

AMERICAN FINANCIAL GROUP INC
 Form 424B1
 December 16, 2004

Filed Pursuant to Rule 424(b)(1)
 Registration No. 333-117010

PROSPECTUS SUPPLEMENT
 (To Prospectus Dated December 10, 2004)

AMERICAN FINANCIAL GROUP, INC.

2,000,000 Shares of Common Stock

**1,361,711 Shares of American Financial Group, Inc. Common Stock offered by
 American Premier Underwriters, Inc., as Selling Shareholder**

We and the selling shareholder are selling 2,000,000 and 1,361,711 shares, respectively, of our common stock. Our common stock is traded on the New York Stock Exchange and Nasdaq National Market under the symbol AFG. On December 15, 2004, the last quoted price of the shares of common stock as reported on the NYSE and Nasdaq was \$32.16.

Carl H. Lindner, our Chairman of the Board and Chief Executive Officer, and one of his brothers will purchase 600,000 and 200,000 shares, respectively, in the offering.

Investing in the securities involves risks that are described in the Risk Factors section beginning on page 5 of the accompanying prospectus.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$ 30.75	\$ 103,372,613.25
Underwriting discount	\$ 0.25	\$ 840,427.75
Proceeds, before expenses, to us	\$ 30.50	\$ 61,000,000.00
Proceeds, before expenses, to the selling shareholder	\$ 30.50	\$ 41,532,185.50

Delivery of the shares of common stock will be made on or about December 21, 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Cantor Fitzgerald & Co.

This Prospectus Supplement is dated December 16, 2004

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus. We have not, and the underwriter has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document.

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated December 16, 2004 between ourselves, the selling shareholder and Cantor Fitzgerald & Co., Cantor Fitzgerald & Co., as underwriter, has agreed to purchase, and we and the selling shareholder have agreed to sell to Cantor Fitzgerald & Co., an aggregate of 3,361,711 shares.

Commissions and Expenses

The underwriter has proposed to offer our common stock directly to the public at the public offering price on the cover of this prospectus supplement. After this offering, the underwriter may change the public offering price and other offering terms.

The following table summarizes the underwriting discounts and commissions that we and the selling shareholder will pay to the underwriter in connection with this offering.

	<u>Paid by us</u>	<u>Paid by the selling shareholder</u>
Per Share	\$0.25	\$0.25
Total	\$500,000.00	\$340,427.75

We estimate that our total expenses of this offering, excluding underwriting discounts and commissions paid by us, will be approximately \$48,000 and the selling shareholder's total expenses of this offering, excluding underwriting discounts and commissions paid by it, will be approximately \$27,000.

Listing

Our common stock is listed on the New York Stock Exchange and the Nasdaq National Market under the symbol AFG.

Stabilization and Short Positions

The underwriter may engage in stabilizing transactions and short sales or purchases for the purpose of pegging, fixing or maintaining the price of our common stock, in accordance with Regulation M under the Securities Exchange Act of 1934, as amended, or the Exchange Act:

Stabilizing transactions permit bids to purchase our common stock so long as the stabilizing bids do not exceed a specified maximum.

The underwriter may create a short position in our common stock for its own account by selling more common shares than have been sold to it by us or the selling shareholder and may purchase our common stock in the open market to cover the short position.

These stabilizing transactions and short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange, the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

Neither we nor the underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. In addition, neither we nor the underwriter makes any representation that the underwriter will engage in these stabilizing transactions or short sales or that any transaction, once commenced, will not be discontinued without notice.

Lock-Up Agreements

We and the selling shareholder have agreed not to:

offer, pledge, announce the intention to sell, sell, contract to sell any option or contract to purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of stock or any securities convertible into or exercisable or exchangeable for stock; or

enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the stock,

whether any such transaction described above is to be settled by delivery of stock or such other securities, in cash or otherwise, without the prior written consent of the underwriter until 60 days after the date of this prospectus supplement. However, during this 60-day period, we may issue

shares of our stock upon the exercise of options granted, grant additional options under existing employee stock option plans, sell shares through our dividend reinvestment, stock purchase or 401(k) plan and issue that number of shares of our common stock having a fair market value (as defined in the agreement referenced below) of up to \$12,300,000 pursuant to that certain Settlement Agreement and Release dated as of February 13, 2003 between parties related to and known as A.P. Green Industries, Inc. and Great American Insurance Company.

Indemnification

We and the selling shareholder have agreed to indemnify the underwriter against liabilities relating to this offering, including certain liabilities under the Securities Act and to contribute to payments that the underwriter may be required to make for these liabilities.

Other Relationships

The underwriter and its affiliates have from time to time performed and in the future may perform various financial advisory, commercial banking and investment banking services for us, the selling shareholder and our and their respective affiliates in the ordinary course of business, for which they received or will receive customary fees.

Prospectus

\$600,000,000

AMERICAN FINANCIAL GROUP, INC.

**Debt Securities, Common Stock, Preferred Stock, Warrants, Depositary
Shares, Stock Purchase Contracts and Stock Purchase Units**

**AMERICAN FINANCIAL CAPITAL TRUST II
AMERICAN FINANCIAL CAPITAL TRUST III
AMERICAN FINANCIAL CAPITAL TRUST IV**

**Preferred Securities
Fully and unconditionally guaranteed, as described in this prospectus,
by American Financial Group, Inc.**

and

**1,361,711 Shares of American Financial Group, Inc. Common Stock offered by
American Premier Underwriters, Inc., As Selling Shareholder**

American Financial Group, Inc., American Financial Capital Trust II, American Financial Capital Trust III and American Financial Capital Trust IV may offer up to \$600,000,000 of the securities listed above from time to time. In addition, American Premier Underwriters, Inc., the selling shareholder, may from time to time sell up to 1,361,711 shares of our common stock. While we will not directly receive any proceeds from the sale of common stock by the selling shareholder, the selling shareholder is one of our wholly-owned subsidiaries. This prospectus contains general information about these securities.

When American Financial Group, Inc., American Financial Capital Trust II, American Financial Capital Trust III or American Financial Capital Trust IV (or American Premier Underwriters, Inc., as selling shareholder) offers securities, we will provide a prospectus supplement containing the specific terms of that offering. You should read carefully this prospectus and any supplement before you invest. Our common stock is traded on the New York Stock Exchange and Nasdaq National Market under the symbol AFG. On December 9, 2004, the last quoted price of the shares of our common stock as reported on both the NYSE and Nasdaq was \$31.65.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

Investing in the securities involves risks that are described in the Risk Factors section beginning on page 5 of this prospectus.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 10, 2004

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf process, American Financial Group, Inc., American Financial Capital Trust II, American Financial Capital Trust III and American Financial Capital Trust IV may sell the securities described in this prospectus in one or more offerings up to a total dollar amount of \$600,000,000. This prospectus provides you with a general description of the securities which may be offered. In addition, the selling shareholder may sell up to 1,361,711 shares of common stock in one or more offerings. Each time securities are offered for sale, we will provide a prospectus supplement that contains specific information about the terms of that offering. The prospectus supplement may also add or update information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described below under [Where You Can Find More Information](#) and [Incorporation of Certain Documents by Reference](#).

The registration statement that contains this prospectus (including the exhibits) contains additional important information about American Financial Group, Inc., American Premier Underwriters, Inc., American Financial Capital Trust II, American Financial Capital Trust III and American Financial Capital Trust IV and the securities offered under this prospectus. Specifically, we have filed certain legal documents that control the terms of the securities offered by this prospectus as exhibits to the registration statement. We will file certain other legal documents that control the terms of the securities offered by this prospectus as exhibits to reports we file with the SEC. That registration statement and the other reports can be read at the SEC web site or at the SEC offices referenced below under the following heading.

WHERE YOU CAN FIND MORE INFORMATION

American Financial Group is subject to the information and reporting requirements of the Securities Exchange Act of 1934, under which we file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy this information at the following location of the Securities and Exchange Commission:

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Public Reference Room
450 Fifth Street, N.W.
Room 1024
Washington, D.C. 20549

You may also obtain copies of this information by mail from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Room 1024, Washington, DC 20549, at prescribed rates. Please call the Securities and Exchange Commission at (800) 732-0330 for further information about the Public Reference Room.

The Securities and Exchange Commission also maintains an Internet website that contains reports, proxy statements and other information about issuers that file electronically with the Securities and Exchange Commission. The address of that site is www.sec.gov.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We are incorporating by reference into this prospectus certain information that we file with the Securities and Exchange Commission, which means that we are disclosing important information to you by referring you to those documents. The information incorporated by reference is deemed to be part of this prospectus, except for any information superseded by information contained directly in this prospectus. This prospectus incorporates by reference the documents set forth below that we have previously filed with the Securities and Exchange Commission. These documents contain important information about us and our finances.

AFG SEC Filings (File No. 1-13653)	Period
Annual Report on Form 10-K	Year Ended December 31, 2003
Quarterly Report on Form 10-Q	Quarters ended March 31, 2004, June 30, 2004 and September 30, 2004
Current Reports on Form 8-K	Dated January 28, 2004, as amended, February 12, 2004, February 17, 2004, April 26, 2004, June 30, 2004, August 25, 2004, September 15, 2004, September 30, 2004, November 17, 2004, November 19, 2004 and December 6, 2004
Form 8-A Registration Statement	Filed November 25, 1997

All documents that we file with the Securities and Exchange Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act from the date of this prospectus to the end of the offering of the securities under this document shall also be deemed to be incorporated in this prospectus by reference. Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or any other subsequently filed document that is deemed to be incorporated by reference into this prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may access these filings free of charge through our Internet site at: www.afginc.com, or you may request a copy of these filings, at no cost, by writing or calling us at the following address or telephone number:

James C. Kennedy
Vice President, Deputy General Counsel and Secretary
American Financial Group, Inc.
One East Fourth Street
Cincinnati, Ohio 45202
(513) 579-2538

Exhibits to the filings will not be sent, however, unless those exhibits have specifically been incorporated by reference in this prospectus. Except for documents specifically incorporated by reference in this prospectus, information contained on our website is not part of this prospectus. You should not consider the information on our website, except the documents specifically incorporated by reference, when determining whether to invest in our or the trusts securities.

No separate financial statements of the three trusts have been included and none are incorporated by reference in this prospectus. We do not believe that financial statements of the trusts would be useful because the trusts have had no historical operations and will not have any independent function other than to issue securities representing undivided interests in its assets and investing the proceeds in our debt securities. In addition, all obligations of the trusts are fully and unconditionally guaranteed by us.

You should rely only on the information incorporated by reference or provided in this prospectus and the prospectus supplement. No one else is authorized to provide you with any other information or any different information. Neither we nor the trusts are making an offer of

securities in any state where an offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document.

RISK FACTORS

Intense competition could adversely affect our profitability.

The specialty insurance business is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. We compete with other individual insurers, state funds and insurance groups of varying sizes, some of which are mutual insurance companies possessing competitive advantages in that all their profits inure to their policyholders. We also compete with self-insurance plans, captive programs and risk retention groups. In some or all of our specialty lines, we compete with American International Group Inc., Chubb Corp., W.R. Berkley Corp., CNA Financial Corp., Philadelphia Consolidated Holdings Corp., Markel Corp. and The St. Paul Travelers Companies Inc. Because of the specialty nature of these coverages, competition is based primarily on service to policyholders and agents, specific characteristics of products offered and reputation for claims handling. Price, commissions and profit sharing terms are also important factors. Some of our competitors have more capital and greater resources than we have, and may offer a broader range of products and lower prices than we offer.

Our results may fluctuate as a result of cyclical changes in the specialty insurance industry.

The underwriting profitability of the property and casualty insurance industry has been historically cyclical in nature. During periods when excess capital has been available, there has generally been increased price competition among insurers, often resulting in inadequately priced products and underwriting losses. Prolonged periods of underwriting losses tend to force some insurers to withdraw from the markets, decreasing available capital.

Excess capital and intense premium rate competition caused a cyclical downturn, which began in the late 1980s and continued into 2000. Inadequate pricing during much of this period led to a significant inadequacy in carried loss reserves. In addition, the rise in asbestos and environmental liabilities, loss-cost inflation, catastrophe losses, unpredictable jury awards, losses related to September 11, declining equity markets and lower interest rates have reduced earnings and capital in many specialty lines and resulted in an increase in premium rates over the last few years to levels we consider to be more appropriate.

The trend of our underwriting results typically follows that of the industry. The statutory combined ratios of our property and casualty business were 100.3%, 101.5% and 108.8% in 2003, 2002 and 2001, respectively.

Other major factors contributing to fluctuations in our results include an arbitration decision in 2003 for a property, fire and business interruption claim, significant losses related to asbestos liabilities (2002 and 2001) and losses related to the terrorist attack on September 11, 2001. The improvement in underwriting results beginning in 2002 reflects the rise or hardening of prices in the upturn in the underwriting cycle for us and the industry. However, should capacity increase and price competition intensify, the cycle would reverse and negatively impact our revenues and operating results.

We rely upon independent agents to write our insurance policies, and if we are not able to attract and retain independent agents, our revenues could be negatively affected.

Our reliance on the independent agency market makes us vulnerable to a reduction in the amount of business written by agents. Many of our competitors, like us, rely significantly on the independent agency market. Accordingly, we must compete with other insurance carriers for independent agents' business. Some of our competitors offer a wider variety of products, lower price for insurance coverage or higher commissions. While we believe that the products, pricing, commissions and services we offer are competitive, we may not be able to continue to attract and retain independent agents to sell our products, in which case, our revenues could be negatively affected.

We are subject to comprehensive regulation, and our ability to earn profits may be restricted by these regulations.

We are subject to comprehensive regulation by government agencies in the states where our insurance company subsidiaries are domiciled and where these subsidiaries issue policies and handle claims, and we must obtain prior approval for certain corporate actions. The regulations may have the effect of limiting our liquidity and may adversely affect our results of operations. We must comply with regulations involving:

transferring cash to the parent company of insurance companies through the payment of dividends or otherwise;

the acquisition or disposition of an insurance company or of any company controlling an insurance company;

approval or filing of premium rates and policy forms;

involuntary assignments of high-risk policies, participation in reinsurance facilities and underwriting associations, assessments and other governmental charges;

minimum amounts of capital and surplus that must be maintained;

limitations on types and amounts of investments;

limitation of the right to cancel or non-renew policies;

regulation of the right to withdraw from markets or terminate involvement with agencies;

licensing of insurers and agents;

reporting with respect to financial condition; and

transactions between an insurance company and any of its affiliates.

In addition, state insurance department examiners perform periodic financial and market conduct examinations of insurance companies. Such regulation is generally intended for the protection of policyholders rather than securityholders.

There can be no assurance that existing insurance-related laws and regulations will not become more restrictive in the future or that new restrictive laws will not be enacted and, therefore, it is not possible to predict the potential effects of these laws and regulations on us. The costs of compliance or the failure to comply with existing or future regulations could harm our financial results.

As a holding company, we are dependent on the results of operations of our insurance company subsidiaries to meet our obligations and pay future dividends.

We are a holding company and a legal entity separate and distinct from our insurance company subsidiaries. As a holding company without significant operations of our own, our principal sources of funds are dividends and other distributions from our insurance company subsidiaries. State insurance laws limit the ability of our insurance companies to pay dividends or other distributions and require our insurance companies to maintain specified levels of statutory capital and surplus. Some states require that we give notice to the relevant state insurance commissioner prior to its insurance subsidiaries declaring any dividends and distributions payable to us. During the notice period, the state insurance commissioner may disallow all or part of the proposed dividend if it determines that the insurer's surplus as regards policyholders is not reasonable in relation to the insurer's liabilities and adequate to meet its financial needs. In addition, for competitive reasons, our insurance companies need to maintain financial strength ratings, which requires us to sustain capital levels in those subsidiaries. These restrictions affect the ability of our insurance company subsidiaries to pay dividends and use their capital in other ways. Our rights to participate in any distribution of assets of our insurance company subsidiaries are subject to prior claims of policyholders and creditors (except to the extent that our rights, if any, as a creditor are recognized). Consequently, our ability to pay debts, expenses and cash dividends to our shareholders may be limited.

Our failure to maintain a commercially acceptable financial strength rating would significantly and negatively affect our ability to compete successfully.

Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's sales. A.M. Best Company Inc. has currently assigned our insurance company subsidiaries ratings of "A (Excellent) and A- (Excellent)". According to A.M. Best, A and A- ratings are assigned to insurers which have, on balance, excellent balance sheet strength, operating performance and business profile when compared to the standards established by A.M. Best and, in A.M. Best's opinion, have a strong ability to meet their ongoing obligations to

policyholders. A.M. Best bases its ratings on factors that concern policyholders and not upon factors concerning investor protection. Such ratings are subject to change and are not recommendations to buy, sell or hold securities. There can be no assurance that our rating or future changes to our rating will not affect our competitive position.

We may be adversely impacted by a change in our Standard & Poor's or Moody's ratings.

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We are rated by Standard & Poor's and Moody's, both independent corporate credit rating agencies. AFG's senior indebtedness is currently rated BBB by Standard & Poor's and Baa3 by Moody's. Securities ratings are subject to revision or withdrawal at any time by the assigning rating organization. A security rating is not a recommendation to buy, sell or hold securities. An unfavorable change in either of these ratings could make it more expensive for us to access the capital markets and may increase the interest rate charged to us under our current multi-bank credit line. We can give no assurance that we will maintain our current Standard & Poor's or Moody's ratings.

We are a party to litigation which, if decided adversely to us, could impact our financial results.

We and our subsidiaries are named as defendants in a number of lawsuits. Litigation, by its very nature, is unpredictable and the outcome of these cases is uncertain. Further, we are unable to predict the precise nature of the relief that may be sought or granted in any lawsuits or the effect that pending or future cases may have on our business, operations, profitability or financial condition.

Legal precedents regarding potential asbestos liabilities continue to evolve, and adverse developments could impact our financial results.

We, our insurance company subsidiaries and American Premier Underwriters, Inc. are parties to litigation and receive claims asserting alleged injuries and damages from asbestos and other hazardous and toxic substances and workplace hazards and have established loss accruals for such potential liabilities. The ultimate loss for these claims may vary materially from amounts currently recorded as the conditions surrounding resolution of these claims continue to change. We are unable to predict the precise nature of the relief that may be granted in any lawsuits or the effect that future cases may have on our business, operations, profitability or financial condition.

We are subject to asbestos, environmental and mass tort claims that may impact our financial results.

American Premier Underwriters, Inc. is a party or named as a potentially responsible party in a number of proceedings and claims by regulatory agencies and private parties under various environmental protection laws, including the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), seeking to impose responsibility on American Premier for hazardous waste remediation costs at certain railroad sites formerly owned by its predecessor, Penn Central Transportation Company, and at certain other sites where hazardous waste allegedly generated by Penn Central's railroad operations and American Premier's former manufacturing operations is present. As of December 31, 2003, American Premier had approximately \$75 million reserved for these environmental claims. It is difficult to estimate American Premier's liability for remediation costs at these sites for a number of reasons, including the number and financial resources of other potentially responsible parties involved at a given site, the varying availability of evidence by which to allocate responsibility among such parties, the wide range of costs for possible remediation alternatives, changing technology and the period of time over which these matters develop.

In addition to our potential exposure for asbestos and environmental claims as discussed above, we are also subject to mass tort claims. Mass tort losses have included lead, silica and various chemical exposures. In 2002 and 2001, we increased property and casualty reserves relating to prior year's asbestos and environmental claims by a total of \$157 million. As of December 31, 2003, the aggregate net reserves held by our insurance company subsidiaries for asbestos, environmental and mass tort claims was \$423 million.

The Outcome of Current Industry Litigation or Investigation May Adversely Impact Our Business

In October 2004, the New York State Attorney General brought suit against Marsh & McLennan Companies, Inc. alleging, among other things, that the firm had manipulated the insurance market through specified conduct, including bid rigging and price fixing. The New York State Attorney General also stated that the evidence implicates certain insurance companies not including our property and casualty insurance company, Great American Insurance Company. As a result, the insurance departments and attorneys general of a number of states, including Ohio, have announced investigations and have begun to issue subpoenas and/or information requests to many insurance companies domiciled or licensed to do business in such states. While we are not a party to any of the litigation and have not received a subpoena in connection with this matter, we, along with other companies in our industry, have been asked to provide information to the insurance departments in a number of states where we do business. We cannot estimate the scope or breadth of the issues that may be investigated, their results, or timeframe in which the reviews might be completed. We also cannot predict the impact, if any, that these matters may have on our business or the property and casualty insurance industry generally.

In response to inquiries from several insurance departments, we have engaged in an extensive internal review of our business arrangements with insurance producers. After four weeks of our ongoing investigation and document review, we have identified only two policy quotations requested by Marsh & McLennan which may have been used by Marsh in a manner similar to the actions described in the New York Attorney General's complaint against that company. The amount of these Great American quotes was less than \$1 million.

In December, 2004, Great American received a subpoena from the New York Attorney General's office requesting information concerning Great American's business practices in writing legal malpractice insurance. Great American believes these requests are part of the sweeping probe of industry practices kicked off by the New York Attorney General's lawsuit against Marsh as described above. Great American intends to cooperate with the Attorney General's investigation. Great American has just begun its investigation of the matters covered by the subpoena, and

cannot predict any impact that its receipt may have on its business.

Our property and casualty reserves may be inadequate, which could significantly affect our financial results.

We record reserve liabilities for the estimated payment of losses and loss adjustment expenses for both reported and unreported claims. Due to the inherent uncertainty of estimating reserves, it has been necessary in the past, and may continue to be necessary in the future, to revise estimated liabilities as reflected in our reserves for claims and related expenses. For example, in 2003, 2002 and 2001, we recorded charges of \$167 million, \$171 million and \$163 million, respectively, to increase reserves relating to prior accident years. To the extent that reserves are inadequate and are strengthened, the amount of such increase is treated as a charge to earnings in the period in which the deficiency is recognized. The historic development of reserves for losses and loss adjustment expense may not necessarily reflect future trends in the development of these amounts. Accordingly, it is not appropriate to extrapolate redundancies or deficiencies based on historical information.

Variations from the actuarial assumptions used to establish certain assets and liabilities in our annuity, life, accident and health business could negatively impact AFG's financial results.

The earnings on certain products offered by our annuity, life, accident and health business depend significantly upon the extent to which actual experience is consistent with the assumptions used in setting reserves and establishing and amortizing deferred policy acquisition costs (DPAC). These assumptions relate to investment yields (and spreads over fixed annuity crediting rates), mortality, surrenders and, on some policies, morbidity. Developing such assumptions is complex and involves information obtained from company-specific and industry-wide data, as well general economic information. These assumptions, and therefore our results of operations, could be negatively impacted by changes in any of the factors listed above. For example, we recorded a pretax charge of \$12.5 million in 2003 in connection with a DPAC write-off due to the negative effect of lower interest rates on our fixed annuity operations.

Adverse securities market conditions can have significant and negative effects on our investment portfolio.

Our results of operations depend in part on the performance of our invested assets. As of December 31, 2003, 88% of our investment portfolio was invested in fixed maturity securities and 3% in equity securities. Certain risks are inherent in connection with fixed maturity securities including loss upon default and price volatility in reaction to changes in interest rates and general market factors. An increase in interest rates lowers prices on fixed maturity securities, and any sales we make during a period of increasing interest rates may result in losses. Conversely, investment income earned from future investments in fixed maturity securities will decrease if interest rates decrease.

We cannot predict at this time whether and the extent to which industry sectors in which we maintain investments may suffer losses as a result of potential decreased commercial and economic activity, or how any such decrease might impact the ability of companies within the affected industry sectors to pay interest or principal on their securities, or how the value of any underlying collateral might be affected.

The continued threat of terrorism and ongoing military and other actions may adversely affect our financial results.

AFG recorded a loss of \$25 million related to the terrorist attack on the World Trade Center in 2001. The continued threat of terrorism, both within the United States and abroad, and the ongoing military and other actions and heightened security measures in response to these types of threats, may cause significant volatility and declines in the equity markets in the United States, Europe and elsewhere, loss of life, property damage, additional disruptions to commerce and reduced economic activity. Actual terrorist attacks could cause losses from insurance claims related to our property and casualty and life insurance operations with adverse financial consequences. The Terrorism Risk Insurance Act of 2002 requires that some coverage for terrorist acts be offered by primary property insurers such as our insurance subsidiaries and provides Federal assistance for recovery of claims through 2005. In addition, some of the assets in our insurance subsidiaries' investment portfolios may be adversely affected by declines in the capital markets and economic activity caused by the continued threat of terrorism, ongoing military and other actions and heightened security measures.

We can offer no assurances that the threats of future terrorist-like events in the United States and abroad or military actions by the United States will not have a material adverse effect on our business, financial condition or results of operations.

The inability to obtain reinsurance could adversely impact our results.

We rely on the use of reinsurance to limit the amount of risk we retain. The following amounts of gross property and casualty premiums have been ceded to other insurers: 2003 \$1.5 billion (43%); 2002 \$1.5 billion (39%); and 2001 \$938 million (27%). The availability and cost of reinsurance are subject to prevailing market conditions which are beyond our control and which may affect our level of business and profitability. We are also subject to credit risk with respect to our reinsurers, as the ceding of risk to reinsurers does not relieve us of our liability to insureds.

Certain shareholders exercise substantial control over our affairs and may have interests that differ from your interests.

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As of December 31, 2003, Carl H. Lindner, S. Craig Lindner, Carl H. Lindner III, Keith E. Lindner and trusts for their benefit, which we refer to collectively as the Lindner family, were the beneficial owners of approximately 42% of our outstanding common stock. As a result, the Lindner family exercises substantial control over the election of our board of directors and significantly influences our corporate actions. In addition, the American Financial Group, Inc. Retirement and Savings Plan owned approximately 11% of our outstanding common stock at December 31, 2003. Our board of directors appoints an Administrative Plan Committee of the Retirement and Savings Plan which directs the voting of shares held by the Retirement and Savings Plan. The Administrative Plan Committee is currently composed solely of our officers. The interests of the Lindner family, as well as the interests of the Retirement and Savings Plan, may differ from those of our other stockholders and they may take actions that advance their respective interests to the detriment of our other stockholders.

The price of our common stock may fluctuate significantly which may make it difficult for you to resell common stock when you want or at price you find attractive.

The price of our common stock as listed on the NYSE and Nasdaq National Market constantly changes. Since January 1, 2003, our common stock has traded at prices ranging between \$18.00 and \$31.00. We expect that the market price of our common stock will continue to fluctuate. Our common stock price can fluctuate as a result of a variety of factors, many of which are beyond our control. These factors include:

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- actual or anticipated variations in our quarterly operating results;
 - actual or anticipated changes in the dividends we pay on our common stock;
 - recommendations by securities analysts;
 - significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
 - operating and stock price performance of other companies that investors deem comparable to us;
 - news reports relating to trends, concerns and other issues in our industry; and
 - geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as terrorist attacks, war, economic slowdowns or recessions, interest rate changes, credit loss trends or currency fluctuations, could also cause our stock price to decrease regardless of our operating results.

The stock market in general has experienced in the past, and may experience in the future, extreme volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the market price of our common stock.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus (including the information incorporated by reference) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are subject to numerous assumptions, risks or uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. Some of the forward-looking statements can be identified by the use of forward-looking words such as anticipates, believes, expects, estimates, intends, plans, seeks, could, may, should, will or the negative version of those words or other comparable terminology. Examples of such forward-looking statements include statements relating to: expectations concerning market and other conditions and their effect on future premiums, revenues, earnings and investment activities; expected losses and the adequacy of reserves, including losses and reserves for asbestos, environmental pollution and mass tort claims, rate increases, improved loss experience and expected expense savings resulting from recent initiatives.

Actual results could differ materially from those contained in or implied by such forward-looking statements for a variety of factors including:

- changes in economic conditions, including interest rates, performance of securities markets and the availability of capital;
- regulatory actions;

changes in legal environment;

tax law changes;

levels of natural catastrophes, terrorist events, incidents of war and other major losses;

development of insurance loss reserves and other reserves, particularly with respect to amounts associated with asbestos and environmental claims;

the unpredictability of possible future litigation if certain settlements do not become effective;

adequacy of insurance reserves;

trends in mortality and morbidity;

availability of reinsurance and ability of reinsurers to pay their obligations;

competitive pressures, including the ability to obtain rate increases; and

changes in debt and claims paying ratings.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. Neither we nor any trust undertake any obligation to publicly update or review any forward-looking statement.

AMERICAN FINANCIAL GROUP, INC.

We are a holding company which, through subsidiaries, is engaged primarily in property and casualty insurance, focusing on specialized commercial products for businesses, and in the sale of retirement annuities, life, and supplemental health insurance products. We were incorporated as an Ohio corporation in 1997, and our predecessor holding company originated in 1955. Our insurance subsidiaries have been operating as far back as the 1800s. Our address is One East Fourth Street, Cincinnati, Ohio 45202; our phone number is (513) 579-2121. SEC filings, news releases and other information may be accessed free of charge through our Internet site at: www.afginc.com. Except for documents specifically incorporated by reference in this prospectus, information contained on our website is not part of this prospectus.

Over the years, we and our predecessors have owned, operated, and invested in businesses in a variety of industries and geographic areas, culminating in today's group of insurance companies. Generally, our interests have been in the following areas: insurance, savings and loan, leasing, banking, real estate, communications/entertainment and food distribution. A small number of opportunistic investments have been made in troubled and other undervalued assets.

THE AMERICAN FINANCIAL CAPITAL TRUSTS

American Financial Capital Trust II, American Financial Capital Trust III and American Financial Capital Trust IV are statutory business trusts formed under Delaware law pursuant to three separate declarations of trust executed by us, as sponsor, and the trustees (described below) for the trusts and the filing of three separate certificates of trust with the Delaware Secretary of State. Each trust's declaration will be amended and restated as of the date the securities of such trust are initially issued. The amended declaration will be qualified as an indenture under the Trust Indenture Act of 1939. Unless the context otherwise indicates, all references to the trust or the trusts in this prospectus shall mean the American Financial Capital Trust II, American Financial Capital Trust III and American Financial Capital Trust IV.

Each trust exists solely to:

issue its preferred securities and common securities representing undivided beneficial interests in the assets of that trust;

invest the proceeds from the issuance of those securities in our junior subordinated debt securities; and

engage only in incidental activities.

The rights of the holders of each trust's securities, including economic rights, rights to information and voting rights, will be set forth in the trust's amended declaration of the trust, the Delaware Business Trust Act and the Trust Indenture Act.

We will own, directly or indirectly, all of the common securities of each trust, which will have an aggregate liquidation amount equal to 3% of the total capital of each trust. The common securities will generally rank equally in right of payment with the preferred securities, and payments on both will be made pro rata. However, upon an event of default under a trust's amended declaration, the rights of the holders of the common securities to payment of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the preferred securities. We will pay all fees and expenses related to the trusts and the offering of each trust's securities.

We, as holder of all of the common securities, will be entitled to appoint, remove or replace any of, or increase or reduce the number of, the trustees of the trusts. The business and affairs of the trusts will be conducted by the trustees, and the duties and obligations of the trustees will be governed by the applicable amended declarations of the trusts.

At least two of the trustees of each trust will be persons who are employees or officers of, or otherwise affiliated with, us. These persons are sometimes referred to herein as regular trustees. One trustee of each trust will be a financial institution which will be unaffiliated with us and will act as property trustee and as indenture trustee for purposes of the Trust Indenture Act under the terms of the applicable amended declaration and as may be further described in a prospectus supplement. The property trustee will hold title to the junior subordinated debt securities for the benefit of the holders of each trust's securities. In addition, unless the property trustee maintains a principal place of business in the state of Delaware and otherwise meets the requirements of applicable law, one trustee of each trust will be a legal entity having a principal place of business in, or an individual resident of, the state of Delaware.

Unless otherwise indicated in a prospectus supplement, The Bank of New York will be the property trustee and The Bank of New York (Delaware) will be the Delaware trustee. The address of the principal corporate trust office of The Bank of New York is 101 Barclay Street, New York, New York, 10286 and for The Bank of New York (Delaware) is 502 White Clay Center, Route 273, Newark, Delaware, 19711. The principal place of business of the trusts will be c/o American Financial Group, Inc., One East Fourth Street, Cincinnati, Ohio, 45202, telephone number (513) 579-2121.

USE OF PROCEEDS

Unless otherwise indicated in an accompanying prospectus supplement, we expect to use the net proceeds from the sale of any securities offered hereby by AFG for general corporate purposes, which may include investment in insurance businesses and the repayment of our outstanding debt and the debt of our subsidiaries. Until the net proceeds are used for these purposes, we may deposit them in interest-bearing accounts or invest them in short-term marketable securities. The specific allocations, if any, of the proceeds of any of the securities will be described in the prospectus supplement. The proceeds from any sale of preferred securities by any trust will be invested in our debt securities.

While we will not directly receive any proceeds from the sale of common stock by the selling shareholder, the selling shareholder is one of our wholly-owned subsidiaries. As the shares of common stock beneficially owned by the selling shareholder are held to satisfy certain historical expenses associated with litigation and claims asserting alleged injuries and damages from asbestos, environmental and other substances and workplace hazards, the selling shareholder intends to use the proceeds from any sale of common stock to pay amounts which may arise from such litigation and claims.

DESCRIPTION OF THE SECURITIES WE MAY OFFER

General

We may issue, in one or more offerings, any combination of senior or subordinated debt securities, common stock, preferred stock, warrants, depositary shares, stock purchase contracts and stock purchase units. The trusts may issue in one or more offerings, trust preferred securities that will be unconditionally guaranteed by us.

This prospectus contains a summary of the general terms of the various securities that we or the trusts may offer. The prospectus supplement relating to any particular securities offered will describe the specific terms of the securities. The summary in this prospectus and in any prospectus supplement does not describe every aspect of the securities and is subject to and qualified in its entirety by reference to all applicable provisions of the documents relating to the securities offered. These documents are or will be filed as exhibits to or incorporated by reference in the registration statement.

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In addition, the prospectus supplement will set forth the terms of the offering, the initial public offering price and net proceeds to us or the trusts. Where applicable, the prospectus supplement will also describe any material United States federal income tax considerations relating to the securities offered and indicate whether the securities offered are or will be listed on any securities exchange.

Book-Entry System

Unless otherwise indicated in a prospectus supplement, the debt securities and preferred securities offered by us and the trusts will be issued in the form of one or more fully registered global securities. These global securities will be deposited with, or on behalf of, the Depository Trust Company and registered in the name of its nominee. Except as described below, the global securities may be transferred, in whole and not in part, only to DTC or to another nominee of DTC.

DTC has advised us that it is:

a limited-purpose trust company organized under the New York Banking Law;

a "banking organization" within the meaning of the New York Banking Law;

a member of the Federal Reserve System;

a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC was created to hold securities for institutions that have accounts with DTC (participants) and to facilitate the clearance and settlement of securities transactions among its participants through electronic book-entry changes in participants accounts. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to DTC s book-entry system is also available to others that clear through or maintain a custodial relationship with a participant, either directly or indirectly. DTC administers its book-entry system in accordance with its rules and bylaws and legal requirements.

Upon issuance of a global security representing offered securities, DTC will credit on its book-entry registration and transfer system the principal amount to participants accounts. Ownership of beneficial interests in the global security will be limited to participants or to persons that hold interests through participants. Ownership of interests in the global security will be shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC (with respect to participants interests) and the participants (with respect to the owners of beneficial interests in the global security). The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of those securities in definitive form. These limits and laws may impair the ability to transfer beneficial interests in a global security.

So long as DTC (or its nominee) is the registered holder and owner of a global security, DTC (or its nominee) will be considered, for all purposes under the applicable indenture, the sole owner and holder of the related offered securities. Except as described below, owners of beneficial interests in a global security will not:

be entitled to have the offered securities registered in their names; or

receive or be entitled to receive physical delivery of certificated offered securities in definitive form.

Each person owning a beneficial interest in a global security must rely on DTC s procedures (and, if that person holds through a participant, on the participant s procedures) to exercise any rights of a holder of offered securities under the global security or any applicable indenture, or otherwise. The indentures provide that DTC may grant proxies and otherwise authorize participants to take any action which it (as the holder of a global security) is entitled to take under the indentures or the global security. We understand that under existing industry practice, if we or a trust request any action of holders or an owner of a beneficial interest in a global security desires to take any action that DTC (as the holder of the global security) is entitled to take, DTC would authorize the participants to take that action and the participants would authorize their beneficial owners to take the action or would otherwise act upon the instructions of their beneficial owners.

We or the trusts will make payments with respect to offered securities represented by a global security to DTC. We expect that DTC, upon receipt of any payments, will immediately credit participants accounts with payments in amounts proportionate to their respective beneficial interests. We also expect that payments by participants to owners of beneficial interests in a global security held

through them will be governed by standing instructions and customary practices (as is the case with securities held for customers' accounts in street name) and will be the responsibility of the participants. None of us, the trusts or any trustee will have any responsibility or liability for:

any aspect of the records relating to, or payments made on account of, beneficial ownership interests in a global security for any securities;

maintaining, supervising, or reviewing any records relating to any beneficial ownership interests;

any other aspect of the relationship between DTC and its participants; or

the relationship between the participants and the owners of beneficial interests in a global security.

Unless and until they are exchanged in whole or in part for certificated securities in definitive form, the global securities may not be transferred except as a whole by DTC to its nominee or by its nominee to DTC or another nominee.

The securities of any series represented by a global security may be exchanged for certificated securities in definitive form if:

DTC notifies us that it is unwilling or unable to continue as depository for the global security or if at any time it ceases to be a clearing agency registered under the Securities Exchange Act of 1934;

we decide at any time not to have the securities of that series represented by a global security and so notifies DTC; or

in the case of debt securities, an event of default has occurred and is continuing with respect to the debt securities.

If there is such an exchange, we will issue certificated securities in authorized denominations and registered in such names as DTC directs. Subject to the foregoing, a global security is not exchangeable, except for a global security of the same aggregate denomination to be registered in DTC's or its nominee's name.

DESCRIPTION OF DEBT SECURITIES

General

The debt securities are governed by documents called indentures. An indenture is a contract between American Financial Group and the trustee named in the applicable prospectus supplement, which acts as trustee for the debt securities. There may be more than one trustee under each indenture for different series of debt securities. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described under Remedies If An Event of Default Occurs. Second, the trustee may perform administrative duties for us, such as sending you interest payments, transferring your debt securities to a new buyer if you sell, and sending you notices. We anticipate that we will perform these duties with respect to the debt securities.

The debt securities will be unsecured general obligations of us and may include:

senior debt securities, to be issued under the senior indenture;

subordinated debt securities, to be issued under the subordinated indenture; and

junior subordinated debt securities, to be issued under the junior subordinated indenture in conjunction with the issuance of preferred securities of the trusts.

If issued, the junior subordinated debt securities will be purchased by a trust using proceeds from issuances of the preferred securities of such trust. When we refer to the indenture, we mean the senior indenture, the subordinated indenture and the junior subordinated indenture collectively, unless we indicate otherwise. When we refer to the trustee, we mean the senior trustee, the subordinated trustee and the junior subordinated trustee collectively, unless we indicate otherwise.

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This section summarizes the general terms of the debt securities we may offer. The prospectus supplement relating to any particular debt securities offered will indicate whether the debt securities are senior debt securities, subordinated debt securities or junior subordinated debt securities and will describe the specific terms of the debt securities. The summary in this section and in any prospectus supplement does not describe every aspect of the senior, subordinated or junior subordinated indenture or the debt securities, and is subject to and qualified in its entirety by reference to all the provisions of the applicable indenture and the debt securities. The forms of the senior indenture, subordinated indenture and junior subordinated indenture and the forms of the debt securities are or will be filed as exhibits to or incorporated by reference in the registration statement. See [Where You Can Find More Information](#) for information on how to obtain a copy.

If we had issued senior debt securities on September 30, 2004, we would have had no outstanding debt senior to the senior debt securities, \$677 million debt outstanding pari passu to the senior debt securities and no debt outstanding junior to the senior debt securities. If we had issued subordinated debt securities on September 30, 2004, we would have had \$677 million debt outstanding senior to the subordinated or junior subordinated debt securities, no subordinated debt outstanding pari passu to the subordinated debt securities and no junior debt outstanding junior to the subordinated debt securities. We are structured as a holding company and we conduct most of our business operations through subsidiaries. Any debt securities issued would be effectively subordinated to all existing and future indebtedness and other liabilities and commitments of our subsidiaries.

The prospectus supplement relating to any series of debt securities will describe the following specific financial, legal and other terms particular to such series of debt securities:

the title of the debt securities;

any limit on the aggregate principal amount of the debt securities;

the date or dates on which the debt securities will mature;

the rate or rates (which may be fixed or variable) at which the debt securities will bear interest, if any, and the date or dates from which the interest