

GREAT AMERICAN FINANCIAL RESOURCES INC

Form 424B2

October 29, 2003

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File No. 333-60044

File No. 333-60044-01

This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus Supplement dated October 28, 2003

PROSPECTUS SUPPLEMENT

(to prospectus dated September 20, 2002)

\$100,000,000

AAG Holding Company, Inc.

% Senior Debentures due 2033

Fully and Unconditionally Guaranteed, as Described Herein, by

Great American Financial Resources, Inc.

The debentures will bear interest at the rate of % per annum. AAG Holding Company will pay interest on March 31st, June 30th, September 30th and December 31st of each year, beginning on December 31, 2003. The debentures will mature on October , 2033. AAG Holding may not redeem the debentures prior to October , 2008. On or after October , 2008, AAG Holding may redeem the debentures at 100% of their principal amount, plus accrued interest to the date of redemption. The debentures will not have the benefit of any sinking fund.

The debentures will be AAG Holding's unsecured obligations and will rank equally with all of AAG Holding's other unsecured senior indebtedness and senior to all of AAG Holding's subordinated indebtedness. The debentures will be issued only in registered form in denominations of \$25 and integral multiples thereof.

We will guarantee, fully and unconditionally, the payment by AAG Holding of amounts due on the debentures as discussed in this prospectus supplement and the accompanying base prospectus.

	<u>Per</u> <u>Debenture</u>	<u>Total</u>
Price to public (1)	100%	\$ 100,000,000
Underwriting discount	%	\$
Proceeds to AAG Holding Company	%	\$

(1) Plus accrued interest from October , 2003, if settlement occurs after that date

The underwriters may also purchase an additional \$15,000,000 principal amount of debentures at the public offering price less the underwriting commission until 30 days after the date of this prospectus supplement to cover over-allotments, if any.

We and AAG Holding have made application to list the debentures and the guarantee for trading on the New York Stock Exchange. We expect trading of the debentures on the New York Stock Exchange to begin within a 30-day period after the initial delivery of the debentures.

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.

AAG Holding expects that the debentures will be ready for delivery in book-entry form only through The Depository Trust Company on or about October , 2003.

Merrill Lynch & Co.

Bear, Stearns & Co. Inc.

A.G. Edwards & Sons, Inc.

UBS Investment Bank

Banc of America Securities LLC

Lehman Brothers

McDonald Investments Inc.

Morgan Keegan & Company, Inc.

U.S. Bancorp Piper Jaffray

The date of this prospectus supplement is October , 2003.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any 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 making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus or any other documents incorporated by reference is accurate only as of the date on the front cover of the applicable document. Our business, financial condition, results of operations and prospects may have changed since that date.

This prospectus summarizes certain documents and other information, and we and AAG Holding refer you to them for a more complete understanding of what we and AAG Holding discuss in this prospectus. In making an investment decision, you should rely on your own examination of our company and AAG Holding and the terms of this offering and the debentures, including the merits and risks involved.

We are not making any representation to any purchaser of the debentures regarding the legality of an investment in the debentures by such purchaser. You should not consider any information in this prospectus to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the debentures.

References in this prospectus to GAFRI, we, us and our refer to Great American Financial Resources, Inc., an insurance holding company incorporated in Delaware, and its subsidiaries, including AAG

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Holding, unless the context otherwise requires. References in this prospectus to AAG Holding refer to our subsidiary, AAG Holding Company, Inc., an insurance holding company incorporated in Ohio.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports and other information with the SEC. See **Where You Can Find More Information** beginning on page 2 in the accompanying prospectus for information on the documents we incorporate by reference in this prospectus supplement and the accompanying prospectus.

No separate financial statements of AAG Holding have been included and none are incorporated by reference in this prospectus supplement or the accompanying prospectus. We do not believe that the financial statements of AAG Holding would be material to prospective purchasers of debentures because we own all of the common stock of AAG Holding and because we will fully guarantee the obligations of AAG Holding under the debentures.

GREAT AMERICAN FINANCIAL RESOURCES, INC.

GAFRI, which was incorporated as a Delaware corporation in 1987, is an 82%-owned subsidiary of American Financial Group, Inc. We are a holding company which markets fixed and variable annuities, and various forms of life and supplemental health insurance through our subsidiaries. Our largest operating subsidiary, Great American Life Insurance Company, is a leading provider of 403(b) tax-qualified annuities to teachers in the kindergarten through 12th grade segment of the school market.

SEC filings, news releases and other information may be accessed free of charge through our Internet site at: www.gafri.com. Except for information specifically incorporated by reference into this prospectus supplement, information on our website is not part of this prospectus supplement or the accompanying prospectus.

AAG HOLDING COMPANY, INC.

AAG Holding is GAFRI's wholly-owned subsidiary that owns all of the stock of Great American Life Insurance Company.

RECENT DEVELOPMENTS

Three Months and Nine Months Ended September 30, 2003

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On October 16, 2003 we reported net earnings for the 2003 third quarter. For the three months ended September 30, 2003, we reported net earnings of \$19.9 million (\$0.46 per share) compared to \$2.0 million (\$0.05 per share) in the third quarter of 2002.

Included in the 2003 results were after tax realized gains of \$0.4 million (including provisions for impairments of investments of \$3.1 million), as compared to after tax realized losses of \$13.9 million in the 2002 period (including impairments of \$20.0 million). For the three months ended September 30, 2003, total premiums were approximately \$258 million, as compared to approximately \$347 million in the 2002 period.

For the nine months ended September 30, 2003, we reported net earnings of \$35.2 million (\$0.82 per share) compared to \$3.6 million (\$0.08 per share) for the same period in 2002. Results for the first nine months of 2003 reflect an aftertax charge to earnings of \$8.1 million (\$0.19 per share) related to the negative effect of lower interest rates on GAFRI's fixed annuity operations. The charge, which was taken in the second quarter of 2003, had no effect on the statutory surplus or earnings of our insurance subsidiaries. Based on the current interest rate environment, we do not anticipate any additional material write-offs in the foreseeable future.

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Included in the 2003 results were after tax realized losses of \$7.2 million (including provisions for impairments on investments of \$25.1 million), as compared to after tax realized losses of \$33.7 million in the 2002 period (including impairments of \$50.1 million). For the nine months ended September 30, 2003, total premiums were approximately \$908 million, as compared to approximately \$937 million in the 2002 period. Annuity production has slowed recently as we have maintained our pricing targets and our commission and interest crediting discipline during the recent period of historically low interest rates.

Our investment portfolio remains high in quality, with 94% of our bonds rated investment grade. At September 30, 2003, net unrealized gains in our investment portfolio totaled \$389 million (pretax), consisting of \$359 million of unrealized gains on fixed maturities and \$30 million of unrealized gains on equity securities.

GREAT AMERICAN FINANCIAL RESOURCES, INC. AND SUBSIDIARIES**Consolidated Income Statement**

(in millions, except per share amounts)

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Revenues:				
Life, accident and health premiums	\$ 83.9	\$ 81.0	\$ 246.6	\$ 224.6
Net investment income	127.1	131.8	382.2	395.0
Realized gains (losses) on investments	0.7	(21.4)	(11.2)	(51.6)
Other income	26.9	30.3	65.6	71.5
	<u>238.6</u>	<u>221.7</u>	<u>683.2</u>	<u>639.5</u>
Benefits and expenses:				
Annuity benefits	71.5	68.7	227.2	215.2
Life, accident and health benefits	63.0	69.6	185.4	184.9
Insurance acquisition expenses	27.4	31.1	87.0	81.1
Trust preferred distribution requirement	3.7	3.2	10.4	9.7
Interest and other debt expenses	2.5	2.7	7.8	8.1
Other expenses	41.2	45.3	116.3	118.1
	<u>209.3</u>	<u>220.6</u>	<u>634.1</u>	<u>617.1</u>
Operating earnings before income taxes	29.3	1.1	49.1	22.4
Provision (credit) for income taxes	9.4	(0.9)	13.9	1.1
	<u>19.9</u>	<u>2.0</u>	<u>35.2</u>	<u>21.3</u>
Income before accounting change	19.9	2.0	35.2	21.3
Cumulative effect of accounting change, net of tax				(17.7)
	<u>\$ 19.9</u>	<u>\$ 2.0</u>	<u>\$ 35.2</u>	<u>\$ 3.6</u>
Average common shares outstanding basic	43.0	42.4	42.7	42.4

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Average common shares outstanding	diluted	43.0	42.6	42.7	42.7
Basic earnings per common share:					
Income before accounting change		\$ 0.46	\$ 0.05	\$ 0.82	\$ 0.50
Accounting change					(0.42)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income		\$ 0.46	\$ 0.05	\$ 0.82	\$ 0.08
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted earnings per common share:					
Income before accounting change		\$ 0.46	\$ 0.05	\$ 0.82	\$ 0.50
Accounting change					(0.42)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income		\$ 0.46	\$ 0.05	\$ 0.82	\$ 0.08
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Rights Offering

In September 2003, we sold approximately 4.3 million shares of our common stock in an offering made to existing shareholders. Included in this amount are 3.5 million shares sold to American Financial Group, our majority shareholder, and 434,000 shares sold to Carl H. Lindner, our Chairman of the Board. Following completion of the offering, American Financial Group continues to own approximately 82% of our common stock. We raised \$59.7 million through this sale of common stock and used \$30.0 million to pay down existing amounts borrowed under our bank credit line and contributed \$25.0 million to Great American Life Insurance Company. Approximately \$5 million remained at the parent company for general corporate purposes.

Ratings

In September 2003, A.M. Best affirmed the financial strength ratings of Great American Life Insurance Company and its principal subsidiaries at A (stable). In October 2003, Standard & Poor's affirmed our senior debt ratings and removed its negative outlook on us. In October 2003, Moody's Investor Service, Inc. affirmed our senior debt ratings at Baa3 and is expected to remove its negative outlook on us after the completion of this offering. Also in October 2003, Fitch Ratings affirmed our senior debt ratings at BBB+ (stable). Financial strength and securities ratings are subject to revision or withdrawal at any time by the assigning rating organization. A financial strength or security rating is not a recommendation to buy, sell or hold securities. An unfavorable change in any of these ratings could make it more expensive for us to access capital markets. We can give no assurance that we will maintain our current ratings.

USE OF PROCEEDS

The net proceeds to AAG Holding from the sale of the debentures (after deducting underwriting discounts and commissions and estimated offering expenses payable by AAG Holding in connection with the sale of debentures) are expected to be approximately \$96.5 million (\$111.0 million if the underwriters' overallotment option is exercised in full). AAG Holding will use approximately \$91 million of the net proceeds to pay down all of its existing borrowings under its bank credit facility. The bank borrowings currently bear interest at a weighted average interest rate of 1.85% and mature on December 31, 2004. The remaining proceeds will be used for general corporate purposes. Certain of the underwriters of the offering of debentures contemplated by this prospectus supplement are affiliates of the lenders pursuant to the bank credit facility.

CAPITALIZATION

The following table (in millions) shows:

our historical capitalization at June 30, 2003;

our capitalization as of June 30, 2003 as adjusted to reflect our rights offering completed in the third quarter of 2003 and the net paydown of outstanding indebtedness under the bank credit facility; and

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our capitalization as of June 30, 2003 as further adjusted to give effect to the issuance of the debentures contemplated by this prospectus supplement and the repayment of all outstanding borrowings under AAG Holding's bank credit facility, assuming that the underwriters' overallotment option is not exercised.

The information below should be read in conjunction with our consolidated financial statements and the notes thereto incorporated by reference to this prospectus supplement.

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	June 30, 2003		
			As Further
	Historical	As Adjusted	Adjusted
Notes payable:			
Direct obligations of GAFRI	\$ 1.6	\$ 1.6	\$ 1.6
Obligations of AAG Holding (guaranteed by GAFRI)			
6-7/8% Senior Notes due 2008	100.0	100.0	100.0
Bank Credit Line	112.6	90.6	
___% Senior Debentures Due 2033			100.0
Total Debt	214.2	192.2	201.6
Mandatorily redeemable preferred securities of subsidiary trusts	162.9	162.9	162.9
Stockholders' Equity:			
Common Stock, including paid-in capital	392.0	451.7	451.7
Retained earnings	297.2	297.2	297.2
Unrealized gains on marketable securities, net	268.9	268.9	268.9
Total stockholders' equity	958.1	1,017.8	1,017.8
Total capitalization	\$ 1,335.2	\$ 1,372.9	\$ 1,382.3
Ratio of total debt to capitalization ⁽¹⁾	19.7%	17.1%	17.8%

(1) For purposes of the ratio of total debt to capitalization, capitalization excludes net unrealized gains on fixed maturity securities totaling \$249.2 million.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the historical ratios of earnings to fixed charges for GAFRI and its subsidiaries, including AAG Holding. Fixed charges are computed on a total enterprise basis. For purposes of calculating the ratios, earnings have been computed by adding to pretax earnings from continuing operations the fixed charges and minority interest in earnings of subsidiaries having fixed charges and deducting (adding) the undistributed equity in earnings (losses) of affiliates. Fixed charges include interest (including interest on annuities), amortization of debt issue expense, preferred dividend requirements and a portion of rental expense deemed to represent the interest factor.

	Six Months		Year Ended December 31,				
	Ended June 30,		2002	2001	2000	1999	1998
Ratio of earnings to fixed charges	1.1	1.1	1.1	1.2	1.3	1.3	1.5
Ratio of earnings to fixed charges excluding interest on annuities*	2.5	2.7	2.5	3.0	3.4	3.9	5.6

- * While this ratio is not required or encouraged by SEC rules, we believe that this ratio is meaningful to ratings agencies, analysts and securityholders who focus on holding company financial strength and operating performance.

DESCRIPTION OF DEBENTURES

The following description of the particular terms of the debentures supplements the description of the general terms and provisions of debt securities, including the debentures, set forth in the accompanying prospectus. Reference is made to the accompanying prospectus for a summary of certain additional provisions of the debentures.

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General

AAG Holding will issue the debentures as a separate series of senior debt securities under an indenture, dated as of June 1, 1998, among AAG Holding, GAFRI (formerly known as American Annuity Group, Inc.) and U.S. Bank, N.A. (formerly known as Star Bank, N.A.), as trustee. Capitalized terms not otherwise defined herein shall have the meanings given to them in the accompanying prospectus and the indenture.

We will guarantee, fully and unconditionally, the payment by AAG Holding of amounts due on the debentures. The aggregate principal amount of the debentures will be limited to \$100,000,000, subject to the provisions described below under Further Issues. The debentures will be AAG Holding's unsecured obligations and will rank equally with all of AAG Holding's other unsecured senior indebtedness and senior to all of our subordinated indentures.