ST PAUL COMPANIES INC /MN/
Form 424B5
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Registration No. 333-92466

PROSPECTUS SUPPLEMENT
(To prospectus dated July 24, 2002)

15,500,000 Shares

The St. Paul Companies, Inc.

Common Stock

We are selling 15,500,000 shares of our common stock, without par value, in this offering.

Our common stock is listed on the New York Stock Exchange under the symbol SPC. The last reported sale price of our common stock on the New York Stock Exchange on July 25, 2002 was $24.20 per share.

In addition to these shares of common stock, we are concurrently offering 7,700,000 equity units, each of which will have a stated amount of $50 and initially consist of a purchase contract pursuant to which the holder will agree to purchase from us shares of our common stock on August 16, 2005 and a senior note with a principal amount of $50 due on August 16, 2007. Neither offering is conditioned on the other.

Investing in our common stock involves risks that are described in Risk Factors beginning on page S-8 of this prospectus supplement.

	Per Share	Total
Public offering price	$24.2000	$375,100,000
Underwriting discounts and commissions	$1.0285	$15,941,750
Proceeds, before expenses, to The St. Paul Companies, Inc.	$23.1715	$359,158,250

The underwriters may also purchase up to an additional 2,325,000 shares of our common stock at the public offering price less the underwriting discounts and commissions until 30 days after the date of this prospectus supplement in order to cover over-allotments, if any.

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

The shares will be ready for delivery on or about July 31, 2002.

Joint Book-Running Managers

Merrill Lynch & Co. **Salomon Smith Barney**

The date of this prospectus supplement is July 25, 2002

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this common stock offering and other matters relating to us and our financial condition. The second part, the accompanying prospectus, gives more general information about securities we may offer from time to time, some of which may not apply to the common stock offered by this prospectus supplement and accompanying prospectus. For information about our common stock, see Description of Our Common Stock in the accompanying prospectus.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Unless we have indicated otherwise, all information in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option. Unless we have indicated otherwise, or the context otherwise requires, the terms The St. Paul, we, us or our mean The St. Paul Companies, Inc. and its consolidated subsidiaries.

THE ST. PAUL COMPANIES, INC.

The St. Paul Companies, Inc. and its subsidiaries constitute one of the oldest insurance organizations in the United States, dating back to 1853. We are a management company principally engaged, through our subsidiaries, in providing commercial property-liability insurance. We also have a presence in the asset management industry through our 78% majority ownership of The John Nuveen Company. As a management company, we oversee the operations of our subsidiaries and provide them with capital and management and administrative services. At June 30, 2002, our total assets were $38.2 billion and our total shareholders equity was $5.0 billion. In 2001, insurance and reinsurance underwriting accounted for approximately 95% of our consolidated revenues from continuing operations, and asset management operations accounted for approximately 4% of consolidated revenues from continuing operations.

Our principal and registered executive offices are located at 385 Washington Street, St. Paul, Minnesota 55102, and our telephone number is (651) 310-7911.

RECENT DEVELOPMENTS

Results of Operations

We suffered significant losses from continuing operations in 2001 and in the first six months of 2002, as a result of a number of factors, certain of which are discussed below. The following discussion should be read together with, and is qualified in its entirety by reference to, the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited consolidated financial statements for the year ended December 31, 2001 contained in our current report on Form 8-K dated March 5, 2002 as well as our 2001 report on Form 10-K and our reports on Form 8-K dated June 3, 2002, July 16, 2002 and July 23, 2002. Our results for the first three months of 2002 are reported and discussed in our report on Form 10-Q for that period. The reports on Forms 10-K, 10-Q and 8-K are incorporated by reference in this prospectus supplement. See Where You Can Find More Information in the accompanying prospectus.

Results of Operations in the First Six Months of 2002

We reported a net loss for the second quarter of 2002 of $223 million, or $1.09 per diluted share, driven principally by the $380 million after-tax ($585 million pre-tax) impact of the settlement agreement described below under Asbestos Litigation Settlement Agreement. Excluding the impact of the settlement agreement, realized investment losses of $24 million, and losses from discontinued operations of $5 million, net income would have been $186 million, or $0.84 per diluted share. The following table summarizes our unaudited results for the second quarter and first six months of 2002 and 2001.

THE ST. PAUL COMPANIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions, except per share amounts)			
Revenues:				
Premiums earned	$1,919.6	$1,743.4	$3,854.5	$3,370.8
Net investment income	286.1	300.2	579.2	635.4
Asset management	88.7	85.2	179.4	170.0
Realized investment gains (losses)	(32.5)	6.8	(70.7)	83.5
Other	51.9	27.5	88.8	64.9
Total revenues	2,313.8	2,163.1	4,631.2	4,324.6
Expenses:				
Insurance losses and loss adjustment expenses	1,986.3	1,346.4	3,379.4	2,528.9
Policy acquisition expenses	404.8	356.1	814.8	736.1
Operating and administrative	286.5	327.1	605.2	628.4
Total expenses	2,677.6	2,029.6	4,799.4	3,893.4
Income (loss) before income taxes	(363.8)	133.5	(168.2)	431.2
Income tax expense (benefit):				
Federal	(152.2)	37.7	(111.4)	123.3
Other	6.6	0.1	13.1	3.1
Total income tax expense (benefit)	(145.6)	37.8	(98.3)	126.4
Income (loss) before cumulative effect of accounting change	(218.2)	95.7	(69.9)	304.8
Cumulative effect of accounting change, net of taxes			(6.0)	
Income (loss) from continuing operations	(218.2)	95.7	(75.9)	304.8
Discontinued operations, net of taxes	(4.8)	8.4	(13.8)	1.5
Net income (loss)	$ (223.0)	$ 104.1	$ (89.7)	$ 306.3
Earnings (loss) per share:				
Basic	$ (1.09)	$ 0.47	$ (0.47)	$ 1.38
Diluted	$ (1.09)	$ 0.45	$ (0.47)	$ 1.33

Asbestos Litigation Settlement Agreement

On June 3, 2002 we announced that we and certain of our subsidiaries had entered into an agreement for the settlement of all existing and future claims arising out of any insuring relationship of United States Fidelity and Guaranty Company (USF&G), St. Paul Fire and Marine Insurance Company and their affiliates and subsidiaries, including us (collectively, the USF&G Parties) with any of MacArthur Company, Western MacArthur Company and Western Asbestos Company (the MacArthur Companies). The settlement agreement has been filed as an exhibit to our Report on Form 8-K dated July 23, 2002, which is incorporated by reference herein. This description is qualified in its entirety by the terms of the settlement agreement.

The settlement agreement provides that the MacArthur Companies will file voluntary petitions under Chapter 11 of the Bankruptcy Code to permit the channeling of all current and future asbestos-related claims solely to a trust to be established pursuant to Section 524(g) of the Bankruptcy Code. Consummation of most elements of the settlement agreement is contingent upon bankruptcy court approval of the settlement agreement as a part of a broader plan for the reorganization of the MacArthur Companies (the Plan). Approval of the Plan involves substantial uncertainties that include the need to obtain agreement among existing asbestos plaintiffs, a person to be appointed to represent the interests of unknown, future asbestos plaintiffs, the MacArthur Companies and the USF&G Parties as to the terms of such Plan. Accordingly, there can be no assurance that an acceptable Plan will be developed or that bankruptcy court approval of a Plan will be obtained.

Upon final approval of the Plan, and upon payment by the USF&G Parties of the amounts described below, the MacArthur Companies will release the USF&G Parties from any and all asbestos-related claims for personal injury, and all other claims in excess of $1 million in the aggregate, that may be asserted relating to or arising from, directly or indirectly, any alleged coverage provided by any of the USF&G Parties to any of the MacArthur Companies, including any claim for extra-contractual relief.

The after-tax impact on earnings, net of expected reinsurance recoveries and the revaluation and application of asbestos and environmental reserves, will be approximately $380 million. This calculation is based upon payments of $235 million during the second quarter of 2002, and $740 million on the earlier of the final, non-appealable approval of the Plan or January 15, 2003, plus interest on the $740 million from the settlement date to the date of such payment. The $740 million (plus interest) payment, together with $60 million of the original $235 million, shall be returned to the USF&G Parties if the Plan is not finally approved. The settlement agreement also provides for the USF&G Parties to pay $12.45 million and to advance certain fees and expenses incurred in connection with the settlement, bankruptcy proceedings, finalization of the Plan, and efforts to achieve approval of the Plan, subject to a right of reimbursement in certain circumstances of amounts advanced.

As a result of the settlement, pending litigation with the MacArthur Companies has been stayed pending final approval of the Plan. Whether or not the Plan is approved, $175 million of the $235 million will be paid to the bankruptcy trustee, counsel for the MacArthur Companies, and persons holding judgments against the MacArthur Companies as of June 3, 2002 and their counsel, and the USF&G Parties will be released from claims by such holders to the extent of $110 million paid to such holders.

Actions by Rating Organizations

As a result of our losses from the September 11, 2001 terrorist attack and our Health Care segment loss reserve strengthening in the fourth quarter of 2001, Standard & Poor s Ratings Group and Moody s Investors Services, Inc. lowered our financial ratings. Subsequently, as a result of our decision to more aggressively seek early resolution of certain asbestos-related litigation and our announcement of the settlement agreement described above under Asbestos Litigation Settlement Agreement, the following rating actions were taken:

on May 17, 2002, Standard & Poor s placed our ratings on CreditWatch with negative implications;

- on May 20, 2002, Moody s Investors Services, Inc. placed our ratings under review for a possible downgrade;
- on June 3, 2002, A.M. Best Co. lowered our ratings, with a stable outlook;
- on June 6, 2002 Fitch Ratings placed our ratings on Rating Watch Negative; and
- on July 16, 2002, Standard & Poor s lowered our ratings and removed them from CreditWatch, while retaining a negative outlook.

On July 25, 2002, Moody s announced that it expects to confirm all of our ratings, with a stable outlook, pending completion of this offering and the concurrent offering of 7,700,000 equity units. In addition, on July 25, 2002, Fitch announced that it will remove our ratings from Rating Watch Negative and affirm our ratings, with a Negative Rating Outlook, pending completion of this offering and the concurrent offering of 7,700,000 equity units. See Risk Factors Risks Relating to Our Business A downgrade in our claims-paying and financial strength ratings could significantly reduce the number of insurance policies we write.

Strategic Withdrawal from Certain Lines of Business

In the fourth quarter of 2001, we announced our intention:

- to withdraw from our worldwide Health Care business,
- to significantly reposition our Reinsurance business by ceasing to write certain types of business and adopting a more transactional approach to underwriting,
- to cease writing certain types of business in our Lloyd s operations, and
- to exit a number of non-U.S. primary insurance markets.

This was part of a strategic effort to focus on those lines of business and market sectors that we believed offer the greatest potential for 2002 and thereafter. Beginning in January 2002, these operations being exited were placed in runoff, which means that we have ceased or plan to cease underwriting new business in these operations as soon as possible, consistent with applicable regulatory requirements. We are pursuing the sale of certain operations in runoff. We will continue to maintain appropriate levels of staff to administer the settlement of claims incurred in these runoff operations. In addition, we are continuing to review the role of our Lloyd s operations in our long-term corporate strategy.

On April 25, 2002 we announced our intention to transfer our ongoing reinsurance business to a newly formed Bermuda-based reinsurer, Platinum Underwriters Holdings, Ltd. (Platinum). That transaction would involve the transfer to Platinum from us of certain tangible and intangible assets in exchange for common shares of Platinum, and Platinum s agreement to reinsure certain reinsurance contracts written by our subsidiaries and incepting in 2002. The transaction is subject to the successful completion by Platinum of an initial public offering of its common shares. We will retain the liabilities and reserves associated with reinsurance contracts entered into prior to January, 1, 2002. On July 9, 2002, we announced that Platinum s initial public offering had been postponed due to capital market conditions and that we intend to complete the transaction as market conditions allow. As a result, all reinsurance operations are now being termed runoff. There can be no assurance that Platinum s offering will be consummated in the near term. Pending completion of the Platinum offering, our St. Paul Re operation continues to operate. However, uncertainty relating to the timing of the Platinum offering may adversely affect the value and performance of its business.

The operations in runoff collectively accounted for $998 million, or 26%, of our net written premiums, and generated negative underwriting results totaling $150 million, in the first six months of 2002 (the underwriting results amount does not include investment income from the assets maintained to support these operations). Approximately $100 million of the underwriting loss resulted from adverse prior year development in our Health Care segment. The operations in runoff do not qualify as discontinued operations for accounting purposes; therefore, results from these operations are included, and will continue

to be reported during the runoff periods, in their respective property-liability segments, and are reported in income from continuing operations. Approximately $6.3 billion of reserves relate to the Health Care and Reinsurance runoff operations. These reserves have a weighted average life of approximately 5.5 years. The payments for claims from these reserves will negatively impact investment income as the invested assets related to the reserves decline.

2001 Results of Operations

Our consolidated $1.4 billion pre-tax loss from continuing operations in 2001 was driven by $941 million of estimated losses resulting from the terrorist attack in the United States on September 11, 2001, provisions to strengthen prior-year loss reserves in our Health Care segment totaling $735 million, realized investment losses of $94 million, goodwill write-downs totaling $73 million and restructuring charges of $62 million.

Our estimated net pre-tax loss incurred as a result of the September 11, 2001 terrorist attack totaled $941 million. Our estimated losses were calculated based on a variety of actuarial techniques, coverage interpretations and claims estimation methods. They included an estimate of losses incurred but not reported to us, and an estimate of costs related to the settlement of claims. Our estimate of losses is also based on our belief that property-liability insurance losses from the terrorist attack will total between $30 billion and $35 billion for the insurance industry. Our estimate of industry losses is subject to significant uncertainties and may change over time as additional information becomes available. A material increase in our estimate of industry losses would likely cause us to make a corresponding material increase to our provision for losses related to the attack. We believe that our current reserves for the September 11, 2001 terrorist attacks are adequate based on information available to us at this time.

THE OFFERING

Issuer:	The St. Paul Companies, Inc.
Common stock offered:	15,500,000 shares
Common stock to be outstanding immediately after the offering:	223,969,606 shares
Concurrent offering:	In addition to these shares of common stock, The St. Paul Companies, Inc. is concurrently offering 7,700,000 equity units, each of which will have a stated amount of $50 and initially consist of a purchase contract pursuant to which the holder will agree to purchase from us shares of our common stock on August 16, 2005 and a senior note with a principal amount of $50 due on August 16, 2007. Neither offering is conditioned on the other.
Use of proceeds:	We estimate that the net proceeds from the sale of shares of common stock in this offering will be approximately $359 million (approximately $413 million if the underwriters exercise their over-allotment option in full) and the net proceeds of the sale of our equity units in the concurrent offering will be approximately $373 million (approximately $429 million if the underwriters exercise their over-allotment option in full), in each case after deducting the underwriting discount and estimated offering expenses payable by us. We expect to use up to $750 million of the net proceeds from this offering and the concurrent offering for contributions of capital to our insurance underwriting subsidiaries, and the remainder, if any, for general corporate purposes, which may include, among other things, working capital, capital expenditures, the repayment of short term debt or acquisitions.
Listing:	New York Stock Exchange
New York Stock Exchange Symbol:	SPC

The number of shares of common stock offered and to be outstanding immediately after this offering does not include 2,325,000 shares of common stock that the underwriters have an option to purchase from us within 30 days of this prospectus supplement, shares of common stock issuable pursuant to the purchase contracts in the concurrent offering of equity units, or shares issuable pursuant to outstanding options.

SUMMARY SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth selected financial data for each of the years in the five-year period ended December 31, 2001 and the six months ended June 30, 2002 and 2001. We derived the data for the five years ended December 31, 2001 from our audited consolidated financial statements, and the data for the six months ended June 30, 2002 and 2001 from our unaudited consolidated financial statements. You should read this selected financial data in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K for 2001 and our current reports on Form 8-K dated July 16, 2002 and July 23, 2002. Each of these reports is incorporated into this prospectus supplement by reference. See Where You Can Find More Information, in the accompanying prospectus.

	Six Months Ended June 30,		Year Ended December 31,				
	2002(a)	2001	2001(b)	2000	1999	1998(c)	1997
	(in millions, except per share and ratio amounts)						
Consolidated Income Statement Data							
Revenues from continuing operations	$ 4,631	$ 4,325	$ 8,943	$ 7,972	$ 7,149	$ 7,315	$ 7,904
After-tax income (loss) from continuing operations	(76)	305	(1,009)	970	705	187	1,011
Net income (loss)	(90)	306	(1,088)	993	834	89	929
Consolidated Balance Sheet Data (at period end)							
Total assets	$38,222	$35,477	$38,321	$35,502	$33,418	$33,211	$32,735
Debt	2,122	1,796	2,130	1,647	1,466	1,260	1,304
Company-obligated mandatorily redeemable preferred securities of trusts	889	337	893	337	425	503	503
Common shareholders equity	4,923	6,813	5,056	7,178	6,448	6,621	6,591
Per Common Share Data							
Income (loss) from continuing operations	$ (0.41)	$ 1.32	$ (4.84)	$ 4.14	$ 2.89	$ 0.73	$ 4.02
Net income (loss)	(0.47)	1.33	(5.22)	4.24	3.41	0.32	3.69
Dividends declared	0.58	0.56	1.12	1.08	1.04	1.00	0.94
Shares used in computing diluted per common share data	208	228	212	233	246	239	252
Property-Liability Insurance							
Statutory combined ratio	116.0	105.2	130.6	104.8	107.9	117.4	103.3

(a) The results for the six months ended June 30, 2002 include a $380 million after-tax loss related to the settlement of Western MacArthur asbestos litigation.

(b) The 2001 results include a $612 million after-tax loss resulting from the September 11, 2001 terrorist attack. The 2001 results also include a $40 million after-tax charge resulting from costs (primarily employee-related and occupancy-related) related to our intention, announced in December 2001, to withdraw from several lines of business in our property-liability operations, after-tax provisions to strengthen prior-year loss reserves in our Health Care segment totaling $478 million, after-tax realized investment losses of $61 million, and goodwill write-downs totaling $73 million.

(c) The 1998 results from continuing operations include charges following our merger with USF&G Corporation. Included are a $140 million after-tax provision to strengthen loss reserves and $184 million of after-tax costs including employee-related, occupancy related and transaction costs and other asset writedowns associated with the merger.

RISK FACTORS

Before purchasing our common stock, you should carefully consider the following risk factors, together with the other information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus in order to evaluate an investment in our common stock.

Risks Relating to Our Business

Catastrophe losses could materially reduce our profitability.

Our property-liability insurance operations expose us to claims arising out of catastrophes. We have experienced, and will in the future experience, catastrophe losses which may materially reduce our profitability or harm our financial condition. Catastrophes can be caused by various natural events, including hurricanes, windstorms, earthquakes, hail, severe winter weather and fires. Catastrophes can also be man-made, such as the terrorist attack of September 11, 2001. Our estimated net pre-tax loss incurred as a result of the terrorist attack of September 11, 2001 totaled $941 million. The incidence and severity of catastrophes are inherently unpredictable. It is possible that both the frequency and severity of man-made catastrophic events will increase.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes and earthquakes may produce significant damage in larger areas, especially those that are heavily populated. Although catastrophes can cause losses in a variety of our property-liability lines, most of our catastrophe-related claims in the past five years have related to commercial property coverages and reinsurance. The geographic distribution of our business subjects us to catastrophe exposure from hurricanes in the Northeast, Florida, Caribbean, Gulf Coast and Mid-Atlantic regions, as well as catastrophe exposure from earthquakes in California and the New Madrid and Pacific Northwest regions.

Claims resulting from natural or man-made catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition. Our ability to write new business could also be affected. We believe that increases in the value and geographic concentration of insured property and the effects of inflation could increase the severity of claims from catastrophic events in the future. In addition, states have from time to time passed legislation that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from withdrawing from catastrophe-prone areas.

The September 11, 2001 terrorist attack may result in government intervention impacting the insurance and reinsurance markets.

In response to the tightening of supply in certain insurance markets resulting from, among other things, the terrorist attack of September 11, 2001, the U.S. government and other governments may intervene in the insurance and reinsurance markets. Following the September 11, 2001 terrorist attack, various proposed legislation that is designed to ensure the availability of insurance coverage for terrorist acts has been introduced in the U.S. Congress. Legislation has been adopted in the U.S. House of Representatives designed, among other things, to provide federal government loans over a short-term period to commercial insurers and reinsurers for funding losses arising from terrorist acts against U.S. properties, which loans would be repaid through industry assessments and, if losses exceed a threshold, policyholder assessments. Similar, alternative legislation has been adopted in the U.S. Senate; the Senate legislation provides for direct government assistance to commercial insurers and reinsurers for covered losses that exceed a per-company deductible. We cannot predict whether any such legislation

will be enacted or what form it may take. You should note that governmental intervention could significantly and adversely affect us by, among other things:

- providing competing insurance capacity in the markets and to the customers we expect to target; and
- regulating the terms of insurance capacity in a manner that could significantly and adversely affect us, directly or indirectly, by requiring coverage for terrorist acts to be offered by insurers, benefiting our competitors or reducing the demand for our products.

There are risks related to asbestos claims.

We continue to receive asbestos claims tendered by insureds under liability policies which were generally issued by us prior to 1985. Our business could be adversely affected by the resolution of the insurance issues pertaining to such claims if the resolution is inconsistent with our current expectation of resolution.

Our asbestos exposures may increase if:

- there is a continuing increase in the number of asbestos-related claims tendered to us;
- there is an increasing focus by plaintiffs on new and previously peripheral defendants; and
- the small number of our policyholders seeking bankruptcy protection due to asbestos-related liabilities (currently we have four such policyholders) becomes larger.

On June 3, 2002, we announced that we and certain of our subsidiaries had entered into an agreement for the settlement of all existing and future claims arising out of any insuring relationship of United States Fidelity and Guaranty Company, St. Paul Fire and Marine Insurance Company and their affiliates and subsidiaries, including us (collectively, the USF&G Parties), with any of MacArthur Company, Western MacArthur Company and Western Asbestos Company (the MacArthur Companies). The settlement resulted in a $380 million after-tax ($585 million pre-tax) loss in the second quarter of 2002. The consummation of many elements of that settlement agreement depends upon the bankruptcy court s approval of the settlement as part of a broader plan for the reorganization of the MacArthur Companies. The bankruptcy court may not approve the plan of reorganization or the settlement. For a description of the settlement agreement, see Recent Developments Asbestos Litigation Settlement Agreement.

In addition to the Western MacArthur litigation described above, as of June 30, 2002, we had 14 pending coverage litigation disputes regarding asbestos. Generally, the uncertainties pertaining to asbestos coverage litigation include, among other things:

- the extent of coverage under insurance policies;
- whether or not particular claims are subject to an aggregate limit;
- the number of occurrences involved in particular claims; and
- whether excess policies issued by us may respond to asbestos claims based upon the excess policies attachment points being reached due to the insured s claim activity and/or the exhaustion of underlying policies issued by other insurers to the insured.

In certain of these coverage litigation disputes pending against us, policyholders have been asserting that some of their claims for asbestos-related insurance are not subject to aggregate limits. We expect this trend to continue. Although it is difficult to predict whether these policyholders will be successful, to the extent that they are, our coverage obligation under the policies at issue could be potentially increased and bounded only by the applicable per occurrence limits and the number of asbestos bodily injury claims made against the policies. Accordingly, it is difficult to predict the ultimate size of the claims for coverage not subject to aggregate limits.

Given the factors described above, it is not presently possible to quantify the ultimate exposure or range of exposures represented by asbestos claims and related litigation. We have established reserves that represent our best estimate of ultimate claims and claim adjustment expenses at June 30, 2002 based upon known facts and current law. However, these claims and related litigations could result in liability exceeding these reserves by an amount that could be material to our operating results and financial condition in future periods.

There are risks related to our strategic restructuring.

In December of 2001, we announced our intention to withdraw from certain lines of business and, beginning in January 2002, the operations being exited were placed in runoff, which means that we have ceased or plan to cease underwriting new business in these operations as soon as possible, consistent with applicable regulatory requirements.

This strategy exposes us to a number of potential risks, including the following:

- it may take us longer than expected, and cost us more than expected, to fully exit our runoff operations; and

- reducing the scope of our product offering may place us at a disadvantage compared to competitors with a broader product offering when pursuing the business of certain customers.

In connection with that restructuring, on April 25, 2002 we announced our intention to transfer our ongoing reinsurance business to a newly formed Bermuda-based reinsurer, Platinum Underwriters Holdings, Ltd. (Platinum). As a result, all reinsurance operations are now being termed runoff. The transaction is subject to the successful completion by Platinum of an initial public offering of its common shares and on July 9, 2002, we announced that Platinum s initial public offering had been postponed due to capital market conditions. Although we intend to complete the transaction as market conditions allow, there can be no assurance that Platinum s offering will be consummated in the near term. If we are unable to complete the Platinum offering in a timely manner, we may incur increased costs in exiting the business. Pending completion of the Platinum offering, our St. Paul Re operation continues to operate. However, uncertainty relating to the timing of the Platinum offering may adversely affect the value and performance of its business.

The operations in runoff collectively generated negative underwriting results totaling $150 million and $373 million in the first six months of 2002 and 2001, respectively, and accounted for 26% and 36% of our net written premiums in such periods, respectively. The underwriting results amount does not include investment income from the assets maintained to support these operations. The payments for claims on these reserves will negatively impact investment income as the invested assets related to the reserves decline.

See Recent Developments Strategic Withdrawal from Certain Lines of Business for more information about the strategic restructuring.

Our business could be harmed because our potential exposure for environmental claims is very difficult to predict.

As a result of various state and federal regulatory efforts aimed at environmental remediation, particularly Superfund, the insurance industry continues to be involved in litigation involving policy coverage and liability issues. In addition to regulatory pressures, the results of court decisions affecting the industry s coverage positions continue to be inconsistent and have expanded coverage beyond its original intent. Accordingly, the ultimate respons