

AMERICAN FINANCIAL GROUP INC

Form DEF 14A

March 31, 2008

**Table of Contents**

**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

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Section 240.14a-12

**AMERICAN FINANCIAL GROUP, INC.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:
  - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:



**Table of Contents**

One East Fourth Street  
Cincinnati, Ohio 45202

**Notice of Annual Meeting of Shareholders  
and Proxy Statement**

To be Held on May 15, 2008

Dear Shareholder:

We invite you to attend our Annual Meeting of Shareholders on Thursday, May 15, 2008, in Cincinnati, Ohio. In connection with the meeting, we will report on our operations and you will have an opportunity to meet your Company's directors and senior executives.

This booklet includes the formal notice of the meeting and the proxy statement. The proxy statement tells you more about the agenda and procedures for the meeting. It also describes how your Board of Directors operates and provides information about the director candidates.

We are pleased to take advantage of new U.S. Securities and Exchange Commission rules that allow companies to furnish their proxy materials over the Internet. As a result, we are mailing to most of our shareholders a Notice of Internet Availability of Proxy Materials (the "Notice") instead of a paper copy of this proxy statement and our 2007 Annual Report. The Notice contains instructions on how to access and review those documents over the Internet. The Notice also instructs you on how to submit your proxy over the Internet. We believe that this new process will allow us to provide our shareholders with the information they need in a more timely manner, while reducing the environmental impact and lowering the costs of printing and distributing our proxy materials. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice.

All shareholders are important to us. We want your shares to be represented at the meeting and urge you to vote using our internet or telephone voting systems or by promptly returning a properly completed proxy card.

Sincerely,

James C. Kennedy

*Vice President,*

*Deputy General Counsel & Secretary*

Cincinnati, Ohio

March 28, 2008

---

**Table of Contents**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
OF AMERICAN FINANCIAL GROUP, INC.**

- Date:** Thursday, May 15, 2008
- Time:** 11:30 a.m. Eastern Daylight Saving Time
- Place:** The Cincinnati Hotel  
Second Floor Filson Room  
601 Vine Street  
Cincinnati, Ohio 45202
- Purpose:**
1. Elect nine Directors
  2. Ratify Independent Registered Public Accounting Firm
  3. Consider a Shareholder Proposal
  4. Conduct other business if properly raised
- Record Date:** March 18, 2008 Shareholders registered in the records of the Company or its agents on that date are entitled to receive notice of and to vote at the meeting.
- Mailing Date:** The approximate mailing date of the notice of availability of this proxy statement and accompanying proxy card is April 4, 2008.

**Your vote is important.**

If you are a shareholder of record, you can vote your shares via the Internet or by using a toll-free telephone number by following the instructions on your proxy card. If voting by mail, please complete, date and sign your proxy card and return it as soon as possible in the enclosed postage-paid envelope.

---

**TABLE OF CONTENTS**

	Page
<u>MATTERS TO BE CONSIDERED</u>	2
<u>PRINCIPAL SHAREHOLDERS</u>	7
<u>MANAGEMENT</u>	9
<u>EXECUTIVE COMPENSATION</u>	12
<u>COMMITTEES AND MEETINGS OF THE BOARD OF DIRECTORS</u>	31
<u>NOMINATIONS AND SHAREHOLDER PROPOSALS</u>	33
<u>COMMUNICATIONS WITH DIRECTORS</u>	34
<u>CODE OF ETHICS</u>	35

The Company makes available, free of charge on its website, all of its filings that are made electronically with the Securities and Exchange Commission ( SEC ), including Forms 10-K, 10-Q and 8-K. To access these filings, go to the Company s website ([www.afginc.com](http://www.afginc.com)) and click on the SEC Filings tab at the left under the Investor Relations page. Copies of the Company s Annual Report on Form 10-K for the year ended December 31, 2007, including financial statements and schedules thereto, filed with the SEC, are also available without charge to shareholders upon written request addressed to:

Investor Relations  
American Financial Group, Inc.  
580 Walnut Street, Floor 9 East  
Cincinnati, Ohio 45202.

---

**Table of Contents**

**GENERAL INFORMATION**

**Record Date; Shares Outstanding**

As of March 18, 2008, the record date for determining shareholders entitled to notice of and to vote at the meeting, the Company had 113,454,572 shares of common stock deemed outstanding and eligible to vote. This number does not include 14,940,627 shares held by subsidiaries of AFG. Under Ohio law, shares held by subsidiaries are not entitled to vote and are therefore not considered to be outstanding for purposes of the meeting. Each share of outstanding common stock is entitled to one vote on each matter to be presented at the meeting. Abstentions (including instructions to withhold authority to vote for one or more nominees) and broker non-votes are counted for purposes of determining a quorum, but will have no effect on the outcome of any matter voted on at the meeting. Broker non-votes occur when a broker returns a proxy card but does not have authority to vote on a particular proposal.

**Proxies and Voting Procedures**

Shareholders of record can vote by mail or via the Internet or by using the toll-free telephone number listed on the proxy card. Internet and telephone voting information is provided on the proxy card. If you vote via the Internet or by telephone, please do not return a signed proxy card. Shareholders who hold their shares through a bank or broker can vote by mail, or via the Internet or by telephone if these other options are offered by the bank or broker. You may vote by telephone or Internet 24 hours a day, 7 days a week until 11:59 p.m. Eastern Daylight Saving Time, the day before the meeting. Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you had executed a proxy card.

If voting by mail, please complete, sign, date and return your proxy card enclosed with the proxy statement in the accompanying postage-paid envelope.

If your shares are held in the name of your broker or bank and you wish to vote in person at the meeting, you should request your broker or bank to issue you a proxy covering your shares.

Solicitation of proxies through the mail, in person and otherwise, is being made by management at the direction of AFG's Board of Directors, without additional compensation. AFG will pay all costs of soliciting proxies. In addition, AFG will request brokers and other custodians, nominees and fiduciaries to forward proxy-soliciting material to the beneficial owners of shares held of record by such persons, and AFG will reimburse them for their expenses.

If a choice is specified on a properly executed proxy card, the shares will be voted accordingly. If a proxy card is signed without a preference indicated, those shares will be voted FOR the election of the nine nominees proposed by the Board of Directors, FOR the ratification of the Company's independent registered public accounting firm, and AGAINST the shareholder proposal. The authority solicited by this proxy statement includes discretionary authority to cumulate votes in the election of directors. If any other matters properly come before the meeting or any postponement or adjournment thereof, each properly executed proxy card will be voted in the discretion of the proxies named therein.

With respect to Proposal No. 1, the nine nominees who receive the greatest number of votes will be elected. With respect to Proposals 2 and 3, the proposal will be adopted only if it receives approval by a majority of the votes cast.

**Retirement and Savings Plan Participants**

If you are a participant in the Company's retirement and savings plan with a balance in the AFG Common Stock Fund, the accompanying proxy card shows the number of shares of common stock attributed to your account balance, calculated as of the record date. In order for your plan shares to be voted in your discretion, you must vote at least two business days prior to the day of the meeting (by the end of the day on May 12, 2008) either by Internet, telephone, or returned properly signed proxy card. If you choose not to vote or if you return an invalid or unvoted proxy card, the Administrative Plan Committee will vote your plan shares in the Committee's sole discretion. Plan participants' votes will be held in confidence.

**Table of Contents**

**Revoking a Proxy**

Whether you vote by mail, via the Internet or by telephone, you may revoke your proxy at any time before it is voted by submitting a new proxy with a later date, voting via the Internet or by telephone at a later time, delivering a written notice of revocation to the Company's corporate secretary, or voting in person at the meeting.

**Cumulative Voting**

Shareholders have cumulative voting rights in the election of directors and one vote per share on all other matters. Cumulative voting allows a shareholder to multiply the number of shares owned on the record date by the number of directors to be elected and to cast the total for one nominee or distribute the votes among the nominees as the shareholder desires. The nine nominees who receive the greatest number of votes will be elected. In order to invoke cumulative voting, notice of cumulative voting must be given in writing to the Company's corporate secretary not less than 48 hours before the time fixed for the holding of the meeting.

**Adjournment and Other Matters**

Approval of a motion for adjournment, postponement or other matters brought before the meeting requires the affirmative vote of a majority of the shares voting at the meeting. Management knows of no other matters to be presented at the meeting other than those stated in this document.

**MATTERS TO BE CONSIDERED**

**Proposal No. 1 Elect Nine Directors**

The Board of Directors oversees the management of the Company on your behalf. The Board reviews AFG's long-term strategic plans and exercises direct decision-making authority in key areas such as choosing the Co-Chief Executive Officers, setting the scope of their authority to manage the Company's business day-to-day, and evaluating senior management performance.

Upon the recommendation of the Corporate Governance Committee (the Governance Committee), the Board of Directors has nominated nine individuals to hold office until the next annual meeting of shareholders and until their successors are elected and qualified. If any of the nominees should become unable to serve as a director, the proxies will be voted for any substitute nominee designated by the Board of Directors but, in any event, no proxy may be voted for more than nine nominees.

The nominees for election to the Board of Directors are:

<b>Carl H. Lindner</b> Director since 1959	For more than five years, Mr. Lindner has served as the Chairman of the Board, and until January 2005, also served as Chief Executive Officer of the Company.
<b>Carl H. Lindner III</b> Director since 1991	He has been Co-Chief Executive Officer since January 2005, and for more than five years, Mr. Lindner has served as Co-President of the Company. For over ten years, Mr. Lindner has been President of Great American Insurance Company and has been principally responsible for the Company's property and casualty insurance operations.
<b>S. Craig Lindner</b> Director since 1985	He has been Co-Chief Executive Officer since January 2005, and for more than five years, Mr. Lindner has served as Co-President of the Company. For more than ten years, Mr. Lindner has been President of our Great American Financial Resources, Inc. subsidiary, and has been principally responsible for the Company's annuity and supplemental health insurance operations. He is also President of American Money Management Corporation, a subsidiary that provides investment services for the Company and certain of its affiliated companies.



**Table of Contents**

<p><b>Kenneth C. Ambrecht</b> Director since 2005</p>	<p><i>(Member of the Compensation Committee; Member of the Corporate Governance Committee)</i> Mr. Ambrecht has extensive corporate finance experience having worked in the U.S. capital markets for over 30 years. In December 2005, Mr. Ambrecht organized KCA Associates LLC, through which he serves as a consultant to several companies, advising them with respect to financings and financial transactions. From July 2004 to December 2005, he served as a Managing Director with the investment banking firm First Albany Capital. For more than five years prior, Mr. Ambrecht was a Managing Director with Royal Bank Canada Capital Markets. Prior to that post, Mr. Ambrecht worked with the investment bank Lehman Brothers as Managing Director of its capital markets division. Mr. Ambrecht is also a member of the Boards of Directors of Fortescue Metals Group Limited, an Australian mining company and Dominion Petroleum Ltd., a Bermuda domiciled company dedicated to exploration of oil and gas reserves in east and central Africa.</p>
<p><b>Theodore H. Emmerich</b> Director since 1988</p>	<p><i>(Chairman of the Audit Committee)</i> Prior to his retirement in 1986, Mr. Emmerich was managing partner of the Cincinnati office of the independent accounting firm of Ernst &amp; Whinney. He is also a director of Summit Mutual Funds, Inc.</p>
<p><b>James E. Evans</b> Director since 1985</p>	<p>For more than five years, Mr. Evans has served as Senior Vice President and General Counsel of the Company.</p>
<p><b>Terry S. Jacobs</b> Director since 2003</p>	<p><i>(Member of the Audit Committee; Member of the Corporate Governance Committee)</i> Mr. Jacobs has served as Chairman, President and Chief Executive Officer of The JFP Group, LLC, a real estate investment and development company, since September 2005. From its founding in September 1996 until September 2005, Mr. Jacobs served as Chairman of the Board and Chief Executive Officer of Regent Communications, Inc. Mr. Jacobs is a Fellow of the Casualty Actuarial Society ( FCAS ) and a Member of the American Academy of Actuaries ( MAAA ). He also serves as a director of Global Entertainment Corp and serves on the Board and Executive Committee of the National Football Foundation and College Hall of Fame, Inc.</p>
<p><b>Gregory G. Joseph</b> Director Nominee</p>	<p><i>(Director Nominee)</i> For more than five years, Mr. Joseph has been Executive Vice President, an attorney, and a principal of Joseph Automotive Group, a Cincinnati, Ohio-based company that manages a number of automobile dealerships and certain real estate holdings. He also serves as the lead director of Infinity Property &amp; Casualty Corporation ( IPCC ), an insurance company primarily offering personal automobile insurance. Since 2005, Mr. Joseph has served on the Board of Trustees of Xavier University, a private college located in Cincinnati, Ohio. Mr. Joseph has informed IPCC that he has declined to be nominated to the IPCC board of directors at its upcoming annual meeting of shareholders in May 2008.</p>
<p><b>William W. Verity</b> Director since 2002</p>	<p><i>(Chairman of the Corporate Governance Committee; Member of the Compensation Committee)</i> Mr. Verity has been President of Verity &amp; Verity, LLC, an investment management company, since January 1, 2002, and prior to that, he was a partner of Pathway Guidance L.L.C., an executive consulting firm, from October 2000. Previously, Mr. Verity was Chairman and Chief Executive Officer of ENCOR Holdings, Inc., a developer and manufacturer of plastic molded components.</p>

Carl H. Lindner is the father of Carl H. Lindner III and S. Craig Lindner. All of the nominees other than Mr. Joseph were elected directors at the last annual meeting of shareholders of the Company held on May 17, 2007. See Management and Compensation below for additional information concerning the background, securities holdings, remuneration and other matters relating to the nominees.

**The Board of Directors recommends that shareholders vote FOR the election of these nine nominees as directors.**

**Proposal No. 2 Ratification of the Company's Independent Registered Public Accounting Firm**

The Company's Audit Committee Charter provides that the Audit Committee shall appoint annually an independent registered public accounting firm to serve as auditors. In February 2008, the Audit Committee appointed Ernst & Young LLP to serve as auditors for 2008. Ernst & Young (or its predecessor) has served as the Company's independent auditors since the Company's founding.

**Table of Contents**

Although the Audit Committee has the sole authority to appoint auditors, shareholders are being asked to ratify this appointment. If the shareholders do not ratify the appointment, the Audit Committee will take that fact into consideration, but may, nevertheless, continue to retain Ernst & Young. However, the Audit Committee in its discretion may engage a different registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of the Company.

**Audit Fees and Non-Audit Fees**

The following table presents fees for professional audit services by Ernst & Young for the audit of the Company's annual financial statements for the years ended December 31, 2007 and December 31, 2006, and fees billed for other services rendered by them during these periods.

	<b>2007</b>	<b>2006</b>
Audit fees (1)	\$ 4,880,000	\$ 5,696,000
Audit related fees (2)	235,000	148,000
Tax fees (3)	47,000	12,000
All other fees	3,000	2,000
<b>Total</b>	<b>\$ 5,165,000</b>	<b>\$ 5,858,000</b>

(1) These aggregate fees were for audits of the financial statements (including services incurred to render an opinion under Section 404 of the Sarbanes-Oxley Act of 2002), subsidiary insurance company audits, reviews of SEC filings, and quarterly reviews.

(2) These fees related primarily to attestation services not required by regulation, services related to state insurance

examinations,  
and due  
diligence  
services relating  
to acquisitions  
and dispositions.

- (3) These fees relate  
to review of  
federal and state  
tax returns.

Representatives of Ernst & Young are expected to be at the meeting and will be given the opportunity to make a statement if they so desire. They will also be available to respond to appropriate questions from shareholders.

**The Board of Directors recommends that shareholders vote FOR the ratification of the Audit Committee's appointment of Ernst & Young as our independent registered public accounting firm for 2008.**

**Table of Contents**

**Proposal No. 3 Shareholder Proposal Regarding Certain Employment Matters**

A representative of certain New York City Pension Funds (the Funds ) submitted a letter to the Company s Secretary requesting that the proposal set forth below be submitted to shareholders for consideration at the annual meeting. The Funds have stated that a representative is prepared to attend the annual meeting to introduce the proposal. The Funds have represented that they beneficially own in excess of \$2,000 of the Company s common stock. The address of the Fund is in care of The City of New York, Office of The Comptroller, 1 Centre Street New York, NY 10007-2341.

In accordance with applicable rules of the Securities and Exchange Commission, we have set forth the Fund s proposal and the Company s response below:

**SEXUAL ORIENTATION**

Submitted By William C. Thompson, Jr., Comptroller, City of New York,  
on behalf of the Boards of Trustees of the New York City Pension Funds

WHEREAS, corporations with non-discrimination policies relating to sexual orientation have a competitive advantage to recruit and retain employees from the widest talent pool;

Employment discrimination on the basis of sexual orientation diminishes employee morale and productivity;

The company has an interest in preventing discrimination and resolving complaints internally so as to avoid costly litigation and damage its reputation as an equal opportunity employer;

Atlanta, Seattle, Los Angeles, and San Francisco have adopted legislation restricting business with companies that do not guaranteed equal treatment for lesbian and gay employees and similar legislation is pending in other jurisdictions; The company has operations in and makes sales to institutions in states and cities which prohibit discrimination on the basis of sexual orientation;

A recent National Gay and Lesbian Taskforce study has found that 16% -44% of gay men and lesbians in twenty cities nationwide experienced workplace harassment or discrimination based on their sexual orientation;

National public opinion polls consistently find more than three-quarters of the American people support equal rights in the workplace for gay men, lesbians, and bisexuals;

A number of Fortune 500 corporations have implemented non-discrimination policies encompassing the following principles:

- 1) Discrimination based on sexual orientation and gender identity will be prohibited in the company s employment policy statement.
- 2) The company s non-discrimination policy will be distributed to all employees.
- 3) There shall be no discrimination based on any employee s actual or perceived health condition, status, or disability.
- 4) There shall be no discrimination in the allocation of employee benefits on the basis of sexual orientation or gender identity.
- 5) Sexual orientation and gender identity issues will be included in corporate employee diversity and sensitivity programs.

**Table of Contents**

- 6) There shall be no discrimination in the recognition of employee groups based on sexual orientation or gender identity.
- 7) Corporate advertising policy will avoid the use of negative stereotypes based on sexual orientation or gender identity.
- 8) There shall be no discrimination in corporate advertising and marketing policy based on sexual orientation or gender identity.
- 9) There shall be no discrimination in the sale of goods and services based on sexual orientation or gender identity, and
- 10) There shall be no policy barring on corporate charitable contributions to groups and organizations based on sexual orientation.

RESOLVED: The Shareholders request that management implement equal employment opportunity policies based on the aforementioned principles prohibiting discrimination based on sexual orientation and gender identity.

STATEMENT: By implementing policies prohibiting discrimination based on sexual orientation and gender identity, the Company will ensure a respectful and supportive atmosphere for all employees and enhance its competitive edge by joining the growing ranks of companies guaranteeing equal opportunity for all employees.

**Board of Directors Position**

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST THIS PROPOSAL.

The Board of Directors believes this proposal is unnecessary. The Company is an equal opportunity employer. We are fully committed to complying with all applicable equal employment opportunity laws and believe that our current policies and practices fully achieve the objectives of this proposal. We believe it is not practical or even possible to list all categories on which to prohibit discrimination. We believe that such an effort would only divert attention from the overall goal of a truly non-discriminatory workplace.

The Company's written employment policies prohibit discrimination on the basis of race, color, religion, sex, age, national origin, disability or any other legally protected status, and mirror the non-discrimination categories of federal law. Our nondiscrimination policy applies to all areas of employment, including, but not limited to, hiring and recruitment, training, promotion, transfer, demotion, counseling and discipline, employee benefits and compensation and termination of employment.

We recognize the value of a truly diverse workforce. We are dedicated to ensuring that diversity brings our employees, customers, vendors and communities to their full potential. We continually strive to maintain a diverse workforce that meets the needs of our customers and the communities where we work and live.

**The Board of Directors recommends a vote AGAINST this proposal.**

**Table of Contents****PRINCIPAL SHAREHOLDERS**

The following shareholders are the only persons known by the Company to own beneficially 5% or more of its outstanding common stock as of February 29, 2008:

Name and Address Of Beneficial Owner	Amount and Nature of Beneficial Ownership			Percent of Class
	Common Stock Held (1)	Options (2)	Total	
Carl H. Lindner One East Fourth Street Cincinnati, Ohio 45202	14,275,070 (4)		14,275,070	12.6%
Carl H. Lindner III One East Fourth Street Cincinnati, Ohio 45202	8,310,848 (5)	534,631	8,845,479	7.8%(3)
S. Craig Lindner One East Fourth Street Cincinnati, Ohio 45202	8,697,600 (6)	534,631	9,232,231	8.1%(3)
The American Financial Group, Inc. Retirement and Savings Plan One East Fourth Street Cincinnati, Ohio 45202	7,736,343 (7)		7,736,343	6.8%

(1) Unless otherwise noted, the holder has sole voting and dispositive power with respect to the shares listed.

(2) Represents shares of common stock that may be acquired within 60 days of February 29, 2008 through the exercise of options granted under the Company's Stock Option

Plan.

- (3) The percentages of outstanding shares of common stock beneficially owned (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934) by Carl H. Lindner III and S. Craig Lindner are 7.3% and 6.9%, respectively, after attributing the shares held in various trusts for the benefit of the minor children of S. Craig Lindner and Carl H. Lindner III (for which a third party acts as trustee with voting and dispositive power) to such third party.
- (4) Includes 4,848,992 shares held by his spouse individually and as trustee with voting and dispositive power and 329,379 shares held in a charitable foundation over which Mr. Lindner has sole



voting and dispositive power but no pecuniary interest.

Excludes

2,185,261

shares held in a trust for the benefit of his family for which a third party acts as trustee with voting and dispositive power.

- (5) Includes 33,188 shares held by his spouse in a trust over which she has voting and dispositive power, 35,230 shares held by one of his children, 2,376 shares held as custodian for one of his nieces, 1,468,500 shares held by a limited liability company over which he holds dispositive but not voting power, 2,380,569 shares held in a trust over which he has dispositive but not voting power, and 478,533 shares which are held in various trusts for the benefit

of his children for which a third party acts as trustee with voting and dispositive power. Includes 48,337 shares held in a charitable foundation over which he has sole voting and dispositive power but no pecuniary interest. Includes 23,749 shares beneficially owned through a Company retirement plan over which he has voting and dispositive power.

- (6) Includes 105,202 shares held by his spouse as custodian for their minor child or in a trust over which she has voting and dispositive power, 26,753 shares held in trust by one of his children, 26,753 shares held by one of his children, 1,485,000 shares held by a limited liability company over which he holds dispositive but

not voting  
power,  
1,581,027  
shares held in a  
trust over which

7

---

**Table of Contents**

he has  
dispositive but  
not voting  
power, 190,812  
shares held in  
trusts for the  
benefit of his  
children over  
which his  
spouse has  
dispositive but  
not voting  
power, and  
1,129,033  
shares which are  
held in various  
trusts for the  
benefit of his  
children for  
which a third  
party acts as  
trustee with  
voting and  
dispositive  
power. Includes  
171,108 shares  
held in a  
charitable  
foundation over  
which he has  
sole voting and  
dispositive  
power but no  
pecuniary  
interest.  
Includes 25,225  
shares  
beneficially  
owned through  
a Company  
retirement plan  
over which he  
has voting and  
dispositive  
power.  
Mr. Lindner has  
pledged  
2,013,553  
shares as

collateral under  
loan  
agreements.

- (7) The members of  
the  
Administrative  
Plan Committee  
of the American  
Financial  
Group, Inc.  
Retirement and  
Savings Plan  
(the RASP ),  
Sandra W.  
Heimann,  
Thomas E.  
Mischell and  
Mark F.  
Muething direct  
the disposition  
of the securities  
held by the  
RASP and may  
direct the voting  
of Plan shares  
for which valid  
voting  
instructions  
have not been  
received by Plan  
participants at  
least two days  
prior to the  
meeting.  
Mrs. Heimann  
and  
Mr. Mischell are  
senior  
executives of  
the Company,  
and  
Mr. Muething is  
a senior  
executive of the  
Company's  
Great American  
Financial  
Resources, Inc.  
subsidiary. See  
General

Information  
Retirement and  
Savings Plan  
Participants on  
page 1 of this  
proxy statement.

**Table of Contents****MANAGEMENT**

The directors, nominees for director and executive officers of the Company are:

	<b>Age<sup>(1)</sup></b>	<b>Position</b>	<b>Director or Executive Since</b>
Carl H. Lindner	88	Chairman of the Board	1959
Carl H. Lindner III	54	Co-Chief Executive Officer, Co-President and a Director	1979
S. Craig Lindner	53	Co-Chief Executive Officer, Co-President and a Director	1980
Kenneth C. Ambrecht	62	Director	2005
Theodore H. Emmerich	81	Director	1988
James E. Evans	62	Senior Vice President, General Counsel and Director	1976
Terry S. Jacobs	65	Director	2003
William R. Martin	79	Director	1994
William W. Verity	49	Director	2002
Gregory G. Joseph	45	Director Nominee	
Keith A. Jensen	57	Senior Vice President	1999
Thomas E. Mischell	60	Senior Vice President Taxes	1985

(1) As of March 31, 2008.

**Keith A. Jensen** has served as Senior Vice President of the Company for over five years. Since January 2005, he has also served as the Company's chief financial officer.

**Thomas E. Mischell** has served as Senior Vice President Taxes of the Company for over five years.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires AFG's executive officers, directors and persons who own more than ten percent of AFG's common stock to file reports of ownership with the Securities and Exchange Commission and to furnish AFG with copies of these reports. Based on a review of these reports, the Company believes that all filing requirements were met during 2007.

**Table of Contents****Securities Ownership**

The following table sets forth information, as of February 29, 2008, concerning the beneficial ownership of equity securities of the Company and its subsidiaries by each director, nominee for director, the executive officers named in the Summary Compensation Table (see Compensation below) and by all of these individuals as a group. Such information is based on data furnished by the persons named. Except as set forth in the footnotes below or under

Principal Shareholders on page 7 of this proxy statement, no director or executive officer beneficially owned 1% or more of any class of equity security of the Company or any of its subsidiaries outstanding at February 29, 2008. Unless otherwise indicated, the persons named have sole voting and dispositive power over the shares reported.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	
	Shares of Common Stock Held	Shares of Common Stock Obtainable on Exercise of Options or Beneficially Owned Through Employee Retirement Plans (2)
Carl H. Lindner (3)	14,275,070	
Carl H. Lindner III (3)	8,287,099	558,380
S. Craig Lindner (3)	8,672,375	559,856
Kenneth C. Ambrecht	7,345	
Theodore H. Emmerich	36,086	15,750
James E. Evans	188,983	377,505
Terry S. Jacobs	6,964	
William R. Martin	86,205	15,750
William W. Verity	13,658	11,250
Gregory G. Joseph	59,849(4)	
Keith A. Jensen	24,765	364,215
Thomas E. Mischell (5)	196,221	402,679
All directors, nominees, and executive officers as a group (12 persons)(3)	31,854,620	2,305,385

(1) Does not include the following ownership interests in subsidiaries of AFG: Mr. Jensen and Mr. Joseph own 500 and 597 shares, respectively, of common stock of the Company's subsidiary, National Interstate



Corporation.

- (2) Consists of shares of common stock purchasable within 60 days of February 29, 2008 through the exercise of the vested portion of stock options granted under the Company's Stock Option Plan and shares which the executive may be deemed to beneficially own through one or more of the Company's retirement plans. The amount of shares so beneficially owned through a Company retirement plan is as follows: C. H. Lindner III 23,749; S. C. Lindner 25,225; K. A. Jensen 685; T. E. Mischell 44,428; and all directors and executive officers as a group 94,087. Does not include cash invested in a retirement account, the value of which is partially

based on the price of the Company's common stock, but where the individual has no voting or dispositive power of any such shares.

- (3) The shares beneficially owned by Carl H. Lindner, Carl H. Lindner III, and S. Craig Lindner, and all directors and officers as a group, constituted 12.6%, 7.8%, 8.1%, and 29.5%, respectively, of the common stock outstanding at February 29, 2008. See footnotes 3 through 6 to the Principal Shareholders table on page 7 for more information regarding share ownership by Carl H. Lindner, Carl H. Lindner III, and S. Craig Lindner.

**Table of Contents**

- (4) Includes 54,924 shares held by two companies in which he is a shareholder and for which he serves as an executive officer.
- (5) Excludes shares held in the RASP, for which he serves on the Administrative Plan Committee, other than those shares allocated to his personal RASP account.

**Equity Compensation Plan Information**

The following reflects certain information about shares of AFG Common Stock authorized for issuance (at December 31, 2007) under compensation plans.

	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plan category			
Equity compensation plans approved by security holders	9,466,586	\$ 22.00	7,866,370(1)
Equity compensation plans not approved by security holders			378,997(2)
Total	9,466,586	\$ 22.00	8,245,367

- (1) Includes 4.65 million

shares available for issuance under AFG's Stock Incentive Plan, 3.1 million shares issuable under AFG's Employee Stock Purchase Plan and 112,000 shares issuable under AFG's Non-Employee Directors Compensation Plan.

- (2) Represents shares issuable under AFG's Deferred Compensation Plan. Under this Plan, certain employees of AFG and its subsidiaries may defer up to 80% of their annual salary and/or bonus. Participants may elect to have the value of deferrals (i) earn a return equal to the overall performance of mutual fund alternatives, (ii) earn a fixed rate of interest, set annually by the Board of Directors, or (iii) fluctuate based on the market value of AFG Common Stock, as adjusted to

reflect stock  
splits,  
distributions and  
dividends.

**Table of Contents**

**EXECUTIVE COMPENSATION**  
**Compensation Discussion and Analysis**

**Overview of Compensation Program**

The Compensation Committee (for purposes of this analysis, the Committee) of the Board of Directors has responsibility for establishing, implementing and continually monitoring adherence with the Company's compensation philosophy. The Committee ensures that the total compensation paid to the named executive officers is fair, reasonable and competitive.

Throughout this proxy statement, the individuals who served as the Company's Co-Chief Executive Officers during fiscal year 2007, as well as the other individuals included in the Summary Compensation Table on page 23, may also be referred to as the named executive officers or NEOs.

**Compensation Philosophy and Objectives**

AFG's philosophy regarding executive compensation programs is centered around the balance of motivating, rewarding and retaining executives with a compensation package competitive among its peers, and the resolute determination of maximizing shareholder value by designing and implementing programs that tie the performance of the Company to the compensation earned. Guided by principles that reinforce the Company's pay-for-performance philosophy for the past several years, NEO compensation has included base salary and eligibility for annual cash bonuses and long-term incentives such as stock options, restricted stock and stock awards and other compensation, including certain perquisites. A significant portion of each senior executive officer's compensation is dependent upon achieving business and financial goals, and realizing other performance objectives.

**Establishing Compensation Levels**

As in prior years, compensation levels for the Co-CEOs are based primarily upon the Compensation Committee's assessment of the executive officers' leadership performance and potential to enhance long-term shareholder value. The Committee relies upon a combination of judgment and guidelines in determining the amount and mix of compensation elements for the Co-CEOs. The compensation levels for the other NEOs are similarly determined by the Co-CEOs, and reviewed by the Compensation Committee, again based primarily upon the assessment of each such executive officer's leadership performance and potential to enhance long-term shareholder value.

Key factors affecting the Committee's judgment with respect to the Co-CEOs included the nature and scope of their responsibilities, their effectiveness in leading the Board of Directors' initiatives to increase shareholder value, productivity and growth. The Committee also considers the compensation levels and performances of a comparison group of publicly-held insurance companies (collectively, the Compensation Peer Group) to benchmark the appropriateness and competitiveness of the Company's compensation programs. The Compensation Peer Group, which is periodically reviewed and updated by the Committee, consists of companies against which the Committee believes AFG competes for talent and for stockholder investment, and in the marketplace for business. In analyzing market pay levels among the Compensation Peer Group, the Committee factors into its analysis the large variance in size (both in terms of revenues and market capitalization) among the companies. The companies comprising the Compensation Peer Group are:

- |   |   |
|---|---|
| ACE Limited                                 | HCC Insurance Holdings, Inc.            |
| American International Group, Inc.          | Markel Corporation                      |
| Arch Capital Group Ltd.                     | Philadelphia Consolidated Holding Corp. |
| The Chubb Corporation                       | W. R. Berkley Corporation               |
| Cincinnati Financial Corporation            | XL Capital Ltd.                         |
| The Hartford Financial Services Group, Inc. | Zenith National Insurance Corp.         |

**Table of Contents**

The types of compensation paid to the Company's senior executives (i.e. annual salary, performance bonus, retirement plan contributions, certain perquisites, and equity incentives, including employee stock options) are similar to those paid to senior management at our selected peer group of companies. Although we seek to offer a level of total compensation to our executive officers that is competitive with the compensation paid by our peer group, we do not target a particular percentile of the peer group with respect to our executives' total pay packages or any individual components thereof. Rather, the Committee's consideration of the compensation levels and performances of the peer group constitutes just one of many of the factors described in this compensation discussion and analysis ( CD&A ) and such peer group data is considered generally and not as a substitute for the Committee's discharge of its fiduciary duties in making executive officer compensation decisions.

Based upon all these factors, the Committee believes it is in AFG shareholders' best long-term interest for the Committee to ensure that the overall level of compensation, especially salary, bonus and equity-based awards, is competitive with companies in the Compensation Peer Group. The Committee continues to believe that the quality, skills and dedication of executive leaders are critical factors affecting the long-term value of the Company. Therefore, the Committee and the Co-Chief Executive Officers continue to try to maintain an executive compensation program that will attract, motivate and retain the highest level of executive leadership possible.

The Committee's decisions concerning the specific 2007 compensation elements for the Co-CEOs were made within this framework. The Committee also considered each such executive officer's performance, current salary, prior-year bonus and other compensation. In all cases, specific decisions involving 2007 compensation were ultimately based upon the Committee's judgment about the Co-CEOs' performance, potential future contributions and about whether each particular payment or award would provide an appropriate incentive and reward for performance that sustains and enhances long-term shareholder value.

**Tally Sheet**

The Compensation Committee reviews a comprehensive tally sheet analysis compiled internally to review all elements of the named executive officers' compensation. The Committee noted that there are no amounts payable to the NEOs under severance or change in control arrangements, unlike many of the Company's Peer Group. The tally sheets reviewed include all of the information that is reflected in the Summary Compensation Table as well as amounts and descriptions of perquisites not required to be specifically identified by SEC regulations, generally due to the fact that the amount of such items are not material. The review by the Compensation Committee analyzes how changes in any element of compensation would impact other elements. Such analysis has become an important component in the Compensation Committee's review of executive compensation as various components, including perquisites, are deemed by the Compensation Committee to be important elements of an executive's overall compensation. This also allows the Compensation Committee to make compensation decisions and evaluate management recommendations based upon a complete analysis of an executive's total compensation.

To get a clearer picture of the total amount of compensation paid to the Company's executive officers, the Compensation Committee annually reviews all components of the NEOs' total compensation package. This review includes salary, bonus, equity and long-term incentive compensation, accumulated realized and unrealized stock option gains, the dollar value to the executive and cost to the Company of all perquisites and other personal benefits, the earnings and accumulated payout obligations under the Company's Deferred Compensation Plan, and the contributions to and investment performance under the Company's retirement and savings plan. A tally sheet totaling all the above components was prepared and reviewed, as described above. The Committee noted the annual limitations agreed upon by the Committee and the Co-CEOs with respect to personal use of corporate aircraft (120 occupied flight hours each) and the executive insurance program (\$300,000) and the fact that, if such limitations are exceeded, reimbursement will be made based on the cost to the Company of providing those benefits.

Based on this review, the Committee found the NEOs' total compensation in the aggregate to be reasonable, not excessive, and consistent with the objectives of the Company's compensation programs.

**Table of Contents**

**Internal Pay Equity**

The Committee believes that the relative difference between the Co-CEOs compensation and the compensation of the Company's other senior executives has not increased significantly over the years. Further, the Committee believes that the Company's internal pay equity structure is consistent with our peer group and is appropriate based upon the contributions to the success of the Company and as a means of motivation to other executives and employees.

**Outside Consultants**

While the Committee has from time to time considered the use of outside consultants in assisting in evaluating the Company's executive compensation program and practices, it did not engage such a consultant during 2007. The Committee believes that it has the necessary resources available to survey the compensation practices of the Company's Compensation Peer Group and keep abreast of compensation developments in the marketplace.

**Tax Deductibility of Pay**

Section 162(m) of the Internal Revenue Code places a limit of \$1,000,000 on the amount of compensation that AFG may deduct in any one year with respect to its five most highly paid executive officers. There is an exception to the \$1,000,000 limitation for performance-based compensation meeting certain requirements.

The Committee attempts, to the extent practicable, to structure a significant portion of Co-CEO compensation as incentive-based. As a result, the incentive compensation paid to the Co-CEOs should also satisfy the requirements for the performance-based compensation exception under Section 162(m).

**Compensation Components**

For the fiscal year ended December 31, 2007, the principal components of compensation for named executive officers were:

base salary;

annual performance-based bonuses (including cash and stock awards);

long-term equity incentive compensation;

retirement and other related benefits; and

perquisites and other personal benefits.

Our Co-CEOs determine the compensation for the NEOs other than themselves. The Compensation Committee reviews the levels of compensation determined by the Co-CEOs, and annually reviews the performance of the other NEOs with the Co-CEOs. The Compensation Committee makes recommendations to the Board with respect to general non-CEO compensation, incentive-compensation plans and equity-based plans.

Our Co-CEOs discuss with the Compensation Committee their thoughts on their performance, the Company's performance, their current and future compensation levels, and the reported compensation of senior executives at the peer group of companies prior to the time that the Compensation Committee takes any action with respect to setting the compensation of the Co-CEOs. The Co-CEOs also make recommendations to the Compensation Committee with respect to the EPS and Company Performance Components of the incentive compensation awarded to them. Specifically, the Co-CEOs recommended that these components from AFG's business plan be considered in connection with compensation objectives and targets. The Compensation Committee considers this input provided by the Co-CEOs in connection with its review and approval of corporate goals and objectives relevant to CEO compensation, evaluation of CEO performance in light of those goals and objectives, and determination of CEO compensation levels based on this evaluation.

The Company has no contracts, employment agreements, plans or arrangements with any NEO which would give rise to a payment to such NEO in the event of a change in control of the Company.



**Table of Contents****Base Salary**

The Company pays salaries that are designed to attract and retain superior leaders. Annual base salary is paid for ongoing performance throughout the year. The Committee determines annual base salaries for the Co-CEOs that are appropriate, in its subjective judgment, based on each officer's responsibilities and performance and input from the Co-CEOs themselves. The Co-CEOs set salaries for the other NEOs which are reviewed by the Committee. The Co-CEOs believe that such salaries are appropriate in light of the levels of responsibility of such officers and their individual contributions to the Company's success.

Messrs. Carl H. Lindner III and S. Craig Lindner each assumed the additional position of Co-Chief Executive Officer in January 2005 and continued to serve as the Company's Co-Presidents, positions they have held for more than five years. Each CEO's role has been clearly defined: Carl H. Lindner III is responsible for the Company's property and casualty insurance operations and investor relations and S. Craig Lindner is responsible for the Company's annuity and supplemental health insurance operations and investments. In addition, they work closely with one another and are significantly involved in all aspects of Company management so that either could succeed the other in the event such a need arose. We believe that this structure aids in succession planning and provides the Company with significant executive depth and leadership experience appropriate for the Company. For 2007, the Company paid each Co-CEO \$1,100,000 in salary, which was \$25,000 more than the amount of salary paid in 2006. The Committee based its decision to set this level of the salary of the Co-CEOs as a result of the strong operating results and capital position of the Company at the end of 2006, with improved leverage and financial flexibility.

The annual salary rate for the other NEOs remained the same as the 2006 levels. These salary levels were justified, in the Committee's judgment, as the result of each NEO's role in the execution of the strategy to manage AFG's business to enhance long-term investor value through better profit margins and higher returns on equity, their actions to ensure that AFG has a strong capital structure and cash flow, their role in leading AFG to solid financial results, and their leadership in realizing cost savings while, at the same time, driving successful growth initiatives.

**Annual Performance-Based Bonuses**

Annual performance-based cash bonuses are designed to reward the positive performance of AFG as compared to AFG's performance in prior years and its performance versus other companies in its market segment. The Company believes that the overall performance of AFG is substantially related to the performance of its executives. Cash bonuses are paid each year, generally in the first quarter, for the prior year's performance.

As has been the case for more than six years, the Compensation Committee, working with management, developed an annual bonus plan for 2007 ( "2007 Bonus Plan" ) for the Co-CEOs and other NEOs that made a substantial portion of their 2007 compensation dependent on AFG's performance. Specifically, annual bonus determinations are based on a two-part analysis of AFG and executive performance. In May 2007, the Company's shareholders approved the Annual Senior Executive Bonus Plan.

As discussed elsewhere in this CD&A, the Compensation Committee considered AFG's business plan and budgeted targets in connection with its establishment of objectives in the EPS and Company Performance Components under the 2007 Bonus Plan. Specifically, with respect to personal objectives for each of the Co-CEOs, the Compensation Committee did not establish quantifiable measurements other than those identified in these EPS and Company Performance Components because the Compensation Committee believes that the Co-CEOs are ultimately jointly responsible for the achievement of such objectives. The Compensation Committee views the roles of the Co-CEOs as collaborative, as opposed to competitive, and thus does not seek to distinguish the performance of one from the other. Rather, the Compensation Committee scrutinized the Co-CEOs' collective role in AFG's achievement of EPS targets, developing management personnel, focus on investment portfolio performance and development and implementation of strategic transactions and initiatives to enhance

**Table of Contents**

shareholder value. The Compensation Committee believes these areas merit considerable attention by the Co-CEOs and constitute areas of responsibility in which the Co-CEOs responded in a manner commensurate with the level of compensation received under the parameters of the 2007 Bonus Plan.

Individual areas of responsibility for NEOs other than the Co-CEOs are assigned by the Co-CEOs as the fiscal year progresses. As discussed elsewhere in this CD&A, the individual performance component of the 2007 Bonus Plan for the other NEOs addresses the factors considered by the Co-CEOs in their evaluation of the individual performance and related incentive compensation for the other NEOs.

**2007 Bonus Plan Components and Bonus Amounts for Co-CEOs**

Under the 2007 Bonus Plan, the aggregate amount of cash bonus for 2007 for each Co-CEO is comprised of the sum of such Co-CEO's bonuses for the EPS Components and Company Performance Components. The following table sets forth the Co-CEO 2007 bonus target amounts with respect to the performance components that were recommended by the Compensation Committee and approved by the Company's Board of Directors.

Name	Total Bonus	EPS	Company Performance
	Target	Component	Component
Carl H. Lindner, III	\$1,150,000	50%	50%
S. Craig Lindner	\$1,150,000	50%	50%

The Committee maintained the 2007 bonus target in line with the 2006 bonus target.

1. **EPS Component**

Pursuant to the 2007 Bonus Plan, each Co-CEO's EPS Component ranged from separate organization, other than American Chemical Society membership. So I'm asking you that question. Also, the Leukemia and Lymphoma Society last year you said that they would do the Light the Night in New Jersey, it happened only in Pennsylvania and you said in person that you would do it in New Jersey and here I am again. I'm ready to get volunteers to come, and I'll come to any of the sites to get the volunteers to work, to do the Light the Night program.

DICK CLARK: Thank you for your question. (applause). Could you send the information on Project Seed so I - you know send to my office, I'll be glad to take a look at that for you. Yes, there's a person right here, which are...

Q: Good morning, my name is George Barisow, I'm an employee down at West Point. You said you rolled up your sleeves with the present administration on national health care and Merck's involvement in that, could you give us a little bit more detail and the dynamic that's taken place for the future?

DICK CLARK: Yes, that's a good question. Certainly on health care reform, certainly over the past few years, and as Chairman of the Pharmaceutical Association which I was last year, I think Merck played a major role in really trying to come up with alternatives and solutions that would allow us to meet the President's objectives, so there's a lot of common objectives around how do we take care of the uninsured. In a company like ours, there shouldn't be 40 million plus citizens that are uninsured and don't have health care coverage of any kind, and so what we've been doing is presenting alternatives to President Obama's administration and how is the best way to do that. And how can we have an impact on the ability to make sure that that happens this time around, and so to the Administration's credit, there [Inaudible] for those that come with objectives that are trying to meet their goals that you have a seat at the table and I think we're able to do that and so I'm cautiously optimistic that was in a short period of time at the end of this year or next year perhaps that we'll have major health care reform in the United States. (applause). Yes, sir.

Q: Hello, my name is Robert Pataki, I'm a 12 year employee at the Rahway site. As previously mentioned I'd like to bring up the 120 jobs that may be eliminated by the company. One of our company's greatest CEO's, John Jay Huran, was a leader in affirmative action and had a vision that regardless of race, creed, or sexual orientation that person, he or she could advance as far as their abilities would take them. How does a company forget that vision and can build

and move that will affect those jobs that are most are held by minorities and women at that plant.

DICK CLARK: Thank you for the question. Obviously a major part of what we think Merck is about is diversity. And the rights for minorities and women to be able to work at Merck. We anticipate with the Rahway situation that you raised that the exercise the seniority rights by the affected employees during the layoff and bumping process, if it takes place, should result in more females and minorities being retained. And so we will certainly monitor that. There's a question in the back there. I'm sorry, I can't see you, please stand up. Yes. We'll get you a microphone.

Q: My name is Mary Fedor, oh I'm sorry, my name is Mary Fedorco, but I compliment you on your field of solar panels, I was very interested, I'm a resident of Hunterdon County and every single tidbit that came out in the mail went to my grandson who is studying, who is now completing his masters in alternative energy so he was very pleased to get that information that Merck planted a field of solar panels. But I do have a question. Have there been any studies on whether GARDASIL is indeed effective in preventing cancer in our little girls or is that premature, has it not been enough time to do that kind of study? Or has there been any proof that it might even be harmful to these little girls? Thank you.

DICK CLARK: Yeah, thank you for your comment on our solar project at Whitehouse Station. It's remarkable. I made this statement at 7 1/2 acres of solar panels and until you see what 7 1/2 acres of solar panels look like, it's just an incredible site, and so we are very proud of what our company is trying to do to be environmentally responsible throughout the world and this is just one of the next steps to be able to accomplish that and I'll have Dr. Peter Kim answer your GARDASIL question.

Dr. Peter: Thank you for the question on GARDASIL. Indeed, our clinical studies have shown very convincingly that GARDASIL does prevent cervical cancer, prevents cervical cancer caused by two of the major sub types of human papillomavirus and so the results are very clear and unequivocal that this vaccine has an outstanding efficacy in preventing both the pre-cancerous lesions as well as cervical cancer itself. With regard to potential harmful effects, what I can tell you is that in our clinical studies we've looked very carefully at the adverse events both in the vaccinated group as well as the placebo group and there are no significant differences in the adverse event group [inaudible] it's a generally safe and well tolerated vaccine. I have been told that it hurts when you get the injection but other than that, it's generally safe and well tolerated. We have obviously continued to monitor the adverse experience with this vaccine that we get from the field. So thank you for the question.

DICK CLARK: Thank you Peter. Other questions. Yes.

Q: I have just a comment, not a question, my name is Madeline Edsold, I'm a ten year retiree this month. And at last year's meeting I asked a question about perhaps getting us retirees access to some of the internet that Merck has and was I happy when I went into the little feeder and saw Merck connections, the website just for retirees, I had a little taste of it back there and I can't wait to get home. So thank you very much for keeping us in the loop and I know things are tough in this world, it just took my daughter eight months to find another job, and it's so happy, I'm so happy to be kept in the loop here, it's very important to us and thank you Merck. One of the best decisions I ever made back in 1957 was to apply at Rahway. Thank God for Mrs. Giles' typing pool. Thank you. (applause).

DICK CLARK: Well thank you for your comments and please for all retirees, once you see the site, please give us feedback on how we can continue to improve it as well. That was feedback that we received last year. Yes. The man in the white shirt.

Q: My name is Bill Craddle. I'm a former Merck employee and a shareholder today. Last year was the first time I attended an annual meeting as a former employee and the question of VYTORIN came up and it just sat with me all year because the response pretty much was that the company stood behind VYTORIN, it was a very good drug and at the same time the company was pulling the ads from television, the stock was in the 40's, it's now in the 20's, I just wanted to know the status of VYTORIN. Thank you.

DICK CLARK: Well certainly we believe VYTORIN is a very important part of the providers and a physician's ability to reduce LDL and in fact when you look at VYTORIN compared to Lipitor or generic simvastatin or Crestor for reducing LDL in head to head studies, VYTORIN was obviously the best and it is a very important, it's a very safe product and we continue to support it, and the RX's, the subscriptions for VYTORIN have stabilized this year, because they were going down last year, now they are stabilized and hopefully they will return to even better improvement as we move forward. Good question. Any other questions on this side? Yes sir.

Q: Thank you. I'd like to make two comments first of all. I am encouraged that Merck is looking for ways to increase its presence in an ever-changing market. Secondly, I think we're all aware that we have a close relationship with Schering-Plough in various other things. Having said that, my next question or my question is simply this, given those things, what was the idea of going into a merger with Schering-Plough rather with a bio-pharmaceutical company? I'm sure you must have some good reasons. We'd like to hear them.

DICK CLARK: Yeah, good question. Certainly, the most important reasons for the merger of Schering-Plough and Merck. First of all you have two very important and strong companies that are really focused on science and science [Inaudible] excellence. To me the important part of pharmaceutical companies and your question about two companies coming together, they really need to be scientifically focused and have scientific excellence and so when we did our due diligence, when Dr. Kim reviewed their pipeline and how they did their science it was remarkable to see how the science excellence fits together. To me that's the most important aspect of bringing two companies together, that there really is a culture of science capability, so that was number one. Number two, as you saw from some of the slides that I presented and perhaps Peter presented, there is complementary products and complementary compounds in the pipeline in each therapeutic area. So it was a perfect match of bringing products together and many of the therapeutic areas that were both in and the good news is that there was not much of an overlap in mechanisms of action in there, so there wasn't a lot of duplications. I think the third reason was that when you look at it in a global basis in order to succeed in today's pharmaceutical environment on a global basis you have to be able to have a global footprint and from the Schering-Plough revenue standpoint about 70% of their business is outside of the United States and about 30% is inside the United States so there's greater diversity, from a footprint standpoint when you look at it on a global basis. And finally from my standpoint as CEO when you look at the culture aspirations of those companies they're remarkably the same, so when you think about integrity and ethics and scientific excellence and customer focus, as a part of the culture of both companies it's remarkably the same, and culture goes a long way to making sure companies really can merge together and I was very pleased with that. Obviously the financials had to work for long term shareholder value which they did, but these other comments that I made were just as important as that one, and so when we compare that to other companies include biotech there was no match for the Schering-Plough Merck merger. In the back, there's a question. And this will be the final question.

Q: My name is [inaudible]. I'd like to know if you do any work on HDL.

DICK CLARK: Peter?

PETER: Yes, thank you for that question. We are indeed working on mechanisms to increase HDL. HDL is the good cholesterol as opposed to LDL which is the bad cholesterol. Statins and VYTORIN and ZETIA lower LDL cholesterol, the bad cholesterol, we're also looking at mechanisms to raise good cholesterol or HDL indeed.

DICK CLARK: There was a person in the back that stood up as I was ... so let's use you as a final question there, since you already stood up.

Q: Hello.

DICK CLARK: Yes.

Q: My name is John Boquino, I'm a retiree of Merck. You know when you look at the tremendous growth in the senior citizen community around the world, you would think there's enormous potential for a product like the shingles vaccine. However when I've tried to ask a number of physicians about getting it, they're not only not informed about the product, but they can't seem to get it. What's wrong with the shingles vaccine?

DICK CLARK: That's an excellent question and something that we're focusing a great deal of our attention on, but there are manufacturing constraints with making the ZOSTAVAX vaccine, that we're overcoming and so hopefully within a very short period of time the back orders and the out of stock that you see in ZOSTAVAX in the United States will disappear. And the final question, the man standing right here.

Q: My name is Joel Flamholtz, a Merck retiree. Dr. Kim mentioned managing of the inherent risk of science based diversification, and several years ago as I recall, there was an emphasis put on failing early in clinical trials, it seems to me that the opposite has occurred. In the recent past, we've experienced failures due to regulatory and marketing problems and what was euphemistically referred to as manufacturing constraints in vaccine supply. Besides VIOXX and VYTORIN, which were end line products which developed problems – ARCOXIA was rejected by the FDA, CORDAPTIVE required more data, over the counter MEVACOR failed several times, PARGLUVA was rejected by the FDA, the HIV vaccine was withdrawn, GABOXADOL for insomnia was withdrawn, the obesity drug was withdrawn, hepatitis B vaccine was put on hold, migraine drug recently delayed, HPV vaccine for older women delayed for more data, and in manufacturing we've experienced contamination in HIV, and problems in the manufacture of ZOSTAVAX. It seems to me that we haven't reached our stated goals and I want to know why we should believe that we're going to make progress in the future. Thank you.

DICK CLARK: Well from the sound of those two questions, that you're asking, two separate questions, the first question is around the manufacturing capacity constraints that we talked about with vaccines. And certainly we had very dedicated employees at West Point who are helping us work through there from the processing standpoint as well as the capacity issues to be able to overcome some of those capacity issues and I have a great deal of confidence in the West Point organization and to be able to solve those issues for our vaccines and we'll be able to come on that in a very short period of time this year and next year, so that's one issue. The other issue that you raised on the issues that we're having with late stage pipeline, unfortunately is a state of the union is what we have is an industry right now and when you think of how tough innovation, how tough it is to create and discover new products and to be able to take it through the system it becomes more challenging each and every year, and so from an innovation standpoint what's important is that we use new technology, we use new capabilities to be able to overcome that, but there is no doubt throughout the industry, including Merck, that it's very difficult not from an innovation standpoint, with the risk benefits that we face, so we appreciate your question and we hope that as Peter showed you our pipeline, particularly our early stage pipeline and how it's been expanding and how that relates to what Schering-Plough is doing that we have the capabilities, we move forward to be successful, because as you know it is all about the pipeline, so thank you. If there are no further questions, we will proceed with the rest of the meeting and I'll certainly be available after the meeting if anybody has questions you want to ask of me. The final report of the Inspectors of Elections will not be available today. We do however have a preliminary report which I now ask Ms. Colbert to present.

Ms. COLBERT: The Inspectors of Election have presented their preliminary report. They have determined that each of the 15 directors nominated by the board has been elected by a majority of the votes cast, and the Audit Committee's request for ratification of PriceWaterhouseCoopers LLP as the independent registered public accounting firm has been approved. The proposal to amend the Restated Certificate of Incorporation to limit the size of the Board to no more than 18 directors has been approved. It received an affirmative vote of 98.7% of the total votes cast. A majority of the votes cast was required for this proposal to be approved. A majority of shares present in person or represented by proxy and entitled to vote is required for approval of each of the stockholder proposals. The Inspectors have determined that the stockholder proposal concerning Special Shareholder Meetings has received an affirmative vote of 49.7% of the total votes cast. The stockholder proposal concerning an Independent Lead Director has received an affirmative vote of 14.6% of the total votes cast and the stockholder proposal concerning an Advisory Vote on Executive Compensation has received an affirmative vote of 46.1% of the total votes cast. Final results will be

available Friday on the Company's toll free telephone number 1-800-225-5675 and also on the Company's website [www.merck.com](http://www.merck.com) under Investor Relations, along with an archived webcast of this meeting.

DICK CLARK: The business of the meeting has now been completed. On behalf of the Board and our management team, I thank you for your attendance here today and for the interest you have shown in the affairs of our Company. When you leave the Theatre, buses will be outside waiting to take you to your cars. The final matter before you is to conclude the meeting. All those in favor, say aye.

PEOPLE: Aye.

DICK CLARK: Those against? (applause). I declare this meeting is concluded. Thank you very much. (applause).

---

## Forward-Looking Statements

This communication includes “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, statements about the benefits of the proposed merger between Merck and Schering-Plough, including future financial and operating results, the combined company’s plans, objectives, expectations and intentions and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of Merck’s and Schering-Plough’s management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements.

The following factors, among others, could cause actual results to differ from those set forth in the forward-looking statements: the possibility that the expected synergies from the proposed merger of Merck and Schering-Plough will not be realized, or will not be realized within the expected time period, due to, among other things, the impact of pharmaceutical industry regulation and pending legislation that could affect the pharmaceutical industry; the ability to obtain governmental and self-regulatory organization approvals of the merger on the proposed terms and schedule; the actual terms of the financing required for the merger and/or the failure to obtain such financing; the failure of Schering-Plough or Merck stockholders to approve the merger; the risk that the businesses will not be integrated successfully; disruption from the merger making it more difficult to maintain business and operational relationships; the possibility that the merger does not close, including, but not limited to, due to the failure to satisfy the closing conditions; Merck’s and Schering-Plough’s ability to accurately predict future market conditions; dependence on the effectiveness of Merck’s and Schering-Plough’s patents and other protections for innovative products; the risk of new and changing regulation and health policies in the U.S. and internationally and the exposure to litigation and/or regulatory actions. Merck and Schering-Plough undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in Merck’s 2008 Annual Report on Form 10-K, Schering-Plough’s 2008 Annual Report on Form 10-K and each company’s other filings with the Securities and Exchange Commission (the “SEC”) available at the SEC’s Internet site ([www.sec.gov](http://www.sec.gov)).

## Additional Information

In connection with the proposed transaction, Schering-Plough will file a registration statement, including a joint proxy statement of Merck and Schering-Plough, with the SEC. Investors are urged to read the registration statement and joint proxy statement (including all amendments and supplements to it) because they will contain important information. Investors may obtain free copies of the registration statement and joint proxy statement when they become available, as well as other filings containing information about Merck and Schering-Plough, without charge, at the SEC’s Internet web site ([www.sec.gov](http://www.sec.gov)). These documents may also be obtained for free from Schering-Plough’s Investor Relations web site ([www.schering-plough.com](http://www.schering-plough.com)) or by directing a request to Schering-Plough’s Investor Relations at (908) 298-7436. Copies of Merck’s filings may be obtained for free from Merck’s Investor Relations Web Site ([www.merck.com](http://www.merck.com)) or by directing a request to Merck at Merck’s Office of the Secretary, (908) 423-1000.

Merck and Schering-Plough and their respective directors and executive officers and other members of management and employees are potential participants in the solicitation of proxies from Merck and Schering-Plough shareholders in respect of the proposed transaction.

Information regarding Schering-Plough’s directors and executive officers is available in Schering-Plough’s proxy statement for its 2009 annual meeting of shareholders, filed with the SEC on April 27, 2009, and information regarding Merck’s directors and executive officers is available in Merck’s proxy statement for its 2009 annual meeting

of stockholders, filed with the SEC on March 13, 2009. Additional information regarding the interests of such potential participants in the proposed transaction will be included in the registration statement and joint proxy statement filed with the SEC in connection with the proposed transaction.