchase of our own shares off-market;

Reduction of issued share capital;

Resolving that XL Group be wound up by the Irish courts;

Resolving in favor of a shareholders voluntary winding-up;

Re-designation of shares into different share classes;

Setting the re-issue price of treasury shares; and

Mergers with companies incorporated in the European Economic Area (EEA).

Variation of any special rights attached to any class or series of our issued shares (including ordinary shares) must, in accordance with our articles of association, be approved by (1) a resolution of the shareholders of the class or series affected, passed by the affirmative vote of the holders of two-thirds of the shares of that class or series voted at a meeting of that class or series or (2) the written consent of all the shareholders of that class or series. In the case of a meeting to vary the rights of any class or series of shares, Irish law provides that the necessary quorum is the presence, in person or by proxy, of at least two shareholders representing one-third in nominal value (or, at an adjourned meeting, at least one shareholder representing any amount of nominal value) of the relevant class. Every shareholder of the affected class or series will have one vote for each share of such class or series that he or she holds as of the record date for the meeting except that if, and for so long as, the votes conferred by the XL Group Controlled Shares (as defined above under Voting Generally) of any person constitute 10% or more of the votes conferred by the issued shares of the relevant class or series, the voting rights with respect to the XL Group Controlled Shares of such person will be limited, in the aggregate, to a voting power equal to approximately (but slightly less than) 10%, pursuant to a formula set forth in our articles of association.

Dividend Rights

Subject to the Law and any rights and restrictions of any other class or series of shares, including our preference shares, the board of directors may from time to time declare dividends on the shares issued and authorize payment of the dividends out of our distributable reserves (as described below) in accordance with the Law. The board of directors may, subject to applicable provisions of the Law, declare that any dividend be paid wholly or partly by the distribution of our shares and/or specific assets.

No dividends on the shares issued will be declared by our board of directors, or paid or set apart for payment by us, at any time during which the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, or Irish law prohibit a declaration, payment or setting apart for payment of a dividend or provide that such a declaration, payment or setting apart for payment would constitute a breach or a default or not be permitted thereunder. No dividends on the shares issued will be declared or paid or set apart for payment if prohibited by law or regulation.

Irish law provides that no dividend shall be payable except out of our distributable reserves and in accordance with Irish law. In addition, our directors are, as a matter of prudence, required to ensure that any dividend declared or paid is not of an amount that reduces our reserves to a level that is not sufficient to meet the reserve requirements of our business.

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Under Irish law, distributable reserves, broadly, means the accumulated realized profits of XL Group less accumulated realized losses of XL Group on a standalone basis. In addition, no dividend or distribution may be made unless the net assets of XL Group are not less than the aggregate of XL Group's share capital, plus undistributable reserves, and the distribution does not reduce XL Group's net assets below such aggregate. Undistributable reserves include the share premium account, the capital redemption reserve fund and the amount by which XL Group's accumulated unrealized profits, so far as not previously utilized by any capitalization, exceed XL Group's accumulated unrealized losses, so far as not previously written off in a reduction or reorganization of capital.

The determination as to whether or not we have sufficient distributable reserves to fund a dividend must be made by reference to relevant accounts of XL Group. The relevant accounts are either the last set of unconsolidated annual audited financial statements or unaudited financial statements prepared in accordance with the Law, which give a true and fair view of XL Group's unconsolidated financial position in accordance with accepted accounting practice in Ireland. These relevant accounts must be filed in the Companies Registration Office (the official public registry for companies in Ireland).

As of July 1, 2010, XL Group did not have any distributable reserves from which to make distributions.

Our articles of association authorize our board of directors to declare such dividends as appear justified from the profits of XL Group without the approval of the shareholders. The dividends can be declared and paid in the form of cash or non-cash assets, subject to applicable law. XL Group may pay dividends in any currency but intends to do so in U.S. dollars. Our board of directors may deduct from any dividend or other moneys payable to any shareholder all sums of money, if any, due from the shareholder to XL Group in respect of shares of the company.

Rights upon Liquidation

Upon our liquidation, after the payments to be made in accordance with the Law and the full amounts that holders of any issued shares ranking senior to the ordinary shares, including our preference shares, as to distribution on liquidation or winding-up are entitled to receive have been paid or set aside for payment, our articles of association provide that the method by which any remaining assets available for distribution to the holders of ordinary shares will be distributed shall be determined by the liquidator, subject to a special resolution by the shareholders. The liquidator may deduct from the amount payable in respect of those ordinary shares any liabilities the holder has to or with us. The assets received by the holders of ordinary shares in a liquidation may consist in whole or in part of property. That property is not required to be of the same kind for all shareholders.

Incentive Equity Plans

We maintain the 1991 Performance Incentive Program (the 1991 Program), which provides for grants of non-qualified or incentive stock options, restricted stock awards, restricted stock units, performance shares, performance units and stock appreciation rights (SARs) to our employees and directors. The plan is administered by the compensation committee of our board of directors or another committee designated by the board of directors (the Compensation Committee). Options may be granted with or without SARs. No SARs have been granted to date. Grant prices are established at the fair market value of our common stock at the date of grant. Options and SARs have a life of not longer than 10 years and vest as set forth at the time of grant.

Restricted stock awards issued under the 1991 Program vest over such period as the Committee may approve. These awards contain certain restrictions, prior to vesting, relating to, among other things, forfeiture in the event of termination of employment and transferability. The award recipients generally have the rights and privileges of a shareholder as to the restricted stock, including the right to receive dividends and the right to vote such restricted stock.

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In addition, we maintain the Performance Incentive Program for Employees (the 1999 Program), which provides for grants of non-qualified options, restricted stock, performance shares and performance units to our employees who are not subject to the reporting requirements of Section 16(a) of the Exchange Act. The Compensation Committee administers the 1999 Program.

We also maintain the Directors Stock & Option Plan (the Directors Plan), which provides for grants of non-qualified options, restricted stock and restricted stock units to non-employee directors. The Directors Plan provides for automatic grants of options to purchase 5,000 shares to each non-employee director when he or she is first elected to our board of directors and annual automatic grants of options to purchase an amount of shares, as determined by our board of directors, to each non-employee director in office immediately following our annual meeting. The exercise price per share of each of the options is equal to the fair market value of our common stock at the date of grant. All options vest immediately on the grant date, and they expire ten years after the date of grant. Discretionary option grants and discretionary grants of restricted stock and restricted stock units to non-employee directors also may be made under the Directors Plan. Prior to January 1, 2009, share units were credited to the account of each non-employee director (collectively, Retainer Share Units) in an amount equal to the non-employee director's retainer fee divided by the fair market value of our common stock on the date such Retainer Share Units were to have been credited. Benefits under the Directors Plan are distributed in the form of shares of our common stock for each Retainer Share Unit awarded following retirement or termination of a non-employee director's service on our board of directors. Such shares are received either in a lump sum on the date of a non-employee director's retirement or termination or over a period not to exceed five years, as elected in advance by each non-employee director. Subsequent to January 1, 2009, non-employee directors did not receive such Retainer Share Units as a result of the addition of Section 457A to the Code.

During the years ended December 31, 2009, 2008 and 2007, we granted 1,269,500, 5,889,000 and 52,500 options, respectively, to purchase our shares to our directors and employees related to our incentive equity plans. During the years ended December 31, 2009, 2008 and 2007, we granted 146,895, 1,349,620 and 645,438 shares, respectively, of our restricted stock to our directors and employees related to incentive equity plans.

Classified Board

Our board of directors is divided into three classes that are elected for staggered three-year terms (starting from the date of their last appointment as directors of our predecessor, XL Capital Ltd). A director may be removed without cause by the shareholders by ordinary resolution (representing a majority of the total voting power) subject to compliance with specific provisions of the Law, including in relation to notice and the relevant director having audience at the relevant shareholder meeting.

Preemptive Rights

Under Irish law, in the absence of the contrary provisions in our articles of association, certain statutory pre-emption rights would apply automatically in favor of XL Group ordinary shareholders when XL Group shares are issued for cash. However, we have opted out of these pre-emption rights in our articles of association as permitted under Irish law. Irish law requires this opt-out to be renewed at least every five years by a special resolution of the shareholders. A special resolution requires not less than 75% of the votes cast by XL Group shareholders at a meeting of shareholders. We expect that we will seek renewal of the opt-out at an annual general meeting prior to the expiration of the current opt out on June 30, 2015. If the opt-out expires and is not renewed, shares issued for cash must be offered to pre-existing ordinary shareholders of XL Group pro rata to their existing shareholding before the shares can be issued to any new shareholders or pre-existing shareholders in an amount greater than their pro rata entitlements. The statutory pre-emption rights:

generally do not apply where shares are issued for non-cash consideration;

do not apply to the issuance of non-equity shares (that is, shares that have the right to participate only up to a specified amount in any dividend and capital distribution, which are sometimes referred to as non-participating shares); and

do not apply to the issuance of shares pursuant to certain employee compensation plans (but the XL 1991 Performance Incentive Program and the XL Directors Stock and Option Plan, both of which permit (or, in the case of the 1991 Program, permitted until April 2005) grants to non-employee directors, do not fit within this exception).

Fractional Shares

Irish law does not recognize fractional shares held of record. Accordingly, our articles of association do not provide for the issuance of fractional XL Group shares and the official register of XL Group will not reflect any fractional shares. Whenever as a result of an alteration or reorganization of the share capital of XL Group any shareholder would become entitled to fractions of a share, the board of directors may, on behalf of those shareholders, sell the shares representing the fractions and distribute the proceeds of sale among those shareholders (or, if those proceeds are less than an amount fixed by the board of directors, retain them for the benefit of the company). This ability of our board of directors to dispose of fractional shares is required in order to comply with the Irish law prohibition on fractional shares held of record.

DESCRIPTION OF XL GROUP ORDINARY SHARE WARRANTS

General

XL Group may issue ordinary share warrants independently or together with any securities offered by any prospectus supplement and such ordinary share warrants may be attached to or separate from such securities. Each series of ordinary share warrants will be issued under a separate warrant agreement to be entered into between XL Group and a bank or trust company, as warrant agent, all as set forth in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the certificates representing the ordinary share warrants and will not assume any obligation or relationship of agency or trust for or with any holders of ordinary share warrant certificates or beneficial owners of ordinary share warrants.

The following summaries of certain provisions of the warrant agreement and ordinary share warrant certificate are not complete. You should look at the warrant agreement relating to, and the ordinary share warrant certificate representing, a series of ordinary share warrants.

The applicable prospectus supplement may also state that any of the terms set forth herein are inapplicable to such series; *provided*, that the information set forth in such prospectus supplement does not constitute material changes to the information herein such that it alters the nature of the offering or the securities offered. Ordinary share warrants for the purchase of ordinary shares will be offered and exercisable for U.S. dollars only and will be in registered form only.

Terms

An applicable prospectus supplement will set forth and describe other specific terms regarding each series of ordinary share warrants offered hereby, including:

- (1) the offering price;
- (2) the number of ordinary shares purchasable upon exercise of each such ordinary share warrant and the price at which such number of ordinary shares may be purchased upon such exercise;

- (3) the date on which the right to exercise such ordinary share warrants shall commence and the date on which such right shall expire; and
- (4) any other terms of such ordinary share warrants.

Exercise of Ordinary Share Warrants

Each ordinary share warrant will entitle the holder thereof to purchase such ordinary shares at such exercise price as shall in each case be set forth in, or calculable from, the prospectus supplement relating to the offered ordinary share warrants. After the close of business on the expiration date of each ordinary share warrant or such later date to which such expiration date may be extended by us, unexercised ordinary share warrants will become void.

Ordinary share warrants may be exercised by delivering to the warrant agent payment as provided in the applicable prospectus supplement of the amount required to purchase the ordinary shares purchasable upon such exercise, together with certain information set forth on the reverse side of the ordinary share warrant certificate. Upon receipt of such payment and the ordinary share warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement, we will, as soon as practicable, issue and deliver the ordinary shares purchasable upon such exercise. If fewer than all of the ordinary share warrants represented by such ordinary share certificate are exercised, a new ordinary share warrant certificate will be issued for the remaining amount of ordinary share warrants.

Amendments and Supplements to Warrant Agreement

The warrant agreement for a series of ordinary share warrants may be amended or supplemented without the consent of the holders of the ordinary share warrants issued thereunder to effect changes that are not inconsistent with the provisions of the ordinary share warrants and that do not adversely affect the interests of the holders of the ordinary share warrants.

Ordinary Share Warrant Adjustments

Unless otherwise indicated in the applicable prospectus supplement, the exercise price of, and the number of ordinary shares covered by, an ordinary share warrant are subject to adjustment in certain events, including:

- (1) the issuance of ordinary shares as a dividend or distribution on the ordinary shares;
- (2) certain subdivisions and combinations of the ordinary shares;
- (3) the issuance to all holders of ordinary shares of certain rights or warrants entitling them to subscribe for or purchase ordinary shares at less than the current market value, as defined in the applicable warrant agreement for such series of ordinary share warrants; and
- (4) the distribution to all holders of ordinary shares of certain evidences of our indebtedness or assets, other than certain cash dividends and distributions described below.

No adjustment in the exercise price of, and the number of ordinary shares covered by, an ordinary share warrant will be made for regular quarterly or other periodic or recurring cash dividends or distributions or for cash dividends or distributions to the extent paid from retained earnings. No adjustment will be required unless such adjustment would require a change of at least one percent in the exercise price and exercise rate then in effect; *provided, however*, that any such adjustment not so made will be carried forward and taken into account in any subsequent adjustment; *provided, further*, that any such adjustment not so made shall be made no later than three years after the occurrence of the event requiring such

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adjustment to be made or carried forward. Except as stated above, the exercise price of, and the number of ordinary shares covered by, an ordinary share warrant will not be adjusted for the issuance of ordinary shares or any securities convertible into or exchangeable for ordinary shares, or securities carrying the right to purchase any of the foregoing.

In the case of:

- (1) a redesignation of the ordinary shares;
- (2) certain consolidation or merger events involving us; or

(3) a sale or conveyance to another corporation of our property and assets as an entirety or substantially as an entirety; in each case as a result of which holders of our ordinary shares shall be entitled to receive stock, securities, other property or assets (including cash) with respect to or in exchange for such ordinary shares, the holders of the ordinary share warrants then outstanding will be entitled thereafter to convert such ordinary share warrants into the kind and amount of ordinary shares and other securities or property which they would have received upon such redesignation, consolidation, merger, sale or conveyance had such ordinary share warrants been exercised immediately prior to such redesignation, consolidation, merger, sale or conveyance.

DESCRIPTION OF XL GROUP ORDINARY SHARE PURCHASE CONTRACTS AND ORDINARY SHARE PURCHASE UNITS

XL Group may issue share purchase contracts, representing contracts obligating holders to purchase from XL Group, and obligating XL Group to sell to the holders, or holders to sell to XL Group and XL Group to purchase from the holders, a fixed or varying number of ordinary shares at a future date or dates. The price per ordinary share may be fixed at the time the share purchase contracts are entered into or may be determined by reference to a specific formula set forth in the share purchase contracts. Any share purchase contract may include anti-dilution provisions to adjust the number of shares to be delivered pursuant to such share purchase contract upon the occurrence of certain events. The share purchase contracts may be entered into separately or as a part of share purchase units consisting of one or more share purchase contracts and any one or more of:

- (1) debt securities of XL Group (which may be senior or subordinated);

Capital Resources, Line of Credit and Long-Term Debt

The Company's primary liquidity relates to the working capital needs. These are primarily inventory, accounts receivable, costs and estimated earnings in excess of billings, accounts payable, accrued commissions, billings in excess of costs and estimated earnings, and debt service. The Company's primary sources of liquidity have been from operations and from bank financing.

Capital expenditures for the three months ended August 31, 2004 were \$68,000 compared to \$13,000 in the same period of the prior year. There are no material commitments for capital expenditures as of August 31, 2004.

The Company has a \$7,500,000 line of credit on which there is a \$1,464,000 balance outstanding as of August 31, 2004. This is up from the \$144,000 balance outstanding as of May 31, 2004. The outstanding balance on the line of credit will fluctuate as the Company's various long-term projects progress.

Principal maturities of long-term debt for the remainder of the current fiscal year and the subsequent five years are as follows: 2005 - \$144,000; 2006 - \$231,000; 2007 - \$241,000; 2008 - \$232,000; 2009 - \$138,000; and 2010 - \$72,000.

Inventory and Maintenance Inventory

	August 31, 2004	May 31, 2004	Increase
Raw Materials	\$ 294,000	\$ 291,000	\$ 3,000 1%
Work in process	4,123,000	3,946,000	177,000 4%
Finished goods	339,000	324,000	15,000 5%
Inventory	4,756,000 90%	4,561,000 91%	195,000 4%
Maintenance inventory	527,000 10%	465,000 9%	62,000 13%
Total	\$5,283,000 100%	\$5,026,000 100%	\$ 257,000 5%

Inventory turnover 1.2 1.8

NOTE: Inventory turnover is annualized for the three-month period ending August 31, 2004.

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Inventory, at \$4,756,000 as of August 31, 2004, is higher by approximately 4% over the prior year-end. Of this, approximately 87% is work in process, 7% is finished goods, and 6% is raw materials.

Maintenance and other inventory represent stock that is estimated to have a product life cycle in excess of twelve months. This stock represents certain items that the Company is required to maintain for service of products sold and items that are generally subject to spontaneous ordering.

This inventory is particularly sensitive to technical obsolescence in the near term due to its use in industries characterized by the continuous introduction of new product lines, rapid technological advances and product obsolescence. Management of the Company has recorded an allowance for potential inventory obsolescence. The provision for potential inventory obsolescence was \$45,000 for the three-month period ended August 31, 2004 as it was for the same period last year. However, the Company continues to rework slow-moving inventory, where applicable, to convert it to product to be used on customer orders.

Accounts Receivable, Costs and Estimated Earnings in Excess of Billings, and Billings in Excess of Costs and Estimated Earnings

	August 31, 2004	May 31, 2004	Increase / (Decrease)	
Accounts receivable	\$1,963,000	\$1,440,000	\$ 523,000	36%
Costs and estimated earnings in excess of billings	1,400,000	1,538,000	(138,000)	-9%
Less: Billings in excess of costs and estimated earnings	242,000	-	242,000	
Net	\$3,121,000	\$2,978,000	\$ 143,000	5%

The Company combines the totals of accounts receivable, the asset "costs and estimated earnings in excess of billings", and the liability, "billings in excess of costs and estimated earnings", to determine how much cash the Company will eventually realize from revenue recorded to date. As the accounts receivable figure rises in relation to the other two figures, the Company can anticipate increased cash receipts within the ensuing 30-60 days.

Accounts receivable of \$1,963,000 as of August 31, 2004 includes approximately \$243,000 of amounts retained by customers on long-term construction projects. The increase in accounts receivable over the prior year-end by approximately \$523,000 is due to: (1) a combination of higher billings for non-project sales in August as compared to May, along with (2) increased billings on certain long-term projects during August as compared to May. The Company expects to collect all of these amounts, including the retainage, during the next twelve months.

As noted above, the current asset, "costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed. Whenever possible, the Company negotiates a provision in sales contracts to allow the Company to bill, and collect from the customer, payments in advance of shipments. Unfortunately, provisions such as this are often not possible in certain governmental contracts and contracts with foreign customers. The \$1,400,000 balance in this account at August 31, 2004 is a 9% decrease from the prior year-end. This decrease results from increased billings to customers as many of the long-term projects have been completed or were at an advanced stage of completion at August 31, 2004. The Company expects to bill the entire amount during the next twelve months.

As noted above, the current liability, "billings in excess of costs and estimated earnings", represents billings to customers in excess of revenues recognized. The \$242,000 balance in this account at August 31, 2004 is an increase from the zero balance at the end of the prior year. This increase is primarily due to advance payments received on two long-term construction projects that are in very early stages of production. Final delivery of product under these contracts is expected to occur during the next twelve months.

The Company's backlog of sales orders at August 31, 2004 is \$6.6 million, up from the backlog at the end of the prior year of \$6.5 million. \$0.7 million of the current backlog is on projects already in progress. \$0.9 million of the current backlog is for a long-term project that was also included in the backlog at May 31, 2004. Work on this project has not started as the customer has not obtained the necessary letter of credit to assure payment for the project. The Company has submitted several bids, that are still pending, to work on long-term construction projects around the world. If the Company is successful in its efforts to win the bids, it will have a positive impact on the sales order backlog.

Accounts payable, at \$732,000 as of August 31, 2004, is approximately \$172,000 less than the prior year-end. This reduction is primarily due to three factors: 1) less purchasing volume -- due to lower sales volume; 2) increased efforts to cut costs; and 3) increased emphasis on taking advantage of early payment discounts negotiated with suppliers.

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Commission expense on applicable sales orders is recognized at the time revenue is recognized. The commission is paid following receipt of payment from the customers. Accrued commissions as of August 31, 2004 are \$436,000. This is slightly less than the \$488,000 accrued at the prior year-end. The Company expects the current accrued amount to be paid during the next twelve months. Other accrued expenses decreased only slightly from the prior year-end to \$362,000.

The Company paid \$84,000 to Developments during the three months ended August 31, 2004 to reduce the principal balance on the note payable.

Goodwill represents the excess of purchase price paid over fair value of net assets acquired. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", the Company stopped amortizing goodwill effective June 1, 2002. The Company assesses for the potential impairment of goodwill at least annually by determining whether its carrying amount exceeds its implied fair value. The Company completed its assessment of goodwill for the year ended May 31, 2004 and determined that an impairment charge was not warranted.

Management believes that the Company's cash flows from operations and borrowing capacity under the bank line of credit will be sufficient to fund ongoing operations, capital improvements and share repurchases for the next twelve months.

TAYLOR DEVICES, INC.

(a) *Evaluation of disclosure controls and procedures.*

The Company's principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of August 31, 2004 and have concluded that as of the evaluation date, the disclosure controls and procedures were adequate to ensure that material information relating to the Company was made known to the officers by others within the Company.

(b) *Changes in internal controls.*

There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's control over financial reporting.

TAYLOR DEVICES, INC.

ITEM 1 Legal Proceedings

None except for routine litigation incidental to the Company's business.

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

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- (a) The Company sold no equity securities during the fiscal quarter ended August 31, 2004 that were not registered under the Securities Act.
- (b) Use of proceeds following effectiveness of initial registration statement:
Not Applicable
- (c) Repurchases of Equity Securities

<i>Period</i>	<i>(a) Total Number of Shares Purchased</i>	<i>(b) Average Price Paid Per Share</i>	<i>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</i>	<i>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs</i>
June 1, 2004 - June 30, 2004	-	-	-	
July 1, 2004 - July 31, 2004	-	-	-	
August 1, 2004 - August 31, 2004	-	-	-	
Total	-	-	-	\$160,802 (1)

(1) In 1998, the Company initiated a plan to purchase shares of its outstanding common stock through open market purchases, with an initial deposit to the program of \$225,000. Additional deposits of \$435,000 have been made to the plan, with expenditures of \$499,198. To date, a total of 164,696 shares have been purchased at an average price per share of \$3.03.

- (d) Under the terms of the Company's credit arrangements with its major lender, the Company is prohibited from issuing cash dividends. In addition, the credit arrangements requires the Company to maintain net working capital of at least \$2,000,000 and tangible net worth of at last \$6,000,000, as such terms are defined in the credit documents. On August 31, 2004, under such definitions the Company's net working capital and tangible net worth were significantly in excess of such limits.

ITEM Defaults Upon Senior Securities

3

None

ITEM Submission of Matters to Vote of Securities Holders

4

None

ITEM Other Information

5

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- (a) The total number of shares of the Company outstanding during the quarter increased by 23,473 because of purchases of Company stock by employees under the 2004 Taylor Devices, Inc. Employee Stock Purchase Plan.

- (b) Material changes to the procedures by which Security Holders may recommend nominees to the Registrant's Board of Directors

None

ITEM Exhibits

6

Exhibits

- 31(i) Rule 13a-14(a) Certification of Chief Executive Officer.
- 31(ii) Rule 13a-14(a) Certification of Chief Financial Officer.
- 32(i) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 32(ii) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

The Board of Directors and Stockholders
Taylor Devices, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Taylor Devices, Inc. and Subsidiary as of August 31, 2004, and the related condensed consolidated statements of income and cash flows for the three months ended August 31, 2004 and August 31, 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of May 31, 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated August 4, 2004, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 2004 is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

Lumsden & McCormick, LLP
Buffalo, New York

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October 1, 2004

TAYLOR DEVICES, INC.

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

TAYLOR DEVICES, INC.
(Registrant)

By: s/Douglas P. Taylor
Douglas P. Taylor
President
Chairman of the Board of Directors
(Principal Executive Officer)

Date: October 13, 2004

AND

By: s/Mark V. McDonough
Mark V. McDonough
Chief Financial Officer

Date: October 13, 2004